

PORT OF BELLINGHAM
And
HARCOURT BELLINGHAM LLC

MASTER DEVELOPMENT AGREEMENT
FOR A
PORTION OF THE WATERFRONT DISTRICT
BELLINGHAM, WASHINGTON, USA

19th May 2015

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 PORT INITIAL


 HARCOURT INITIAL

THIS MASTER DEVELOPMENT AGREEMENT (this "Agreement") is effective as of MAY 19, 2015, and is by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation (the "Port") and **HARCOURT BELLINGHAM LLC**, a Washington limited liability corporation ("Harcourt").

RECITALS

WHEREAS, in 2005, the Port acquired approximately one hundred thirty-seven (137) acres of waterfront property adjacent to Bellingham Bay from Georgia-Pacific Corporation which had owned and operated a pulp mill and tissue mill on the property;

WHEREAS, the property acquired from Georgia-Pacific Corporation, along with other Port and City of Bellingham (the "City") property and private properties, has been designated the Waterfront District Sub-Area of the City of Bellingham (the "Waterfront District");

WHEREAS, the Port and the City have been working cooperatively since 2005 to master plan the redevelopment of the Waterfront District into a mixed-use urban waterfront with commercial, industrial, residential, public, and recreational uses;

WHEREAS, this Agreement concerns approximately nineteen (19) acres of property (including local roads) in the Downtown Waterfront Area of the Waterfront District (the "Master Development Area"). A map depicting the Waterfront District and the Master Development Area is attached hereto as Exhibit A;

WHEREAS, the Waterfront District is historically filled tidelands which, for the past one-hundred (100) years, has been used for industrial process (most recently the former Georgia-Pacific Corporation paper mill and pulp mills) and therefore contains numerous unknown subsurface structures, including, but not limited to, pilings that supported various structures, piping, conduits, and equipment;

WHEREAS, the Waterfront District, including the Master Development Area, is a "Brownfield" as the term is defined in Section 1, below;

WHEREAS, the Downtown Waterfront Area, including the Master Development Area, is within an environmental cleanup site designated by the Washington State Department of Ecology ("Ecology") as the Georgia-Pacific West Site (the "Site"). Ecology has determined that the Site requires remedial action pursuant to the Model Toxics Control Act ("MTCA"). Ecology has divided the Site into two remedial action units ("RAU") designated the Pulp/Tissue Mill RAU and the Chlor-Alkali RAU. Exhibit E is a map depicting these two RAUs;

WHEREAS, the Port and Ecology have entered into a consent decree (the "Pulp/Tissue Mill RAU Consent Decree" as further defined in Section 1, below) which specifies the remedial actions that will be undertaken by the Port in a portion of the Downtown

Waterfront Area. The consent decree includes the requirement that an environmental covenant (the "Environmental Covenant" as further defined in Section 1, below) and a soils management plan (the "Contaminated Materials Management Plan" as further defined in Section 1, below) be recorded and adhered to in any development;

WHEREAS, the Port, at the direction of Ecology, has undertaken the development of a remedial investigation/feasibility study for the Chlor-Alkali RAU and anticipates entering into a consent decree with Ecology for the Chlor-Alkali RAU. It is anticipated that the Chlor-Alkali RAU consent decree will include an Environmental Covenant and a Contaminated Materials Management Plan;

WHEREAS, the City and the Port jointly completed an Environmental Impact Statement for the Waterfront District, (the "EIS" as the term is defined in Section 1, below) which evaluated a range of development alternatives for redevelopment of the Waterfront District;

WHEREAS, in 2010, the Port and Western Washington University created Western Crossings Development, a Washington nonprofit corporation to foster the development of six acres of property within the Waterfront District. The "Western Crossings" parcel is depicted on Exhibit A;

WHEREAS, in December of 2013, the Port and the City entered into and adopted (i) the Waterfront District Sub-Area Plan, (ii) the Design Standards and Development Regulations, (iii) the Development Agreement (pursuant to Chapter 36.70B RCW), (iv) Planned Action Ordinance 2013-12-091, and (v) and Interlocal Agreement for Facilities Within the Waterfront District (collectively the "Master Plan Documents" as the term is defined in Section 1, below), all attached hereto as Exhibit C;

WHEREAS, in 2013, the Port sought proposals from developers interested in developing the Master Development Area;

WHEREAS, Harcourt has Key Persons (as the term is defined in Section 1, below), experienced in the redevelopment of a "Brownfield" property from historic industrial uses to mixed uses and commercial uses of the scale envisioned herein, including, but not limited to, experience with (i) the type of restrictions of the consent decree, Environmental Covenant and Contaminated Materials Management Plan, (ii) unknown but anticipated subsurface structures, and (iii) the geotechnical properties of and associated with filled tidelands;

WHEREAS, on April 29, 2014, the Port and Harcourt Developments Limited executed a non-binding Term Sheet that generally outlined the transaction set forth herein. This Agreement supersedes that Term Sheet;

WHEREAS, Harcourt is associated with Harcourt Developments Limited and will undertake the actions herein;

WHEREAS, the parties recognize that with regard to the development of the Master Development Area, the Port must act to reasonably protect public funds, must fulfill its other governmental functions, and cannot place public funds or public property at risk. Within the context of that limitation, the Port desires to work cooperatively with Harcourt to accomplish the redevelopment of the Master Development Area in a manner consistent with the Master Plan Documents;

WHEREAS, the parties recognize that this Agreement anticipates a long-term relationship between Harcourt and the Port and, so long as each of the parties are performing pursuant to the terms and conditions of this Agreement, they shall receive the mutual benefits of this Agreement;

WHEREAS, to the extent that Harcourt deems generally necessary, prior to the execution of this Agreement and prior to determining the specific feasibility of any single Project (as the term "Project" is defined herein), it has reviewed all documents included in this Agreement and undertaken investigations it desires concerning the Master Development Area, including, but not limited to (i) the redevelopment of the Granary Building, (ii) the Master Plan Documents, (iii) applicable Market Conditions (as the term is defined in Section 1, below), (iv) generally applicable financing conditions, necessary to complete a mixed use development within the Master Development Area and within the schedule provided for herein, and (v) the general environmental conditions, legacy historic subsurface conditions, and geotechnical conditions. Harcourt understands that development within the schedule provided herein is of critical importance to the Port;

WHEREAS, the conveyance of the property by lease or purchase within the Master Development Area fulfills an important public purpose by promoting the policy to reuse Brownfield property;

WHEREAS, consistent with the Master Plan Documents, the Port and Harcourt envision the mixed use development contemplated herein as a private undertaking to be contracted, constructed, and operated by Harcourt or parcel-specific ("Single Purpose Entities") as the term is defined in Section 1, below), which will provide a significant redevelopment of the Master Development Area and serve to extend the Bellingham downtown through the Waterfront District to Whatcom Waterway;

WHEREAS, Harcourt has indicated an interest to continue to develop beyond the Master Development Area and the Port has indicated a willingness to consider that interest, subject to satisfactory mutual performance in respect of the development contemplated in this Agreement, applicable zoning and land use restrictions and subject to all the terms and conditions of this Agreement;

WHEREAS, the Port and Harcourt envision that the Master Development Area will be developed with a series of projects (the "Project(s)") as the term is defined in Section 1, below) on individual parcels (the "Parcels") as the term is defined in Section 1, below) according to an overall schedule (the "Master Development Schedule") as the term is defined in Section 1, below), and which is attached hereto as Exhibit 4.1;

WHEREAS, Harcourt has developed a general vision for the development it desires to undertake and such development is contemplated herein, subject to compliance with or modification of the Master Plan Documents (the "Harcourt Draft Vision Plan") and is attached hereto as Exhibit B; and

WHEREAS, this Agreement is intended by the parties to establish the understanding between the Port and Harcourt with regard to the (i) acquisition by Harcourt and/or Single Purpose Entities of Parcels within the Master Development Area, (ii) design, development, and performance criteria for Harcourt's timely overall development within the Master Development Area and the development of each Project, and (iii) Harcourt's reliance on the timely completion of "Remediation" as the term is defined in Section 1, below) obligations by the Port and timely installation of "City Infrastructure" as the term is defined in Section 1, below) in order for Harcourt to timely complete its obligations.

NOW, THEREFORE, in consideration of the mutual undertaking and promises contained herein, and the benefits to be realized by each party, and in future consideration of the benefit to the general public by the creation of the development contemplated herein, the parties agree as follows:

1. **DEFINITIONS.** Throughout this Agreement, the following defined terms shall have the meanings set forth below. It is noted that other terms have been defined in the Recitals above and others may be defined within this Agreement. Those defined terms shall have the meaning set forth therein.

1.1. "Background Documents" are the documents listed on Exhibit C, including but not limited to, the Pulp/Tissue Mill RAU Consent Decree with exhibits, draft RI/FS documents for the Chlor-Alkali RAU, the Master Plan Documents, those documents that pertain to the Washington State Environmental Policy Act review, the Washington State Model Toxics Control Act compliance, the geotechnical conditions, the historic resources and abandoned industrial infrastructure.

1.2. "Brownfield" means previously developed and currently abandoned or underutilized real property and adjacent surface waters and sediment where environmental, economic, or community reuse objectives are hindered by the release or threatened release of hazardous substances.

1.3. "City Infrastructure" means the infrastructure that will be installed by the City pursuant to the Master Plan Documents.

1.4. "Closing" means the close of the acquisition of a particular Parcel by Harcourt or a Single Purpose Entity pursuant to a Sale Agreement.

1.5. "Commence Construction Date" means a date sixty (60) days after the City notifies Harcourt or an SPE that all necessary City permits are available for issuance by the City.

1.6. "Completion Date" means the date by which the construction on a particular Parcel must be Substantially Complete as evidenced by a certificate of occupancy, a temporary certificate of occupancy, or by such other means as the parties may mutually agree.

1.7. "Coordinating Committee" means a committee that is comprised of the Master Development Representatives of the Port and Harcourt and possibly a representative of the City of Bellingham (subject to City agreement). This committee will meet on a regular basis, as needed, to coordinate the Port Remediation, the City Infrastructure, and the Harcourt Projects.

1.8. "Construction License" means a temporary Construction License that the parties shall agree to and shall be substantially in the form attached hereto as Exhibit 5.8.1, to allow construction staging granted by the Port to Harcourt or a parcel-specific Single Purpose Entity and recorded contemporaneously with a Parcel Transfer.

1.9. "Construction Start Date" means the date that construction on a particular Parcel must begin, subject to extension as provided herein.

1.10. "Contaminated Materials Management Plan" or "CMMP" means the plan which sets forth the requirements for handling material, including soils, on the Property including each Parcel as appended to the Pulp/Tissue Mill RAU Consent Decree or which shall be appended to the future Chlor-Alkali RAU Consent Decree, as amended.

1.11. "Deed" means a Bargain and Sale Deed which will be used to Transfer each Parcel to Harcourt or a parcel-specific Single Purpose Entity, for each Parcel for which a sale is pursued rather than lease. Each Deed will be subject to this Agreement, the applicable Environmental Covenant, the CMMP, the requirement for Transfer Notification, the Environmental Indemnification and Environmental Easement Agreement, and any other encumbrance of record. The Deed shall be in substantially the form attached hereto as Exhibit 8.1.

1.12. "Environmental Covenant" means the restrictive covenant required pursuant to the Pulp/Tissue Mill RAU Consent Decree or which may be required in the future Chlor-Alkali RAU consent decree.

1.13. "Effective Date" means the date set forth in the first paragraph of this Agreement.

1.14. "Environmental Impact Statement" or "EIS" means the Draft Environmental Impact Statement, Supplemental Draft Environmental Impact Statement, 2010 Addendum to the Supplemental Draft Environmental Impact Statement, the Final Environmental Impact Statement, and the 2012 Addendum to the Final Environmental Impact Statement.

1.15. "Environmental Indemnification and Environmental Easement Agreement" means the indemnification agreement (in the form attached hereto as Exhibit D) executed by the Port and Harcourt or a parcel-specific Single Purpose Entity with regard to the environmental condition of the property and each development Parcel within the Master Development Area, Port compliance with the terms and conditions of the applicable consent decree and limiting the environmental liabilities of Harcourt and any parcel-specific SPE based on the Port's Remediation obligations.

1.16. "Environmental Standards" means all United States federal, Washington State, and local environmental laws and ordinances and all regulations promulgated thereunder, whether currently in effect or enacted or amended from time to time in the future (to the extent that compliance with future laws or amendments is legally required) including, but not limited to, the Endangered Species Act, the Resource Conservation and Recovery Act at 42 U.S.C. § 6921 et seq., the Comprehensive Environmental Response, Compensation, and Liability Act at 42 U.S.C. § 9601 et seq., the Clean Air Act at 42 U.S.C. § 7401 et seq., the Federal Water Pollution Control Act, as amended at 33 U.S.C. 1318, the Toxic Substances Control Act at 15 U.S.C. § 2601 et seq., the Shoreline Management Act, Ch. 90.58 RCW, the Hazardous Waste Management Act, Ch. 70.105 RCW, the Clean Air Act, Ch. 70.94 RCW, the Water Pollution Control Act, Ch. 90.48 RCW, and the Model Toxics Control Act at RCW 70.105.D, et seq., and also including, but not limited to, any guidelines, levels, and standards currently in effect or enacted or amended from time to time in the future (to the extent that compliance with future laws or amendments is legally required) by the applicable federal, state or local regulatory authority for addressing any contamination of any sort.

1.17. "Event(s) of Default" has the meaning given in Section 15.1.

1.18. "Force Majeure" has the meaning given in Section 16.31.

1.19. "Governmental Authorities" means any board, bureau, commission, authority, department or body of any local, municipal, county, state or federal governmental or quasi-governmental unit, or any subdivision thereof, or any utility provider serving the Master Development Area, having, asserting, or acquiring jurisdiction over or providing utility service to a Project, the Master Development Area and/or the management, operation, use, environmental cleanup or improvement thereof.

1.20. "Granary Building" means the existing undeveloped building depicted on the Map of the Master Development Area.

1.21. "Harcourt" means Harcourt Bellingham LLC a Washington limited liability company.

1.22. "Harcourt Guaranty" means the limited recourse guaranty by Harcourt of the performance of a Single Purpose Entity (in a form substantially equivalent to the form Guaranty, attached hereto as Exhibit 3.3).

1.23. "Harcourt Master Development Documents" means all documents, including, but not limited to, plans, specifications, designs, calculations, financial projections, permit applications and permits that were created, used or obtained by Harcourt in regards to the Waterfront District as they now exist or are hereinafter created. The Harcourt Master Development Documents do not include any Project specific documents for Projects where the Parcel has been leased or purchased.

1.24. "Harcourt Ownership Structure" means the description of the ownership, management, and control of Harcourt attached hereto as Exhibit 3.2.

1.25. "Harcourt Improvements" means all buildings, structures, and fixtures now or hereafter placed or constructed in, under, upon or adjacent to a Parcel, including the to-be-constructed building as part of a Project, including, but not limited to, all additions to or replacements thereof made from time to time, and all access ways, local roads, pedestrian areas, fences, paved areas, utility distribution facilities, lighting, signage and other infrastructure improvements to be built by Harcourt or a parcel-specific Single Purpose Entity on the Parcel and any offsite improvements built as part of a Project. The term "Harcourt Improvements" shall not include any City Infrastructure.

1.26. "Interim Parking License" means a license granted by the Port as part of a Project where property can be used on an interim basis for parking for that Project.

1.27. "Key Persons" means the individuals listed on Exhibit 3.2 and as further defined in the Harcourt Ownership Structure.

1.28. "Land Valuation" means the per square foot value that will be applied to each Parcel as determined by the initial appraisals, outlined in and attached hereto as Exhibit 11.1 Appraisal of Waterfront Initial Development, and as adjusted thereafter as provided in this Agreement.

1.29. "Lease" means a lease from the Port to Harcourt or a parcel-specific Single Purpose Entity for a Parcel (in a form substantially equivalent to Exhibit 8.2).

1.30. "Legal Requirements" means all United States federal laws, Washington State, county, local laws and ordinances and regulations and other rules, orders, requirements and determinations of any Governmental Authorities now or hereafter in effect, whether or not presently contemplated, applicable to the Parcel or the Project or their ownership, operation or possession, including (without limitation) all those relating to parking restrictions, building codes, zoning or other land use matters, The Americans With Disabilities Act of 1990, as amended, the Master Plan Documents, the consent decree(s), the Environmental Covenant(s), the CMMP, the City of Bellingham land use regulatory code, the City of Bellingham Shoreline Master Management Program, life safety requirements and environmental laws with respect to the handling, treatment, storage, disposal, discharge, use and transportation of hazardous substances.

1.31. "Lender" means the entity holding a mortgage, real estate contract or deed of trust encumbering Harcourt's or a parcel-specific Single Purpose Entity's interest in any Parcel and its successors and assigns provided that the funds advanced by the Lender are used for the Project.

1.32. "Market Conditions" means all the factors related to financing and the marketplace by a reasonable developer in determining that a Project can be designed, financed, built and utilized on a contaminated property in Washington State, including, but not limited to, new Legal Requirements and/or actions taken or withheld by Governmental Authorities that materially alter ability to perform, market demand, market absorption, financing availability, environmental stigma, construction costs, local economic trends, regional economic trends, and national economic trends.

1.33. "Master Development Area" means the area of approximately nineteen (19) acres depicted on Exhibit A. It does not include the Western Crossings Area.

1.34. "Master Development Representative" means a person appointed by the Port and a person appointed by Harcourt to be the primary contact between the Port and Harcourt.

1.35. "Master Development Schedule" means the schedule for the completion of all development within the Master Development Area, including the minimum and maximum floor area to be constructed and the mix of uses to be constructed, consistent with the Master Plan Documents and assuming the timely completion of Remediation obligations by the Port and timely installation of City Infrastructure.

1.36. "Master Plan Documents" means the documents the Port and the City entered into and adopted including (i) the Waterfront District Sub-Area Plan, (ii) the Design Standards and Development Regulations, (iii) a Development Agreement, (iv) Planned Action Ordinance 2013-12-091, (v) the Interlocal Agreement for Facilities Within the Waterfront District, and (vi) the Waterfront Permit Handbook as those individual documents may be hereinafter amended or modified. The Master Plan Documents are attached hereto as Exhibit C.

1.37. "Material Modification" means any significant modification that (i) conflicts with the Project Documents, (ii) alters the exterior physical appearance of the Project in a readily apparent way, (iii) materially alters the exterior structure of the building to be constructed on the Parcel, or (iv) causes the Construction Start Date or Completion Date to be delayed by more than sixty (60) days unless such delay(s) can be attributed to a Force Majeure event or any other exception that is outlined in this Agreement.

1.38. "Model Toxics Control Act" or "MTCA" means the statute found at Chapter 70.105D RCW and all codes, regulations, and guidance promulgated thereunder.

1.39. "Parcel(s)" means a specific parcel of real property within the Master Development Area on which a Project will be constructed.

1.40. "Project" means the development and construction of Improvements on a Parcel or Parcels, including all related obligations.

1.41. "Project Concept Design Documents" means an architectural or artist's rendering that illustrates the Project's (i) scope, (ii) contemplated floor area, (iii) relationship to its surroundings, and (iv) consistency with the Master Plan Documents. The intent of the Concept Design Documents is to provide, visually and in text, an idea as to the nature and density of the Project and its proposed mix of uses.

1.42. "Project Construction Documents" means, collectively, all construction documentation that Harcourt or a parcel-specific Single Purpose Entity is required to submit as part of the City's design review and permitting process and upon which Harcourt and/or Harcourt's contractors will rely in building the Improvements. These documents are based on the Project Schematic Design Documents.

1.43. "Project Construction Schedule" means the schedule for construction of the Improvements approved as part of the Project Documents, including the dates for Construction Start Date and Completion Date.

1.44. "Project Development Design Documents" means documents which build upon the Project Concept Design Documents by illustrating and describing the refinement of the design of the Project, establishing the scope, relationship, forms, size, and appearance of the Project by means of plans, sections and elevations, typical construction details, and equipment layouts. The Project Design Development Documents shall include specifications that identify major material and systems and establish in general their quality levels. A model of the Project may be provided in conjunction with the documents.

1.45. "Project Documents" means this Agreement, the Sale Agreement or the Lease and the following documents:

1.45.1. "Project Financing Plan" means the financing plan by which the Parcel will be acquired and the Project completed including a letter of intent or other financing facility demonstrating Harcourt's or a parcel-specific Single Purpose Entity's ability to purchase the Parcel and complete the Project.

1.45.2. "Project Memorandum" means a memorandum signed by the Port and Harcourt or a parcel-specific Single Purpose Entity, which sets forth the understanding of the parties related to the particular Project, including, but not limited to, (i) the method of conveyance and/or purchase (including, if applicable, the Port Project Participation Plan), (ii) the Project entity, (iii) the Parcel boundary, and (iv) the Land Valuation and any other terms.

1.45.3. "Project Schedule" means the schedule for a Project which will include timing of (i) preparation, review, and approval of the various Project Documents, (ii) the creation of the Parcel as a legal lot of record by the Port, (iii) acquisition of the Parcel, (iv) the development schedule, and (v) the operational plan for the Project.

1.45.4. "Project Schematic Design Documents" means, (i) plans showing the Improvements in relation to the Parcel, with all proposed connections to existing or proposed roads, utilities, and services, together with a landscaping plan, (ii) plans, elevations, typical cross-sections and typical wall sections of all building areas, (iii) elevations of each building to determine the site lines and the specific configuration and relationship of design elements of the building exterior, (iv) plans, elevations, and typical cross sections of the interior space of different types of building areas (e.g., residential, office, retail, parking), (v) preliminary selection of major building systems and construction materials; (vi) preliminary exterior finish schedule, (vii) proposed layouts for exterior signage and graphics, (viii) outline of the exterior lighting concept, (ix) description of servicing requirements, trash areas, loading docks, etc., (x) calculation of gross building floor area and open space, (xi) compliance with the Environmental Covenant, if relevant, and (xii) compliance with the applicable CMMP, if relevant.

1.46. "Property" means the real property within the Master Development Area.

1.47. "Pulp/Tissue Mill RAU Consent Decree" means the consent decree dated December 22, 2014 entered in Whatcom County Superior Court Cause No. 14-2-02700-8, as amended from time to time, which applies to the Pulp/Tissue Mill RAU depicted on Exhibit E. The Pulp/Tissue Mill RAU Consent Decree is included in Exhibit C.

1.48. "Environmental Covenant" means the environmental covenant required pursuant to the Pulp/Tissue Mill RAU Consent Decree or which may be required in the future Chlor-Alkali RAU Consent Decree.

1.49. "Remediation" means the actions undertaken by the Port pursuant to the applicable consent decree.

1.50. "Right(s) of First Offer" or "ROFO" means the rights of Harcourt and the Port set forth in Section 14 whereby Harcourt or an SPE will have a right to purchase a Parcel at a price certain before the Parcel can be offered for sale to third parties or be developed by the Port for at or above that price certain. The ROFO is an executory contract right and not an estate in land.

1.51. "Rescission Option" has the meaning given in Section 7.

1.52. "Sale Agreement" means the Purchase and Sale Agreement for a Parcel, as referenced in Section 8.1, (in a form substantially equivalent to the form attached hereto as Exhibit 8.1(a)).

1.53. "Single Purpose Entity" or "SPE" means a legal entity organized under the laws of the State of Washington and created by Harcourt to undertake and own a Project on a Parcel. A Single Purpose Entity may own more than one Project and lease or own more than one Parcel.

1.54. "Substantial Completion" or "Substantially Complete" means the date on which the following has occurred: (i) the Improvements required to be developed by this Agreement are complete according to the approved Project Documents, except for punch list items that do not substantially prevent the use of the Improvements for their intended purposes, or (ii) the City has issued a temporary or final certificate of occupancy for the building portions of the Improvements (excluding certificates of occupancy for the interior space for which further tenant improvements are contemplated).

1.55. "Subsurface Industrial Historic Infrastructure" means anticipated, known and unknown subsurface and partial buried infrastructure, including, but not limited to, piping, vaults, foundations, piles, wiring, and structures that are remnants of the historic industrial uses of the Property.

1.56. "Transfer" means any sale, conveyance, transfer, ground lease or assignment, whether voluntary or involuntary, of any interest in this Agreement or any Parcel (excluding transfers to the City for City Infrastructure and parks) and includes transfer to a trustee in bankruptcy, receiver or assignee for the benefit of creditors, any merger, consolidation, liquidation or dissolution. In addition, "Transfer" includes any sale or any transfer of direct or indirect interests in Harcourt or any of its constituent entities, other than transfers of minority interest that do not individually or in the aggregate result in the change of control or management of Harcourt, the Property or any Project.

1.57. "Transfer Notification" means a written notice from the Parcel lessee or Parcel owner (other than a transfer from the Port to Harcourt or SPE) that a Parcel will be transferred.

1.58. "Western Crossings Development" means the Washington nonprofit corporation that has the right to develop an area of six acres within the Downtown Waterfront.

1.59. "Western Crossings Development Area" means a six (6) acre area allocated for development by Western Crossings, which is currently depicted on Exhibit A, and which area, subject to agreement by all parties to this Agreement and Western Crossings Development, may be re-allocated into the Master Development Area.

2. **RECITALS AND EXHIBITS.** The recitals set forth above and the exhibits below, including all the documents listed on Exhibit C are fully incorporated into this Agreement and form a material part thereto.

Name	Exhibit No.
Map of Waterfront District, including the Master Development Area, the Western Crossings Development Area, and the Log Pond Area	A
Harcourt Vision Plan	B
Background Documents (in attached DVD)	C
Environmental Indemnification and Environmental Easement Agreement	D
Map of Pulp/Tissue Mill RAU and Chlor-Alkali RAU	E
Chlor/Alkali RAU Consent Decree (to be added when entered in Whatcom County Superior Court)	F
Harcourt Ownership Structure	3.2
Form of Harcourt Project Guaranty Agreement	3.3
Master Development Schedule	4.1
Memorandum of Understanding between Port of Bellingham, Western Washington University and Western Crossings	4.4
Form of Construction License	5.8.1
Form of Deed	8.1
Form of Sale Agreement	8.1(a)
Form of Lease	8.2
The Appraisals	11.1

3. **HARCOURT OWNERSHIP AND TRANSFER RESTRICTIONS.**

3.1. Harcourt Responsibility. This Agreement establishes a long-term relationship between the Port and Harcourt and the terms under which the parties will perform in order that Harcourt or parcel-specific Single Purpose Entities may develop the Property within the Master Development Area.

3.2. Harcourt Ownership. Harcourt, for the term of this Agreement, shall continue the Harcourt Ownership Structure as set forth in Exhibit 3.2, including the ownership, control and management positions of the Key Persons (or their replacements as provided herein), except under the following conditions. The Key Persons may not Transfer, lease, assign, or pledge any of their respective interests in Harcourt or change the Harcourt Ownership Structure until after Substantial Completion has been achieved for the Granary Building and Building Two without the written consent of the Port, which consent shall be in the Port's sole discretion, and which the response to a request of the Port will be provided within ninety (90) days of the request. After Substantial Completion has been achieved for the Granary Building and Building Two, the Key Persons may not Transfer, lease, assign, or pledge any of their respective interests in Harcourt or change the Harcourt Ownership Structure without the written consent of the Port, which consent shall not be unreasonably withheld, conditioned or delayed, and which response to such a request of the Port will be provided to Harcourt within ninety (90) days of the request. Without limiting the foregoing, it is recognized that the Harcourt Key Persons collectively

have the requisite business experience and development experience in development of Brownfield sites and, through various business enterprises, have successfully developed Brownfield sites. Therefore, any request for consent of the Port for any proposed Transfer, lease, assign, or pledge any their respective interests in Harcourt or change the Harcourt Ownership Structure must contain a detailed explanation of how the Harcourt Key Persons collectively will continue to have similar or comparable business and development experience of Brownfield sites.

3.2.1. Specified Transfers. Notwithstanding the foregoing, at any time, the Port will consent to a change in the Harcourt Ownership Structure provided (i) at the time of the consent the Port reasonably determines that Harcourt is not in material default under any term or condition of this Agreement, and (ii)(a) the Transfer is between Key Persons or (b) from a Key Person to a business entity or trust in which the majority owner is a Key Person, and it is controlled by a Key Person, or (c) from a business entity or trust in which its majority owner is a Key Person and it is controlled by a Key Person to a Key Person or their business entity or trust described herein. However, once transferred the new owner shall be a Key Person as described in Section 1, above.

3.2.2. Purpose of Key Person Transfer Restriction. The Port is relying on the Brownfield experience of Key Persons and the Transfer restrictions contained herein to ensure that Harcourt maintains the continuity of ownership and business and development expertise to comply with this Agreement and, therefore this Transfer restriction is part of the overall economics of this transaction and acts as a form of consideration for the Port's entry into this Agreement.

3.2.3. No Personal Guaranty or Liability of Key Persons. The Key Persons make absolutely no personal guaranty and shall have no liability whatsoever under this Agreement on behalf of or related to Harcourt or to any Single Purpose Entity.

3.3. Harcourt Guaranty of Single Purpose Entity's Performance. Harcourt may form Single Purpose Entities to develop Projects. Harcourt will provide a Harcourt Guaranty, (in a form substantially equivalent to the form attached hereto as Exhibit 3.3) for each Project that is developed by said Single Purpose Entity. An Event of Default (Section 15.1, below) by a Single Purpose Entity shall have the same effect as an Event of Default as described in this Agreement.

3.4. Review of Documents and Property Investigation. Harcourt understands that it has had the opportunity to consult with the Port concerning the Background Documents described in Exhibit C, including, but not limited to, the Master Plan Documents and the Pulp/Tissue Mill RAU Consent Decree (with exhibits). Harcourt reserves the right to request additional access to the Property to conduct whatever parcel-specific investigations it deems appropriate prior to Parcel lease or purchase in preparation for construction of specific Project Improvements, for securing environmental insurance, and for obtaining any additional feasibility determinations. Harcourt and the Port will execute a reasonable "no fee" access agreement, which shall include appropriate

cross-indemnifications for personal injury suffered by Harcourt and/or the Port arising from such access.

3.5. Harcourt Master Development Documents. Harcourt, at its own expense, has and shall prepare such Harcourt Master Development Documents as may be necessary to undertake the development contemplated herein.

3.6. Project Development Responsibility. Except for Port Remediation obligations under the consent decrees, Harcourt has sole responsibility for construction, obtainment of all necessary permits and approvals, and compliance with all Legal Requirements as they relate to ownership, construction and operation of the Harcourt Improvements for each Project. Harcourt shall, at its own cost, furnish all plans, engineering, supervision, labor, material, supplies, and equipment necessary for completion of each Project Improvement.

3.7. Compliance with Master Plan Documents. The development within the Master Development Area shall comply with the Master Plan Documents as they now exist or are hereinafter amended.

3.7.1. Amendment of Master Plan Documents. Recognizing that the Master Plan Documents were developed with public involvement extending over nine years, Harcourt may, in its sole discretion, seek amendment to the Master Plan Documents; however, the Port shall not be obligated, but may elect to, support any proposed change and may oppose any proposed change. Any such proposed change shall not be the basis for any extension to the Master Development Schedule. Any such proposed change shall be undertaken at the sole cost of Harcourt.

3.8. Master Development Representative. For the term of this Agreement, the Port and Harcourt each agree to appoint, in writing, and maintain a Master Development Representative. The Master Development Representatives shall regularly communicate on all aspects of the Master Development Agreement. In addition, the Master Development Representative will participate in the Coordinating Committee. The Port and Harcourt will provide written notice within ten (10) days of any change of their respective Master Development Representative.

3.9. Importance of Adherence to Cleanup, City Infrastructure, and Development Schedules. The adherence to the applicable consent decree and related schedules and the Master Development Schedule is of critical importance in this Agreement and are the primary promises made by the Port to Harcourt and by Harcourt to the Port. Therefore, this Agreement and any provision thereto should be liberally construed to achieve these purposes.

3.10. No Objection to Redevelopment Opportunity Zone. The Port may, in its sole discretion, elect to include the Property within the Master Development Area within a Port designated Redevelopment Opportunity Zone pursuant to RCW 70.105D.150. Such an action shall not affect the validity of this Agreement. Harcourt will not object to such an

action, unless such action impacts Harcourt's ability to perform according to the terms of this Agreement.

4. MASTER DEVELOPMENT SCHEDULE.

4.1. Master Development Schedule. The Master Development Schedule (attached hereto as Exhibit 4.1) sets forth the (i) overall timing of the development of the Master Development Area, assuming the timely completion of Remediation obligations by the Port and timely installation of City Infrastructure, (ii) schedule of anticipated Projects, including the Granary Building and Building Two, (iii) mix of uses to be developed in the Master Development Area, (iv) provisions for affordable housing as set forth in the Master Plan Documents, (v) anticipated floor area to be developed in the Master Development Area, and (vi) analysis of how the Master Development Schedule aligns with the facility triggers and City Infrastructure implementation as outlined in the Interlocal Agreement for Facilities Within the Waterfront District (which constitutes one of the Master Plan Documents).

4.1.1. Compliance with Approved Master Development Schedule. Harcourt shall comply with the Master Development Schedule as it now exists or is hereinafter amended or modified, which modification shall be by mutual agreement of Harcourt and the Port. Except that, unless provided herein, neither the Port nor Harcourt is obligated to amend or modify the Master Development Schedule.

4.1.2. Extension of Master Development Schedule – Market Conditions. The Master Development Schedule was developed recognizing the current Market Conditions, reasonably foreseeable Market Conditions, and anticipated normal fluctuations in Market Conditions. Harcourt has examined the Market Conditions and provided a schedule that will allow for the timely completion of the development based on current and reasonably foreseeable Market Conditions. The Master Development Schedule will be reasonably extended by mutual agreement of the Port and Harcourt for up twenty-four (24) months to account for abnormal or unforeseen changes in Market Conditions as reasonably demonstrated by Harcourt to the Port. Thereafter, any further extension(s) will be within the Port's sole discretion based upon any reason or no reason.

4.1.3. Extension of Master Development Schedule – City Infrastructure Delay. Pursuant to the Interlocal Agreement for Facilities Within the Waterfront District (one of the Master Plan Documents attached hereto as part of Exhibit C) the City is required to install City Infrastructure. The Port has no obligation to install infrastructure. The Master Development Schedule was drafted recognizing the anticipated timing of City Infrastructure as set forth in the Master Plan Documents. The timing of the City Infrastructure is set forth in the Interlocal Agreement for Facilities Within the Waterfront District. The Master Development Schedule will be automatically extended to accommodate any delay by the City in providing City Infrastructure. Provided however, in the unlikely event that the City Infrastructure is delayed through no material fault of the Port in excess of thirty-six (36) months, then either the Port or Harcourt may unilaterally

terminate this Agreement without penalty for any reason or no reason by providing a written notice of termination to the other.

4.1.4. Extension of Master Development Schedule – Delay in Actions Related to Environmental Remediation. The Master Development Schedule was drafted recognizing the anticipated timing of actions required under the Pulp/Tissue Mill RAU Consent Decree and the completion of the Chlor-Alkali RAU Consent Decree. The Master Development Schedule will be reasonably extended by mutual agreement of the Port and Harcourt to accommodate (i) a delay in the Port's completion of actions required under the Pulp/Tissue Mill RAU Consent Decree, (ii) development of the Chlor-Alkali RAU Consent Decree or (iii) a delay in the Port's completion of actions required under the Chlor-Alkali RAU Consent Decree. Provided, however, in the unlikely event that the anticipated timing of items in (i), (ii) or (iii) above are delayed through no material fault of the Port collectively in excess of thirty-six (36) months, then either the Port or Harcourt may unilaterally terminate this Agreement without penalty for any reason or no reason by providing a written notice of termination to the other.

4.1.5 Notice for Request to Extend Master Development Schedule. To extend the Master Development Schedule under this Section 4, the party requesting the extension must provide written notice to the non-requesting party. The party receiving the request to extend the Master Development Schedule must respond to the requesting party within thirty (30) business days.

4.2. Relationship Between Schedules. As provided herein, each Project requires an associated Project Schedule, which will be developed and timely communicated to the Port, prior to transferring the Parcel for said Project to Harcourt or an SPE.

4.3. Exclusive Right to Develop Within the Master Development Area. Pursuant to this Agreement, and subject to compliance with all requirements herein, Harcourt is hereby granted an exclusive right to develop Projects within the Master Development Area according to the Master Development Schedule. In this regard Harcourt will utilize commercially reasonable efforts to develop and commercialize the Master Development Area in accordance with the Master Plan Documents. This right constitutes an executory contract right and does not create an interest in land.

4.3.1. Regular Reports to the Port. Harcourt will keep the Port fully appraised (at least annually) of its efforts to develop and commercialize the Master Development Area in accordance with the Master Development Schedule and the Master Plan Documents. Harcourt will promptly respond, in a form that is commercially reasonable, with detailed information to Port requests for information concerning this topic.

4.3.2. No Termination Except for Breach of this Agreement. Except as specifically provided herein, neither party will unilaterally terminate this Agreement or take any action in violation of this Agreement which (i) would cause an Event of Default, or (ii) cause Harcourt to breach this Agreement.

4.4. Western Crossings Development Area. The six (6) acre Western Crossing Development Area ("WCDA") is the subject of a Memorandum of Understanding between the Port of Bellingham, Western Washington University, and Western Crossings Development ("MOU"). Harcourt has no right in this MOU or otherwise to develop the WCDA. However, the Port agrees to reasonably facilitate a discussion regarding development opportunities in the WCDA between Harcourt and Western Crossings Development. Nothing here precludes Harcourt from reaching agreement with Western Crossings to undertake development with the WCDA.

4.4.1. Adding All or a Portion of the Western Crossing Development Area to the Master Development Area. In the event of an agreement between WCDA which, *inter alia*, allows the inclusion of all or a portion of the WCDA within the Master Development Area, Harcourt may request that the WCDA be included in the Master Development Area. The Port will not unreasonably withhold, condition, or delay consent to such a request. The Port and Harcourt recognize that the addition of WCDA property must include a reasonable revision to the Master Development Schedule.

4.4.2. Moving All or a Portion of the Western Crossing Development Area. If the Port, Harcourt and Western Crossings Development agree to relocate the Western Crossings Development Area to another location, the boundary of the Master Development Area (depicted on Exhibit A) will be changed to include all or a portion of the then vacated and former Western Crossing Development Area provided that the overall Master Development Acreage will not exceed the initial nineteen (19) acres.

4.5. Consultation on Development Outside of Master Development Area. Harcourt has no right in this Agreement or otherwise to develop outside the Master Development Area. However, so long as this Agreement remains in effect, the Port will be available to meet and discuss the potential for development in the Log Pond Area as defined in the Master Plan Documents or Western Crossings Development Area. In this regard, prior to entering into any agreement for development in the Log Pond Area, the Port will keep Harcourt reasonably informed and seek its timely input as to development plans with the Log Pond Area and Harcourt's desire to undertake or participate in such development. This Section 4.5 shall not create any legal right of Harcourt to develop or participate in the development beyond the Master Development Area. Moreover, neither Harcourt nor the Port shall be bound by the terms and conditions of this Agreement in any agreement for development beyond the Master Development Area. However, the Port and Harcourt each recognize that it is in their respective interests to work cooperatively to continue to facilitate development beyond the Master Development Area in a manner that would meet the needs of the Port and provide a reasonable development opportunity for Harcourt.

4.5.1. Limitation of Port Development in Log Pond Area. The Port shall not develop any of the Property within the Log Pond Area for any use that is inconsistent with the current Waterfront District Industrial Mixed Use zoning designation without the

prior written consent of Harcourt, which consent shall not be unreasonably withheld, conditioned, or delayed.

4.6. Log Pond Area – Zoning Change. Section 11.4 of this Agreement recognizes that Harcourt's development will increase land values within the Master Development Area. Likewise, it is recognized that a change in the zoning of all or a portion of the Log Pond Area from its current "Waterfront District Industrial Mixed Use" to "Waterfront District Commercial Mixed Use" followed by mixed use development by the Port or others may impact the Master Development Area land values or the ability of Harcourt to complete development in the Master Development Area. Therefore, this Section 4.6 establishes a process that will be followed prior to the Port (i) initiating a zoning change for all or any portion of the Log Pond Area from Waterfront District Industrial Mixed Use to Waterfront District Commercial Mixed Use or (ii) entering into a sale agreement that would allow a purchaser to initiate a zoning change for the purchased parcel within the Log Pond Area from Waterfront District Industrial Mixed Use to Waterfront District Commercial Mixed Use (items (i) and (ii) are collectively "Log Pond Action"). This Section 4.6 and its subparts do not create any present legal right of Harcourt to develop or participate in the development beyond the Master Development Area and, except as specifically set forth herein, shall not be construed to limit the Port's development activities outside the Master Development Area.

4.6.1. Notice to Harcourt of Port Log Pond Action. The Port will provide Harcourt with sixty (60) days written notice prior to undertaking any Log Pond Action (the "Log Pond Notice"). The Log Pond Notice shall contain a description of the proposed action and the property subject to the action. Upon receipt of the Log Pond Notice, Harcourt may, within sixty (60) days, notify the Port in writing (the "Log Pond Election") of its desire to exercise its right to include the property that was the subject of the Log Pond Notice within the Master Development Area. Failure to provide the written Log Pond Election to the Port within the sixty (60) day period shall be deemed an irrevocable and automatic waiver of any right of Harcourt to exercise its right to include the property that was the subject of the Log Pond Notice within the Master Development Area.

4.6.2. Inclusion of Log Pond Action Notice Property within the Master Development Area. Provided that the Port timely receives Harcourt's Log Pond Election, the Port and Harcourt agree to reasonably cooperate to amend this Agreement to include the property that was subject to the Log Pond Notice. The Port and Harcourt recognize that this change to the Master Development Area will necessitate a reasonable revision to the Master Development Schedule and the Land Valuation for the additional property. The Land Valuation will be determined without taking into account any increased value attributable to the development conducted by Harcourt within the MDA. The Port and Harcourt will not to unreasonably withhold, condition, or delay consent to such amendment. In the event that the Port and Harcourt are unable to agree to a revised MDA, the dispute resolution procedure set out in Section 16.26 shall be utilized.

5. EACH PROJECT'S DEVELOPMENT.


PORT INITIAL


HARCOURT INITIAL

5.1. Project Memorandum. Each Project requires that the Port and Harcourt and if applicable, the SPE, will develop a Project Memorandum, which will consist of anticipated and relevant details of each Project. The Project Memorandum will be consistent with the terms and conditions of this Agreement and will include the Project Schedule, the Project Concept Design Document, and the Project Financing Plan.

5.1.1. Project Schedule. Consistent with the Master Development Schedule, Harcourt will timely propose a Project Schedule with the proposed Project Memorandum for each Project which will include milestones for actions such that the Project Schedule can readily be evaluated for compliance with the Master Plan Documents and the Master Development Schedule.

5.1.2. Project Concept Design Document. The Project Concept Design Document will be in sufficient detail such that the Port can evaluate compliance with the Master Plan Documents and the Master Development Schedule. It will include (i) a description of the building height, mass and floor area calculations, (ii) the proposed mix of uses for the Project, (iii) affordable housing percentage, (iv) interim and permanent parking calculations, and (v) traffic analysis including PM peak hour trips.

5.1.2.1. Traffic Impact Fees. Subject to the provisions of this section, traffic impact fee credits of the Port will only be available for commercial and industrial uses. Any proposed use of Port traffic impact fee credits (expressed as "peak hour trips") and the compensation to the Port for those credits shall be included in the Project Concept Design Document. The Port can, in its sole discretion, provide traffic impact fee credits under such terms and conditions as the Port determines.

5.1.2.2. Parking. The Project Concept Design Document will include a parking plan setting forth the anticipated parking needs and the temporary and permanent parking plan. The Port will reasonably grant the right to use other areas in the Master Development Area as interim parking until the permanent parking is developed as part of the Project or another Project under such terms and conditions as the Port determines reasonable.

5.1.3. Financing Plan. The Project Financing Plan will be provided by Harcourt to the Port with the proposed Project Memorandum and will be in sufficient detail such that it includes, at a minimum, a proposed Project budget.

5.2. Approval of Project Memorandum and Attachments. After the parties have reached agreement regarding the Project Memorandum and attachments, the Port will approve the final documents, which approval shall not be unreasonably withheld, conditioned or delayed. Approval of the final documents will be signified by the Port's signature and date on the Project Memorandum. The Port's approval of any Project Memorandum will not constitute the Port's determination as to the advisability of the business decisions underlying of Harcourt's or the Single Purpose Entity's detailed site plan, financing agreements, or construction plans and specifications as these elements remain in the sole discretion of Harcourt.

5.2.1. Adequate Assurance of Ability to Complete Project. Upon request by the Port, Harcourt or a parcel-specific Special Purpose Entity, will provide commercially reasonable documentation of its ability to complete a Project. Evidence of a loan commitment or other credit facility are examples of commercially reasonable documentation.

5.2.2. Modifications. The Port's approval under this section shall not be required for any modification, replacement, alteration or addition (but excluding any relocation) to any previously approved submission, unless there is a Material Modification from the previously approved submission. For any Material Modifications thereto proposed by Harcourt, the approval procedure described in Section 5.2 shall be used.

5.2.3. Single Purpose Entity Default. Prior to Substantial Completion, a failure of the Single Purpose Entity to comply with all applicable terms of this Agreement, or the approved Project Memorandum shall constitute an Event of Default by Harcourt pursuant to Section 15.1 of this Agreement.

5.3. Compliance with Project Schedule. Upon Project Schedule approval, Harcourt or the applicable SPE will comply with said Project Schedule (including preparation of the Project Documents) and promptly, within fourteen (14) days of discovery, report to the Port any Material Modification or anticipated Material Modification or any changes in the Project Schedule.

5.4. Port's Creation of Legal Lot of Record. Upon approval of the Project Memorandum, the Port shall, within fourteen (14) days, make application and diligently pursue the creation of the legal lot of record for the Project, which shall then be the Parcel. It is anticipated that this process with the City will take a minimum of one-hundred and twenty (120) days. The cost of creation of the legal lot of record shall be included in the overall cost of the Project and paid by Harcourt unless rendered impracticable by any unmet obligation of the Port under this Agreement.

5.5. Harcourt's Parcel Acquisition. In the sixty (60) day period after both the Project Memorandum has been approved and the legal lot of record has been created, Harcourt or an SPE must exercise its executory right to either purchase or lease the Parcel and close within said sixty (60) day period.

5.6. Project Performance. Harcourt or an applicable SPE shall diligently perform its obligations under the terms of this Agreement according to the following standards:

(i) At its own cost, furnish all permit fees, impact fees, plans, engineering, supervision, labor, material, supplies, and equipment necessary for completion of each Project.

(ii) All construction hereunder, shall comply with, and be performed in accordance with any and all Legal Requirements and Environmental Standards.

(iii) At all times, the Project will be free and clear of all liens (other than in connection with approved Project Financing Plan and those contemplated by this Agreement).

(iv) It will have reviewed and considered all relevant Background Documents as part of its design process.

(v) All construction of Improvements hereunder shall comply with, and be performed in accordance with applicable portions of the Master Plan Documents and the Project Documents.

(vi) It agrees to diligently design, construct, and complete the Improvements in accordance with the requirements of the Master Development Schedule and the Project Documents and in a good and workmanlike manner and conforming to Project Memorandum.

(vii) For all activities reasonably attributable to the development of each Parcel, it will ensure that such activities on the Parcel comply with the applicable Contaminated Materials Management Plan and the applicable Environmental Covenant.

(viii) Once construction on a Project has been undertaken, it will continuously and diligently continue with the construction of Improvements until Completion of the Project as defined herein.

(ix) It will construct and pay for the Harcourt Improvements on each Parcel.

5.7. Coordination and Cooperation with City and Ecology. The Port and Harcourt shall reasonably cooperate with each other, the City (subject to the City's agreement) and Ecology (subject to Ecology's agreement) to coordinate the design and construction of Improvements on the Project, including the design and construction of the City Infrastructure Improvements and compliance with the applicable consent decree and MTCA.

5.8. Port Cooperation in Each Project. The Port shall reasonably cooperate with Harcourt in the prosecution and completion of the Projects contemplated herein. Provided, however, the Port's agreement to reasonably cooperate shall not in any way limit the Port's rights contained in this Agreement to (i) act in its sole discretion where such a right is granted, (ii) enforce all the terms and conditions of this Agreement, (iii) declare a default, and (iv) terminate this Agreement. The Port agrees that so long as there has been no Event of Default by Harcourt or the SPE (if used) under this Agreement, it will not take actions inconsistent with this Agreement with regard to any Project. However, nothing herein shall prevent the Port from (i) non-defamatory evaluation, investigation, or discussions regarding the performance of Harcourt, (ii) declining to waive any term, condition or requirement of this Agreement, (iii) declining to

incur liability or out-of-pocket costs or expenses, or (iv) require the Port to violate any applicable law or regulation.

5.8.1. Construction License. The Port will reasonably grant a temporary Construction License for Property within the Master Development Area to allow Harcourt to (i) access a Parcel, and (ii) temporarily stage material and equipment on adjacent property necessary to undertake a Project. The Construction License shall be in substantially the form attached hereto as Exhibit 5.8.1.

5.8.2. Interim Parking License. The Port will reasonably grant an Interim Parking License for Property within the Master Development Area to allow Harcourt to develop a Parcel where the permanent parking is anticipated to be developed at a later time.

5.9. Project Access by Port. The Port and its consultants will be provided reasonable access to the Project during construction to monitor compliance with this Agreement.

5.10. Conditions Precedent to Commencement of Construction. The following conditions shall have been satisfied before commencing construction on a Parcel:

5.10.1. Compliance with Agreement. Harcourt shall be in material compliance with this Agreement, including, without limitation, all contracting requirements and receipt of all necessary permits for construction.

5.10.2. Approval. Harcourt shall have obtained Port approval of the Project Documents in accordance with the approval process set forth in this Agreement.

5.11. Governmental Approvals and Permits. Harcourt shall apply, at its sole cost, to the appropriate Governmental Authorities or third parties for, and shall diligently pursue and obtain, all permits, licenses, permissions, consents or approvals required in connection with the construction of the Improvements. The Port will cooperate with Harcourt and the SPE (if used) to obtain all such permits, licenses, permissions, consents and approvals, but without liability or out-of-pocket cost or expense to the Port.

5.11.1. The Commencement of Construction. Harcourt or the applicable SPE shall obtain all necessary City permits and commence construction by the Commencement of Construction Date.

5.11.2 Completion of Construction. Once construction commences, Harcourt or the applicable SPE shall diligently undertake the construction to completion.

5.12. Preparation of Site; Utilities. Except when otherwise required as part of the Port's Remediation obligations, the Port shall not be responsible for and Harcourt shall be responsible for any demolition or site preparation in connection with the Project or any Subsurface Industrial Historic Infrastructure on the Parcel. Likewise, Harcourt shall not be

responsible for any demolition or site preparation in connection with the installation of City Infrastructure. The Port will reasonably cooperate, at no expense to the Port, in providing utility connections to the Parcel. Consistent with the Master Plan Documents, Harcourt shall make arrangements for necessary utility services directly with utility service providers (including private providers and the City). Any impacts fees, costs of installation, connection, relocation or upgrade shall be paid by Harcourt, including, but not limited to, water, sanitary sewer, storm water, natural gas, streetlights, traffic lights, electric utilities, telecommunications, and fire hydrants.

6. SPECIAL PROVISIONS FOR THE GRANARY BUILDING PROJECT AND THE BUILDING TWO PROJECT.

6.1. Granary Building Project. The first Project that Harcourt will undertake consistent with this Agreement is the repurposing of the existing Granary Building to a mixed use residential, office and/or retail building ("Granary Building Project"). The purchase price of the Granary Building and the real property underlying the Granary Building (approximately .63 acres) as depicted in Exhibit A (the "Granary Parcel") is Two Hundred Thousand Dollars (\$200,000). The purchase shall be completed using the forms and procedure set forth in this Agreement. Harcourt shall comply with the Master Development Schedule with regard to the Granary Building Project.

6.1.1. Harcourt Payment of Purchase Price for the Granary Building. Within fourteen (14) days of the execution of this Agreement, Harcourt or the applicable SPE will pay as consideration to the Port, a payment of the purchase price of the Granary Building and the real property underlying the Granary Building of Two Hundred Thousand Dollars (\$200,000). Except for the inability to purchase the Granary Building due to the Port's failure to create a legal lot of record or the Port's failure to timely complete its Remediation obligations on the associated Parcel, the payment shall be non-refundable and fully earned when paid to the Port.

6.1.2. Special Granary Parcel Rescission Right. Except in the event of Force Majeure, or failure of the Port to timely complete its Remediation obligations on the associated Parcel, or failure of the City to timely provide associated City Infrastructure, or for any exception stated in this Agreement, if Harcourt fails to commence construction of the Granary Project by the Construction Start Date as set forth in the Project Schedule, then the Port shall have the right and option to rescind the sale of the Granary Parcel by providing written notice to Harcourt that it has elected to rescind the purchase, within thirty (30) days after the scheduled start date ("Special Granary Parcel Rescission Right"). Unless said notice has been received, the Port waives the Special Granary Parcel Rescission Right and Harcourt may continue the Granary Building Project. The Port and Harcourt recognize that because of the overall importance of the Granary Building Project to the success of the development contemplated in this Agreement, failure of Harcourt to commence construction of the Granary Project by the Construction Start Date, without good cause, as set forth in the Project Schedule, will result in damage to the Port which is impossible to adequately quantify. Therefore, subject to either party's rights to invoke the Dispute Resolution processes set out herein, the Port and Harcourt have agreed that the

Port shall pay Harcourt Ten Dollars (\$10) as consideration for the repurchase of the Granary Parcel. The Port and Harcourt agree that the purchase price paid by the Port (i) is adequate consideration for the repurchase of the Granary Parcel, (ii) that the difference between the amount paid by Harcourt to the Port and Ten Dollars (\$10) is reasonable, and (iii) the amount of the payment has been a negotiated portion of the economics of this Agreement. To the extent not inconsistent with this Special Granary Parcel Rescission Right, the terms of Section 7 below shall apply.

6.1.3. No Market Condition Extension of Schedule for Granary Building Project. Because of the overall importance of the Granary Building Project to the success of the development contemplated in this Agreement, there will be no extension for Market Conditions. Therefore, the provisions of Section 4.1.2 shall not apply to the Granary Building Project.

6.1.4. Termination of this Agreement Upon Exercise of Special Granary Parcel Rescission Right. In addition to all other rights herein, if the Port exercises its right to rescind the Granary Parcel, it may terminate this Agreement. Harcourt must receive notice of such termination within thirty (30) days of the exercise of the Special Granary Parcel Rescission Right. If the Port does not issue notice to terminate under this Section 6, within the required timeframe, then this Agreement shall proceed with full force and effect.

6.2. Building Two Project. The second Project that Harcourt will undertake is a building (other than the Granary Building Project) within the Master Development Area (the "Building Two Project"). The Building Two Project may coincide with the development of the Granary Building Project or be developed immediately after Substantial Completion of the Granary Building Project. Harcourt shall comply with the Master Development Schedule with regard to the Building Two Project.

6.2.1. No Market Condition Extension of Schedule for Building Two Project. Because of the overall importance of the Building Two Project to the success of the development contemplated in this Agreement, there will be no extension for Market Conditions. Therefore, the provisions of Section 4.1.2 shall not apply to the Building Two Project.

6.2.2. Termination of this Agreement Upon Exercise of Building Two Parcel Rescission Right. In addition to all other rights herein, if the Port elects to exercise its right to rescind the Transfer of the Building Two Project Parcel (pursuant to Section 7), the Port may terminate this Agreement.

7. PORT'S PROJECT PARCEL RESCISSION OPTION FOR OTHER THAN THE GRANARY BUILDING PROJECT.

7.1. Rescission Option if Harcourt or SPE Fail to Start Construction. For other than the Granary Building Project, if Harcourt or the applicable SPE fails to commence construction of a Project by the Construction Start Date, as set forth in the Project

Schedule (or as modified pursuant to this Agreement), then the Port shall have the right and option to rescind the sale of the Parcel or cancel the Lease (the "Rescission Option") by refunding the purchase price paid or any rent prepaid by Harcourt for the Parcel under the Sale Agreement. Notwithstanding the foregoing, the Rescission Option shall terminate if (i) Harcourt or the applicable SPE commences construction before the Port gives Harcourt written notice exercising the Rescission Option, or (ii) Harcourt has not received written notice from the Port exercising the Rescission Option within sixty (60) days after the Construction Start Date. This Rescission Option will be set forth in the Deed or contained in the Lease.

7.1.1. Closing on Rescission Option – Owned Parcel. The closing of a repurchase due to a rescission of a Parcel purchased by Harcourt or an SPE shall be not later than sixty (60) days following the Port's exercise of the Rescission Option on a business day selected by the Port on not less than fifteen (15) days' written notice to Harcourt or the SPE (if used). The parties shall comply with the exemption to real estate excise tax stated in WAC 458-61A-209; provided, however, Harcourt shall pay the excise tax on the rescission if the Transfer is not exempt. The Deed will be in the same form as used to convey the Parcel to Harcourt or the SPE (if used). Upon such re-conveyance to the Port, no encumbrances shall exist on title other than those that existed when title transferred to Harcourt or the SPE (if used), those consented to by the Port in writing (except any Lender security interest, which shall not be a permitted encumbrance) and those that were recorded as part of the Closing of the acquisition of the Parcel. Harcourt shall be responsible for obtaining the release of any Lender security interest. If the Port exercises the Rescission Option, Harcourt shall be released from further obligations under this Agreement for the Parcel, except those obligations that by their terms expressly survive termination. If Harcourt has commenced construction prior to the Port's exercise of the Rescission Option, the Rescission Option shall terminate. At Harcourt's request, the Port shall provide written confirmation to a Lender that construction has commenced such that it satisfies any condition of a Lender to advance funds under a construction loan.

7.1.2. Rescission Option – Leased Parcel. The Rescission Option for a leased parcel shall be executed in accordance with the Lease.

7.2. Port's Right to Utilize Rescission Parcel. After a rescission occurs, the Port may utilize, sell, lease or otherwise dispose of the Parcel subject to compliance with the Master Plan Documents as they now exist or are hereinafter amended. This right is in addition to any other rights or remedies set forth in this Agreement.

8. PARCEL TRANSFER BY LEASE OR SALE.

8.1. Sale by Deed. Should Harcourt or an SPE elect to purchase a Parcel, subject to the terms of this Agreement, the Port will Transfer a Parcel to Harcourt via a Deed substantially equivalent to the form attached hereto as Exhibit 8.1. The price for such purchase will be established pursuant to this Agreement. The parties shall utilize a purchase and sale agreement in substantially the form attached hereto as Exhibit 8.1(a).

8.1.1. Real Estate Excise Tax. Harcourt shall be responsible for the payment of Washington State Real Estate Excise Tax.

8.1.2. Title Insurance. The Port shall provide a standard ALTA title insurance policy insuring the title in the amount of the purchase price. Harcourt may elect to require additional endorsements or coverage at Harcourt's cost.

8.2. Lease. Should Harcourt or an SPE elect to lease a Parcel, subject to the terms of this Agreement, the Port will lease the Parcel to Harcourt via a Lease in a form substantially equivalent to the form Lease attached hereto as Exhibit 8.2. The Lease will be for an initial term of fifty (50) years with options to extend to eighty (80) years (the maximum term allowed under law) and contain (i) an option to prepay the entire Lease payment, and (ii) an option to purchase the Parcel for the Land Valuation with the adjustment over time as provided herein.

8.2.1. Lease Rate. The initial lease rental rate shall be the adjusted Land Valuation multiplied by the Port's then standard rate of return for leased property, plus applicable Washington State Leasehold Excise Tax. The Lease will provide for commercially reasonable increases in the rental rate over the term of the Lease.

8.2.2. Harcourt's Pledge of Lessee's Interest. Subject to reasonable approval by the Port, Harcourt may mortgage the Lessee's interest in the Lease as security for a Lender to the extent the Lender is providing capital for the Project.

8.3. Timing of Sale or Lease. The timing of the sale or lease shall be set forth in the Project Schedule.

9. **PROPERTY - CONDITION AND RESPONSIBILITY.**

9.1. Environmental Condition. Portions of the Property within the Master Development Area are within the Pulp/Tissue Mill RAU and the Chlor-Alkali RAU of the Georgia-Pacific West Site. The Pulp/Tissue Mill RAU Consent Decree is attached hereto as part of Exhibit C. The Port has already developed the remedial investigation (the "RI") for the entire Georgia-Pacific West Site, which is included on Exhibit C. The Port is currently developing the feasibility study (the "FS") for the Chlor-Alkali RAU. There may be other unknown and/or unanticipated conditions found in, on or under the Property. An Environmental Indemnification and Easement Agreement attached hereto as Exhibit D shall (i) control the allocation of liability between the Port and Harcourt, (ii) limit the environmental liabilities of Harcourt and any parcel-specific Single Purpose Entity based on the Port's Remediation obligations, and (iii) is a negotiated portion of the economics of this transaction allocating the potential economic loss arising from environmental liability.

9.1.1. Port's Liability. The Port is responsible for installation of the remedy required in the applicable consent decree and for any long-term monitoring or maintenance required in the applicable consent decree. In this regard, the Port will retain the easement in all Deeds or Leases and as set forth in the Environmental Indemnification

and Easement Agreement attached hereto as Exhibit D. If hazardous materials are discovered that result in a reopening or amendment of the applicable consent decree (either voluntarily or by court order), the Port will be responsible for any additional Remediation required in the reopened or amended applicable consent decree. Harcourt or the applicable SPE will reasonably cooperate with the Port by granting access to any Parcel to accomplish any Remediation required herein without claim for business interruption or other consequential damages.

9.1.2. Harcourt's Liability. Harcourt and the applicable SPE are responsible for compliance with the applicable Contaminated Materials Management Plan and the applicable Environmental Covenant.

9.1.3. Harcourt or SPE Added to Consent Decree. Upon the request of Harcourt or a parcel-specific SPE, in either entity's sole discretion, the Port shall exercise its best efforts to obtain an amendment to either or both consent decrees, adding Harcourt or the SPE as a party to such decree.

9.2. Chlor-Alkali RAU Consent Decree. Once the Chlor-Alkali RAU Consent Decree is entered in Whatcom County Superior Court, it will be appended to this Agreement as part of Exhibit F.

9.3. Subsurface Historic Industrial Infrastructure. As a Brownfield site, Property within the Master Development Area contains Subsurface Industrial Historic Infrastructures dating from the historic uses. The Background Documents provide information concerning this issue. The Port makes no representation or warranty concerning the Subsurface Historic Industrial Infrastructure. Harcourt or the applicable SPE is responsible through Substantial Completion for managing Subsurface Historic Industrial Infrastructure in the course of its development.

9.4. Geotechnical Condition. The geotechnical conditions of the Master Development Area are the subject of information provided in the Background Documents. The Background Documents provide information concerning this issue. Harcourt has reviewed this report and will conduct such other geotechnical studies as it deems appropriate prior to Project development, and is not relying on any representations from the Port concerning geotechnical conditions or the accuracy of this report. Harcourt or the applicable SPE is responsible through Substantial Completion for Parcel development consistent with the geotechnical conditions and is assuming the risk on any geological conditions.

9.5. City Infrastructure Improvements and Street Dedications. The Port has no duty or obligation under this Agreement to construct or install City Infrastructure. Subject to the right of the City to have and maintain a public right of way, the parties anticipate that any Parcel will extend to the centerline of adjacent local streets (as opposed to arterial streets). The City may require the dedication of a right of way for these local streets. Specific issues related to streets contained herein will be addressed in the Project

Memorandum. The Parcel cost shall include the property underlying the rights of way for local streets, but does not include property under the arterial streets.

9.6. Condition of the Property-No Representation. Except as expressly provided herein and in the exhibits attached hereto, the Port makes no warranties or representations as to the condition of the Property or the suitability of the soil conditions or any other conditions of the Property for any improvements to be constructed by Harcourt. Without limiting the foregoing, and except as expressly provided in this Agreement, the Property is transferred or leased "AS IS AND WITH ALL FAULTS." Harcourt agrees that it has not relied on representations or warranties made by the Port as to the physical or environmental condition of the Property or its suitability for any Improvements to be constructed by Harcourt, except as provided within this Agreement and to the extent that the Port conducts its obligation to Remediate the Property.

10. **PROJECT OWNERSHIP.**

10.1. Assignment of Project by Harcourt to Single Purpose Entity. Any time after approval of a Project Memorandum, as provided in and subject to the terms and conditions of this Agreement, Harcourt may Transfer the Project referenced in the Project Memorandum to a Single Purpose Entity.

10.2. Organization of Single Purpose Entity. The organizational documents must state that the purpose of the Single Purpose Entity is limited exclusively to ownership and operation of the Project(s) subject to this Agreement, and that its purpose clause may not be changed without the prior written approval of the Port, which approval shall not be unreasonably withheld. Prior to Substantial Completion of the Project, unless prior approval is granted by the Port, which approval shall not be unreasonably withheld, the Single Purpose Entity must be (i) wholly owned by Harcourt, and (ii) substantially controlled and managed by Harcourt. Any further Transfer of an ownership interest in the Single Purpose Entity will require a Transfer Notification to the Port. Harcourt will remain responsible for the performance of all the terms and conditions of this Agreement.

10.3. Single Purpose Entity. The Transfer shall be subject to the terms and conditions of this Agreement and the Single Purpose Entity shall be bound by the Project Memorandum. After Transfer, the Single Purpose Entity shall (i) comply with all applicable terms and conditions of this Agreement related to the Project, and (ii) be entitled to purchase or lease the Parcel for the Project as provided herein.

10.4. Transfer of Project and Parcel After Substantial Completion. After Substantial Completion, Harcourt (or the Single Purpose Entity) may sell, Transfer, or lease the Project upon thirty (30) days' prior written notice of its intent to do so to the Port ("Transfer Notification"). However, any Transfer of a leasehold interest shall be subject to the terms of the Lease between the Port and Harcourt (or the SPE, if applicable).

11. **PROPERTY VALUATION.**

11.1. Agreed Valuation. The Port and Harcourt have obtained two appraisals of the Property using a set of assumptions agreed to by both the Port and Harcourt. These appraisals are attached hereto as Exhibit 11.1. The Port and Harcourt agree that given all applicable considerations (including those factors listed in Section 11.1.1), and including market risk, that a Land Valuation of Twenty Dollars (\$20) per square foot (subject to annual adjustment as provided herein), shall be used for the initial nineteen (19) acres in the Master Development Area for all property transactions (lease or sale) between the Port and Harcourt in the initial nineteen (19) acres of the Master Development Area.

11.1.1. Factors Considered in Land Valuation. In arriving at a Land Valuation, the following factors were considered:

- (i) The anticipated finished condition of the City Infrastructure.
- (ii) The anticipated and unanticipated cost of compliance by Harcourt or the applicable SPE with the consent decree, the Environmental Covenant and the CMMP, and elimination of associated environmental stigma.
- (iii) The prepayment or credit for some customary impact fees by the Port.
- (iv) The effect of entitlements that have been placed on the Property in the Master Plan Documents.
- (v) The information contained in the Background Documents.
- (vi) The value to the citizens, including economic development and increased tax revenues of Whatcom County in incentivizing Harcourt to build out the projects within the Master development Area.
- (vii) The anticipated and unanticipated extraordinary foundation costs for construction on the Property.
- (viii) The anticipated and unanticipated geotechnical conditions.
- (ix) The anticipated and unanticipated subsurface Historic Industrial Infrastructure.

11.2. Annual Land Valuation Increase. The Land Valuation shall automatically be increased by three percent (3%) per year (as compared to the previous year) on each annual anniversary date of the Effective Date of this Agreement. The revised value shall be used for all Property transfers completed within the following twelve (12) month period.

11.3. Land Valuation Negotiated Economics. The Land Valuation is part of the overall economics of the transaction contemplated herein and is a material inducement for Harcourt to invest the capital necessary to complete the development contemplated

herein, according to the master Development Schedule, and recognizes the overall value to the Port and the citizens of Whatcom County of development within the Waterfront District.

11.4. Impact on Land Valuation Caused by Harcourt Projects. It is anticipated that the Land Valuation within the Master Development Area will increase in excess of the three percent (3%) automatic increase noted above as a result of Harcourt undertaking or completing Projects. The Port and Harcourt intend that this Project related Land Valuation increase will inure to the benefit of Harcourt and not the Port. This allocation of increased Land Valuation is part of the overall economics of the transaction contemplated herein, and is a material inducement for Harcourt to invest the capital necessary to complete the development contemplated herein according to the Master Development Schedule and recognizes the overall value to the Port and the citizens of Whatcom County of development within the Waterfront District.

11.4.1. Increase in Land Valuation. Without limiting the foregoing, any increase in the Land Valuation or profit realized by Harcourt shall not be the basis of any claim or request by the Port to re-negotiate the terms of this Agreement or to withhold or condition any consent to which the Port is obligated to reasonably provide or undertake any action to which the Port is obligated to undertake pursuant to this Agreement.

11.4.2. Increase in Development Costs. Without limiting the foregoing, any increase in developments costs, including, but not limited to, the factors set forth in Section 11.1.1 shall not be the basis of any claim or request by Harcourt to re-negotiate the terms of this Agreement or seek a delay in its performance under this Agreement. The agreed Land Valuation reflects Harcourt's agreement to undertake the business risks inherent in developing this Property.

12. PORT TRANSFER BY SALE AGREEMENT, REAL ESTATE CONTRACT, OR LEASE.

12.1. Harcourt's Election Concerning Method of Acquiring Interest in a Parcel. Harcourt may, at its sole discretion and subject to the terms of this Agreement, acquire (or an SPE may acquire) an interest in a Parcel by outright purchase, purchase using a real estate contract, as provided in RCW 53.08.091, or lease.

12.2. Port Real Estate Contract. Subject to applicable law (including RCW 53.08.091), and, at Harcourt's election, the Port will Transfer a Parcel to Harcourt (or its Single Purpose Entity) using a real estate sale contract with four percent (4%) of the purchase price paid at Closing and four percent (4%) of the purchase price to be paid annually from the date of Closing until paid in full within twenty-five (25) years from the date of Closing. The unpaid balance shall bear interest at the one year LIBOR rate, plus two percent (2%) as published by the Wall Street Journal for the date of Closing, per annum, and neither the unpaid balance nor the interest shall incur a prepayment penalty. The Port's vendor's interest in the real estate sale contract cannot be subordinated to any other debt.

12.3. Port Lease. Subject to applicable law, and, at Harcourt's election, the Port will lease a Parcel to Harcourt (or its Single Purpose Entity) for a term not to exceed fifty (50) years from the effective date of said Lease, with options to extend the Lease for an additional thirty (30) years. The Lease rate will be determined at the effective date of the Lease by using the adjusted Land Valuation multiplied by the then current rate of return in effect for Port real estate.

13. **PROJECT FINANCING.**

13.1. Financing Plan. Harcourt will submit the Financing Plan as an attachment to the Project Memorandum. Thereafter, Harcourt shall make available to the Port financial information concerning the Project and the Lender as reasonably requested by the Port for the Port's reasonable review and comment.

13.1.1. Limitation on Lenders. Only Lenders that advance funds for the Project are permitted to have a security interest and/or mortgage in the Project and only to the extent of the actual funds advanced for the Project in accordance with the Project budget.

13.2. Port Takeover Rights. Subject to approval by the Lender, under such terms as the Lender and the Port deem appropriate, and at the sole discretion of the Port, the Port may succeed to all rights and obligations of Harcourt or an SPE in the event of a default in an obligation to the Lender.

14. **RIGHTS OF FIRST OFFER ("ROFO")**

14.1. Right of First Offer. The Right of First Offer is a right exclusive to Harcourt that is triggered by an Event of Default by Harcourt, as set forth in Section 15.1 of this Agreement. Rights of Harcourt to exclusively develop within the Master Development Area automatically become a ROFO right upon the happening of an Event of Default. This automatic conversion, without notice, has been specifically negotiated between the Port and Harcourt as an essential term of this Agreement, in order to (i) allow the development in the Master Development Area to move forward notwithstanding an Event of Default, and (ii) allow Harcourt to continue to participate in the development notwithstanding such Event of Default. This section describes the process for notification and election. This Right of First Offer in no way limits termination rights of the Port or Harcourt as provided by this Agreement.

14.2. ROFO Notice and Election Process. This section describes the process for notification and election of a desire to exercise the right to purchase or lease a Parcel subject to a ROFO. The process for Harcourt to exercise its Right of First Offer shall be initiated by a notice from the Port to Harcourt (the "ROFO Notice"). The ROFO Notice shall contain, at a minimum (i) the proposed purchase or lease price at which the Port proposes to sell or lease the Parcel, a description of the proposed Project and Project timeline, or (ii) in the case of a Port owned Project, the value ascribed to the Parcel, a

description of the proposed Project, and Project timeline. The Port need not have a specific buyer or tenant identified. Rather, the Port may provide the ROFO Notice of its intent to market a Parcel at a particular price, which will be the price at which the ROFO may be exercised.

14.2.1. Harcourt's Election-Process. Upon receipt of the ROFO Notice, Harcourt will, within thirty (30) days, notify the Port in writing (the "ROFO Election") (i) of its election to purchase or lease the Parcel (as the case may be, based upon the ROFO Notice of the Port) and commercially adequate assurances reasonably acceptable to the Port that it can comply with the timeline for purchase and development.

14.2.2. Harcourt's Election-Purchase Requirements. Upon Harcourt's election to purchase or lease the Parcel, Harcourt will (i) submit the information required in Section 5.1 related to Projects, and (ii) complete the purchase or lease within sixty (60) days of said ROFO Election. Failure to submit the information required in Section 5.1 within sixty (60) days shall be treated as if no ROFO Election was received and all rights of Harcourt to a Right of First Offer to any Parcel within the Master Development Area shall terminate. If Harcourt, for any reason or no reason fails to complete the purchase or lease of the Parcel pursuant to the timeline that is the subject of the ROFO Notice, then all rights of Harcourt to a ROFO to any Parcel in the Master Development Area shall terminate.

14.2.3. Harcourt's Non-Election. Failure to provide the written ROFO Election to the Port within the thirty (30) day period (see above in Section 14.2.1) shall be deemed an irrevocable and automatic waiver of any right of Harcourt to so lease or purchase the Parcel that was subject to the ROFO Notice, and the irrevocable right of the Port, free and clear of any right, title or interest of Harcourt to (i) sell or lease the Parcel for at or above the purchase price contained in the ROFO Notice, or (ii) itself undertake the Project described in the ROFO Notice Parcel without regard to whether the proposed purchase or lease occurs. However, failure to provide the Election to the Port within the thirty (30) day period shall not be deemed a waiver of any ROFO for the balance of the Property in the Master Development Area.

14.2.4. Port's Right Upon Harcourt's Failure to Provide Election. In the event that Harcourt does not elect to purchase or lease the Parcel offered in the ROFO, the Port shall be free to market the Parcel or construct a Project itself. However, the Port cannot sell or lease the Parcel for less than the price contained in the original ROFO Notice or permit a Project of more than twenty percent (20%) less floor area. The Port shall have the right to market the Parcel for a period of ninety (90) days. If the Port fails to secure a binding agreement from a buyer or tenant subject to commercially reasonable contingencies and contingency periods within ninety (90) days of the date of the ROFO Notice, then the Port's rights shall terminate with regard to the ROFO Notice and all of Harcourt's right, title, and interest under this Section 14 shall be automatically reinstated as to that Parcel. The Port may issue a new ROFO Notice for a Parcel anytime after one (1) year from the date of the ROFO Notice.

15. DEFAULT, REMEDIES UPON DEFAULT, AND TERMINATION.

15.1. Event of Default-Harcourt. An Event of Default is defined as a non-Force Majeure event and shall occur upon Harcourt's failure to keep, observe, or perform any of its respective duties or obligations under this Agreement, which Event of Default shall be a default hereunder, including, without limitation, (i) failure of Harcourt to meet all deadlines or comply with the Master Development Schedule, (ii) failure of Harcourt or an SPE to comply with any Project Schedule, (iii) the willful making by Harcourt of an assignment for the benefit of creditors, contrary to the terms of this Agreement, or filing a petition in bankruptcy or reorganization under any bankruptcy or insolvency law or filing a petition to effect a composition or extension of time to pay its debts, (iv) the appointment of a receiver or trustee of the property of Harcourt, which appointment is not vacated or stayed within sixty (60) days, (v) the filing of a petition in bankruptcy against Harcourt or for its reorganization under any bankruptcy or insolvency law that is not dismissed or stayed by the court within sixty (60) days after such filing, (vi) any Transfer by Harcourt that occurs in violation of this Agreement, (vii) the willful failure by Harcourt or a transferee to re-convey the Property to the Port if and when required to do so, (viii) any violation of the geographic or Key Person restrictions contained herein, (ix) other than specified above, any material default by the Port or Harcourt in the performance of any other obligations hereunder including failure to complete any consent decree obligation by the Port that inures to the detriment of Harcourt, (x) failure of Harcourt to maintain required insurance.

15.2. Event of Default-Port. An Event of Default is defined as a non-Force Majeure event and shall occur upon the Port's failure to keep, observe, or perform any of its respective duties or obligations under this Agreement, which Event of Default shall be a default hereunder, including, without limitation (i) failure of the Port to meet all deadlines or comply with the Master Development Schedule, (ii) any Transfer by the Port that occurs in violation of this Agreement, (iii) failure by the Port to maintain required insurance, or (iv) any failure by the Port to comply with all terms and conditions of this Agreement and/or to perform any Port obligation as required.

15.3. Automatic Default. An automatic default of this Agreement shall occur without notice or other action upon the occurrence of an Event of Default by Harcourt as set forth in paragraph 15.1 subparts (i) through (vi). All other defaults by the Port or Harcourt shall require a notice of default.

15.4. Notice of Default Process. Except for those Events of Default which are automatic defaults as set forth in Section 15.3, upon any Event of Default or any other material breach of any other term or condition of this Agreement, the non-defaulting party shall notify the other party in writing of the defaulting party's purported breach, failure or act described as an Event of Default and if such breach. If the failure or act is not cured within ninety (90) days from receipt of such notice, a termination may occur. Provided, however, if such failure cannot be reasonably cured within ninety (90) days and the

defaulting party is diligently pursuing a cure, the period to cure will be extended to a total of one hundred eighty (180) days.

15.5. Remedies Upon Default. If an Event of Default occurs, the non-defaulting party shall have all cumulative rights and remedies under law or in equity. However neither party shall be entitled to an award of damages for a breach. The non-defaulting party shall be entitled to terminate this Agreement or obtain specific performance of each and every obligation under this Agreement without any requirement to prove or establish that it does not have an adequate remedy at law. The defaulting party hereby waives the requirement of any such proof and acknowledges that the non-defaulting party would not have an adequate remedy at law for an Event of Default hereunder. The non-defaulting party shall be entitled to restrain, by injunction, the actual or threatened commission or attempt of a default and to obtain a judgment or order specifically prohibiting a violation or breach of this Agreement without, in either case, being required to prove or establish that the non-defaulting party does not have an adequate remedy at law. The defaulting party hereby waives the requirement of any such proof and acknowledges that the non-defaulting party would not have an adequate remedy at law for the occurrence of a default hereunder. The non-defaulting party shall be entitled to draw upon or foreclose all or any part of the bonds or security provided under this Agreement or commence an action for equitable or other relief. These remedies are cumulative and in addition to all other remedies provided herein and under law or equity.

15.6. Special Remedy Upon Default – Automatic Modification of this Agreement – Harcourt Rights in Master Development Area. Upon the occurrence of an automatic default, as defined in Section 15.3 or an uncured Event of Default (without regard to whether the act or omission which created the Event of Default is later cured) and thereafter during any time this Agreement remains in effect, the rights to Harcourt to acquire property within the Master Development Area for a Project shall no longer be exclusive. Rather, this Agreement shall be automatically modified to provide that all rights of Harcourt are deemed Rights of First Offer. This automatic change to the Agreement is separate from and in addition to all other remedies at law or equity. It has been specifically negotiated between the Port and Harcourt to allow the development to move forward despite Harcourt's default and such continued development is recognized to be in the best interest of the Port and Harcourt.

15.7. Termination. Upon the occurrence of an automatic default, as defined in Section 15.3 or an uncured Event of Default, the non-defaulting party may terminate this Agreement with respect to any undeveloped Property that has not yet been leased or sold to Harcourt or an SPE, by providing sixty (60) days' written notice of termination using the notice provisions contained in this Agreement. This right of termination is separate from and in addition to all other remedies at law or equity.

15.7.1. Special Termination Right - Harcourt Master Development Documents. In the event of a termination due to an uncured Event of Default by Harcourt, Harcourt shall deliver to the Port, without delay and at no cost to the Port, all Harcourt Master Development Documents. Without limiting the foregoing, the termination shall not

terminate any agreement with regard to a particular Project that (i) has been transferred to an SPE in accordance with this Agreement, or (ii) for which construction has commenced.

16. MISCELLANEOUS PROVISIONS.

16.1. Non-Discrimination. In the implementation of this Agreement, including construction of all Improvements and any leasing of the Projects, neither party shall discriminate against any person or entity by reason of race, color, creed, national origin, age, handicap, marital status, sex or religion.

16.2. Reasonable Cooperation and Approvals by the Port. The Port's obligations to "reasonably cooperate" as set forth in this Agreement are only to the extent permitted by applicable law and do not convey or guaranty the performance, action or approval of any other government. Approval by the Port of any item pursuant to this Agreement shall not constitute a representation or warranty by the Port that such item complies with Legal Requirements or the Master Plan Documents, and the Port assumes no liability with respect thereto. Approval by the Port of any item pursuant to this Agreement shall not constitute or guarantee issuance of any permit, license, permission, consent or approval required by any Governmental Authority or third party, and the Port assumes no liability with respect thereto. Notwithstanding any provision of this Agreement to the contrary, the Port is under no obligation or duty to supervise the design or construction of the Improvements. Other than with regard to satisfaction of the Port's Remediation obligations, the Port's approval of the Project Memorandum and associated Project Documents shall not constitute any representation or warranty, express or implied, as to the adequacy of the design or any obligation on the Port to ensure that work or materials are in compliance with the Project plans or any building requirements imposed by a Governmental Authority. Other than with regard to satisfaction of the Port's Remediation obligations, the Port is under no obligation or duty, and disclaims any responsibility, to pay for the cost of construction of the Improvements, the cost of which shall at all times remain the sole liability of Harcourt.

16.3. Indemnification by Harcourt. To the extent permitted by law, Harcourt shall indemnify, defend, and hold the Port, its commissioners, officers, and employees (collectively, "Port Indemnitees") harmless from and against all claims, liability, loss, damage, cost, or expense (including reasonable attorneys' fees, court costs, and amounts paid in settlements and judgment) arising out of or relating to (i) Harcourt's performance of express obligations of this Agreement reasonably attributable to Harcourt, (ii) Harcourt's activity conducted on the Property before purchase or lease thereof, and (iii) Harcourt's construction of the Improvements, including any act or omission of Harcourt or its members, agents, employees, representatives, contractors, subcontractors, successors, assigns or invitees, on or with respect to the Property. The Port shall not be entitled to such indemnification as described in (i), (ii), and (iii), to the extent and in proportion that such claim, liability, loss, damage, cost or expense is caused by the negligence, bad faith, reckless or willful misconduct of the Port, its employees or agents, including, but not limited to, any negligence, bad faith, reckless or willful misconduct of the Port, its employees or agents during completion of the Port's Remediation obligations. Harcourt

shall not be liable for any indirect, special or consequential damages (including lost profits) arising out of this Agreement or Harcourt's performance hereunder. This indemnification shall survive expiration or termination of this Agreement for a period of three (3) years thereafter. To the degree that the indemnification under (i) or (ii) conflicts with the Environmental Indemnification and Environmental Easement Agreement executed for a Project, the latter shall take precedence.

16.4. Indemnification by Port. To the extent permitted by law, the Port shall indemnify, defend, and hold Harcourt, its affiliates, directors, officers, employees, subcontractors and agents (collectively, "Harcourt Indemnitees") harmless from and against all direct claims, liabilities, losses, damages, costs, or expenses (including reasonable attorneys' fees, court costs, and amounts paid in settlements and judgment) arising out of or relating to (i) the Port's performance of express obligations under this Agreement reasonably attributable to the Port, (ii) the Port's performance of any activity associated with the Port's Remediation obligations, including any act or omission of the Port, its employees or agents in executing the work to be performed under the consent decree. Harcourt shall not be entitled to such indemnification as described in (i) and (ii) to the extent and in proportion that such claim, liability, loss, damage, cost or expense is caused by the negligence, bad faith, reckless or willful misconduct of Harcourt, its employees or agents. The Port shall not be liable for any indirect, special or consequential damages (including lost profits) arising out of this Agreement or the Port's performance hereunder. This indemnification shall survive expiration or termination of this Agreement for a period of three (3) years thereafter. To the degree that the indemnification under (i) or (ii) conflicts with the Environmental Indemnification and Environmental Easement Agreement executed for a Project, the latter shall take precedence.

16.5. Permits. Harcourt acknowledges that the Port has not made any representation or warranty with respect to Harcourt's ability to obtain any permit or approval, or to meet any other requirements for development of a Project. Nothing in this Agreement is intended or shall be construed to require that the City exercise its discretionary authority under its regulatory ordinances to further the Project nor binds the City to do so. Harcourt understands that the City will process applications for permits and approvals in accordance with its normal processes.

16.6. Indemnity from Liens. The parties shall indemnify and hold harmless each other against all mechanics', materialmens', and laborers' liens and all costs, expenses and liabilities arising from and relating to each other's respective obligations under this Agreement. Nothing contained in this Agreement shall be construed as the consent or request of the Port, express or implied, for the performance of any labor or services or for the furnishing of any materials or equipment to a Project (or any part thereof). Notice is hereby given that the Port will not be liable for any labor, services, materials or equipment furnished or to be furnished to Harcourt, or anyone holding an interest in the property (or any part thereof) through or under Harcourt.

16.7. Insurance. Harcourt shall maintain and keep in force insurance covering all aspects of the construction activity on the Project, including, but not limited to, the following requirements if commercially available, or, in the alternative, maintain insurance in accord with terms reasonably required by a Lender. A certified copy of the endorsement page from each policy must be provided to the Port. Failure of Harcourt to maintain the required insurance shall be a default of this Agreement.

16.7.1. Builders All Risk Comprehensive Coverage. Harcourt or the applicable SPE shall keep, or shall require its general contractor to keep, all Project components insured for builders all risk comprehensive coverage, including earthquake, fire, and flood and to include amounts sufficient to prevent Harcourt from becoming a co-insurer under the terms of the applicable policies, but in any event in an amount not less than one hundred percent (100%) of the then full "Replacement Cost," being the cost of replacing the Project components, and all fixtures, equipment, improvements, and betterments thereto.

16.7.2. Commercial General Liability. Harcourt and each SPE shall carry, and shall require its construction contractor to carry, commercial general liability insurance providing coverage against claims for bodily injury, death or property damage in connection with the Project with broad form liability and property damage endorsement, such insurance to afford minimum protection, during the term of the construction phase, and written for combined single limits of liability of no less than Five Million Dollars (\$5,000,000), per occurrence, said amount to be adjusted from time to time with coverage deemed customary under like conditions.

16.7.3. Property Insurance. Upon completion of the construction of the Improvements, Harcourt or the applicable SPE shall carry property insurance covering the Project,, including earthquake if required by the institutional Lender, flood, boiler and machinery insurance, in an amount equal to at least one hundred percent (100%) of the replacement cost of all Improvements. Such insurance shall contain coverage against loss or damage by perils no less broad than the current edition of the ISO Special Form, 1985 Edition. Harcourt shall be responsible for payment of any deductibles under said insurance policies and any costs of restoration resulting from any uninsured or underinsured losses.

16.7.4. Insurance Policies. Insurance policies required herein shall be issued by companies authorized to do business in the State of Washington with the following qualifications:

- (i) The companies must be rated no less than "A," as to general policyholders rating and no less than "VII" as to financial category in accordance with the latest edition of Best's Key Rating Guide, published by A.M. Best Company, Incorporated.
- (ii) The policies shall name the Port as an additional insured for liability purposes.

(iii) The policies shall be issued as primary policies.

(iv) Each such policy or certificate of insurance mentioned and required in this section shall have attached thereto (a) an endorsement that such policy shall not be canceled without at least thirty (30) days' prior written notice to Harcourt and the Port; (b) an endorsement to the effect that the insurance as to any one insured shall not be invalidated by any act or neglect of any other insured; (c) an endorsement pursuant to which the insurance carrier waives all rights of subrogation against the parties hereto; and (d) an endorsement pursuant to which this insurance is primary and noncontributory.

(v) The certificates of insurance and insurance policies shall be furnished to Harcourt and the Port prior to Commencement of Construction under this Agreement. The certificate(s) shall clearly indicate the insurance and the type, amount and classification, as required for strict compliance with this section.

(vi) The parties agree that cancellation or lapse of any policies required by this Agreement may constitute an Event of Default under this Agreement, provided that such cancellation or lapse was made without the material knowledge of Harcourt and that Harcourt made no effort to resolve a cancellation or lapse of any policy. In addition to any other legal remedies, the Port, after written notice to Harcourt, may obtain such insurance and pay such premiums and may elect (if not reimbursed by Harcourt within a reasonable period of time) to assert a claim for payment from Harcourt, together with costs and attorneys' fees.

16.8. Total or Partial Destruction. If the Improvements are totally or partially destroyed at any time during the course of construction by Harcourt or an SPE (other than as a result of Force Majeure) prior to Substantial Completion, Harcourt or an SPE shall reconstruct or repair the damage and continue to pursue the Project to completion consistent with the terms of this Agreement, to the extent of available insurance, together with any additional funds that Harcourt elects to use for such purpose. Such reconstruction or repair shall commence as expeditiously as possible following such destruction, with delays resulting therefrom being treated as a Force Majeure event. If, due to the lack or insufficiency of available insurance or other funds, Harcourt or an SPE is unable to continue to develop the Project, then in all events Harcourt or an SPE shall at its cost promptly remove the damaged Improvements, secure the Parcel, clear the debris and generally make the Parcel as safe and attractive as practical given the circumstances. If Harcourt or an SPE is unable or unwilling to restart construction of the Project in accordance with this Agreement for a period of twelve (12) months or longer after the date of the casualty, and if the Parcel has not been sold to a third party by Harcourt or an SPE (with the proper approvals required hereunder), who will construct the Project to completion within a reasonable time after Closing, then the Port shall have the right to purchase the Parcel using the Rescission Option contained in this Agreement. The parties acknowledge that the foregoing is a discretionary right and not an obligation, and that this right is granted in order to address the Port's concern that the Parcel not continue in the ownership of a party that is either unable or unwilling to develop the Parcel for an unreasonable length of time.

16.9. Right to Assign or Otherwise Transfer Parcel. Prior to Substantial Completion and during the term of this Agreement, any Transfer of any Parcel shall be made expressly subject to the terms, covenants, and conditions of this Agreement and each SPE shall be bound by the applicable terms of this Agreement as they relate to the Parcel. Except as expressly provided herein, neither this Agreement nor any rights or responsibilities herein may be transferred, assigned or pledged.

16.9.1. Transfer of Parcel – Transferee Bound. In any event, any transferee (and all successor transferees) shall succeed to all rights and obligations of the parties under this Agreement, unless released by the non-transferring party, including any unperformed obligations of the transferring party as of the date of such Transfer. No Transfer of a Parcel by Harcourt, or any successor, shall release Harcourt, or such successor, from any such unperformed obligations without the written consent and release of the Port.

16.9.2. Port Purchase Right. Except as provided herein, if Harcourt Transfers a Parcel or any rights under this Agreement during the term of this Agreement without the prior written consent of the Port, then the Port or its designee shall have an option to purchase the Parcel for the same price as paid by such unpermitted transferee provided that no development pursuant to this Agreement has occurred on the Parcel. Such option shall continue for a period of one hundred twenty (120) days after the Port receives written notice from Harcourt of (or otherwise discovers) the unpermitted Transfer and closes within sixty (60) days after exercise of the option. Such transferee shall be obliged to sell the Parcel to the Port (or its designee) on the same terms and conditions as those upon which the transferee purchased the Parcel. This right is in addition to the right to claim an Event of Default.

16.10. Failure to Adhere to the Master Development Schedule. Harcourt and the Port recognize that (i) meeting or exceeding the development set forth in the Master Development Schedule is the principal and primary performance required of Harcourt, and (ii) that failure of Harcourt for any reason or no reason (except for Force Majeure or other exceptions in this Agreement) to adhere to the Master Development Schedule will cause irreparable harm to the Port that is not subject to quantification as money damages.

16.11. Exclusive Remedy For Reasonableness Determinations. Notwithstanding the foregoing, if a party is entitled to reasonably withhold its consent, the sole and exclusive remedy where such consent was unreasonably withheld or is the basis of an allegation of an Event of Default, is to bring a declaratory judgment action in Whatcom County Superior Court or arbitration to determine that the consent should have been provided under a reasonableness determination. Such action shall be determined by a judge alone or arbitrator and such determination shall be binding on all arbitrators or courts of competent jurisdiction. No damages or other remedies will be permitted, although the prevailing party shall be awarded its attorneys' fees in the action.

16.12. Representations and Warranties. Each party hereby represents and warrants that (i) it is duly organized and exists in good standing under Washington law, (ii) it has all necessary rights, title, interest, power, and authority to enter into this Agreement and perform in accordance with its terms and provisions, (iii) the individuals signing this Agreement on its behalf have the authority to bind and to enter into this transaction, and (iv) it has taken all requisite action to legally authorize the execution, delivery, and performance of this Agreement.

16.13. Incorporation Into Other Contracts. In every contract for performance under this Agreement, the parties shall reference this Agreement and make every such contract subject to compliance with the terms and conditions of this Agreement.

16.14. Executory Contract. This Agreement constitutes an executory contract within the meaning of 11 U.S. Code § 365 and is not a contract that runs with the land or confers any property rights.

16.15. Estoppel Certificates and Financial Information. The Port and Harcourt shall, at any time and from time to time, within fifteen (15) days after written request by the other, execute, acknowledge, and deliver, to the party requesting same or to any existing or prospective Lender, assignee or subtenant designated by Harcourt, a certificate stating that (i) this Agreement is in full force and effect and has not been modified, supplemented or amended in any way, or if there have been modifications, identifying such modifications; and if this Agreement is not in force and effect, the certificate shall so state, and (ii) to its knowledge, all conditions under this Agreement have been satisfied by the Port or Harcourt, as the case may be, and that no defenses or offsets exist against the enforcement of this Agreement by the other party, or, to the extent untrue, the certificate shall so state. The party to whom any such certificate shall be issued may rely on the matters therein set forth and thereafter the party issuing the same shall be estopped from denying the veracity or accuracy of the same.

16.15.1. Financial Information. Harcourt shall, at the request of the Port, from time-to-time provide current financial information about the Single Purpose Entity(ies), Harcourt, and any guarantor. The Port shall, at the request of Harcourt, from time to time, provide the then current Port's annual report prepared in accordance with applicable Government Accounting Standards Board ("GASB") requirements.

16.16. No Third Party Beneficiaries. This Agreement has no third party beneficiaries.

16.17. Modification. This Agreement may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

16.18. Good Faith and Reasonableness. The parties intend that the obligations of good faith and fair dealing apply to this Agreement generally and that no negative inference be drawn by the absence of an explicit obligation to be reasonable in any


PORT INITIAL


HARCOURT INITIAL

portion of this Agreement. The obligation to be reasonable shall only be negated if arbitrariness is explicitly permitted, such as in the case of a party being allowed to make a decision in its "sole judgment" or "sole discretion."

16.19. Provisions Surviving Termination. All provisions of this Agreement, including, but not limited to, those related to indemnification, requiring performance past the termination of this Agreement shall survive the termination of this Agreement as separate obligations until fully performed.

16.20. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the heirs, administrators, executors, successors in interest and assigns of each of the parties hereto except that there shall be no Transfer of any interest by Harcourt except pursuant to the express terms of this Agreement. Any reference in this Agreement to a specifically named party shall be deemed to apply to any successor, heir, administrator, executor or assign of such party who has acquired its interest in compliance with the terms of this Agreement, or under law.

16.21. Notices. All notices, which may be or are required to be given pursuant to this Agreement shall be in writing and delivered to the parties at the following addresses:

To the Port: Attn: _____
1801 Roeder Avenue
Post Office Box 1677
Bellingham, WA 98227
(360) 676-2500

To Harcourt: Attn: _____

() _____

To Key Persons: Attn: _____

() _____

Any such notices shall be either (i) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) days after deposit, postage prepaid in the U.S. mail, (ii) sent by a nationally recognized overnight courier, in which case notice shall be deemed delivered when actually delivered pursuant to the records of such courier, or (iii) sent by email transmission to the party and its counsel, receipt of which has been confirmed by telephone, and by regular mail, in which case notice shall be deemed delivered on the day of such confirmed receipt, or (iv) hand delivered, in which case notice shall be deemed delivered when actually delivered. The above addresses and phone numbers may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective until actual receipt of such notice. Copies

of notices are for informational purposes only, and a failure to give or receive copies of any notice shall not be deemed a failure to give notice. The Key Persons shall provide one address as provided for in the Notice provision of this Agreement for notification to all Key Persons.

16.22. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

16.23. Waiver. No waiver by any party of any provision of this Agreement or any breach thereof shall be of any force or effect unless in writing by the party granting the waiver; and no such waiver shall be construed to be a continuing waiver. The waiver by one party of the performance of any covenant, condition, or promise shall not invalidate this Agreement nor shall it be considered a waiver by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time.

16.24. Rights and Remedies Cumulative. Except as otherwise expressly stated in this Agreement, the rights and remedies of the parties are cumulative, and the exercise or failure to exercise one or more of such rights or remedies by either party shall not preclude the exercise by it, at the same time or different times, of any right or remedy for the same default or any other default by the other party.

16.25. Applicable Law; Jurisdiction. This Agreement shall be interpreted under and pursuant to the laws of the State of Washington without regard to choice of law provisions. In the event any action is brought to enforce any of the provisions of this Agreement, the parties agree to be subject to the sole jurisdiction and venue in Whatcom County Superior Court.

16.26. Dispute Resolution. In the event of any dispute, a party shall notify the other party of the dispute with as much detail as possible. The parties shall use good faith efforts to resolve the dispute within thirty (30) days after receipt of a dispute notice. If the parties are unable to resolve the dispute, or agree upon the appropriate corrective action to be taken, within such thirty (30) days, then either party may pursue any course of action available to them. Pending resolution of the dispute, both parties shall continue without delay to carry out all of their respective responsibilities under this Agreement. Except as specifically provided herein, any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this Agreement to arbitrate, shall first be subject to mediation, and if necessary, be determined by arbitration in Seattle, Washington before one arbitrator. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures Streamlined Arbitration Rules and Procedures. Judgment on the award may be entered in any court having

jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from the Whatcom County Superior Court.

16.26.1. Mediation. Either party may commence mediation by providing to JAMS and the other party, a written request for mediation, setting forth the subject of the dispute and the relief requested. The parties will cooperate with JAMS and with one another in selecting a mediator from the JAMS panel of neutrals with experience in development projects of the magnitude contemplated in this Agreement and in scheduling the mediation proceedings. The parties agree that they will participate in the mediation in good faith and that they will share equally in its costs. Either party may initiate arbitration with respect to the matters submitted to mediation by filing a written demand for arbitration at any time following the initial mediation session or at any time following forty-five (45) days from the date of filing the written request for mediation, whichever occurs first ("Earliest Initiation Date"). The mediation may continue after the commencement of arbitration if the parties so desire. All applicable statutes of limitation and defenses based upon the passage of time shall be tolled until fifteen (15) days after the Earliest Initiation Date. The parties will take such action, if any, required to effectuate such tolling.

16.26.2. Arbitration. If arbitration, then the parties will cooperate with JAMS and with one another in selecting an arbitrator from the JAMS panel of neutrals with experience in development projects of the magnitude contemplated in this Agreement and in scheduling the arbitration proceedings. In any arbitration arising out of or related to this Agreement, the arbitrator shall award to the prevailing party, if any, the costs and attorneys' fees reasonably incurred by the prevailing party in connection with the arbitration. If the arbitrator determines a party to be the prevailing party under circumstances where the prevailing party won on some but not all of the claims and counterclaims, the arbitrator may award the prevailing party an appropriate percentage of the costs and attorneys' fees reasonably incurred by the prevailing party in connection with the arbitration.

16.26.3. Savings Clause. To the extent required to ensure the enforceability of any award, judgment or ruling, the Arbitrator may modify the arbitration procedures contained herein.

16.27. No Joint Venture and No Fiduciary Duties. Nothing contained in this Agreement shall create any partnership, joint venture or other employment arrangement between the Port and Harcourt. The parties intend that the rights, obligations, and covenants in this Agreement and the collateral instruments shall be exclusively enforceable by the Port and Harcourt, their successors and assigns. No term or provision of this Agreement shall be for the benefit of any person, firm, organization or corporation not a party hereto, and no such other person, firm, organization or corporation shall have any right or cause of action hereunder, except as may be otherwise expressly provided herein. Moreover, neither the Port nor Harcourt have any fiduciary duties to the other.

16.28. Calculation of Time. All periods of time referred to herein shall include Saturdays, Sundays, and legal holidays in the State of Washington, except that if the last

day of any period falls on any Saturday, Sunday, or legal holiday in the State of Washington, the period shall be extended to include the next day which is not a Saturday, Sunday, or legal holiday in the State of Washington.

16.29. Time of the Essence. In all matters under this Agreement, the parties agree that time is of the essence.

16.30. Attorneys' Fees. In the event any proceeding is instituted to interpret or enforce any provision or resolve any dispute under this Agreement, including, without limitation, any action in which a declaration of rights is sought or an action for rescission, each party shall bear their own costs and attorneys' fees.

16.31. Force Majeure. Whenever performance of an action is prescribed in this Agreement, neither party shall be liable for a failure or delay in the performance of any of its obligations under this Agreement, and the period of time for performance shall be extended by the number of days that such performance is actually delayed due to acts of war, acts of terrorism, insurrection, strikes, lockouts, riots, floods, earthquakes, fires, casualties, acts of God, acts of the public enemy, epidemics, quarantine restrictions, or governmental restrictions or priority. Such events are called "Force Majeure". For any Force Majeure event that will cause Commencement of Construction or Substantial Completion of a Project by the Completion Date to be delayed more than sixty (60) days, Harcourt will inform the Port about the cause and nature of such delay and the progress in achieving such Substantial Completion.

16.32. Fair Construction; Severability. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the context may require. The parties hereby acknowledge and agree that each was properly represented by counsel and this Agreement was negotiated and drafted at arms' length so that the judicial rule of construction to the effect that any ambiguities are to be construed against the drafting party shall be inapplicable in the interpretation of this Agreement. The provisions of this Agreement shall be construed as a whole according to their common meaning and consistent with the other provisions contained herein in order to achieve the objectives and purposes of this Agreement. If any term, provision, covenant, clause, sentence or any other portion of the terms and conditions of this Agreement or the application thereof to any person or circumstances shall apply, to any extent, become invalid or unenforceable, the remainder of this Agreement shall continue in full force and effect, unless rights and obligations of the parties have been materially altered or abridged by such invalidation or unenforceability.

16.32.1. Subsequent Agreements. In any conflict between this Agreement and any subsequent security agreement, deed of trust, real estate contract, purchase and sale agreement or lease executed between Harcourt and the Port, the terms and conditions of the subsequent agreement shall control. Otherwise the terms of this Agreement shall apply.

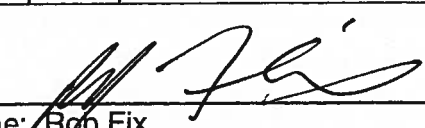
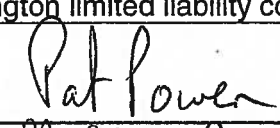
16.33. Key Persons and Harcourt Geographic Development Limitation. Until the Granary Building Project and the Building Two Project have reached Substantial Completion, the Key Persons (or any of them) or Harcourt shall not engage in, participate in directly or indirectly or through any subsidiary, joint venture or partnership, fund or pledge any of its assets as security for or advise on the development (including new construction or rehabilitation) of any mixed use, residential or office development project within Whatcom County, Washington (the "Geographic Development Limitation"). Any violation of this provision by either the Key Persons (or any of them) or Harcourt shall be a breach of this Agreement. In the case of a Key Person that has ceased being a Key Person prior to Substantial Completion of the Granary Building Project and the Building Two Project, this provision shall apply until Substantial Completion of the Granary Building Project and the Building Two Project has been reached. Thereafter, the Harcourt Geographic Development Limitation shall no longer have any cause or effect and shall cease to exist in its entirety.

16.33.3. No Personal Liability of Key Persons. Other than the remedies provided in this Section 16.33, the Key Persons shall have no personal liability under this Agreement.

16.34. Harcourt Authorized to Do Business in the State of Washington. During the term of this Agreement and until such time as the Property within the Master Development Area is developed, Harcourt shall have a principal place of business in Whatcom County, Washington and shall obtain and keep current all such documentation and licenses as are required under Washington State law in order to legally to transact business in the State of Washington pursuant to Chapter 23B.15 RCW.

16.35. Entire Agreement. This Agreement, the Project Documents, any documents attached as exhibits, and any documents executed pursuant to the Agreement constitute the entire Agreement between the parties as to the subject matter hereof and supersede all prior discussions and understandings between them with reference to such subject matter. This Agreement supersedes and incorporates all prior written and oral understanding of the parties, including, but not limited to, the Term Sheet of April 29, 2014. It is the intent of the parties that this Agreement should be construed according to its fair meaning and without reference to any extrinsic documents or statements.

IN WITNESS WHEREOF, the parties hereto have executed this document as of the day and year first above written.

PORT OF BELLINGHAM , a Washington municipal corporation	HARCOURT BELLINGHAM LLC , a Washington limited liability company
By:  Name: <u>Rob Fix</u> Its: Executive Director	By:  Name: <u>PATRICK POWER</u> Its: <u>DIRECTOR</u>
	By: _____ Name: _____ Its: _____
	By: _____ Name: _____ Its: _____

F:\PORT OF BELLINGHAM\Waterfront District\Master Development Agreement\MDA\MDA March 4, 2015\MDA April 15, 2015 (CLEAN).docx

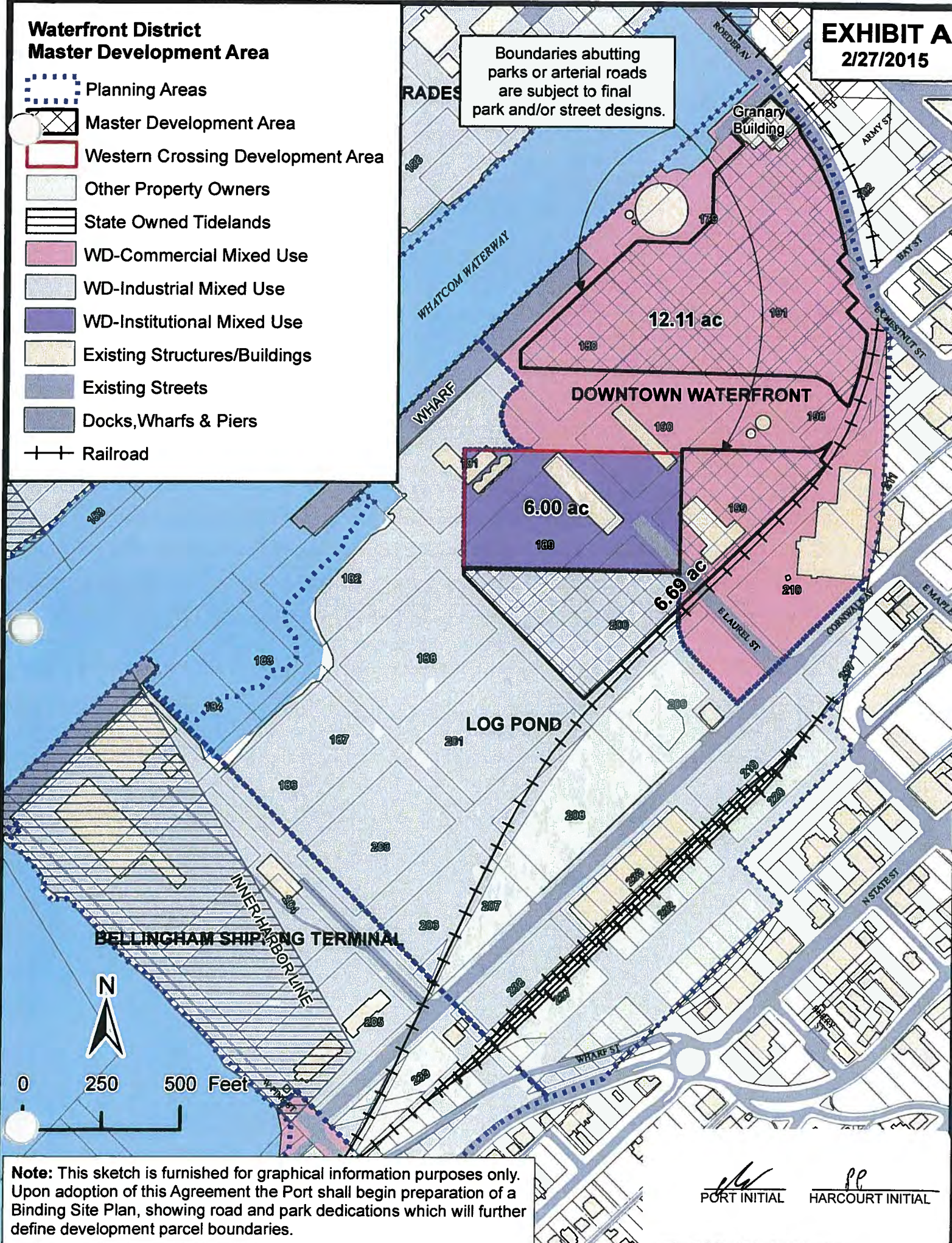
EXHIBIT A

Waterfront District Master Development Area

- Planning Areas
- Master Development Area
- Western Crossing Development Area
- Other Property Owners
- State Owned Tidelands
- WD-Commercial Mixed Use
- WD-Industrial Mixed Use
- WD-Institutional Mixed Use
- Existing Structures/Buildings
- Existing Streets
- Docks, Wharfs & Piers
- Railroad

EXHIBIT A
2/27/2015

Boundaries abutting parks or arterial roads are subject to final park and/or street designs.



Note: This sketch is furnished for graphical information purposes only. Upon adoption of this Agreement the Port shall begin preparation of a Binding Site Plan, showing road and park dedications which will further define development parcel boundaries.

[Signature]
PORT INITIAL

[Signature]
HARCOURT INITIAL

EXHIBIT B

EXHIBIT E VISION PLAN

residential

market hall

commercial

historic

CIVICARTS



Western Crossing Development Area



[Signature]
PORT INITIAL

[Signature]
HARCOURT INITIAL

Note: This sketch is furnished for graphical information purposes only. Upon adoption of this Agreement the Port shall prepare a Binding Site Plan, showing road and park dedications which will further define development parcel boundaries.

EXHIBIT C

- * Please contact the Port of Bellingham at 360.676.2500 to obtain a copy of the DVD containing Exhibit C documents.

EXHIBIT C
LIST OF BACKGROUND DOCUMENTS
INCLUDED IN DVD

MASTER PLAN DOCUMENTS

- Waterfront District Sub-Area Plan (December, 2013)
- Waterfront District Design Standards and Development Regulations(December, 2013)
- Waterfront District Development Agreement between Port and City of Bellingham (December, 2013)
- Waterfront District Planned Action Ordinance (December, 2013)
- Waterfront District Interlocal Agreement for Facilities between Port and City of Bellingham (December, 2013)

BACKGROUND DOCUMENTS

Geotechnical Documents

- Draft Preliminary Geotechnical and Foundation Considerations for the Waterfront District (GeoEngineers June 2011).

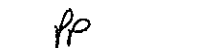
Historic Resource Documents

- Final Salvage-Reuse Plan for the Bellingham Waterfront District Redevelopment Project (ICF International March, 2014).
- Granary Building – Historic American Building Survey/Historic American Engineering Record (HABS/HAER) (ICF International, December, 2013).
- Board Mill Building - Historic American Building Survey/Historic American Engineering Record (HABS/HAER) (ICF International, July, 2013).
- Waterfront District Adaptive Reuse Assessment (Johnson Architecture + Planning LLC, December 2009). (See Appendix A of February 10 EIS Addendum)
- Index to Georgia-Pacific Engineering Documents for Structures and Infrastructure.

Model Toxics Control Act (MTCA) Documents

- Final Consent Decree with Exhibits for Georgia Pacific West Site, Pulp/Tissue Mill Remedial Action Unit (December 22, 2014). Includes Model Environmental Restrictive Covenant and Contaminated Materials Management Plan
- Remedial Investigation for Georgia Pacific West Site (Aspect Consulting, August 2013 Final) – Sections 1-9.
- Remedial Investigation for Georgia Pacific West Site (Aspect Consulting, August 2013 Final) – Appendices A- H.
- Feasibility Study, Pulp/Tissue Mill Remedial Action Unit, Vol. 2a of RI/FS, Georgia Pacific West Site (Aspect Consulting, October 27, 2014-Final).


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- Cleanup Action Plan, Pulp/Tissue Mill Remedial Action Unit, Georgia Pacific West Site (Washington State Department of Ecology, October 30, 2014-Final)
- Draft Engineering Design Report for Whatcom Waterway Cleanup in Phase 1 Areas (AnchorQEA, February 2013).

State Environmental Policy Act (SEPA) Documents

- New Whatcom Redevelopment Project Draft Environmental Impact Statement, Vol I & II (Port of Bellingham, January 2008).
- New Whatcom Redevelopment Project Supplemental DEIS (Port of Bellingham, October 2008).
- The Waterfront District (formerly known as New Whatcom) Redevelopment Project EIS Addendum (Port of Bellingham, February 2010).
- The Waterfront District Redevelopment Project (formerly known as New Whatcom) Final Environmental Impact Statement (Port of Bellingham, July 2010).
- The Waterfront District EIS Addendum (Port of Bellingham, December 2012).

City of Bellingham Documents

- Waterfront District Permitting Handbook (City of Bellingham Planning & Community Development, 2014).
- City of Bellingham Waterfront District Utility Master Plan Phase 1, District Infrastructure Assessment (Puttman Infrastructure, September 2014)

Note: DVD with all documents listed above included as part of this Exhibit

- * Please contact the Port of Bellingham at 360.676.2500 to obtain a copy of the DVD containing Exhibit C documents.


PORT INITIAL


HARCOURT INITIAL

EXHIBIT D

**EXHIBIT D
FORM OF**

**ENVIRONMENTAL INDEMNIFICATION
AND
ENVIRONMENTAL EASEMENT AGREEMENT**

After Recording Return to:

Chmelik Sitkin & Davis P.S.
1500 Railroad Ave.
Bellingham, WA 98225

GRANTOR:

GRANTEE:

BRIEF LEGAL DESCRIPTION:

TAX PARCEL ID#

REFERENCE NOS. OF
DOCS SIGNED/REL.

**ENVIRONMENTAL INDEMNIFICATION
AND
ENVIRONMENTAL EASEMENT AGREEMENT**

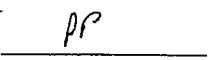
THIS ENVIRONMENTAL INDEMNIFICATION AND EASEMENT AGREEMENT (the "**Agreement**") is made and entered into this _____ day of _____, 20____ by and between the Port of Bellingham, a Washington municipal corporation (the "**Port**"), Harcourt Bellingham LLC, a Washington limited liability company ("**Harcourt**") and _____ (the "**Project Owner**").

WHEREAS, the Port and Harcourt have entered into that certain Master Development Agreement dated _____ (the "**MDA**") to develop properties within the Waterfront District in an area designated as the Master Development Area.

WHEREAS, under the terms and conditions of the MDA it is anticipated that Harcourt would form single purpose entities ("**SPE**") to develop various projects. It was further anticipated that these SPEs will either purchase or lease parcels within the Master Development Area from the Port and thereby become a "Project Owner."



PORT INITIAL



HARCOURT INITIAL

WHEREAS, the Project Owner will acquire an interest (either lease or purchase) in the property legally described in Exhibit A attached hereto (the "Parcel").

WHEREAS, the Project Owner intends to develop a project consistent with the Project Memorandum approved by the Port as required in the MDA (the "Project Memorandum").

WHEREAS, portions of the Waterfront District, including the Master Development Area, are within an environmental cleanup site designated by the Washington State Department of Ecology ("Ecology") as the Georgia-Pacific West Site (the "Site"). Ecology has determined that the Site requires remedial action pursuant to the Model Toxics Control Act ("MTCA"). Ecology has divided the Site into two remedial action units designated the Pulp/Tissue Mill RAU and the Chlor-Alkali RAU.

WHEREAS, the Port and Ecology have entered into that certain _____ Consent Decree dated _____, 201_, which was filed in Whatcom County Superior Court Cause No. _____ (the "Consent Decree").

WHEREAS, the Project Owner and Harcourt understand that the Parcel is and will be subject to (i) that certain Contaminated Materials Management Plan as appended to the Consent Decree and (ii) that certain Environmental Covenant required pursuant to the Consent Decree.

WHEREAS, the parties desire to enter into this Agreement to allocate the responsibility relating to the Consent Decree, including the Environmental Covenant and the Contaminated Materials Management Plan on the Parcel.

WHEREAS, the parties desire to grant to the Port a non-exclusive easement over and across the Parcel for the purpose of performing actions required by the Consent Decree.

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein the parties agree as follows:

1. **Consent Decree – Harcourt and Project Owner Responsibility.** Harcourt and Project Owner represent and warrant that they have reviewed the Consent Decree, Contaminated Materials Management Plan, and Environmental Covenant. Harcourt and Project Owner agree to comply with the terms of the Contaminated Materials Management Plan, and the Environmental Covenant on the Parcel. Harcourt and Project Owner are responsible, at their sole cost, for (i) complying with the Contaminated Materials Management Plan; and (ii) complying with the Environmental Covenant on the Parcel.
2. **Indemnification of the Port by Harcourt and Owner.** To the extent permitted by law, Harcourt and the Project Owner shall defend, indemnify and hold harmless the Port, its commissioners and employees from any liability, demand, damage, cost or fee arising from liability for failure to comply with the terms and conditions of Contaminated Materials Management Plan or the Environmental Covenant.
3. **Consent Decree – Port Responsibility.** The Port is responsible, at its sole cost, for installation of the remedy required in the applicable Consent Decree on the Parcel and for all

long term monitoring and maintenance required in the applicable Consent Decree as it now exists or is hereinafter modified on the Parcel. Harcourt and Project Owner shall not be responsible for the cost of conducting remedial activities required under the applicable Consent Decree on the Parcel except to the extent that Harcourt and the Project Owner are required to comply with that certain Contaminated Materials Management Plan as appended to the Consent Decree and that certain Environmental Covenant required pursuant to the Consent Decree.

4. Indemnification of Harcourt and Project Owner by the Port. To the extent permitted by law, the Port shall defend, indemnify and hold harmless Harcourt and Project Owner, their respective owners, members, managers, officers, and employees from any liability, demand, damage, cost or fee or liability (i) arising from a failure of the Port to comply with the terms and conditions of the Consent Decree as it now exists or is hereinafter amended or (ii) arising from personal injury or property damage which occurs while the Port and/or its contractors are on the Parcel performing actions required by the Consent Decree, including but not limited to, the placement, access, maintenance, and collecting samples from monitoring wells. This defense, indemnification and hold harmless does not apply to any liability, demand, damage, cost or fee (i) arising from a failure of anyone to comply with the Contaminated Materials Management Plan, or the Environmental Covenant or (ii) the economic impact described in this paragraph .

4.1. Harcourt and/or Project Owner's Lenders. This defense, indemnification and hold harmless will automatically be extended to the lenders of funds necessary to construct the Project and the Port will reasonably attorn to the application of this defense, indemnification and hold harmless to the lenders.

5. Perpetual Non-Exclusive Easement for Access and Maintenance Required by Consent Decree. Harcourt and Project Owner hereby grant a perpetual and non-exclusive easement (the "Environmental Easement") to the Port to come onto the Parcel for the purpose of performing actions required by the Consent Decree, including but not limited to, the placement, access, maintenance, and collecting samples from monitoring wells.

5.1. Monitoring Wells. The Port shall reasonably consult with Harcourt and Project Owner prior to scheduling and conducting monitoring well activities such that the monitoring well activities will not materially interfere with Harcourt or Project Owner's business activities on the Parcel. The Port will provide copies of the results of monitoring well sampling within thirty (30) days of a request for the same made by Harcourt or Project Owner.

5.2. Installation of Additional Remedial Action Required by the Applicable Consent Decree. Ecology reserves the right to seek court permission to reopen the Consent Decree and thereby require the Port to perform additional remedial actions. This Environmental Easement includes the right to enter upon the Parcel for the purpose of performing additional remedial action required by Ecology and reflected in a change to the Consent Decree. The Port shall reasonably consult with Harcourt and Project Owner prior to scheduling, designing, and conducting such additional remedial action so that (i) the activities will not materially interfere with Harcourt or Project Owner's business activities at the Parcel and/or (ii) any economic impact to the Project Owner from a material interference is reasonably compensated. In the event that the Port and the Project Owner cannot agree on "reasonable compensation" either party may seek a determination of the reasonable amount of compensation from a judge of the Whatcom County Superior Court.

5.3. **No Liens.** The Port shall keep the Parcel free and clear of all liens, encumbrances, and charges whatsoever and shall not allow any mechanics' or materialman's or other liens to be placed upon the Parcel associated with the monitoring wells or installation of additional remedial action. If such a lien is placed or recorded, the Port shall cause it to be discharged of record, at its own expense, within ten (10) days of Harcourt or Project Owner's demand.

6. **Adequate Consideration.** Each party represents that the reciprocal indemnifications above and the Environmental Easement provide adequate consideration for this Agreement.

7. **Binding Effect.** This Agreement shall be binding on successors and assignees. It is the parties' intent that the Agreement and its terms shall run with the land and be binding on all current and future owners of any portion of, or interest in, the Parcel.

8. **Modification.** This Agreement may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

9. **Notices.** All notices, which may be or are required to be given pursuant to this Agreement shall be in writing and delivered to the parties at the following addresses:

To the Port:

To Harcourt:

To Project Owner:

Any such notices shall be either (i) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) days after deposit, postage prepaid in the U.S. mail, (ii) sent by a nationally recognized overnight courier, in which case notice shall be deemed delivered when actually delivered pursuant to the records of such courier, or (iii) sent by email transmission to the party and its counsel, receipt of which has been confirmed by telephone, and by regular mail, in which case notice shall be deemed delivered on the day of such confirmed receipt, or (iv) hand delivered, in which case notice shall be deemed delivered when actually delivered. The above addresses and phone numbers may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective until actual receipt of such notice. Copies of notices are for informational purposes only, and a failure to give or receive copies of any notice shall not be deemed a failure to give notice.

10. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so

executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

11. **Waiver.** No waiver by any party of any provision of this Agreement or any breach thereof shall be of any force or effect unless in writing by the party granting the waiver and no such waiver shall be construed to be a continuing waiver. The waiver by one party of the performance of any covenant, condition, or promise shall not invalidate this Agreement nor shall it be considered a waiver by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time.

12. **Applicable Law and Jurisdiction.** This Agreement shall be interpreted under and pursuant to the laws of the State of Washington without regard to choice of law provisions. In the event any action is brought to enforce any of the provisions of this Agreement, the parties agree to be subject to the sole jurisdiction and venue in Whatcom County Superior Court.

13. **Attorneys' Fees.** In the event any proceeding is instituted to interpret or enforce any provision or resolve any dispute under this Agreement, including, without limitation, any action in which a declaration of rights is sought or an action for rescission, each party shall bear their own costs and attorney fees.

14. **Captions.** The captions of this Agreement are for convenience and reference only and in no way define, limit, or describe the scope or intent of this Agreement.

15. **Severability.** In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

16. **Additional Acts.** Except as otherwise provided herein, in addition to the acts and deeds recited herein and contemplated to be performed, executed, and/or delivered by the parties, each party hereby agrees to perform, execute, and/or deliver, or cause to be performed, executed, and/or delivered, any and all such further acts, deeds, and assurances as may reasonably required to consummate the transactions contemplated hereunder.

17. **Neutral Authorship.** Each of the provisions of this Agreement has been reviewed and negotiated, and represents the combined work product of both parties hereto. No presumption or other rules of construction which would interpret the provisions of this Agreement in favor of or against the party preparing the same shall be applicable in connection with the construction or interpretation of any of the provisions of this Agreement.

18. **Entire Agreement.** The entire agreement between the parties hereto is contained in this Agreement; and this Agreement supersedes all of their previous understandings and agreements, written and oral, with respect to this transaction. Neither the Port nor Harcourt shall be liable to the other for any representations made by any person concerning the terms of this Agreement except to the extent that the same are expressed in this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the year and date first written above:

PORT OF BELLINGHAM

HARCOURT BELLINGHAM LLC

By:
Its:

By:
Its:

[PROJECT OWNER]

By:
Its:

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PORT INITIAL



HARCOURT INITIAL

EXHIBIT "A"
LEGAL DESCRIPTION OF PARCEL



PORT INITIAL



HARCOURT INITIAL

EXHIBIT E

EXHIBIT F

EXHIBIT F
CHLOR-ALKALI RAU CONSENT DECREE

CHLOR-ALKALI RAU CONSENT DECREE

[to be added after execution]



PORT INITIAL



HARCOURT INITIAL

EXHIBIT 3.2

EXHIBIT 3.2
HARCOURT BELLINGHAM LLC OWNERSHIP STRUCTURE

HARCOURT BELLINGHAM LLC OWNERSHIP STRUCTURE

Name and Address	Status
Patrick J. Doherty c/o Harcourt Developments Ltd. 18/19 Harcourt Street Dublin 2, Ireland.	Member/Manager
Patrick J. Power c/o Harcourt Developments Ltd. 18/19 Harcourt Street Dublin 2, Ireland.	Member/Manager
Conal V. Harvey c/o Harcourt Developments Ltd. 18/19 Harcourt Street Dublin 2, Ireland.	Member/Manager



PORT INITIAL



HARCOURT INITIAL

EXHIBIT 3.3

EXHIBIT 3.3
FORM OF HARCOURT PROJECT GUARANTY

HARCOURT PROJECT GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "Agreement") is made this ____ day of _____, 20____, by and between the Port of Bellingham, a Washington municipal corporation (the "Port"), Harcourt Bellingham LLC, a Washington limited liability company ("Harcourt") and _____ (the "Project Owner").

WHEREAS, pursuant to that certain Master Development Agreement entered into by and between the Port and Harcourt dated _____, 2015 (the "Master Development Agreement"), Harcourt has created the Project Owner to development of [*Insert Project Description*] (the "Project") on the parcel legally described on Exhibit "A."

WHEREAS, pursuant to the terms of the Master Development Agreement, Harcourt has agreed to guaranty the full and complete performance of the Project Owner in all agreements between the Port and the Project Owner for the development of the Project.

WHEREAS, the development of the Project by the Project Owner is of substantial benefit to Harcourt and therefore the covenants, promises, and agreements contained in this Agreement are of substantial benefit to Harcourt.

NOW, THEREFORE, in consideration of the covenants, promises, and agreements contained in this Agreement, the parties agree as follows:

1. **Guaranty.** Harcourt hereby irrevocably guarantees the full and faithful performance of the Project Owner regarding the development of the Project and all applicable covenants, promises, and agreements contained in the Master Development Agreement pertaining to the Project (the "Guaranty").

2. **Relationship between the Port and Harcourt.** Harcourt expressly waives notice of acceptance of this Guaranty and diligence of collecting any sums due under the Project, or the taking of any action with reference to any default under the Project or to any liability under this Guaranty.

2.1. The Port has no duty to disclose to Harcourt any information it receives regarding the financial status of the Project Owner or the Project, whether or not such information indicates that the risk of Harcourt under this Guaranty has been or may be increased. Harcourt assumes full responsibility for being informed of the Project Owner's financial condition, the Project Owner's performance under the Project, and the Project Owner's use and operation of the Project.

2.2. Harcourt hereby subordinates all of its claims for payment of liens securing indebtedness of the Project Owner to Harcourt, if any, to the Port's right to receive from the Project Owner of all sums due under the Project.

2.3. The obligations of Harcourt under this Guaranty are independent of the obligations of the Project Owner, and the Port may directly enforce its rights under this Guaranty without first proceeding against or joining the Project Owner, and without applying or enforcing any security for the Project.

2.4. Harcourt agrees to indemnify the Port for all costs and expenses, including court costs and attorneys' fees, incurred or paid by the Port in enforcing this Guaranty and/or the Project.

3. **Relationship between the Port and Project Owner.** The Port may, from time-to-time, and without notice to Harcourt, (i) release any security that the Port may have for the obligations of the Project Owner, accept security therefore or (ii) compromise or settle any amount due or owing, or claimed to be owing by the Project Owner to the Port. Any such action by the Port or any other action, which the Port may take or omit to take in connection with the Project, shall not affect this guaranty or Harcourt's obligations in any way.

4. **Time Limit for Guaranty.** This Guaranty shall be effective upon execution and shall terminate upon the Project Owner and Harcourt's full performance of all covenants, promises, and agreements under the Master Development Agreement.

5. **Consideration.** The parties recognize that this Agreement is a material condition of the Master Development Agreement and is therefore supported by adequate consideration.

6. **Modification.** This Agreement may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

7. **Notices.** All notices, which may be or are required to be given pursuant to this Agreement shall be in writing and delivered to the parties at the following addresses:

To the Port:

To Harcourt:

To Project Owner:

Any such notices shall be either (i) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) days after deposit, postage prepaid in the U.S. mail, (ii) sent by a nationally recognized overnight courier, in which case notice shall be deemed delivered when actually delivered pursuant to the records of such courier, or (iii) sent by email transmission to the party and its counsel, receipt of which has been confirmed by telephone, and by regular mail, in which case notice shall be deemed delivered on the day of such confirmed receipt, or (iv) hand delivered, in which case notice shall be deemed delivered when actually delivered. The above addresses and phone numbers may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective

until actual receipt of such notice. Copies of notices are for informational purposes only, and a failure to give or receive copies of any notice shall not be deemed a failure to give notice.

8. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

9. **Waiver.** No waiver by any party of any provision of this Agreement or any breach thereof shall be of any force or effect unless in writing by the party granting the waiver and no such waiver shall be construed to be a continuing waiver. The waiver by one party of the performance of any covenant, condition, or promise shall not invalidate this Agreement nor shall it be considered a waiver by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time.

10. **Applicable Law and Jurisdiction.** This Agreement shall be interpreted under and pursuant to the laws of the State of Washington without regard to choice of law provisions. In the event any action is brought to enforce any of the provisions of this Agreement, the parties agree to be subject to the sole jurisdiction and venue in Whatcom County Superior Court.

11. **Attorneys' Fees.** In the event any proceeding is instituted to interpret or enforce any provision or resolve any dispute under this Agreement, including, without limitation, any action in which a declaration of rights is sought or an action for rescission, each party shall bear their own costs and attorney fees.

12. **Captions.** The captions of this Agreement are for convenience and reference only and in no way define, limit, or describe the scope or intent of this Agreement.

13. **Severability.** In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

14. **Additional Acts.** Except as otherwise provided herein, in addition to the acts and deeds recited herein and contemplated to be performed, executed, and/or delivered by the parties, the parties hereby agree to perform, execute, and/or deliver, or cause to be performed, executed, and/or delivered, any and all such further acts, deeds and assurances that may be reasonably required to consummate the transactions contemplated hereunder.

15. **Neutral Authorship.** Each of the provisions of this Agreement has been reviewed and negotiated, and represents the combined work product of both parties hereto. No presumption or other rules of construction which would interpret the provisions of this Agreement in favor of or against the party preparing the same shall be applicable in connection with the construction or interpretation of any of the provisions of this Agreement.

16. **Time of Performance.** Time is specifically declared to be of the essence of this Agreement and of all acts required to be done and performed by the parties hereto.

17. **Project Owner Consent.** The Project Owner hereby consents to the Guaranty of the Project by Harcourt as provided herein.

18. **Successors and Assigns.** This guaranty shall insure to the benefit of any person or persons, entity or entities that, at any time, may be entitled to the benefits of or any obligation to perform the duties of the Project Owner under the Project and shall be binding upon the heirs, administrators, successors and assigns of Harcourt.

19. **Entire Agreement.** The entire agreement between the parties hereto is contained in this Agreement; and this Agreement supersedes all of their previous understandings and agreements, written and oral, with respect to this transaction. Neither the Port nor Harcourt shall be liable to the other for any representations made by any person concerning the terms of this Agreement except to the extent that the same are expressed in this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

PORT OF BELLINGHAM

HARCOURT BELLINGHAM LLC

By:
Its:

By:
Its:

[Insert Project Owner Name]

By:
Its:

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PORT INITIAL



HARCOURT INITIAL

EXHIBIT "A"
LEGAL DESCRIPTION OF PARCEL

EXHIBIT 4.1

WATERFRONT DISTRICT MASTER DEVELOPMENT SCHEDULE (EXHIBIT 4.1)

Activity/ Date	Year Ending:	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Master Development Agreement (MDA) Signed ¹		X																							
Site Preparation, Cleanup and Binding Site Plan approval ²																									
Phase 1 Infrastructure: Granary and Bloedel Ave, Waterway Park ³		-----																							
Granary Building (45,000 SF) ⁴		----	=====																						
Second Development Project (minimum size- 40,000 SF) ⁵		---	-- ==	=																					
Third Development Project ⁶							-----	---				****	****												
Additional Development Projects to reach Cumulative 500,000 SF ⁷																	****	****							
Additional Development Projects to reach Cumulative 1 million SF ⁸																		****	****						
Interlocal Agreement for Facilities expires if 1 million SF has not been constructed S of Waterway																									X

* This Waterfront District Master Development Schedule will be modified each time additional acreage is added to the Master Development Area.

Timeline Symbols	
Planning/ Permit Submittal	-----
Permit Review/Approval	=====
Project Construction	
Potential Extension	****

Waterfront District Development Schedule Milestones:

1. Master Development Agreement will be signed in **March, 2015**.
2. Environmental Cleanup will be completed by the end of **2016**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.4 will apply)
3. Phase 1 City Infrastructure will be installed by the end of **2017**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.3 will apply)
4. A complete building permit application for the Granary Building will be submitted to the City within 6 months of MDA approval. Construction of the Granary Building will begin within 90 days after issuance of building permits and will be completed within 36 months of building permit issuance.
5. A complete building permit for a second building will be submitted within 12 months of MDA approval and construction will of the second building will be completed within 48 month of building permit issuance.
6. The schedule for design, permitting and construction of the third building project will be jointly determined by the Port and Harcourt after the second building is under construction. Construction should commence shortly after the completion of the second development project and be completed within 36 months.
7. Additional development projects to increase cumulative square footage to 500,000 SF will occur by **the end of 2029**, with a 24 month extension available. Substantial completion on 500,000 SF Floor Area will occur by the end of **2029**, unless an extension is granted under MDA Section 4.1.
8. Additional development projects to increase cumulative Floor Area to 1,000,000 SF will occur by **the end of 2034**, with a 24 month extension available under Section 4.1 of MDA. Substantial completion on 1,000,000 SF Floor Area will occur by the end of **2034**, unless an extension is granted under MDA Section 4.1. A further extension may be approved to reflect the prevailing conditions at the time subject to the agreement of all parties bound by the MDA and the infrastructure Agreement for Facilities.

NOTE: The Infrastructure Agreement for Facilities will expire at end of 2038 if a cumulative building square footage south of the Whatcom Waterway has not reached 1.0 million square feet. Section C.4.2.A of the Infrastructure Agreement requires a total of 1.4 MSF to trigger the design and construction of the Commercial Street Bridge, and that sufficient vacant land must remain to allow construction of 2.0 million square feet at full build-out. Progress toward this infrastructure trigger will be monitored over time.

EXHIBIT 4.4

MEMORANDUM OF UNDERSTANDING

BY AND BETWEEN

WESTERN WASHINGTON UNIVERSITY, THE PORT OF BELLINGHAM

AND WESTERN CROSSING DEVELOPMENT

THIS MEMORANDUM OF UNDERSTANDING (the "MOU") is made and entered into by and between Western Washington University, a Washington higher education institution (the "University"), the Port of Bellingham, a Washington municipal corporation (the "Port") and Western Crossing Development Corporation, a Washington non-profit corporation ("Crossing Development").

WHEREAS, in 2005 the Port acquired the Bellingham waterfront properties of Georgia-Pacific Corporation which has been branded as the Waterfront District.

WHEREAS, since 2008, the University and the Port have been working together to facilitate the creation of University facilities at the Waterfront District, recognizing the synergy that can be created by expansion of the University campus there and the successful development of the rest of the Waterfront District.

WHEREAS, on October 7, 2009 the University and the Port created Crossing Development with a board of directors composed of two representatives of the University, two representatives of the Port, and one representative appointed by the four University and Port representatives. Created as a non-profit corporation under the Interlocal Cooperation Act (Ch. 39.34 RCW) and the Washington Nonprofit Corporation Act (Ch. 24.03 RCW), Crossing Development is a governmental instrumentality of the University and the Port.

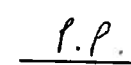
WHEREAS, in November of 2012 the Port and the City of Bellingham completed work on a set of comprehensive planning documents including a draft sub-area plan, a draft development agreement, a draft planned action ordinance, and a draft facilities agreement (the "Master Plan Documents"). The Master Plan Documents have been submitted to the City of Bellingham for land use regulatory review and approval. In this regard, the Master Plan Documents include an area designated for "institutional mixed use" anticipating the presence of the University at the Waterfront District. Once approved these documents form the basis of the Waterfront District Master Plan (the "Master Plan"). A map depicting the Waterfront District, including the initial development opportunity area and the institutional mixed use area are attached as Exhibit "A." and Exhibit "B"

WHEREAS, within the institutional mixed use area, the Port and the University anticipate that an approximately 6 acre area will be developed for University use.

WHEREAS, the area designated for institutional mixed use is within the Department of Ecology designated Georgia-Pacific West Site and is therefore the subject of a Department of Ecology supervised remedial action which may include a combination of physical remediation and the imposition of

MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 1


PORT INITIAL


HARCOURT INITIAL

institutional controls which are required pursuant to the terms of various agreed orders and/or a consent decree (the "Remediation").

WHEREAS, the Port has determined that the presence of the University at the Waterfront District will result in economic and community development within the Port.

WHEREAS, the University owns approximately 24.09 acres of real property and improvements located on the southeast corner of Hannegan Road and Bakerview Road in Whatcom County (the "Hannegan Property").

NOW, THEREFORE, pursuant to Chapter 39.34 RCW and RCW 53.08.245 the University, the Port and Crossing Development desire to set forth their mutual understanding concerning the desire to facilitate the creation of University facilities at the Waterfront District.

1. Hannegan Property. Within thirty (30) days of the execution of this Agreement, the University shall provide notice to the current tenants terminating the lease on the Hannegan Property no later than ninety (90) days following the notice date. Within one hundred twenty (120) days of the execution of this Agreement, the University shall transfer the Hannegan Property to Crossing Development using a statutory warranty deed subject to those exceptions agreed to by the University and the Port. The University will provide a standard ALTA title insurance policy insuring the title in an amount agreed to by the University and the Port subject to those exceptions agreed to by the University and the Port. As soon as reasonably practicable, the property shall be marketed by Crossing Development for sale, sold at a price and on terms approved by four (4) of the five (5) Crossing Development board of directors members, and the net proceeds credited (after sale and closing costs) to the University's capital account. The proceeds from the sale (including interest earned on the proceeds) shall be preserved (i.e., not spent) unless such expenditure is approved by a vote of 4 of the 5 board members of Crossing Development.

2. Port Property. Within thirty (30) days after the approval and execution of the Master Plan Documents by the Port and the City of Bellingham and City approval of a binding site plan creating the parcel, the Port will transfer the approximately 6 acres of property within the institutional mixed use area of the Waterfront District to Crossing Development using a statutory warranty deed subject to those exceptions agreed to by the University and the Port and with such necessary easements or development rights as the Port and the University may agree (the "Port Property"). The Port and the University will agree on the value of the Port Property at the time of transfer and that agreed value will be credited to the Port's capital account. The determination of value will be informed by an appraisal and other factors that bear upon value to the Port, including the presence of the University at the Waterfront District, will be considered in arriving at the true and full value of the Port Property which will be credited to the Port's capital account upon transfer into Crossing Development. The Port will provide a standard ALTA title insurance policy insuring the title in the agreed amount subject to those exceptions agreed to by the University and the Port.

3. Operating Expenses for Hannegan and Port Property. The Port and the University shall continue to pay the operating costs (insurance and ordinary maintenance) for their respective properties held by Crossing Development, which costs will not be credited to the capital accounts.


PORT INITIAL


HARCOURT INITIAL

4. Strategy of Crossing Development to Facilitate University Presence. Crossing Development will pursue a strategy to facilitate the University's presence at the Waterfront District. The strategy will include the following.

- Create a separate capital account in the accounting records of Crossing Development for the University and the Port such that the relative contributions can be tracked and accounted for in all transactions.
- Over the near term, it is anticipated that the University may lease space in the 10.8 acre initial development opportunity area of the Waterfront District.
- Over the longer term, Crossing Development will pursue a development project on the Port Property deeded to Crossing Development within the institutional mixed use area in the Waterfront District.
- Seek appropriate arrangements with the University and a developer for the development of University facilities on the Port Property within the institutional mixed use area of the Waterfront District with the ultimate goal of the University's acquisition of the development (the "University Development").
- Work to facilitate development with timing consistent with the timing in the Master Plan Documents.
- Incorporate the requirements set forth in the Master Plan Documents into any development, including the obligation to make payments in lieu of taxes.
- At the appropriate point in the development process, transfer the development to the University.
- Create such additional agreements for consideration by the Port and the University as may be necessary to accomplish the strategy set forth herein.

5. University Development Plan. In order to facilitate the anticipated development, provide guidance to Crossing Development and support the strategy noted above, the University will complete and approve a development plan for the University Development no later than December 31, 2015. This University Development Plan and the Master Plan Documents will be used to pursue the University Development which is anticipated to occur in the two-phased near and long term approach noted above.

6. Staff Assistance from the University and the Port. The University and the Port will provide staff resources and expertise, as each party determines that it can make available, at no cost to Crossing Development to assist in the pursuit of the development. The University and the Port will budget for these expenditures within their overall operating budgets. Out of pocket costs by either the University or the Port may be considered by the Crossing Development board of directors for reimbursement or credit to the party's capital account.


PORT INITIAL


HARCOURT INITIAL

7. Capital Accounts – Tracking Contributions and Allocation of Profits or Losses of Crossing Development. Crossing Development will account for the contribution of property and/or cash by the University and the Port by maintaining a capital account for each entity. The value of the University's and the Port's contribution of property or cash shall be reflected in their respective capital accounts. Profits or losses will be credited to these capital accounts until such time as each party's balance equals the other. After the capital account balances are equal, the profits and losses shall be split equally.

8. Environmental Remediation. The Port is responsible for the cost of and conducting the Remediation required under the applicable agreed orders and consent decree for the Georgia-Pacific West Site including the institutional mixed use area. The costs of the Remediation of the Georgia-Pacific West Site shall not be credited to the Port's capital account. Neither the University nor Crossing Development shall be responsible for the cost of and/or conducting the Remediation of the Georgia-Pacific West Site. Crossing Development will comply with any Institutional controls on the Port Property required by the terms of the agreed orders or consent decree. The Port shall be responsible for any costs occasioned by a change to the consent decree

9. Termination. The University and the Port recognize that the success of Crossing Development is dependent on both parties' continuing commitment to move forward to completion of a successful project beneficial to both parties. In the event of a termination, the University and the Port acknowledge that (i) the University and the Port will receive distributions equal to their respective capital accounts and then (ii) the profits or losses will be split equally. The University, the Port and Crossing Development recognize that there are significant factors beyond their control which may affect the timing and ability to complete the anticipated development. Therefore, it is necessary to develop an exit strategy for the University and the Port.

9.1. Distribution on Termination. Any termination shall result in the University and the Port receiving their respective share of the Crossing Development assets as provided herein. The value may include a return of funds or real or personal property contributed by that party.

9.2. Events That May Be the Basis for Termination. The University and the Port each reserve the right to terminate their participation in Crossing Development for good cause. The parties recognize that among others, the following events may constitute good cause for termination:

- In the unlikely event that the plan as substantially envisioned in the Master Plan Documents is not approved by the Port and the City of Bellingham.
- The Port elects to put the Port Property to an industrial use.
- The failure of the railroad to relocate such that the University determines that the Port Property is not suitable for the University's intended use.
- The pace of development is such that Crossing Development is unable to deliver a development project and the Port determines that the development momentum would be harmed.

- The University determines that the pace of development is too slow to meet its needs. • Infrastructure is not delivered in a timely fashion.
- The programmatic needs of the University or the Port change such that the development is no longer beneficial.
- The legislature takes action which precludes the development.
- If financial considerations make it impossible for either party to execute development plans.

9.3. Termination Timing. Either the University or the Port may terminate all agreements between the University, the Port, and Crossing Development upon one year's written notice delivered on or before March 31st of any given year with termination occurring on March 31st one year later (the "Termination Notice"). A Termination Notice delivered anytime prior to March 31st will have the effect of beginning the one year period on the next March 31st with termination one year later. Provided, that no Termination Notice may be delivered or shall be deemed effective during the twenty-four (24) months period following the transfer of the Hannegan Property to Crossing Development.

9.4. Termination In the Event of Failure to Approve a Master Plan. Notwithstanding the provisions of Section 9.2, in the event that the Master Plan is not approved by the City and the Port, either the University or the Port may terminate this Agreement on thirty (30) days written notice.

9.5. Meet and Confer. Prior to providing a Termination Notice the University and the Port shall meet and confer concerning the reasons for termination.

10. True and Full Value Determination. The University and the Port have each independently analyzed all of the components of the transactions contemplated in this MOU and have each independently concluded that the transactions contemplated herein represent "true and full value" as that term is defined in RCW 43.09.210, relevant case law and attorney general opinion.

11. Use of this MOU – Further Agreements. Once approved by the University, the Port and Crossing Development, the understandings expressed in this MOU will be used to create and the parties will strive to execute in a timely manner such agreements as may be necessary to achieve the development of the Port Property for University use as contemplated herein.

[SIGNATURE PAGE FOLLOWING]

ADOPTED by each Party in an open public meeting on the date noted.

WESTERN WASHINGTON UNIVERSITY

Bruce Shepard

Dated: 7/10/13

By: Bruce Shepard
University President

PORT OF BELLINGHAM

Robert J. Fox

Dated: 6/18/13

By: Robert J. Fox
Executive Director

CROSSING DEVELOPMENT CORPORATION

Robert J. Fox

Dated: 6/18/13

By: Robert J. Fox
President

F:\PORT BELLINGHAM\Hwy 51\ATCORN SUBAREA\Western Crossings - 2013 Transaction\Crossing MOU 061203

**MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 6**

Port
PORT INITIAL

P.P.
HARCOURT INITIAL

STATE OF WASHINGTON:

SS

COUNTY OF WHATCOM :

ON THIS 10th day of July, 2013, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Bruce Shepard known to me to be the **President of WESTERN WASHINGTON UNIVERSITY**, and acknowledged the said instrument to be the free and voluntary act and deed of said university, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute the said instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.



Barbara A. Stoneberg
Name (Print) Barbara A. Stoneberg
NOTARY PUBLIC, in and for the State
of Washington, residing at Bellingham
My Commission expires: 2-24-16

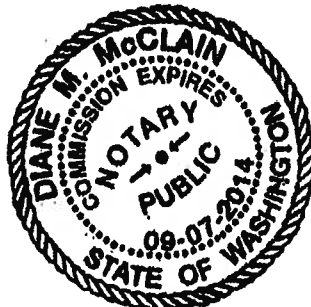
STATE OF WASHINGTON:

SS

COUNTY OF WHATCOM :

ON THIS 16th day of June, 2013, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **ROB FIX**, known to me to be the **Executive Director of the PORT OF BELLINGHAM**, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute the said instrument and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal hereto affixed the day and year first above written.



Diane M. McClain
Name (Print) Diane M. McClain
NOTARY PUBLIC, in and for the State
of Washington, residing at Bellingham
My Commission expires: 09-07-14

MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 7

PP
PORT INITIAL

P.P.
HARCOURT INITIAL

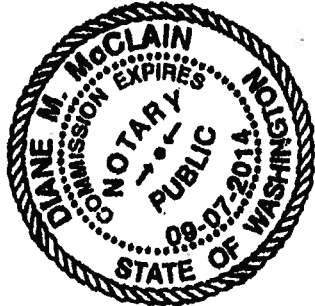
STATE OF WASHINGTON:

SS

COUNTY OF WHATCOM :

ON THIS 16th day of June, 2013, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Rob Fy known to me to be the **President of CROSSING DEVELOPMENT CORPORATION** and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute the said instrument and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal hereto affixed the day and year first above written.

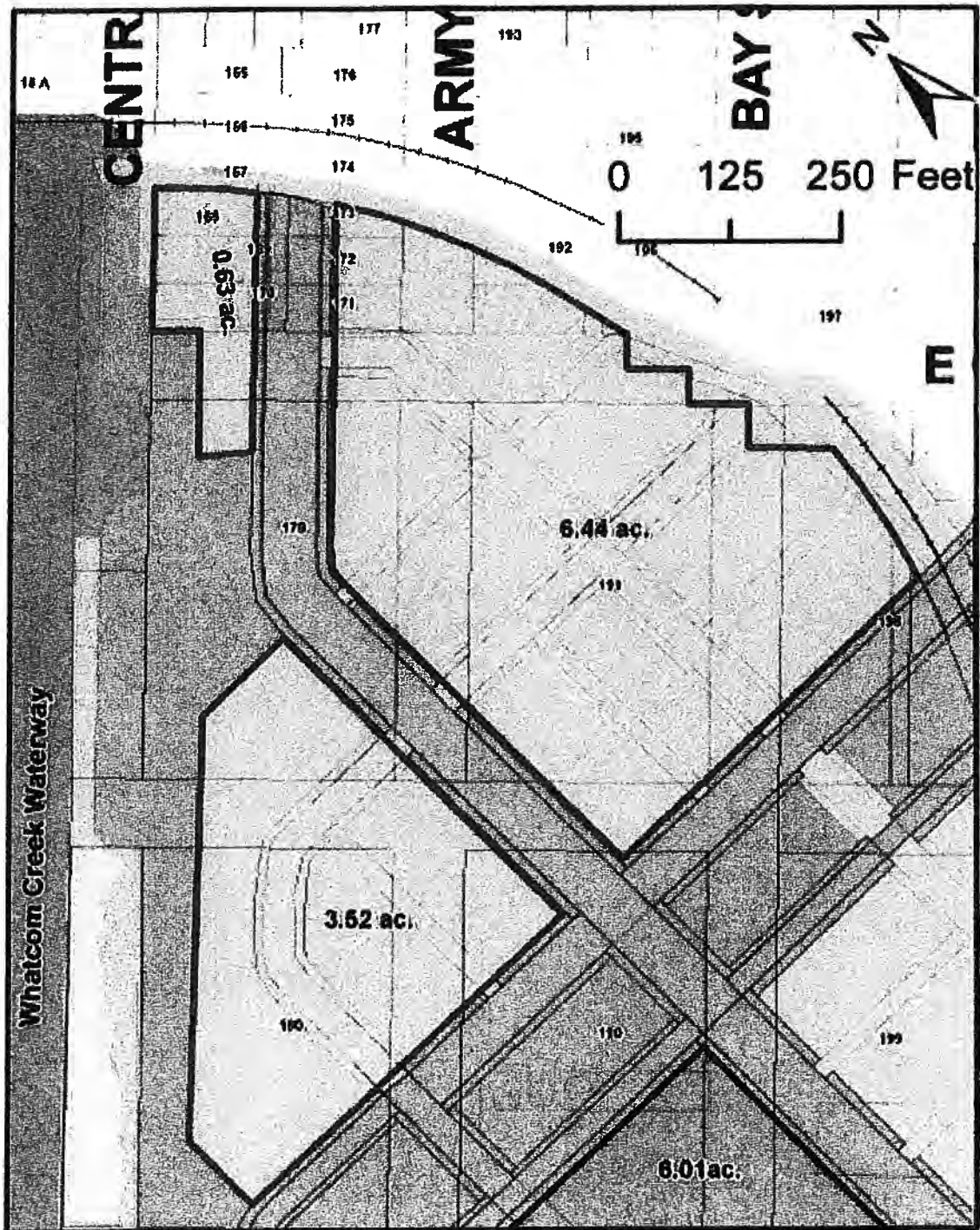


Diane M. McClain
Name (Print) Diane M. McClain
NOTARY PUBLIC, in and for the State
of Washington, residing at Bellingham
My Commission expires: 09-07-14

MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 8

PP PORT INITIAL PP HARCOURT INITIAL

Exhibit A: Initial Development Offering

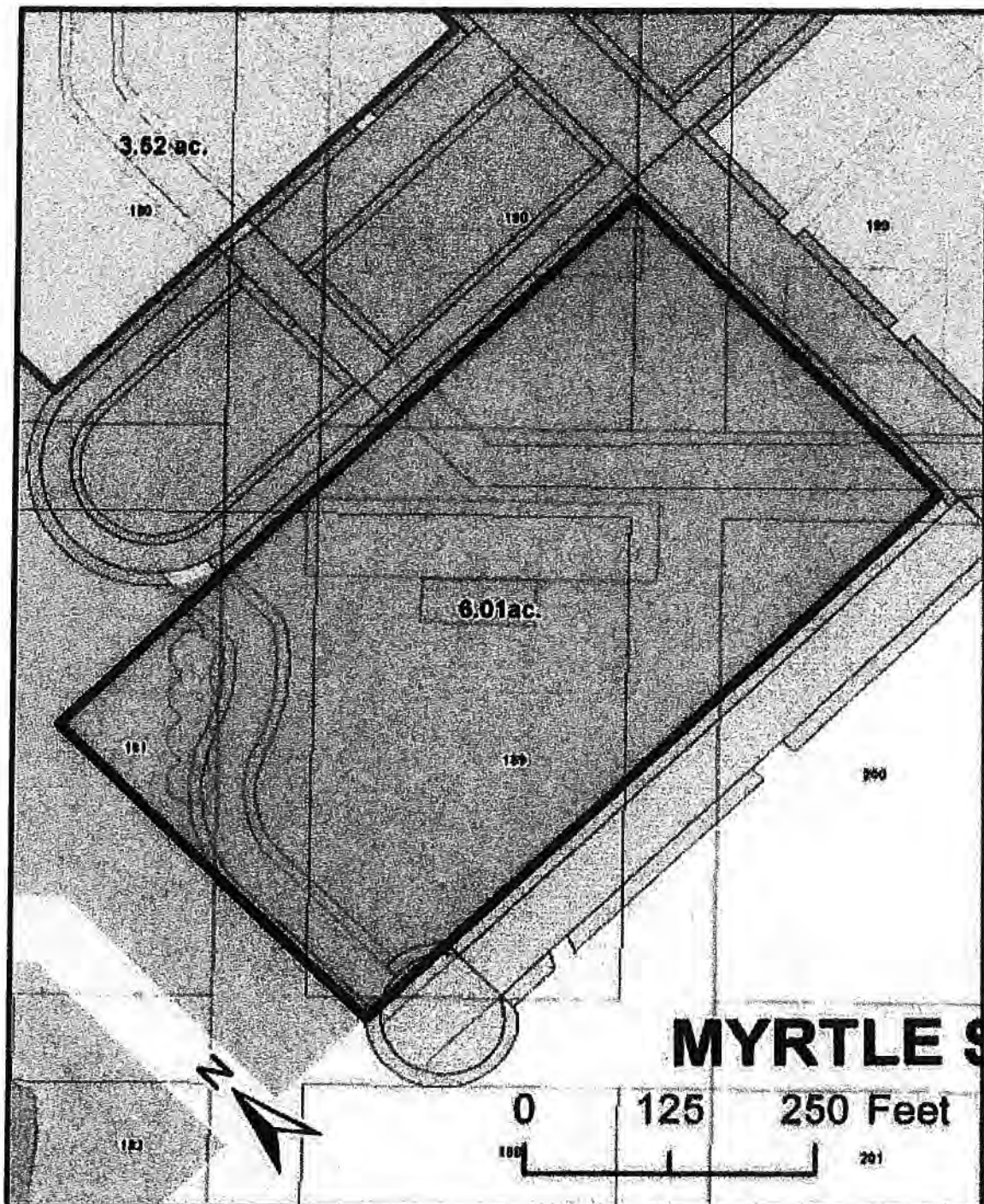


MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 9

[Signature]
PORT INITIAL

[Signature]
HARCOURT INITIAL

Exhibit B: Institutional Mixed Use Area



MEMORANDUM OF UNDERSTANDING
FOR CROSSING DEVELOPMENT
CORPORATION - 10

[Signature]
PORT INITIAL

[Signature]
HARCOURT INITIAL

EXHIBIT 5.8.1

**EXHIBIT 5.8.1
FORM OF
CONSTRUCTION LICENSE**

CONSTRUCTION LICENSE

THIS CONSTRUCTION LICENSE (the "License") is made this ____ day of _____, 20____, by and between the Port of Bellingham, a Washington municipal corporation (the "Port") and _____, a Washington _____ ("Project Owner").

WHEREAS, the Port owns certain real property within the Waterfront District as further depicted on Exhibit "A" hereto (the "Port Property");

WHEREAS, Project Owner [*owns/leases*] from the Port and is developing certain real property adjacent to the Port's property as further described on Exhibit "B" hereto (the "Project Property"); and

WHEREAS, Project Owner requires use of a portion of the Port Property (the "License Area") for temporary staging of material, equipment and portable offices during development on the Project Property (the "Authorized Uses").

WHEREAS, the Port and the Washington State Department of Ecology ("Ecology") have entered into that certain Pulp/Tissue Mill RAU Consent Decree dated December 22, 2014, which was filed in Whatcom County Superior Court Cause No. 14-2-02700-8 (the "Consent Decree").

[OR]

WHEREAS, the Port and Washington State Department of Ecology ("Ecology") have entered into that certain Chlor-Alkali RAU I RAU Consent Decree dated _____, 2015 which was filed in Whatcom County Superior Court Cause No. _____ (the "Consent Decree").

WHEREAS, the Project Owner understands that the License Area is and will be subject to (i) that certain Contaminated Materials Management Plan as appended to the Consent Decree and (ii) that certain Environmental Covenant required pursuant to the Consent Decree.

NOW, THEREFORE, the Port and Project Owner agree as follows:

1. **Grant of License.** The Port hereby grants a temporary non-exclusive license to Project Owner, to allow Project Owner, at its cost, to utilize the License Area as depicted in Exhibit "C" for the Authorized Uses and for no other use.

1.1. **No Interest in Real Property.** This License shall not be deemed to transfer any interest in the underlying Port Property. Rather, it grants a permission to Project Owner to use the Port's Property under the terms and conditions and for the purposes set forth herein.

2. **License Fee.** This License is provided in conjunction with the development of the

project on the Project Property which is of substantial benefit to the Port and considered by the Port and the Project Owner in the [purchase/leases] of the Project Property. Therefore, this License is supported by adequate consideration.

2.1. Leasehold Excise Tax. Project Owner shall be responsible for payment of any applicable Washington state leasehold excise tax due as a result of this License.

3. **Duration of License.** This License shall remain in full force and effect until (i) abandoned in writing by Project Owner, or (ii) the Project has been substantial complete which is defined as the issuance of a temporary or permanent certificate of occupancy, (iii) it is terminated, upon thirty (30) days written notice, by the Port due to Project Owner's breach of any of the terms of this License or (iv) one (1) year from the date of this License whichever occurs first.

3.1. Extension of License Term. The Port will reasonably extent the duration of this License to accommodate the completion of the Project. The extension may include a change in the size of the License Area.

4. **Project Owner's Obligations.** Project Owner agrees to (i) only allow use of the License Area for the Authorized Uses, (ii) keep the License Area in a neat and clean condition and to keep said area clear of all trash and debris except as reasonably required for the Authorized Uses, (iii) comply with the Environmental Covenant and the Contaminated Materials Management Plan on the License Area, (iv) conform to and abide by all rules, codes, laws, and regulations in connection with the use of the License Area and not to permit the Port's Property to be used in violation of any lawful rule, code, law, regulation, or other authority and (v) keep the Port's Property free and clear of all liens and charges whatsoever arising from Project Owner's use of the Port's Property.

5. **Improvements.** Project Owner shall not make or install any improvements or fixtures on the Port's Property without the Port's prior written consent, which shall be granted or withheld in the Port's sole discretion.

6. **Signs.** No signs shall be installed or placed on the Port's Property without the express written permission of the Port.

7. **Project Owner's Indemnification of the Port.** Project Owner will indemnify, save, defend, and hold the Port harmless from any claim of personal injury or property damage resulting from the use of the License Area by the Project Owner, its employees, its contractors, its suppliers, its subcontractors and all their respective employees.

8. **Insurance.** Project Owner shall, prior to utilizing the License Area and during the entire term of this License, procure and maintain a comprehensive general liability policy covering all claims for personal injury (including death) and property damage (including all real and personal property located on the License Area arising from Property Owner's activities. The limits of liability shall be not less than One Million Dollars (\$1,000,000) for each occurrence and in the aggregate. The foregoing insurance policy shall name the Port as an additional insured. The Project Owner shall provide certificates of insurance and, if requested, copies of any policy to the Port. Receipt of such certificate or policy by Port does not constitute approval by Port of the terms of such policy. Furthermore, the policy of insurance required herein shall: (i) be written as a primary policy; (ii) expressly provide that such insurance may not be materially changed,

amended or canceled with respect to Port except upon forty-five (45) days' prior written notice from the insurance company to the Port and (iii) contain an express waiver of any right of subrogation by the insurance company against the Port, its commissioners, employees, or agents.

8.1. **Contractor Insurance.** Prior to and during any period where the Project Owner allows its contractors to utilize the License Area each such contractor shall obtain and maintain the insurance noted in paragraph 8 above and shall name the Port as an additional insured under the contractor's policy.

9. **Loss or Damage of Personal Property.** The Port shall not be responsible to the Project Owner or its contractors or suppliers for any property loss or damage done to property on the License Area occasioned by reason of any fire, storm or other casualty whatsoever. It shall be the Project Owner's responsibility to provide its own protection against casualty losses of whatsoever kind or nature, regardless of whether or not such loss is occasioned by the acts or omissions of the Port, the Project Owner, a third party, or act of nature.

10. **Environmental Indemnification.** Project Owner shall defend (with legal counsel suitable to Port), indemnify, and hold Port harmless from any and all claims, demands, judgments, orders or damages resulting from (i) failure to comply with the Environmental Covenant recorded against the License Area, (ii) failure to comply with the Contaminated Materials Management Plan on the License Area or (iii) the release of Hazardous Substances on the License Area caused in whole or in part by the activity of the Project Owner, its contractors or any other person or entity on the License Area during the term of this License. The term "Hazardous Substances," as used herein, shall mean any substance heretofore or hereafter designated as hazardous under the Resource Conservation and Recovery Act, 42 USC Sec. 6901 et seq.; the Federal Water Pollution Control Act, 33 USC Sec. 1257 et seq.; the Clean Air Act, 42 USC Sec. 2001 et seq.; the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 USC Sec. 9601 et seq.; or the Hazardous Waste Cleanup-Model Toxics Control Act, RCW 70.105D, all as amended and subject to all regulations promulgated thereunder.

11. **Successors and Assigns.** This License is granted for the benefit of Project Owner and shall not be assigned.

12. **No Third Party Beneficiaries.** This License has no third party beneficiaries.

13. **Modification.** This License may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this License.

14. **Notices.** All notices, which may be or are required to be given pursuant to this License shall be in writing and delivered to the parties at the following addresses:

To the Port:

To Project Owner:

Any such notices shall be either (i) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) days after deposit, postage prepaid in the U.S. mail, (ii) sent by a nationally recognized overnight courier, in which case notice shall be deemed delivered when actually delivered pursuant to the records of such courier, or (iii) sent by email transmission to the party and its counsel, receipt of which has been confirmed by telephone, and by regular mail, in which case notice shall be deemed delivered on the day of such confirmed receipt, or (iv) hand delivered, in which case notice shall be deemed delivered when actually delivered.

15. **Execution in Counterparts.** This License may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same License.

16. **Waiver.** No waiver by any party of any provision of this License or any breach thereof shall be of any force or effect unless in writing by the party granting the waiver and no such waiver shall be construed to be a continuing waiver. The waiver by one party of the performance of any covenant, condition, or promise shall not invalidate this License nor shall it be considered a waiver by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time.

17. **Applicable Law and Jurisdiction.** This License shall be interpreted under and pursuant to the laws of the State of Washington without regard to choice of law provisions. In the event any action is brought to enforce any of the provisions of this License, the parties agree to be subject to the sole jurisdiction and venue in Whatcom County Superior Court.

18. **Attorneys' Fees.** In the event any proceeding is instituted to interpret or enforce any provision or resolve any dispute under this License, including, without limitation, any action in which a declaration of rights is sought or an action for rescission, each party shall bear their own costs and attorney fees.

19. **Severability.** In case any one or more of the provisions contained in this License shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this License shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

20. **Entire Agreement.** The entire agreement between the parties with respect to the subject matter herein is contained in this License; this supersedes all of their previous understandings and agreements, written and oral, with respect to the subject matter herein.

IN WITNESS WHEREOF, the parties hereto have executed this document as of the day and year first above written.

PORT OF BELLINGHAM

By:
Its:

By:
Its:

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 P.P.

EXHIBIT "A"
PORT PROPERTY

EXHIBIT "B"
PROJECT PROPERTY

 P.P.

EXHIBIT "C"
LICENSE AREA

EXHIBIT 8.1

**EXHIBIT 8.1
FORM OF DEED**

DEED

Filed for Record at the request of:
CHMELIK SITKIN & DAVIS P.S.
1500 Railroad Avenue
Bellingham, WA 98225
(360) 671-1796

GRANTOR(S): PORT OF BELLINGHAM

GRANTEE(S):

LEGAL DESCRIPTION:

TAX PARCEL ID#:

REFERENCE NOS. OF
DOCS SIGNED/REL.:

STATUTORY WARRANTY DEED

The Grantor, the PORT OF BELLINGHAM, a Washington municipal corporation, for and in consideration of _____, in hand paid, sells and conveys to Ten Dollars (\$10.00) and other good and valuable consideration, in hand paid, conveys to Grantee, _____, a Washington _____ company, the following described real estate, situated in the County of Whatcom, State of Washington (the "Property"):

[INSERT LEGAL DESCRIPTION]

The Property is conveyed subject to:

1. The terms and conditions of that certain Contaminated Materials Management Plan as appended to the Consent Decree dated _____, 201_ filed in Whatcom County Superior Court cause number: _____; and,


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HARCOURT INITIAL

2. The Environmental Covenant dated _____, 201____ recorded under Whatcom County Auditor file number _____; and,

3. That certain Environmental Indemnification and Environment Easement Agreement of an even dated herewith by and between the Grantor, the Grantee and Harcourt Bellingham LLC, a Washington limited liability company.

4. The rights of the Grantor as contained in that certain Master Development Agreement dated _____, 2015 by and between the Grantor and Harcourt Bellingham LLC and which Grantee acknowledges having reviewed.

Dated this _____ day of _____, 201____.

GRANTOR:

PORT OF BELLINGHAM

By: _____

Its:

GRANTEE:

By: _____

Its:

STATE OF WASHINGTON)

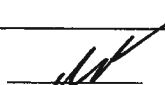
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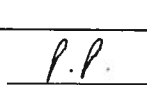
COUNTY OF WHATCOM)

On this _____ day of _____, 201____, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, known to me to be the _____ of the PORT OF BELLINGHAM, a Washington municipal corporation, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute the said instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.

Name (Print) _____


PORT INITIAL


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NOTARY PUBLIC, in and for the State
of Washington, residing at _____
My Commission expires: _____

STATE OF WASHINGTON)
:ss
COUNTY OF WHATCOM)

On this _____ day of _____, 201____, before me, the undersigned, a Notary
Public in and for the State of Washington, duly commissioned and sworn, personally appeared
_____, known to me to be the _____
of the _____, a _____, and acknowledged the said
instrument to be the free and voluntary act and deed of said corporation, for the uses and
purposes therein mentioned, and on oath stated that they were authorized to execute the said
instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.

Name (Print) _____
NOTARY PUBLIC, in and for the State
of Washington, residing at _____
My Commission expires: _____

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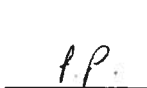

PORT INITIAL

HARCOURT INITIAL

EXHIBIT 8.1(a)

EXHIBIT 8.1(a)
FORM OF
REAL PROPERTY SALE AGREEMENT

REAL PROPERTY SALE AGREEMENT

THIS REAL PROPERTY SALE AGREEMENT (the "Agreement") is made and entered into this _____ day of _____ by and between the Port of Bellingham, a Washington municipal corporation ("Seller") and _____ a Washington _____ ("Buyer").

WHEREAS, the Seller and Harcourt Bellingham LLC have entered into that certain Master Development Agreement dated _____ (the "MDA") to develop properties within the Waterfront District in an area designated as the Master Development Area.

WHEREAS, under the terms and conditions of the MDA it is anticipated that Harcourt would form single purpose entities ("SPE") to develop various projects. It was further anticipated that these SPEs will either purchase or lease parcels within the Master Development Area from the Seller to develop a project subject to the terms and conditions of the MDA.

WHEREAS, the Seller is the owner of the certain real property within the Master Development Area legally described as follows (the "Parcel"):

[INSERT LEGAL DESCRIPTION]

WHEREAS, Buyer is an SPE created by Harcourt Bellingham LLC and intends to construct a project pursuant to the project memorandum approved pursuant to the MDA (the "Project").

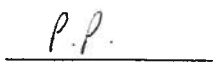
WHEREAS, the Port and the Washington State Department of Ecology ("Ecology") have entered into that certain Pulp/Tissue Mill RAU Consent Decree dated December 22, 2014, which was filed in Whatcom County Superior Court Cause No. 14-2-02700-8 (the "Consent Decree").

[OR]

WHEREAS, the Port and Washington State Department of Ecology ("Ecology") have entered into that certain Chlor-Alkali RAU I RAU Consent Decree dated _____, 2015 which was filed in Whatcom County Superior Court Cause No. _____ (the "Consent Decree").



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WHEREAS, the Buyer understands that the Parcel is and will be subject to (i) that certain Contaminated Materials Management Plan as appended to the Consent Decree and (ii) that certain Environmental Covenant required pursuant to the Consent Decree.

WHEREAS, Seller desires to sell and Buyer desires to purchase the Parcel pursuant to the terms and conditions herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Purchase of Property.** Seller hereby agrees to sell and convey to Buyer, and Buyer hereby agrees to purchase from Seller, subject to the terms and conditions set forth herein, the Parcel.

2. **Purchase Price.** The purchase price for the Parcel shall be _____ dollars (\$_____) the ("Purchase Price"), all of which shall be paid in cash at Closing.

3. **Title.** Title examination will be conducted as follows:

3.1 Title Commitment. Seller shall, within ten (10) days after the date of this Agreement, furnish to Buyer a commitment ("Title Commitment") for a standard ALTA title insurance policy insuring title in the amount of the Purchase Price, issued by _____ (the "Escrow Agent"), committing the Escrow Holder to insure title free and clear of liens, deeds of trust, charges, defects, or encumbrances other than the "Permitted Exceptions."

3.2 Permitted Exceptions. The following exceptions are Permitted Exceptions:

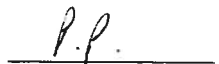
a. Rights reserved in federal patents or state deeds, building or use restrictions general to the district, existing easements not inconsistent with Buyer's intended use, and building or zoning regulations or provisions; and

b. The terms and conditions of that certain Contaminated Materials Management Plan as appended to the Consent Decree dated _____, 201__ filed in Whatcom County Superior Court cause number: _____; and,

c. The Environmental Covenant dated _____, 201__ recorded under Whatcom County Auditor file number _____; and,

d. That certain Environmental Indemnification and Environmental Easement Agreement which will be executed at Closing and recorded against the Parcel by and between the Grantor, the Grantee and Harcourt Bellingham LLC, a Washington limited liability company.


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3.3 **Buyer's Objections.** Buyer will make any objections it may have with regard to the Title Commitment and any schedules thereto within ten (10) days of receipt of the Title Commitment. Buyer's failure to make Objections within such time period will constitute a waiver of Objections with respect to matters disclosed in the Title Commitment and the schedules thereto. Any specific matter shown in the Title Commitment and the schedules thereto and not objected to by Buyer shall be included as a "Permitted Exception" hereunder.

3.4 **Seller's Response to Objections.** In the event Buyer objects to any exceptions or defects set forth in the Title Commitment and the schedules thereto, Seller shall have five (5) days from delivery of Buyer's notice to notify Buyer, in writing, that (i) Seller will cause the disapproved exceptions to be removed from the policy of title insurance to be issued in favor of Buyer on or before Closing; or (ii) that Seller will not eliminate the disapproved exceptions.

3.5 **Buyer's Right to Terminate.** If Seller (i) notifies Buyer, in writing, that Seller will not eliminate the objected to exceptions on or before Closing, or (ii) Seller does not notify Buyer, in writing, that Seller will cause the objected to exceptions to be eliminated on or before Closing, then this Agreement shall terminate, and neither Buyer nor Seller shall have any further rights, duties, or obligations hereunder, unless within three (3) days of the earlier of (i) the expiration of said five (5) day period, or (ii) the date that Seller notifies Buyer that Seller will not eliminate the objected to exceptions, Buyer waives its objections and elects to proceed with Closing subject to the objected to exceptions. The title exceptions approved as provided herein shall be included as Permitted Exceptions. Objections to be discharged by Seller may be paid out of the purchase money received at date of Closing.

4. **Conveyance of Title.** Title shall be conveyed by Statutory Warranty Deed, the form of which is attached hereto as Exhibit "A" (the "Deed").

5. **Condition of Property.** *Subject to the obligations of the Seller in the Environmental Indemnification and Environmental Easement Agreement, the Parcel and any improvements located thereon are being sold and conveyed by Buyer "as-is" and "with all faults" and subject to any physical or environmental condition (including the presence of Hazardous Substances) which may exist on, in, under, about, emanating from, or connected with the Parcel, without any representation or warranty by Seller. The Buyer represents and warrants that (i) it is purchasing the Parcel consistent with the terms and conditions of the MDA, (ii) that Buyer has examined the MDA and exhibits attached thereto, (iii) Buyer has examined the Consent Decree and exhibits attached thereto, (iv) that the Buyer is accepting the Parcel subject to the Environmental Indemnification and Environmental Easement Agreement, (v) Buyer is accepting the Parcel "as-is" and "with all faults" and subject to any physical or environmental condition, including the presence of Hazardous Substance, which may exist on, in, under, about, emanating from, or connected with the Parcel and (vi) Buyer is accepting the Parcel without any representation or warranty by Seller except as to title. The provisions of this paragraph 5, including the representation and warranty of the Buyer, are part of the economics of the transaction contemplated herein and this paragraph 5 shall survive Closing and shall not merge into the Deed.*

6. **Release – Property Condition.** For and in part consideration of the transaction contemplated herein the Buyer does hereby forever release and discharge the Seller, its commissioners and employees from any claim, demand, damages or cause of action arising from or related to the condition of the Parcel or any improvements located thereon, including but not limited to the environmental conditions on the Parcel and Hazardous Substances on, in or emanating from the Parcel. This release shall not apply to any claims against Seller arising from the breach of the Environmental Indemnification and Environmental Easement Agreement. The provisions of this paragraph 6 are part of the economics of the transaction contemplated herein and this paragraph 6 shall survive Closing and shall not merge into the Deed. This release shall be binding on the successor and assigns of the Buyer and noted in any subsequent deed transferring title to the Parcel.

7. **Project.** The Buyer represents and warrants that it will timely construct the Project in accordance with the MDA and the project memorandum approved pursuant to the MDA. The provisions of this paragraph 7 are part of the economics of the transaction contemplated herein and this paragraph 7 shall survive Closing and shall not merge into the Deed.

8 **Escrow Instructions.** Upon execution of this Agreement, the parties hereto shall deposit an executed counterpart of this Agreement with the Escrow Agent and this Agreement shall serve as the instructions to Escrow Agent for consummation of the purchase and sale contemplated hereby. Seller and Buyer agree to execute such additional and supplemental escrow instructions as may be appropriate to enable the Escrow Agent to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplemental escrow instructions, the terms of this Agreement shall control.

9. **Closing.** The Closing hereunder (the “Closing”) shall be held and delivery of all items to be made at the Closing under the terms of this Agreement shall be made at the offices of Escrow Agent on or before _____ (the “Closing Date”) or such other date as Buyer and Seller may mutually agree in writing. All documents shall be deemed delivered on the date the Deed is recorded and possession of the Parcel shall be delivered to Buyer on the Closing Date.

10. **Documents To Be Delivered By Seller For Closing.** On or prior to the Closing Date, Seller shall deposit with Escrow Holder, the following:

- a. The Deed duly executed and acknowledged by Seller.
- b. A duly executed real estate excise tax affidavit.
- c. A duly executed Environmental Indemnification and Environmental Easement Agreement.
- d. A standard ALTA form of owner’s policy of title insurance.

e. Such other instruments as are reasonably required by Escrow Holder or otherwise required to close the escrow and consummate the purchase of the Parcel in accordance with the terms hereof.

11. **Documents to Be Delivered by Buyer for Closing.** On or before the Closing Date, Buyer shall deposit with Escrow Holder the following:

- a. The Purchase Price in cash (less the applicable earnest money).
- b. Duly executed real estate excise tax affidavit.
- c. A duly executed Environmental Indemnification and Environmental Easement Agreement.

d. Such other instruments as are reasonably required by Escrow Holder or otherwise required to close the escrow and consummate the purchase of the Parcel in accordance with the terms hereof.

12. **Costs and Expenses Paid at Closing.** Seller shall pay the premium for a standard ALTA policy of title insurance with liability in the amount of the Purchase Price. Seller shall pay all real estate excise taxes, if any, occasioned by this transaction. Buyer shall pay for all recording fees for the recording of the statutory warranty deed. The Buyer and Seller will share equally the cost of the escrow fee and the recording fees for the Environmental Indemnification and Environmental Easement Agreement.

13. **Proration.** If applicable, all revenues and all expenses of the Parcel, including but not limited to, water, sewer, and utility charges, amounts payable under the Agreement, annual permits and/or inspection fees (calculated on the basis of the respective periods covered thereby), and any other expenses normal to the ownership, use operation and maintenance of the Parcel shall be prorated as of 12:01 a.m. on the Closing Date.

14. **Waiver of Disclosure Statement.** To the extent permitted by Chapter 64.06 RCW Buyer waives receipt of the disclosure statement.

15. **Brokers And Finders.** Each party represents to the other that no broker or finder has been involved in this transaction. In the event of a claim for broker's fee, finder's fee, commission, or other similar compensation in connection herewith, the party that incurred such a fee or obligation shall be solely responsible for the payment thereof.

16. **Modification.** This Agreement may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

17. **Notices.** All notices, which may be or are required to be given pursuant to this Agreement shall be in writing and delivered to the parties at the following addresses:

To the Seller:

To the Buyer:

Any such notices shall be either (i) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) days after deposit, postage prepaid in the U.S. mail, (ii) sent by a nationally recognized overnight courier, in which case notice shall be deemed delivered when actually delivered pursuant to the records of such courier, or (iii) sent by email transmission to the party and its counsel, receipt of which has been confirmed by telephone, and by regular mail, in which case notice shall be deemed delivered on the day of such confirmed receipt, or (iv) hand delivered, in which case notice shall be deemed delivered when actually delivered. The above addresses and phone numbers may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective until actual receipt of such notice. Copies of notices are for informational purposes only, and a failure to give or receive copies of any notice shall not be deemed a failure to give notice.

18. **Execution In Counterparts.** This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

19. **Waiver.** No waiver by any party of any provision of this Agreement or any breach thereof shall be of any force or effect unless in writing by the party granting the waiver and no such waiver shall be construed to be a continuing waiver. The waiver by one party of the performance of any covenant, condition, or promise shall not invalidate this Agreement nor shall it be considered a waiver by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time.

20. **Applicable Law and Jurisdiction.** This Agreement shall be interpreted under and pursuant to the laws of the State of Washington without regard to choice of law provisions. In the event any action is brought to enforce any of the provisions of this Agreement, the parties agree to be subject to the sole jurisdiction and venue in Whatcom County Superior Court.

21. **Attorneys' Fees.** In the event any proceeding is instituted to interpret or enforce any provision or resolve any dispute under this Agreement, including, without limitation, any action in which a declaration of rights is sought or an action for rescission, each party shall bear their own costs and attorney fees.


PORT INITIAL


HARCOURT INITIAL

22. **Captions.** The captions of this Agreement are for convenience and reference only and in no way define, limit, or describe the scope or intent of this Agreement.

23. **Severability.** In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

24. **Additional Acts.** Except as otherwise provided herein, in addition to the acts and deeds recited herein and contemplated to be performed, executed, and/or delivered by Seller or Buyer, Seller and Buyer hereby agree to perform, execute, and/or deliver, or cause to be performed, executed, and/or delivered, at the Closing Date any and all such further acts, deeds and assurances as Buyer or Seller, as the case may be, may reasonably require to (i) evidence and vest in the Buyer the ownership of and title to the Parcel, and (ii) consummate the transactions contemplated hereunder. Time is specifically declared to be of the essence of this Agreement and of all acts required to be done and performed by the parties hereto.

25. **Neutral Authorship.** Each of the provisions of this Agreement has been reviewed and negotiated, and represents the combined work product of both parties hereto. No presumption or other rules of construction which would interpret the provisions of this Agreement in favor of or against the party preparing the same shall be applicable in connection with the construction or interpretation of any of the provisions of this Agreement.

26. **Survivability.** The representations and warranties contained in paragraph 5, the release contained in paragraph 6 and the representation and warranty contained in paragraph 7 shall survive Closing, shall not merge into the Deed and may be separately enforced or asserted as a defense to a claim as the case may be.

27. **Entire Agreement.** The entire agreement between the parties hereto is contained in this Agreement and this Agreement supersedes all of their previous understandings and agreements, written and oral, with respect to this transaction. Neither the Seller nor the Buyer shall be liable to the other for any representations made by any person concerning the Parcel or regarding the terms of this Agreement except to the extent that the same are expressed in this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

THIS AGREEMENT CONTAINS REPRESENTATIONS AND WARRANTIES CONCERNING THE PARCEL AND A RELEASE OF CLAIMS BY THE BUYER TO THE SELLER
--

PORT OF BELLINGHAM

By:
Its:

By:
Its:

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PORT INITIAL


HARCOURT INITIAL

EXHIBIT "A"
DEED



PORT INITIAL



HARCOURT INITIAL

EXHIBIT 8.2

EXHIBIT 8.2
WATERFRONT DISTRICT LAND LEASE

THIS WATERFRONT DISTRICT LAND LEASE (the "Lease") is made and entered into this _____ day of _____ 20____, by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation (hereinafter referred to as "Lessor") and _____, a Washington _____ (hereinafter referred to as "Lessee").

ARTICLE I
Summary of Lease Terms and Definitions

Lessor: Port of Bellingham
Lessor's Address: _____

Lessee: _____
Lessee's Address: _____

Premises: _____ square feet

Use of Premises: _____

Exhibits: Exhibit "A" - Description of Premises
Exhibit "B" - Map of Premises
Exhibit "C" - Contaminated Materials Management Plan
Exhibit "D" - Environmental Covenant
Exhibit "E" - Environmental Indemnification and Environmental
Easement Agreement
Exhibit "F" - Purchase and Sale Agreement

Commencement Date: _____

Term: Commencing upon the Commencement Date and expiring on the
"Termination Date" _____ (____) years.

Renewals: _____ options of _____ years.

Initial Base Rent: \$_____ per year payable monthly in 12 equal installments.

Initial Amount of Rental Bond or Blocked Account: \$_____

Name and Address of Surety or Bank: _____

ARTICLE II
Premises, Term, and Renewals

2.1 **PREMISES:** Lessor, in consideration of the rents hereinafter reserved and of the covenants and conditions herein set forth to be performed by Lessee, does hereby demise and let unto Lessee, all of the real property described in Exhibits "A" and "B" above (the "Premises") consisting of _____ square feet.

2.2 **TERM:** The term of this Lease ("Term") shall be for ____ (____) years beginning _____, 20____ ("Commencement Date"). If Lessee takes possession before the Commencement Date, Lessee shall pay the pro rata rent for the period prior to the Commencement Date.

2.3 **RENEWAL:** Subject to the terms and conditions herein, Lessee shall have the right to extend the Lease for ____ (____) consecutive period of ____ (____) years by giving written notice of such intention to Lessor at least three hundred sixty-five (365) days prior to the expiration of the initial Term. Lessee shall not be entitled to renew this Lease unless the Lease is in good standing at the time of renewal and the Lessee is not in default under the terms of this Lease or any other lease or agreement with the Lessor. The terms and conditions of any renewal shall be the same as set forth in this Lease, except that Lessor shall have the right to update this Lease to be consistent with the terms and conditions then existing in the Lessor's standard Harbor Land Lease Agreement. If Lessee does not exercise its right to extend the Term as stated in this section it shall reimburse Lessor within ten (10) days after written request for the costs and attorneys' fees incurred by Lessor in performing Lessor's obligations and administering, overseeing and enforcing Lessee's obligations relating to the termination of the Lease.

ARTICLE III
Rent and Rental Renegotiation

3.1 **RENT:** The term "Rent," as used herein, includes Base Rent, applicable Washington State leasehold excise tax, and other fees and charges assessed herein. Except as expressly provided elsewhere herein, Rent shall be paid without the requirement that Lessor provide prior notice or demand, and shall not be subject to any counterclaim, setoff, deduction, defense or abatement.

3.1.1 **Base Rent Calculation.** Where this Lease provides for adjustment to the Base Rent the following formula shall be used:

The per square foot value ("PSFV") of the square feet of the Premises x _____ percent

3.1.2 **Base Rent For First Five (5) Year Period of the Initial Term.** As annual Base Rent for the first five (5) year period of the initial term of this Lease Lessee shall pay:

\$ _____ x the square footage of the Premises x _____ % return on investment
(ROI) = \$ _____ annual rent ÷ 12 = \$ _____ monthly rent,
plus Washington State leasehold tax.

3.1.3 Base Rent Adjustment. For the balance of the initial term and any Renewal Term, Base Rent shall be subject to adjustment every five (5) years (hereinafter referred to as the "Adjustment Date"). The parties agree to renegotiate the amount of Base Rent payable to Lessor, and to agree on the amount at least ninety (90) days prior to the commencement of each succeeding five (5) year period based the formula set forth in Section 3.1.1 and (i) the then fair market value of the Premises (land only), without regard to Lessee's improvements and (ii) the ROI then being used by the Lessor. (hereinafter "Renegotiation Deadline"). In no event will the Base Rent payable by Lessee be less than such Base Rent for the preceding lease year. If the parties cannot agree on the adjustment to the Base Rent before the Renegotiation Deadline, then the Base Rent shall be determined according to Section ____ "Arbitration" herein.

3.1.4 Late Fees. If any sums payable by Lessee to Lessor under this Lease are not received by the fifth (5th) day of each month, Lessee shall pay Lessor in addition to the amount equal to the greater of \$100 or five percent (5%) of the delinquent amount. In addition, all delinquent sums payable by Lessee to Lessor and not paid within five (5) days of the due date shall, at Lessor's option, be charged interest at the rate of one percent (1%) per month. Interest on all delinquent amounts shall be calculated from the original due date to the date of payment

3.1.5 Notwithstanding anything else contained herein, Lessee may, in its sole option, prepay the entire Base Rent for the Term and any Renewal. After Lessee has paid all of the Base Rent, where under the terms of this Lease any party is obligated to pay Rent during the Term of this Lease such obligation shall be construed to require only the payment of additional Rent and such other sums as may be required under the provisions of this Lease.

3.2 ABATED RENT: If this Lease provides for a postponement of any monthly rental payments, a period of free Rent or other Rent concession, such postponed Rent or free Rent is called the "Abated Rent." Lessee shall be credited with having paid all of the Abated Rent on the expiration of the term of this Lease only if Lessee has fully, faithfully, and punctually performed all of Lessee's obligations hereunder, including the payment of all Rent (other than the Abated Rent) and all other monetary obligations and the surrender of the Premises in the condition required by this Lease. Lessee acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Lessee's full, faithful and punctual performance of its obligations under this Lease. If Lessee defaults and does not cure within any applicable grace period, the Abated Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such Rent abatement or other Rent concession. In such case, Abated Rent shall be calculated based on the full initial rent payable under this Lease, plus interest thereon at the rate of twelve percent (12%) per annum from the date each monthly rental payment was postponed.

ARTICLE IV

Use of Premises, Condition of Property, Improvements, Removal of Property, Maintenance, Utilities, and Off Street Parking

4.1 **LESSEE'S USE OF PREMISES:** Lessee shall use the Premises for development of the Premises for _____ and for no other purpose (the "Authorized Use").

4.1.1 Lessee shall be in default under this Lease if it: (i) ceases conducting the Authorized Use for any period of time exceeding _____ days; or (ii) conducts any other business or activity on the Premises other than the Authorized Use without first obtaining a validly executed lease modification.

4.1.2 Notwithstanding the foregoing described use, the Premises shall not be used to store, distribute or otherwise handle flammable or dangerous materials, excepting only those which are necessary to conduct the Authorized Use. At the request of Lessor, Lessee shall provide a list of all flammable or dangerous materials stored or used on the Premises.

4.2 **CONDITION OF PROPERTY:** Lessee accepts the Premises, including all Existing Improvements thereon, "as is" without further liability for maintenance or repair on the part of the Lessor, and is not relying on any representations of Lessor as to the condition, suitability, zoning restrictions, or usability, except as specifically noted herein. Lessee further agrees to keep the Premises and all improvements thereon continually in good condition throughout the term of the Lease. Lessee shall not allow any portion of the Premises to remain in a damaged, unworkable or other condition, which compromises the condition of any portion of the Premises. Lessee further agrees to maintain the exterior appearance of all improvements on the Premises during the term of the Lease in as good of condition as they exist on the Commencement Date of the Lease.

4.2.1. **Environmental Condition.** The Lessor and the Washington State Department of Ecology ("Ecology") have entered into that certain _____ Consent Decree dated _____, 20____, which was filed in Whatcom County Superior Court Cause No. _____ (the "Consent Decree"). The Premises is and will be subject to (i) that certain Contaminated Materials Management Plan as appended to the Consent Decree and (ii) that certain Environmental Covenant required pursuant to the Consent Decree. This lease is granted subject to the conditions and restrictions in the Contaminated Materials Management Plan attached hereto as Exhibit "C" and the Environmental Covenant attached hereto as Exhibit "D." Lessee shall conduct all activities on the premises in compliance with the Contaminated Materials Management Plan and the Environmental Covenant.

4.3 **IMPROVEMENTS:** The Lessee shall abide by the following terms with regard to improvements:

4.3.1 **Existing Improvements.** On the Commencement Date, the following improvements are located on the Premises: _____. These improvements are the property of _____.

4.3.2 **New Improvements.** All improvements by Lessee shall conform to the requirements of the Americans With Disabilities Act, 42 USC 12111 et seq.

4.3.3 **Completion Schedule for Major Improvements by Lessee.** The Premises shall not be used to store, distribute or otherwise handle flammable or dangerous materials. Lessee shall comply with the following requirements:

- a. _____;
- b. To commence construction of approved Tenant Improvements no later than _____ (____) days after the date of execution of this Lease; and
- c. To substantially complete construction of approved Tenant Improvements within _____ (____) year of the date of initiation of this Lease.

4.3.4 **Unauthorized Improvements.** Any Tenant Improvements made on the Premises without Lessor's prior written consent or which are not in conformance with the plans submitted to and approved by the Lessor ("Unauthorized Improvements") shall immediately become the property of Lessor, unless Lessor elects otherwise. Regardless of the ownership of Unauthorized Improvements, Lessor may, at its option, require Lessee to sever, remove, and dispose of them, charge Lessee rent for the use of them, or both.

4.4 **REMOVAL OF PERSONAL PROPERTY AND TENANT IMPROVEMENTS:** Prior to the conclusion of the Lease, at Lessor's option, Lessee shall remove the following from the Premises:

- a. All equipment;
- b. All personal property;
- c. All Tenant Improvements that are not designated fixtures; and
- d. The following Existing Improvements: _____.

4.4.1 If any of the foregoing items are not removed from the Premises by the conclusion of the Lease or when Lessor has the right of re-entry, then Lessor may, at its sole option, elect any or all of the following remedies:

- a. To remove any or all of the items and to dispose of them without liability to Lessee. Lessor shall not be required to mitigate its damages, to dispose of the items in a commercially reasonable manner, or to make any effort whatsoever to obtain payment for such items. Lessee agrees to pay Lessor's costs and damages associated with Lessee's failure to remove such items, including, but not limited to, the following: storage, demolition, removal, transportation, and lost rent (collectively "Disposal Costs"); provided, however, that any net proceeds recovered by Lessor in excess of its Disposal Costs will be deducted from Lessee's financial obligation set forth herein. Lessee's financial obligations herein shall survive the termination of this Lease.
- b. To have the title to any or all of such items revert to Lessor.
- c. To commence suit against Lessee for damages or for specific performance.

4.4.2 The foregoing remedies are cumulative and Lessor shall not be required to elect its remedies.

4.5 **MAINTENANCE OF FACILITIES:** Maintenance and repair of the Premises and all improvements thereon is the sole responsibility of Lessee including, but not limited to, maintenance and repair of any damage to the Premises from unforeseen or unexpected events. Without limiting the generality of the foregoing, Lessee shall keep and maintain any improvements on the Premises in as good of condition as they existed on the commencement of this Lease, reasonable wear and tear excepted.

4.6 **UTILITIES:** Lessee will arrange and pay for all utility connections and services and distribution of such utilities within its leased Premises. At the conclusion of this Lease, Lessee shall arrange for such utility services to be terminated and for the final bill to be sent to Lessee. Lessee shall be liable for all utility charges that accrue if it fails to so terminate services.

4.7 **OFF STREET PARKING:** Lessee agrees to provide space for the parking of vehicles in the number necessary to comply with applicable laws, regulations, and Port policies and otherwise to accommodate its normal business requirements on the Premises included within this Lease. Lessee is not relying on any public streets, right of ways or other properties not included in this Lease for the parking of said vehicles.

ARTICLE V

Insurance and Financial Security

5.1 **CASUALTY LOSS OF LESSEE:** The parties hereto agree that the Lessor shall not be responsible to the Lessee for any property loss or damage done to the Lessee's property, whether real, personal or mixed, occasioned by reason of any fire, storm or other casualty whatsoever. It shall be the Lessee's responsibility to provide its own protection against casualty losses of whatsoever kind or nature, regardless of whether or not such loss is occasioned by the acts or omissions of the Lessor, Lessee, third party, or act of nature.

5.2 **INSURANCE:** Lessee shall procure and maintain a comprehensive general liability policy covering all claims for personal injury (including death) and property damage (including all real and personal property located on the Premises) arising on the Premises or arising out of Lessee's operations. The limits of liability shall be not less than One Million Dollars (\$1,000,000) for each occurrence and in the aggregate unless the Lessor requests a lesser liability limit. Lessor may impose changes in the limits of liability (i) at the same time as revaluation of the annual Rent; (ii) as a condition of approval of assignment or sublease of this Lease; (iii) upon any breach of the Environmental Liability provision herein; (iv) upon a material change in the condition of any improvements; or, (v) upon a change in the Authorized Use. If the liability limits are changed, Lessee shall obtain new or modified insurance coverage within thirty (30) days after changes in the limits of liability are required by Lessor. The liability policies shall contain a cross-liability provision such that the policy will be construed as if separate policies were issued to Lessee and to Lessor.

5.2.1 The foregoing insurance policy shall name Lessor as an additional insured. Lessee shall provide certificates of insurance and, if requested, copies of any policy to Lessor. Receipt of such certificate or policy by Lessor does not constitute approval by Lessor of the terms of such policy. Furthermore, the policy of insurance required herein shall: (i) be written as a primary policy; (ii) expressly provide that such insurance may not be materially changed, amended or canceled with respect to Lessor except upon forty-five (45) days' prior written notice from the insurance company to Lessor; (iii) contain an express waiver of any right of subrogation by the insurance company against Lessor and Lessor's elected officials, employees, or agents; (iv) expressly provide that the insurance proceeds of any loss will be payable notwithstanding any act or negligence of Lessee which might otherwise result in a forfeiture of said insurance; and (v) in regard to physical property damage coverage, expressly provide that all proceeds shall be paid jointly to Lessor and Lessee.

5.2.2 If Lessee fails to procure and maintain the insurance described above, Lessor shall have the right, but not the obligation, to procure and maintain substitute insurance and to pay the premiums. Lessee shall pay to Lessor upon demand the full amount paid by Lessor.

5.2.3 The Lessee believes and states that the insurance obligation herein does not exceed that which the Lessee would otherwise normally place upon itself and obtain in order to operate its business in a prudent manner.

5.3 **FINANCIAL SECURITY:** In compliance with the requirements of state law, Lessee agrees that it will secure the performance of the rental portion of this Lease by procuring and maintaining, during the term of this Lease, a corporate surety bond, or by providing other financial security satisfactory to Lessor (herein referred to as the "Bond") in an amount not less than _____ percent (____%) of the sum of annual Rent, plus state leasehold tax. The Bond shall be in a form and issued by a surety company acceptable to Lessor and shall comply with the requirements of Washington law. Lessee shall obtain such Bond and forward evidence thereof to Lessor within fourteen (14) days of execution of this Lease, but in no event later than the Commencement Date of this Lease. Failure to comply with this requirement shall be grounds for termination of this Lease without notice by Lessor. Such Bond shall be kept always in effect during the term of this Lease; failure to comply with this requirement shall render Lessee in default. The Bond shall be increased annually to reflect any adjustments in annual Rent.

5.3.1 Upon any default by Lessee in its obligations under this Lease, Lessor may collect on the Bond to offset the liability of Lessee to Lessor. Collection on the Bond shall not relieve Lessee of liability, shall not limit any of Lessor's other remedies, and shall not reinstate or cure the default or prevent termination of the Lease because of the default.

ARTICLE VI

Environmental Liability

6.1. **EXISTING ENVIRONMENTAL ISSUES:** Lessee acknowledges that Lessor and the Washington State Department of Ecology have entered into the Consent Decree. Lessor and Lessee have executed that certain Environmental Indemnification and Environmental Easement

Agreement dated _____ which is attached hereto as Exhibit "E." This Lease is subject to the terms and conditions of Exhibit E.

6.2 ENVIRONMENTAL INDEMNIFICATION: Lessee shall defend (with legal counsel suitable to Lessor), indemnify, and hold Lessor harmless from any and all claims, demands, judgments, orders or damages resulting from Hazardous Substances on the Premises caused in whole or in part by the activity of the Lessee, its agents, subtenants, or any other person or entity on the Premises during any period of time that Lessee has occupied all or a portion of the Premises during the term of this Lease or any previous lease or agreement. It is the intent of the parties that Lessee shall be responsible and shall defend and hold Lessor harmless from any Hazardous Substances that have or may occur on the Premises since Lessee first occupied the Premises through this Lease or any previous lease or agreement with Lessor. The term "Hazardous Substances," as used herein, shall mean any substance heretofore or hereafter designated as hazardous under the Resource Conservation and Recovery Act, 42 USC Sec. 6901 et seq.; the Federal Water Pollution Control Act, 33 USC Sec. 1257 et seq.; the Clean Air Act, 42 USC Sec. 2001 et seq.; the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 USC Sec. 9601 et seq.; or the Hazardous Waste Cleanup-Model Toxics Control Act, RCW 70.105D, all as amended and subject to all regulations promulgated thereunder.

6.2.1 Lessee's defense and indemnity obligations under this article are unconditional, shall not be discharged or satisfied by Lessor's re-entry of the Premises or exercise of any other remedy for Lessee's default under this Lease, shall continue in effect after any assignment or sublease of this Lease, and shall continue in effect after the expiration or earlier termination of this Lease.

6.2.2 Although Lessee shall not be liable for any Hazardous Substances that existed on the Premises prior to the inception of this Lease, Lessee shall be responsible for the costs of any environmental investigations or remediation arising from the development or use of the Premises by Lessee, and Lessee hereby releases the Lessor from any contribution claim for those costs. By way of example only, if the Lessee excavates soil on the Premises which contains Hazardous Substances, then the Lessee will be responsible for the cost associated with disposing of those soils.

6.3 NOTIFICATION AND REPORTING: Lessee shall immediately notify Lessor if Lessee becomes aware of any of the following:

- a. A release or threatened release of Hazardous Substances in, on, under or above the Premises, any adjoining property, or any other property subject to use by Lessee in conjunction with its use of the Premises;
- b. Any problem or liability related to or derived from the presence of any Hazardous Substance in, on, under or above the Premises, any adjoining property or any other property subject to use by Lessee in conjunction with its use of the Premises;

- c. Any actual or alleged violation of any federal, state, or local statute, ordinance, rule, regulation, or other law pertaining to Hazardous Substances with respect to the Premises, any adjoining property or any other property subject to use by Lessee in conjunction with its use of the Premises; or
- d. Any lien or action with respect to any of the foregoing.

6.3.1 Lessee shall, at Lessor's request, provide Lessor with copies of any and all reports, studies or audits which pertain to environmental issues concerning the Premises, and which are or were prepared by or for Lessee and submitted to any federal, state or local authorities pursuant to any federal, state or local permit, license or law. These permits include, but are not limited to, any National Pollution Discharge and Elimination System permit, any Army Corps of Engineers permit, any State Hydraulics permit, any State Water Quality certification, or any Substantial Development permit.

ARTICLE VII

Option to Purchase

7.1 **LESSEE'S EXCLUSIVE OPTION TO PURCHASE:** Lessor hereby grants to Lessee the sole and exclusive option to purchase (the "Option") the Premises at any time during the initial or any Renewal Term of this Lease (the "Option Period") on the terms and conditions provided herein and subject to the Environmental Indemnification and Environmental Easement Agreement.

7.1.1 The sale of the Premises shall close pursuant to the terms and conditions set forth in the Real Property Sale Agreement (hereinafter the "PSA") attached hereto as Exhibit "F."

7.2 **PURCHASE PRICE:** The Purchase Price for the Premises shall be _____ dollars (\$_____) [**INSERT CURRENT LAND VALUATION CALCULATION**] per square foot plus three percent (3%) per year on each anniversary date of execution of this Lease.

7.3 **TERM OF OPTION:** The Option shall automatically expire upon the expiration of this Lease.

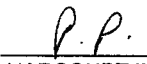
7.4 **EXERCISE OF OPTION:** If Lessee elects to exercise the Option hereunder, it shall notify Lessor by sending written notice to Lessor in accordance with the notice provision herein. The parties shall then finalize the PSA, with all necessary and applicable terms, within ____ days of Lessee's exercise of the Option.

7.4.1 The closing date will be within _____ days from the date Lessee exercises the Option. Upon mutual execution of the PSA, the parties shall then deliver such executed PSA to the closing agent identified in the PSA.

ARTICLE VIII

Miscellaneous Provisions


PORT INITIAL


HARCOURT INITIAL

8.1 **LESSEE WILL OBTAIN PERMITS:** Lessee agrees to obtain and comply with all necessary permits for any leasehold improvement. If Lessee fails to obtain and comply with such permits, then Lessee accepts full responsibility for any and all costs incurred by Lessor, including actual attorneys' fees. In this way, Lessee agrees to be solely responsible for all damages, costs, and expenses incurred as a result of Lessee's failure to fully comply with any necessary permit process and requirements.

8.2 **LIENS:** Lessee agrees to keep the Premises described herein free and clear of all liens and charges whatsoever. Lessee shall not allow any mechanics' and materialmen's, or other liens to be placed upon the leased Premises. If such a lien is placed or recorded, Lessee shall cause it to be discharged of record, at its own expense, within ten (10) days of Lessor's demand. Failure to comply with Lessor's demand within ten (10) days shall be a default under the terms of this Lease.

8.3 **INDEMNIFICATION AND HOLD HARMLESS:** The Lessee agrees that it will defend (with legal counsel acceptable to Lessor), indemnify and hold harmless the Lessor, its officers, employees and agents from any and all demands, claims, judgments or liability for loss or damage arising as a result of accidents, injuries or other occurrences on the Premises or on Lessor's property, occasioned by either the negligent or willful conduct of the Lessee, its agents, or any person or entity holding under the Lessee, or any person or entity on the Premises or on the Lessor's property as a result of Lessee's activity, regardless of who the injured party may be.

8.4 **LAWS AND REGULATIONS:** Lessee agrees to conform to and abide by all lawful rules, codes, laws, regulations and Port policies in connection with its use of the Premises and the construction of improvements and operation of Lessee's business thereon and not to permit said Premises to be used in violation of any lawful rule, code, law, regulation, Port policy, or other authority.

8.4.1 Lessee's obligations herein shall include, but in no way be limited to, the obligation to comply with all state and federal environmental laws and regulations. The Lessee covenants and agrees that it will indemnify and hold harmless the Lessor from any fine, penalty, or damage which may be imposed by any lawful authority, which may arise as a result of the Lessee's failure to comply with the obligations of this paragraph.

8.5 **WASTE AND REFUSE:** Lessee agrees not to allow conditions of waste and refuse to exist on the Premises and to keep the Premises in a neat, clean, and orderly condition and to be responsible for all damages caused to the Premises by Lessee, its agents or any third party on the Premises.

8.6 **TAXES AND ASSESSMENTS:** Lessee agrees to pay all taxes assessed against the leasehold interest and a pro rata share of any assessments made against the Premises for installation of public utility systems, based upon a reasonable overall sharing program among all properties within the assessment area.

8.7 **SIGNS:** No signs shall be installed without the prior written permission of Lessor.

8.8 **EQUAL OPPORTUNITY:** Lessee agrees that in the conduct of activities on the Premises, it will be an equal opportunity employer in accordance with Title VII of the Civil Rights Act of 1964, 42 USC §2000 et seq. and shall comply with all requirements of the ADA.

8.9 **LITIGATION:** In the event Lessor shall be made a party to any litigation commenced by or against Lessee (other than actions commenced by Lessee or Lessor concerning the interpretation or enforcement of any of the terms and conditions of this Lease), then Lessee agrees to pay all costs, expert witness fees, and attorneys' fees, including all customary charges incurred by Lessor in connection with such litigation. However, if Lessor is made a party defendant and Lessee undertakes the defense of the action on behalf of Lessor, then no obligation for costs and attorneys' fees will be chargeable against Lessee by Lessor for costs arising out of such undertaking. Lessee also agrees to pay all costs and attorneys' fees incurred by Lessor in enforcing any of the covenants, agreements, terms and provisions of this Lease.

8.10 **ASSIGNMENT OF LEASE:** Lessee shall not assign, rent or sublease any portions of this Lease or any extension thereof, without the prior written consent of Lessor, and no rights hereunder in or to said Premises shall pass by operation of law or other judicial process or through insolvency proceedings. Otherwise, the rights and obligations hereof shall extend to and be binding upon their respective successors, representatives and assigns, as the case may be. Lessee shall furnish Lessor with copies of all such subassignment, sublease, or rental documents. For the purposes of this Lease, any change of ownership including sale, liquidation or other disposition of some or all of the corporate stock will be considered an assignment. Should the Lessor consent to an assignment made by the Lessee for the purposes of obtaining a loan or other consideration from a third party, then the Lessor's consent shall be made in accordance with the consent to assignment document used by Lessor for these specific assignments. A copy of this consent form shall be provided by Lessor upon request of Lessee.

8.10.1 If Lessor refuses to consent to an assignment, Lessee's sole remedy shall be the right to bring a declaratory action to determine whether Lessor was entitled to refuse such assignment under the terms of this Lease.

8.10.2 No consent by Lessor to any assignment or sublease shall be a waiver of the requirement to obtain such consent with respect to any other or later assignment or sublease. Acceptance of Rent or other performance by Lessor following an assignment or sublease, whether or not Lessor has knowledge of such assignment or sublease, shall not constitute consent to the same nor a waiver of the requirement to obtain consent to the same.

8.10.3 A minimum handling and transfer fee ("Transfer Fee Deposit") of Three Hundred Dollars (\$300.00) shall be payable by Lessee to Lessor if Lessee requests the Lessor's consent to a proposed assignment (including an assignment to a creditor for security purposes), sublease or modification of this Lease. The Lessor reserves the right to increase the Transfer Fee Deposit up to Five Hundred Dollars (\$500.00) if, in Lessor's sole judgment, the transaction will necessitate the expenditure of substantial time and expense on the part of Lessor. Such Transfer Fee Deposit shall be submitted to the Lessor at the same time that Lessee requests the Lessor's consent to the proposed sublease, assignment or modification. If the Lessor's reasonable and customary attorneys' fees exceed the Transfer Fee Deposit, then Lessee agrees to reimburse the Lessor for such additional reasonable and customary attorneys' fees.

Lessee's failure to remit this additional amount within sixty (60) days of the mailing of the notice of such charges shall constitute a default under this Lease. Notwithstanding anything to the contrary herein, the Lessee shall not be obligated to reimburse the Lessor in any case where an assignment, sublease, or modification is not accomplished due to total refusal on the part of Lessor to grant its consent to the request.

8.10.4 If, pursuant to any assignment or sublease, Lessee receives rent, either initially or over the term of the assignment or sublease, in excess of the Rent called for hereunder, or in the case of a sublease, a portion of the Premises in excess of such Rent fairly allocable to such portion, after appropriate adjustments to assure that all other payments called for hereunder are appropriately taken into account, Lessee shall pay to Lessor, as additional rent expenses hereunder, fifty percent (50%) of the excess of each such payment of Rent received by Lessee after its receipt.

8.10.5 If this Lease is assigned, or if the underlying beneficial interest of Lessee is transferred, or if the Premises or any part thereof is sublet or occupied by anybody other than Lessee, Lessor may collect Rent from the assignee, subtenant or occupant and apply the net amount collected to the Rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of this covenant, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Lessee from the further performance by Lessee of covenants on the part of Lessee herein contained. No assignment or subletting shall affect the continuing primary liability of Lessee (which, following assignment, shall be joint and several with the assignee), and Lessee shall not be released from performing any of the terms, covenants, and conditions of this Lease.

8.10.6 Notwithstanding any assignment or sublease, or any indulgences, waivers or extensions of time granted by Lessor to any assignee or sublessee or failure of Lessor to take action against any assignee or sublease, Lessee hereby agrees that Lessor may, at its option, and upon not less than three (3) days' notice to Lessee, proceed against Lessee without having taken action against or joined such assignee or sublessee, except that Lessee shall have the benefit of any indulgences, waivers, and extensions of time granted to any such assignee or sublessee.

8.11 **REIMBURSEMENT FOR EXPENSES:** Should the Lessee seek to assign this lease to any creditor as security for a loan or forbearance from such creditor, or attempt to otherwise assign, sublease, or modify this agreement between the parties during the term of this lease or any renewal thereof, then the Lessee agrees to reimburse the Lessor for all customary and reasonable attorney fees paid by the Lessor for the review and opinion of such attorney acting on the request. A failure to reimburse the Lessor within sixty (60) days of the mailing of notice of such charges shall constitute a default under the terms of this lease. Notwithstanding anything to the contrary herein, the Lessee shall not be obligated to reimburse the Lessor in any case where an assignment, sublease, or modification is not accomplished due to total refusal on the part of the Lessor to grant its consent to the request.

8.12 **TERMINATION:** Upon termination of this Lease or any extension thereof, whether by expiration of the stated term or sooner termination thereon, as herein provided, Lessee shall surrender to Lessor the Premises peaceably and quietly. Lessee shall restore the Premises to

the condition existing at the time of initiation of this Lease, except for: (i) normal wear and tear, and (ii) any improvements, which Lessor permits to remain on the Premises.

8.13 DEFAULT, CROSS DEFAULT, AND REMEDIES: Failure to pay Rent or any other monetary obligations by the first (1st) day of each month shall constitute a default under the terms of this Lease. If Lessee is in default in the payment of Rent or other monetary obligations occurs then, at Lessor's sole option, upon three (3) days' written notice, this Lease may be terminated and Lessor may enter upon and take possession of the Premises. Without limiting the generality of the foregoing, Lessee expressly authorizes Lessor to obtain a prejudgment writ of restitution in the event of default by Lessee. This remedy is in addition to and is not exclusive of any other remedies provided either by this Lease or by law.

8.13.1 If Lessee shall fail to perform any term or condition of this Lease, other than the payment of Rent or other monetary obligations, then Lessor, upon providing Lessee thirty (30) days' written notice of such default, may terminate this Lease and enter upon and take possession of the Premises. This remedy is in addition to and is not exclusive of any other remedies provided either by this Lease or by law.

8.13.2 If within any one (1) year period, Lessor serves upon the Lessee three (3) notices requiring Lessee either to: (i) comply with the terms of this Lease or to vacate the Premises or (ii) pay Rent or vacate (collectively referred to herein as "Default Notices"), then Lessee shall, upon a subsequent violation of any term of this Lease by the Lessee (including failure to pay Rent), be deemed to be in unlawful detainer, and Lessor may, in addition to any other remedies it may have, immediately terminate the Lease and/or commence an unlawful detainer action without further notice to Lessee.

8.13.3 The following shall also constitute a default under the terms of this Lease: A default by Lessee under any other agreement or lease with the Lessor; insolvency of Lessee; an assignment by Lessee for the benefit of creditors; the filing by Lessee of a voluntary petition in bankruptcy; an adjudication that Lessee is bankrupt or the appointment of a receiver of the properties of Lessee; the filing of an involuntary petition of bankruptcy and failure of Lessee to secure a dismissal of the petition within thirty (30) days after filing; attachment of or the levying of execution on the leasehold interest; and failure of Lessee to secure a discharge of the attachment or release of the levy of execution within ten (10) days.

8.13.4 A default under this Lease shall constitute a default under any other lease or agreement, which Lessee has with Lessor (hereinafter such other agreements shall be referred to as "Collateral Agreements"). Likewise, any material breach or default under a Collateral Agreement shall be deemed a material breach or default under the terms of this Lease. If a Collateral Agreement is terminated for a material breach or default of Lessee, then Lessor shall, without limiting any other remedies it may have, be entitled to terminate this Lease upon five (5) days' written notice to Lessee.

8.13.5 In addition to the foregoing remedies specified in this article, Lessor may exercise any remedies or rights under the laws of the State of Washington. Under no circumstances shall Lessor be held liable in damages or otherwise by reason of any lawful re-entry or eviction. Lessor shall not, by any re-entry or other act, be deemed to have accepted

any surrender by Lessee of the Premises or be deemed to have otherwise terminated this Lease or to have relieved Lessee of any obligation hereunder.

8.13.6 Lessor shall be under no obligation to observe or perform any covenant of this Lease after the date of any material default by Lessee unless and until Lessee cures such default.

8.13.7 A fee of Five Hundred Dollars (\$500.00) shall be assessed to Lessee for each Default Notice issued to Lessee to defray the costs associated with preparing, issuing, and serving such notice. This fee shall be payable on the first (1st) day of the month following the issuance of the notice.

8.14 **NON WAIVER:** Neither the acceptance of Rent nor any other act or omission of Lessor after a default by Lessee shall operate as a waiver of any past or future default by Lessee, or to deprive Lessor of its right to terminate this Lease, or be construed to prevent Lessor from promptly exercising any other right or remedy it has under this Lease. Any waiver by Lessor shall be in writing and signed by Lessor in order to be binding on Lessor.

8.15 **NOTICES:** Any notice, demand, request, consent, approval or communication that either party desires or is required to give to the other party shall be in writing addressed to the other party at the addresses as follows:

TO LESSOR: Port of Bellingham

TO LESSEE: Harcourt Bellingham LLC

or such address as may have been specified by notifying the other party of the change of address. Notice shall be deemed served on the date of actual delivery or the first attempted delivery as shown on the return receipt if mailed with the United States Postal Service by certified mail, return receipt requested.

8.16 **AGENT FOR SERVICE:** Lessee agrees that if Lessee is in unlawful detainer, pursuant to Chapter 59.12 RCW, and Lessor is unable to serve Lessee with the unlawful detainer pleadings after one service attempt, then Lessor shall be deemed to have complied with the service requirements of Chapter 59.12 RCW if it mails such pleadings via certified mail to the address set forth in the notice section of this Lease and posts such pleadings in a conspicuous location on the Premises. Service shall be deemed complete on the third (3rd) day following the day of posting or day of mailing, whichever is later.

8.17 **SECURITY:** Lessee specifically acknowledges that Lessor has no duty to provide security for any portion of the Premises or surrounding areas. Lessee assumes sole responsibility and liability for the security of itself, its employees, customers, and invitees, and their respective property in or about the Premises. Lessee agrees that to the extent Lessor

elects to provide any security, Lessor is not warranting the effectiveness of any such security personnel, services, procedures or equipment and that Lessee is not relying and shall not hereafter rely on such security personnel, services, procedures or equipment. Lessor shall not be responsible or liable in any manner for failure of any such security personnel, services, procedures or equipment to prevent or control, or apprehend anyone suspected of personal injury or property damage in, on or around the Premises.

8.18 QUIET ENJOYMENT: Lessor acknowledges that it has ownership of the Premises and that it has the legal authority to lease the Premises to Lessee. Lessor covenants that Lessee shall have quiet enjoyment of the Premises during the term of this Lease so long as the terms are complied with by Lessee and subject to Lessor's right of entry onto the Premises as set forth herein.

8.18.1 The Lessor reserves the right to grant easements and other land uses on the Premises to others when the easement or other land uses applied for will not unduly interfere with the use to which the Lessee is putting the Premises, or interfere unduly with the approved plan of development for the Premises. No easement or other land uses shall be granted to third parties, until damages to the leaseholder have been dealt with appropriately, or waiver signed by the Lessee.

8.18.2 Lessee understands that various federal agencies, including the Department of Homeland Security and U.S. Coast Guard, have the authority to restrict access to certain areas on property owned by Lessor in order to counter a terrorist or other threat. Such restrictions could impact Lessee's ability to access the Premises for an indefinite period of time. Since such restrictions on access are outside the control of Lessor, Lessee agrees that such interruptions shall not be deemed a violation of this Lease or the Covenant of Quiet Enjoyment.

8.19 LESSOR MAY ENTER PREMISES: It is agreed that the duly authorized officers or agents of Lessor may enter to view said Premises at any time, and if the business or normal function of Lessor should at any time require that it enter upon the Premises to perform any work or make any improvements, it may do so, but not in such manner as to materially injure Lessee with its normal and usual operation.

8.19.1 The Lessor reserves the right to grant easements and other land uses on the Premises to others when the easement or other land uses applied for will not unduly interfere with the use to which the Lessee is putting the Premises, or interfere unduly with the approved plan of development of the Premises.

8.20 TIME: It is mutually agreed and understood that time is of the essence of this Lease and that a waiver of any default of Lessee shall not be construed as a waiver of any other default.

8.21 INTERPRETATION: This Lease has been submitted to the scrutiny of the parties hereto and their counsel, if desired. In any dispute between the parties, the language of this Lease shall, in all cases, be construed as a whole according to its fair meaning and not for or against either the Lessor or the Lessee. If any provision is found to be ambiguous, the language shall not be construed against either the Lessor or Lessee solely on the basis of which party drafted the provision. If any word, clause, sentence, or combination thereof for any

reason is declared by a court of law or equity to be invalid or unenforceable against one party or the other, then such finding shall in no way affect the remaining provisions of this Lease.

8.22 **HOLDING OVER**: If the Lessee remains in possession of said Premises after the date of expiration of this Lease without Lessor's prior written consent, such holding over shall constitute and be construed as tenancy at sufferance only, at a monthly rent equal to one hundred fifty percent (150%) of the Base Rent owed during the final month of the Term of this Lease and otherwise upon the terms and conditions in this Lease. If Lessee holds over with Lessor's prior written consent, then until such time as a new written Lease is executed by the parties hereto, Lessee shall continue to make payments to Lessor on a month-to-month basis as provided for in this Lease. Such holdover tenancy may be terminated by either party at the end of any such monthly period by sending written notice not less than five (5) days before the end of such period. Such holdover tenancy shall be subject to all terms and conditions contained herein.

8.23 **SURVIVAL**: All obligations of the Lessee, as provided for in the Lease, shall not cease upon the termination of this Lease and shall continue as obligations until fully performed. All clauses of this Lease, which require performance beyond the termination date, shall survive the termination date of this Lease.

8.24 **GOVERNING LAW**: This Lease and the right of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Washington, and the parties agree that in any such action jurisdiction and venue shall lie exclusively in Whatcom County, Washington.

8.25 **ESTOPPEL CERTIFICATES**: At Lessee's request, Lessor agrees to execute and deliver to Lessee or its lender(s), a customary estoppel certificate in a form acceptable to the Lessor which sets forth the following information: (i) the terms and conditions of this Lease, (ii) the status of the Rent payments under the Lease; and (iii) Lessor's knowledge of any breaches or anticipated breaches of the Lease. Lessor shall have no obligation to execute an estoppel certificate, which requests any information other than as set forth above. Lessee agrees to reimburse the Lessor for all attorneys' fees paid by Lessor for the review and opinion of such attorney acting on the request for such estoppel certificate and in negotiating acceptable language in the estoppel certificate. A failure to reimburse Lessor within sixty (60) days of the mailing of notice of such charges shall constitute a default under the terms of this Lease.

8.26 **ATTORNMEN**: In the event the Premises are sold, Lessee shall attorn to the purchaser upon the sale provided that the purchaser expressly agrees in writing that, so long as Lessee is not in default under the Lease, Lessee's possession and occupancy of the Premises will not be disturbed and that such purchaser will perform all obligations of Lessor under the Lease.

8.27 **ENTIRE AGREEMENT**: This Lease contains all of the understandings between the parties. Each party represents that no promises, representations or commitments have been made by the other as a basis for this Lease, which have not been reduced to writing herein. No oral promises or representations shall be binding upon either party, whether made in the past or to be made in the future, unless such promises or representations are reduced to writing in the

form of a modification to this Lease executed with all necessary legal formalities by the Commission of the Port of Bellingham.

8.28 **VALIDATION**: IN WITNESS WHEREOF, Lessor has caused this instrument to be executed by the Port of Bellingham, and this instrument has been signed and executed by Lessee, the day and year first above written.

LESSEE:

LESSOR:

HARCOURT BELLINGHAM LLC

PORT OF BELLINGHAM

By:
Its:

By:
Its:

F:\PORT OF BELLINGHAM\Waterfront District\Master Development Agreement\MDA\Draft Exhibits\March Exhibits\Lease_122914.doc


PORT INITIAL


HARCOURT INITIAL

EXHIBIT "A"
DESCRIPTION OF PREMISES


PORT INITIAL

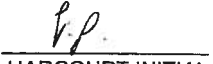

HARCOURT INITIAL

EXHIBIT "B"
MAP OF PREMISES


PORT INITIAL

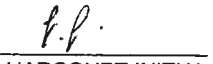
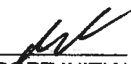

HARCOURT INITIAL

EXHIBIT "C"
CONTAMINATED MATERIALS MANAGEMENT PLAN



PORT INITIAL



HARCOURT INITIAL

EXHIBIT "D"
ENVIRONMENTAL COVENANT



PORT INITIAL



HARCOURT INITIAL

EXHIBIT "E"
ENVIRONMENTAL INDEMNIFICATION AND ENVIRONMENTAL EASEMENT AGREEMENT


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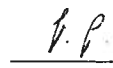

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EXHIBIT "F"
PURCHASE AND SALE AGREEMENT



PORT INITIAL



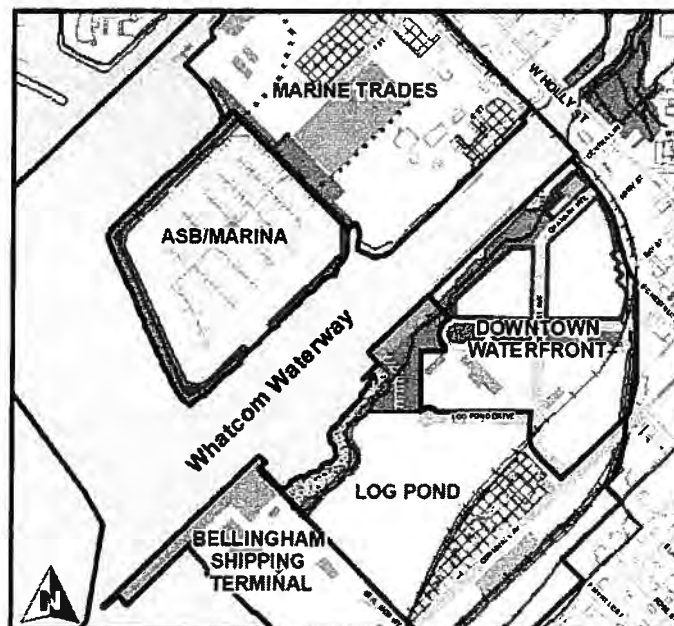
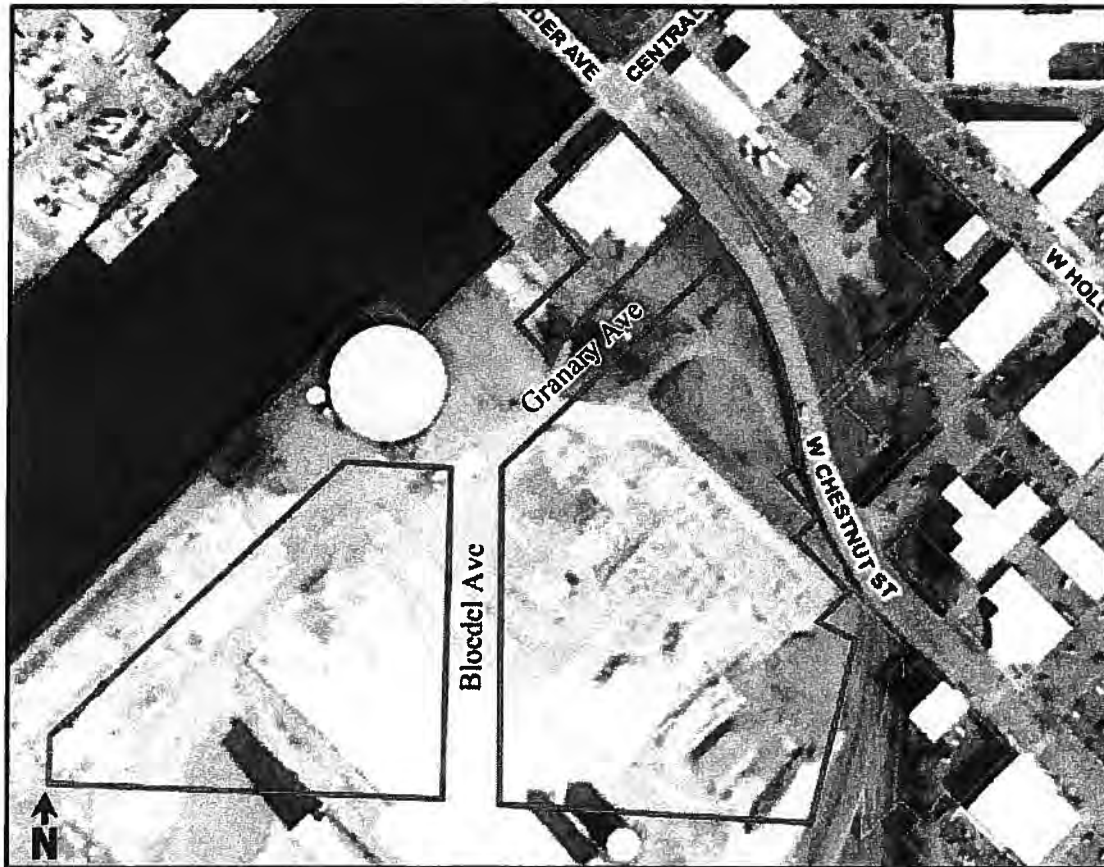
HARCOURT INITIAL

EXHIBIT 11.1

EXHIBIT 11.1
APPRAISAL OF WATERFRONT INITIAL DEVELOPMENT

APPRAISAL OF WATERFRONT INITIAL DEVELOPMENT

Appraisal of
Waterfront Initial Development
Granary Avenue
Bellingham, Washington



McKEE & SCHALKA

REAL ESTATE APPRAISAL SERVICES & CONSULTANTS, INC.

Seattle, Washington

APPRAISAL
of
Waterfront Initial Development
Granary Ave
Bellingham, WA

As of:

May 23, 2014

Authorized by:

Shirley McFearin
Director of Real Estate
Port of Bellingham
Bellingham, WA

Prepared by:

Kenneth Barnes, MAI CRE
Allison Roselle, MAI
Tatiana Butler, Appraiser

MCKEE & SCHALKA

REAL ESTATE APPRAISAL SERVICES & CONSULTANTS, INC.

1200 6th Avenue, Suite 1805, Seattle, Washington 98101
Tel: 206.343.8908 | www.msreal.com | Fax: 206.386.5777

Reference No. 34228

May 30, 2014

Shirley McFearin
Managing Broker
Director of Real Estate/ Port of Bellingham
1801 Roeder Avenue / P.O. Box 1677
Bellingham, WA 98227-1677

Name:	Waterfront Initial Development
Description:	10.8 acres of vacant mixed use land in the new Waterfront District
Address:	Granary Ave
Municipality:	Bellingham, WA
Whatcom County Parcel No.:	Portions of 53139
McKee & Schalka Reference No.:	34228

Dear Ms. McFearin:

We have prepared the attached appraisal report for the subject property. The letter authorizing this report is included in the Addenda. The subject is a 10.8 acre mixed use development site in the new Waterfront District in Bellingham. It is divided into three separate parcels ranging in size from 0.78 acres to 5.5 acres. All of the properties will be planned and improved together by a single developer. The property is currently vacant and unimproved save for a non-contributing older granary building that may be retained by the buyer. This is an appraisal of the fee simple interest in the subject property. The definition of Market Value used in this appraisal is found in the Appraisal Description of the attached report.

The accompanying appraisal has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. It is also subject to the Assumptions, Certification & Limiting Conditions contained in this report, as well as specific assumptions contained herein.

Mr. Kenneth Barnes, MAI, CRE and Tatiana Butler have personally inspected the subject property. Allison Roselle, MAI previously visited the site in 2013. We have all substantially participated in the analysis of this appraisal. As a result of our investigation and analysis, our conclusions are:

<u>Description</u>	<u>Effective Valuation Date</u>	<u>Value Conclusion</u>
Fee Simple Interest		
As Is Market Value - Eastern & Western Sites	May 23, 2014	\$40/sf
As Is Market Value - Granary Site	May 23, 2014	\$25/sf

We note that the value above for the Eastern and Western Sites is for a purchase of both sites at once. If a 2 acre or smaller parcel is sold off we would make a size adjustment upwards so the base value would be \$33/sf, plus the value of the impact fees calculated based upon the square footage or units that the smaller site could accommodate.

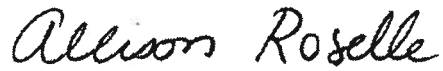
The value estimates are commensurate with an exposure time of about one year.

Respectfully submitted,



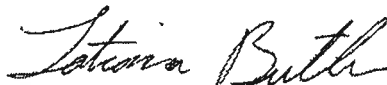
Kenneth Barnes, MAI, CRE

WA-State Certified General Real Estate Appraiser (1100578)



Allison Roselle, Appraiser

WA- State Certified General Real Estate Appraiser (1102038))



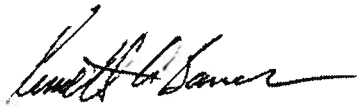
Tatiana Butler

WA State-Registered Appraiser Trainee (1001757)

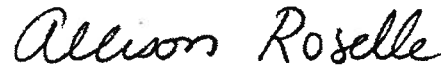
Certification

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

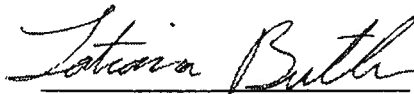
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment. We previously appraised sites immediately adjoining this property in 2013.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- Kenneth Barnes, MAI, CRE and Tatiana Butler have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Kenneth Barnes, MAI, CRE and Allison Roselle, MAI have completed the requirements of the continuing education program of the Appraisal Institute.
- As of the date of this report, Tatiana Butler has completed the Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute



Kenneth Barnes, MAI, CRE
WA State-Certified General Real Estate Appraiser (1100578)



Allison Roselle
WA State-Certified General Real Estate Appraiser (1102038)



Tatiana Butler
WA State-Registered Appraiser Trainee (1001757)

General Assumptions, Limiting Conditions, Disclosure and Use Restriction

The attached report may only be used or reviewed in its entirety. No individual pages, portions, analyses or conclusions may be separated from the complete report or verbally disseminated without transmittal of the entire report. This appraisal is intended for use only by the client and intended users specifically identified in the report, and may not be transferred to any other party without the specific written permission of McKee & Schalka, Inc. Certain aspects of the report (including analysis methodology, spreadsheets, textual formatting and content) are considered the exclusive intellectual property of McKee & Schalka, Inc. All rights are reserved.

The following General Assumptions and Limiting Conditions are supplemented by additional specific assumptions and limiting conditions identified in the report.

It is assumed that there have been no substantial changes to the property between the date of our inspection and the date of the report.

It is assumed that there are no hidden or unapparent conditions of the property, subsoil, structures, or environment (including asbestos, formaldehyde, radon, soil contamination, structural conditions, legal compliance including zoning and Americans With Disabilities Act compliance, title or legal conditions, mineral or other valuable conditions or rights, or unknown soils, hydrological, or environmental factors) that render it more or less valuable. We have no expertise in any of these areas, and we specifically counsel the client to perform additional investigation by qualified experts. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.

The liability of McKee & Schalka, Inc. and its employees is limited to the client only.

The value conclusions are the result of integration of the entire appraisal process, including multiple methodologies, approaches and analyses. Any specific errors or omissions may or may not change the value conclusions.

The appraiser is not required to give further consultation, testimony or attendance in court by reason of this appraisal unless arrangements have been previously made.

The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

The forecasts, projections and estimates contained in this report are based on current market conditions, anticipated short-term supply and demand factors, and a stable economy. These forecasts are, therefore, subject to changes with future conditions. The analyses and conclusions are valid only as of the date of transmittal of the report.

The appraiser has made no survey of the property and assumes no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.

No responsibility is assumed for the legal description or for matters including legal or title considerations. The property is appraised free and clear of any or all liens or encumbrances, unless otherwise stated. Title to the property is assumed to be good and marketable.

Responsible ownership and competent management are assumed.

The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately or in conjunction with any other appraisal.

RESTRICTION UPON DISCLOSURE & USE:

This appraisal is intended for use only by the client and intended users specifically identified in the report, and may not be transmitted or communicated to any other party without the specific written permission of McKee & Schalka, Inc. 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.

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Summary of Important Conclusions

Name of Subject Property:	Waterfront Initial Development
Address:	Granary Ave
Municipality:	Bellingham, WA
Whatcom County Parcel Number:	Sections of 53139
Property Description:	Waterfront Mixed Use land located in the new Waterfront District. The property is divided into three separate development parcels by planned city streets.
Size:	10.8 acres (470,448 sf)
Current Status:	The property is currently vacant and owned by the Port of Bellingham. The Port is evaluating the subject for potential sale to a private developer. Negotiations between the Port and Harcourt Developments Limited for the subject land are currently underway, though pricing and timing of a sale are unknown at this point.
Appraisers:	Kenneth Barnes, MAI, CRE Allison Roselle, MAI Tatiana Butler, Appraiser
McKee & Schalka Reference No:	34228
Effective Date of Appraisal:	May 23, 2014
Date of Report Preparation:	May 30, 2014
Property Rights Appraised:	Fee Simple Interest
Purpose and Use of Appraisal:	Estimate market value to assist with future decisions regarding the subject
Signed Certification:	Attached
Assumptions and Limitations:	Attached
Highest and Best Use:	Redevelopment of the site with mixed-use commercial and residential in line with the zoning.
Zoning:	Waterfront Mixed Use per City of Bellingham

Market Value - Fee Simple Interest - Eastern & Western Sites:	\$40/sf
Market Value - Fee Simple Interest - Granary Site:	\$25/sf

Comments

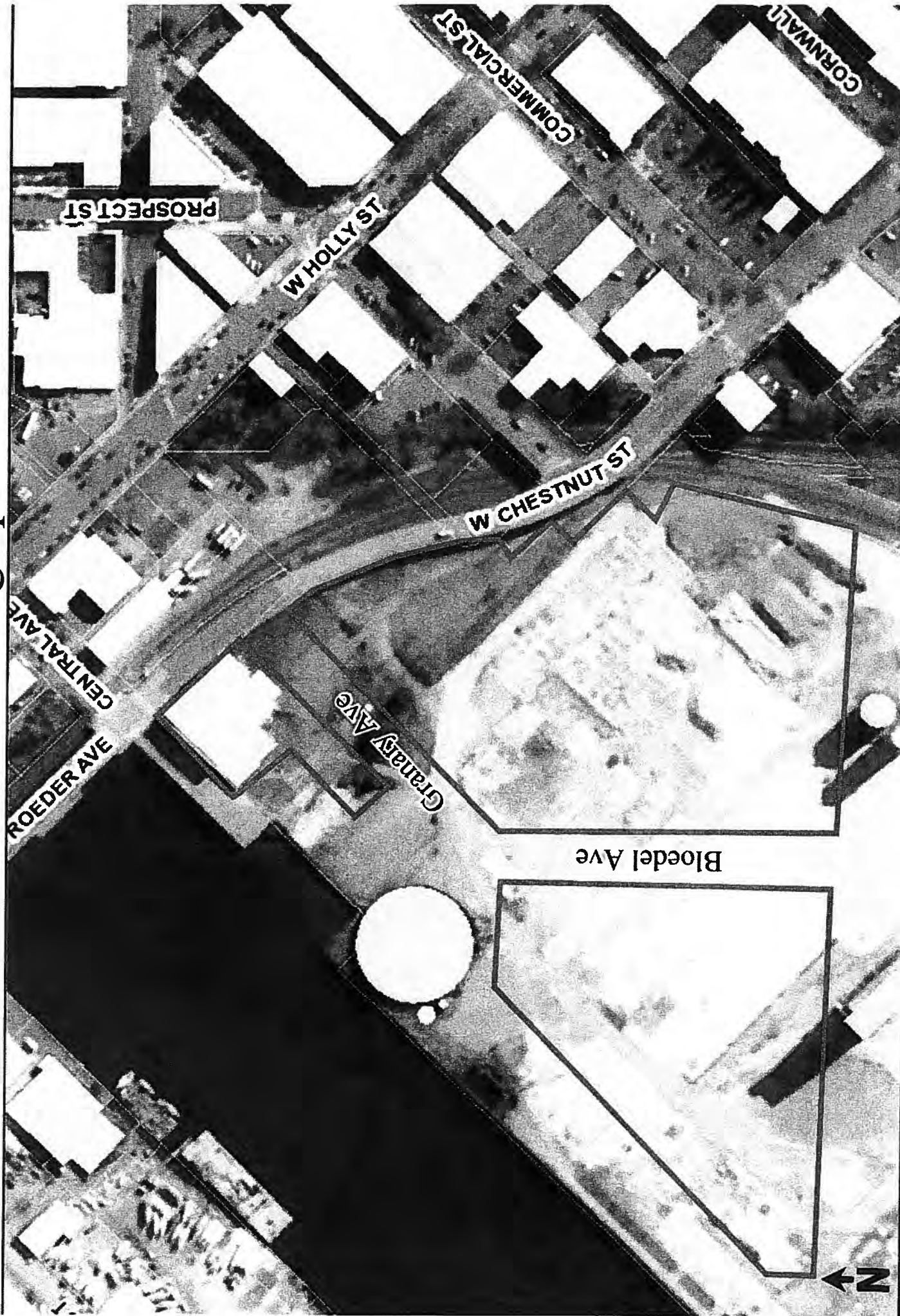
The subject consists of three development sites totaling 10.8 acres on the Bellingham waterfront in the newly designated Waterfront Mixed-Use District. The area was formerly used as the Georgia Pacific paper mill but is the subject of a citywide planning effort to redevelop the waterfront with a mix of uses, including multi-family residential, office, retail, institutional and industrial uses. The subject represents the first phase of development and is located at the north end of the district. It is presently owned by the Port of Bellingham, and negotiations to sell it to a developer are underway. The property is known to be contaminated by its former

use as a paper mill, but the Port is responsible for the environmental clean-up of the property, and will retain this responsibility following a sale.

Given the subject's prime location on the downtown waterfront and current market conditions, we have concluded that the highest and best use is development with residential or mixed-use improvements. Given the size of the property, development is likely to occur in phases. We note that a portion of the subject is improved with an old granary building. This parcel is within the Shoreline Master Plan (SMP) area and is subject to stricter zoning regulations than the rest of the property. Because of these regulations and the site's small size, it is likely that retaining the existing improvement on this portion of the subject is the highest and best use. The improvements are seen as contributing minimal value but more importantly, maintain the value of the underlying land.

We have used the Sale Comparison Approach to valuation. The sale comparisons include several local Bellingham comparisons as well as similar waterfront locations from around the Puget Sound Region.

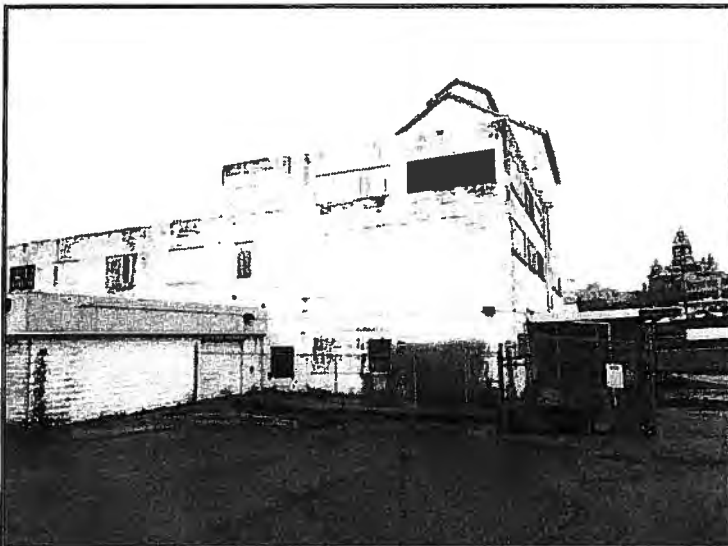
Aerial Photograph



Subject Photographs



View of the current entrance to the site from Central Ave. This roadway will be replaced with a waterfront park. The Granary building is visible to the right of the frame.



This shows the Granary building looking north. This building is not considered to have contributory value to the property, although it may be retained and remodeled.



This is a view looking northwest to the Granary site from the Eastern site. W Chestnut Street is visible to the right of the frame. Current development plans call for an elevated roadway to extend from W Chestnut down past the Granary building. This road will be called Granary Ave. It forms the northern boundary of the Eastern site.



View of the the southeastern side of the Eastern site. This is the largest of the three subject sites at roughly 5.46 acres. The tile tanks form the southern boundary of this section of the subject. These are expected to be retained as a feature of the parkland that surrounds the subject.



This shows the majority of the Eastern site. The elevated W Chestnut St, visible to the upper left of the frame, can be used to illustrate the expected elevation of the roads which will bisect the subject. These will decesend roughly 30 ft down from the existing road. Port authorities expect a this area to accommodate at least one floor of below grade parking.



This shows the Western parcel. Like the Granary parcel, it is also located along the Watcome Waterway. This parcel is not subject to the Shoreline Master Plan however.



View of the Western site facing south.



View from the Western site facing northeast to the Granary Site. Bloedel Ave will run along the right of the frame and connect up to Granary Ave. The Watcom Waterway is located out of the frame to the left.



This shows the future beach area adjacent to the Granary site. It is not part of the subject.

Appraisal Description

Identity of Property

The subject property consists of 10.8 acres of vacant mixed use land within the proposed Waterfront District in Bellingham, WA. It is divided into three sites by planned public roads. The proposed Granary Ave E separates the Eastern and Granary sites. The proposed Bloedel Ave will separate the Western and Eastern sites. Please see the exhibits throughout this report for our understanding of the subject boundaries. There is no address in place for these parcels as of yet.

Legal Description

Our understanding of the subject property boundaries is represented on the "Aerial Photograph" exhibit at the beginning of this section as well as the "Site Map" exhibit at the beginning of the Property Description section. The sites are currently associated with the Whatcom county parcel 53139; at the time of sale, we expect a lot line adjustment to create three new parcels for the subject.

Easements and Other Restrictions

We have not been provided with a title report for the subject property and assume that there are no easements or other restrictions which encumber the property to a degree that the value would be impaired.

Purpose of Appraisal

The purpose of this appraisal is to estimate the Market Value of the subject property. The following definition of Market Value is found under Advisory Opinion 22 (AO-22) in The Uniform Standards of Professional Appraisal Practice, 2014-2015 Edition, Page A-75:

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

- (1) Buyer and seller are typically motivated;*
- (2) Both parties are well informed or well advised and acting in what they consider their own best interests;*
- (3) A reasonable time is allowed for exposure in the open market;*

- (4) *Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and*
- (5) *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*

This definition is consistent with Code of Federal Regulations, Title 12, Part 34, Subpart C, 34.42(g), August 24, 1990.

Client and Intended User

The client and intended user of this appraisal is the Port of Bellingham.

Intended Use of Appraisal

The intended use of this appraisal is to assist the intended users with decisions regarding the subject property.

Property Interest Appraised

The subject is currently vacant, and this report addresses the fee simple interest in the property.

Unavailability of Information

We have not been provided with an environmental report, a hydrologic, or soils report. We are not experts in these areas, and generally rely on the technical reports of qualified personnel. We specifically assume that there are no unapparent conditions which affect the value or utility of the property.

Assumptions and Limiting Conditions

This appraisal is subject to the Assumptions and Limiting Conditions found at the beginning of this report, as well as the assumptions in this section. The appraisal is also subject to any extraordinary assumptions and/or hypothetical conditions named herein. We note that the use of extraordinary assumptions and/or hypothetical conditions might have affected the appraiser's opinions or conclusions.

We assume that all provisions of the Interlocal Agreement for Facilities dated 12.18.13 will be implemented. Specifically, it is assumed that the City of Bellingham will construct Whatcom Waterway Park, the first phase of the Commercial Street Green Park, Granary and Bloedel Avenues through the site, and interim Laurel Street to Cornwall Avenue, plus associated utilities over the next several years in conjunction with site development.

Scope of Work

The scope of this appraisal assignment is consistent with the Client Agreement. In the course of this appraisal assignment, we inspected the subject in the company of Sylvia Goodwin, the Port of Bellingham's Planning and Development Director, and with Terry Ilahi, the Port's Real Estate Analyst/Representative. We discussed the existing condition of the site, as well as the plans for improvement following environmental remediation and ongoing plans and negotiations with Harcourt Developers to improve the site. We also consulted knowledgeable, active brokers in the market regarding recent activity in the surrounding land markets.

Our research of the subject included a review of a variety of documents, including assessor's records and public records about the Master Plan for the Waterfront District, the Bellingham zoning code, Waterfront District Planned Action Ordinance, among others. We also visited the subject neighborhood and researched trends and public announcements about the subject and the neighborhood. We surveyed several properties that are considered to be comparable to the subject, including waterfront commercial and mixed use sites throughout the region and local Bellingham properties. We valued the subject using the Sale Comparison Approach, using relevant transactions of comparable vacant or redevelopment sites. Overall, the scope of the research and analysis associated with this appraisal is considered to be adequate to support the value conclusions.

Competency

We are competent to appraise the subject property. We have considerable experience in the valuation of similar waterfront development sites in the Puget Sound Region and experience working in Bellingham, specifically in the Waterfront District. Please refer to the Scope of Work, the Appraisers' Qualifications and Experience data in the Addenda, and the research and presentation embodied in this report for verification of our competency.

Ownership of Property

The current owner of the subject property is the Port of Bellingham.

History of Property and Current Status

The subject has not transferred in the last three years. We are not aware of any listings, options, or direct indications of value for the subject property, although we are aware that the Port is currently in sale negotiations with Harcourt Developments Limited. At this time, no details of pricing or timing are available.

Exposure Time

The value conclusions in this report are as of the effective dates of this appraisal, and assume that a "reasonable exposure time" has preceded those effective dates. Thus the value

conclusions are consistent with expected transaction on the effective date of the appraisal after prior exposure.

We conclude that the subject land would be marketable if available for sale.

First and foremost, the subject represents a unique property of which there is very little supply. The waterfront access and view potential, proximity to downtown Bellingham, and planned governmental investment in the immediate area would all increase the marketability of the subject. Furthermore, there is clear evidence of demand for the subject land. On May 15, 2013, the Port brought its first Waterfront District site, the subject, to the marketplace to attract developers. The Port issued a Request for Proposals (RFP) for the subject with a mid-July deadline. The Request for Information (RFI) went out before the RFP and received nine responses, three of which wanted the property with the existing granary building and six wanted the vacant pieces. The Port received strong proposals from three development groups; Williams/Dame & Associates, Uniting Creatives/Four Pillars, and Harcourt Developers Limited. At this time, negotiations are primarily underway with Harcourt Developers, which reportedly plans to develop the property to the maximum extent allowed by the zoning. This recent activity on the site definitively exhibits demand for the subject.

Additional indications come from several recent development site sales in Bellingham as well as throughout the region, particularly for apartment development. The local Bellingham sales and listings reflect exposure time upward of a year and half; however, these sites are all inferior to the land at the waterfront in the area, and we would expect a shorter marketing time for land in the Waterfront District.

After consideration of all of these factors, it is our conclusion that a reasonable average exposure time for the subject property would be about one year, and the value conclusions of this report are consistent with that period.

Date of Value Estimate

May 23, 2014

Date of Appraisal Preparation

May 30, 2014

Waterfront District

Neighborhood Description

Western Washington

The subject is located in Western Washington, north of the Seattle Metropolitan Area near the Canadian border. The Seattle Metropolitan Area is the central focus of economic activity for the entire Western Washington region and is the largest metropolitan area in the state. The Seattle Metropolitan Area encompasses all of the urbanized areas within King County and is located in the middle of a five-county area often referred to as the Central Puget Sound Region. The Seattle Metropolitan Area boundaries extend from Everett in the north to Tacoma in the south with Puget Sound to the West and the Cascade Mountains to the east.

Regional Overview

We have included a description of Whatcom County in the addenda of this appraisal. Essentially, both the population and the economic base of the county are expanding. The economy of the area is impacted by the status of the Canadian economy and the relationship of the two countries' currencies. Overall, growth and development are expected to continue along the I-5 corridor over the long-term.

The subject property is located within the City of Bellingham, a little under two hours north of Seattle, and about thirty minutes south of the Canadian/U.S. Border. The City of Bellingham is also the largest city and largest commercial and retailing center in Whatcom County. The subject is located about two miles west of Interstate-5, which is the primary north/south route for vehicular traffic both within western Whatcom County and for traffic passing through Whatcom County. Seattle is located 90 miles south of Bellingham via Interstate-5, and downtown Vancouver, British Columbia is 55 miles north of Bellingham via Interstate-5 and connecting Canadian freeways.

Whatcom County & Bellingham Population and Employment Trends

The city of Bellingham is the most densely populated and largest population center in the county. The Whatcom County Census Tract Map provides information on the population of the areas surrounding the subject. The population in the subject's census tract increased from 6,876 in 2000 to 9,737 in 2010, a change of over 40% in ten years. The census tract immediately to the east of the subject's saw an increase of over 55% in that time, and the tract to the south increased by 25%. The total population in Whatcom County increased from 127,780 in 1990 to 166,814 in 2000 (State of Washington estimate), and then to 201,140 in 2010. This represents an increase of 20.6% over the past decade. The 2013 Population Estimates released by The US Census Bureau reflect continued growth, with the most recent estimate of 206,353 people as of 2013. We expect the population of Whatcom County as a whole to continue to grow gradually and we expect the population in and around Bellingham in particular to continue to grow as well.

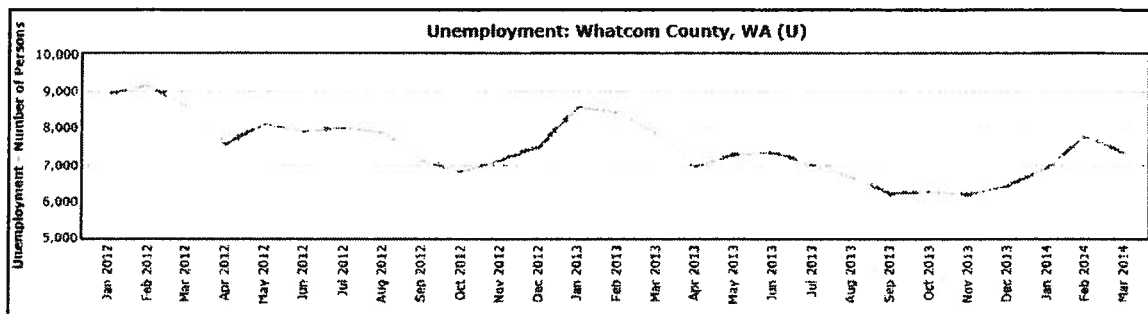
Census data indicate that from 2000 to 2010, Bellingham grew in line with the county as a whole. The 2013 population estimate of 82,310 was up about 2% from the 2010 census figure of 80,885. The population within Bellingham represents approximately 40% of the entire Whatcom County population, and is the largest city in the county. The subject's census tract is among the fastest-growing in the entire county. Generally, areas on the outskirts of Bellingham's city center, particularly to the north and east, have seen rapid population growth in the last decade. Smaller municipalities within Whatcom County have also experienced significant growth over the ten year period, including Blaine, Everson, Ferndale, Lynden, Nooksack, and Sumas. Ultimately, Whatcom County is growing at a higher rate than Washington State as a whole. Additional population growth details are found within the Whatcom County Area Description, located within the Addenda.

The six largest employers in Whatcom County are government related. Western Washington University is the largest employer with 2,235 employees. St. Joseph Hospital is the second largest employer with 1,757 employees. The Bellingham School District and Whatcom County hold the 3rd and 4th rank with 1,651 and 930 employees respectively. The Ferndale School District and City of Bellingham hold the 5th and 6th rank with 910 and 858 employees.

Since hitting a low of just 4.20% in 2007, the unemployment rate in Whatcom County increased over the course of the recession, and now appears to be decreasing slowly, although it is not yet at pre-recession levels. Data provided by the Bureau of Labor Statistics reflects a current unemployment rate in Bellingham of 7.1%, as compared to the Washington State rate at 6.3%. Please see the table below which shows average employment statistics in Whatcom County since 2005. The main thing to note about this table is that total employment has been relatively constant since 2010, with no growth.

Whatcom County Employment & Unemployment

<u>Year</u>	<u>Total Employment</u>	<u>Total Unemployment</u>	<u>Unemployment Rate</u>
2005	97,710	5,160	5.02%
2006	98,540	4,660	4.51%
2007	101,320	4,440	4.20%
2008	103,750	5,430	5.00%
2009	100,508	8,642	7.90%
2010	97,250	9,380	8.80%
2011	95,270	8,670	8.30%
2012	97,412	7,948	7.54%
2013	96,572	7,136	6.90%



Development Trends

Over the last few years, several industrial parks have been developed along Interstate-5 at Ferndale and north of Ferndale towards Blaine. A number of small to medium sized manufacturing facilities have been constructed, many of these being branches of Canadian firms. The effects of the U.S./Canada Free Trade Agreement have resulted in economic development along this corridor between Bellingham and Canada.

A significant proposed development that is currently in active development in Whatcom County is the new multi-modal marine terminal that is proposed by SSA Marine and will be part of the Cherry Point industrial complex. Development had been proposed and the major development permit and shorelines substantial development permits were in place, particularly to allow the dock to be constructed. We are aware that recent rulings by Whatcom County will require new permits to be acquired that will reflect the greater scale of the improvements currently proposed. Progress is presently stalled as BNSF and SSA review the required environmental study and its costs. Once these are signed off on, the review process is expected to take between one and two years.

The large scale improvements that are currently proposed were submitted to the county on February 28, 2011 by SSA Marine, which is one of the two or three largest seaport builders and operators in the world. It filed permit applications with the County to build a huge bulk-commodity shipping port. The dimensions of the port, called Gateway Pacific Terminal, are:

- Capacity for shipping 48 million tons of coal per year, along with another 8 million tons of closed storage commodities such as wheat and potash
- A rail system to accommodate 125-car coal trains, expanding to 150-car trains over time
- A wharf measuring 2,980 feet, to berth three "cape size" vessels, the largest class of general freighters afloat, displacing up to 250,000 tons
- A conveyor system to move coal 1,250 feet, from landside storage areas directly to the holds of the ships

According to published reports, anywhere from nearly half up to two thirds of the 1,091 acre site will remain permanently natural and serve as a buffer.

Also in recent years, major retail chains and retail developers have sought out land adjacent to I-5 for new shopping center facilities. A major commercial project known as Pioneer Plaza was planned for the southeast quadrant of I-5 and Main St in Ferndale. This is a 1,100,000 development proposed on 98-acres. The plans call for retail, office, residential, entertainment and recreational facilities. There is a 65,000 sf supermarket in the site plan drawings in addition to a cinema, restaurant pads, and 100,000 sf of office space, a post office, community center, hotel, conference center, 40-assisted living units and other anchor retail sites. The shopping center would have excellent freeway visibility and good access. It is our understanding that this project is on hold indefinitely. The proposed development was previously listed on the market for sale at the end of 2008. While the development status is unclear, the project does not appear to be moving forward at this time, though it may arise at some point in the future.

Waterfront Initial Development

Whatcom County Growth and Land Statistics

Whatcom County Forecast Growth by 2022					
City	New Population	New Retail Jobs	New Ind'l Jobs	New Comm'l Jobs	Househol
Bellingham	29,781	6,524	4,923	15,691	2.28
Blaine	1,554	222	276	806	2.17
Everson	1,263	28	175	0	2.80
Ferndale	5,727	467	478	781	2.66
Lynden	6,267	651	465	1,300	2.51
Nooksack	916	19	7	4	2.88
Sumas	509	17	84	22	2.39
Columbia Valley	2,009	70	1	29	3.23
Point Riberts	411	69	19	50	2.15
Birch Bay	2,297	49	18	275	2.28
Whatcom County Totals & Averages:	50,734	8,116	6,446	18,958	2.41

Forecast Demand for Developable Land									
City	Residential (Acres)				Commercial (Acres)				2007
	2007	2012	2017	2022	2007	2012	2017	2022	
Bellingham	984.0	1,814.0	2,635.0	3,438.0	114.9	234.7	359.2	489.2	60.6
Blaine	71.0	133.0	194.0	251.0	7.2	14.5	22.2	30.2	2.8
Everson	38.0	75.0	115.0	158.0	9.7	0.2	0.6	1.1	3.5
Ferndale	216.0	399.0	579.0	755.0	9.7	19.9	30.4	41.5	5.3
Lynden	251.0	462.0	671.0	876.0	14.8	30.2	46.2	62.9	6.3
Nooksack	25.0	50.0	79.0	112.0	0.2	0.5	0.7	1.0	0.1
Sumas	18.0	36.0	54.0	75.0	0.3	0.6	1.0	1.3	0.7
Columbia Valley	62.0	116.0	169.0	218.0	2.6	3.1	3.6	4.1	0.0
Point Riberts	19.0	36.0	52.0	67.0	1.0	2.2	3.3	4.5	0.3
Birch Bay	100.0	188.0	273.0	353.0	2.2	4.4	6.6	9.0	0.3
Whatcom County Totals:	1,784	3,309	4,821	6,303	163	310	474	645	80
Bellingham Total by 2022:	8,871	<i>Residential Acres</i>				1,198	<i>Commercial Acres</i>		510 <i>In</i>

*Data from Whatcom County Population and Economic Forecasts 2002-2022.

Central Business District Neighborhood

The Central Business District (CBD) is Bellingham's core downtown area and is situated along the central waterfront. It is the dominant commercial, civic, and financial center of the community, and has supported a variety of land uses over time. The CBD includes a collection of smaller neighborhoods, each with distinct features. The Old Town area is heavily influenced by the presence of the Port of Bellingham and the Commercial Core Area is one of the prime retail locations in the city. We note that in the late 1980s, many major retailers left the downtown area for the Bellis Fair regional mall. The subject is situated along the waterfront. There are many city and county office buildings in this area, along with the Post Office and Public Library. Additionally, this area is well-served by the Whatcom Transportation Authority, which provides high-frequency bus service to the neighborhood.

Waterfront District Planning

The City of Bellingham and the Port of Bellingham are collaborating to guide redevelopment of 237 acres of Bellingham's downtown waterfront. The long-term vision for this former mill site is a new mixed-use neighborhood, featuring residential, commercial, light industrial and institutional uses, as well as parks, trails and a healthy shoreline. Since 2005, community members and dedicated advisory groups have helped shape proposed plans for this area. The Port solicited a number of development proposals in July 2013, and has recently begun a negotiation process with Harcourt Developments Ltd for the transaction of the three subject parcels. This will be a four month process with a deadline of June 8th according to the Whatcom Business Alliance where both parties will further research the other and determine the feasibility of the proposed development. The proposed development is for eleven acres which include the 100-year old Granary Building. This area would be the first section to be developed out of district. The current plans for the district include a mix of retail, office and residential buildings, as well as a 'community learning center' for Western Washington University. The subject sites would include residential, office, and retail uses in this first phase of development.

Goals of the Master development plan include economic redevelopment, providing better connections between downtown and the port, and improving public access to the waterfront. The current vision for the redevelopment is for office, retail, hotel and residential. According to Lydia Bennett, the Director of Business Development for the Port, the port has been shopping the parcels to developers because officials want the private sector to have a say in how the land will be developed. "We need to have market realities put in," she said (Puget Sound Business Journal, May 17, 2013). Harcourt Developments Ltd. had originally proposed a development plan for the entire site, however this was not approved, resulting in negotiations for just this first development phase which is ongoing presently.

One of the goals within the larger waterfront plan is to increase public waterfront access. The redevelopment project will provide several new waterfront access opportunities through the creation of new parks and trails. These public amenities will be developed gradually in phases as the site develops. They will connect the waterfront with downtown Bellingham and will feature areas to walk, play, and experience the waterfront. A multi-modal system of streets,

walkways, bike paths, trails, and transit routes in the Waterfront District will be phased in with the parks and trails over time to encourage preferred patterns of development.

The following timeline for waterfront redevelopment as it applies to public access and parkland is provided on the Port's website and quoted as follows:

1. In 2013, the City of Bellingham is designing and developing a temporary trail around the former treatment lagoon to provide people with early waterfront access. The City Parks Department also is undertaking design of the Cornwall Beach Master Plan in 2013.
2. From 2011 to 2015, environmental cleanup actions and some demolition will be performed to support upland development in the Downtown Waterfront Area.
3. From 2012 to 2015, streets and infrastructure will be installed to support development and public access in the Downtown Waterfront Area.
4. From 2015 to 2018, initial development in the Downtown Waterfront Area will start to occur.

According to the Interlocal Agreement for Facilities within the Waterfront District, the port is the designated lead party for conducting environmental remediation actions of the Georgia Pacific West Site, Whatcom Waterway Site and Cornwall Avenue Landfill site.

We have reviewed the 2013 Final Waterfront District Sub Area Plan. Reportedly over half of the project area will be utilized for infrastructure and public open space. This includes the four acres of existing public open space, 33 acres of new park land, 60 acres for streets, utilities and railroad rights of way and 29 acres for a marina. The remaining 111 acres will be developed for industrial, retail, residential, commercial and institutional use. Among other things, the 2013 Final Waterfront District Sub Area Plan outlines the planned development character. The Sub Area Plan defines five unique areas, each with a distinct character, within the Waterfront District. These five areas are Marine Trades with ASB/Marina, Downtown Waterfront, Log Pond, Bellingham Shipping Terminal, and Cornwall Beach.

The Marine Trades Area is a 58-acre part of the District characterized by a working waterfront that will support a new Clean Ocean Marina which adaptively reuses the wastewater treatment lagoon from the paper mill. The main focus of development in this area is to accommodate jobs revolving around marine trades such as fishing, boat building, boat repair, marine haul-out facilities, marine product manufacturing and supplies, research and development.

The Downtown Waterfront Area, in which the subject is located, is a 37-acre part of the District that will mainly serve the population of the area with a mix of housing, office, and institutional uses in a high density configuration centered around the Commercial Street Green open space and Bloedel Avenue. The institutional or business campus will be along the southern edge of this area (outside of the subject area). This area's waterfront will have an urban character with minimum building heights and pedestrian oriented uses encouraged along the waterfront promenade.

The Log Pond Area includes 52 acres and will be an Industrial Mixed-use area to be utilized for transportation, construction or light industrial uses through the end of the planning period for the Waterfront District Sub-area Plan. Preferred land uses in the area also include light manufacturing and assembly, high technology, and research and development. The Port is working with Burlington Northern to obtain permission to install a rail spur to serve this area in the future. The shoreline and beach along the Log Pond will be restored for habitat and public enjoyment, accessible via a waterfront pedestrian and bicycle trail and by non-motorized vessels.

The other two areas, the Cornwall Beach and Shipping Terminal areas, will have similar uses as other areas within the district. The Cornwall Beach area will have residential, office, and a small amount of goods and services uses at a lower density than the Downtown Waterfront Area. The Shipping Terminal area will be maintained for shipping, port, and industrial related opportunities.

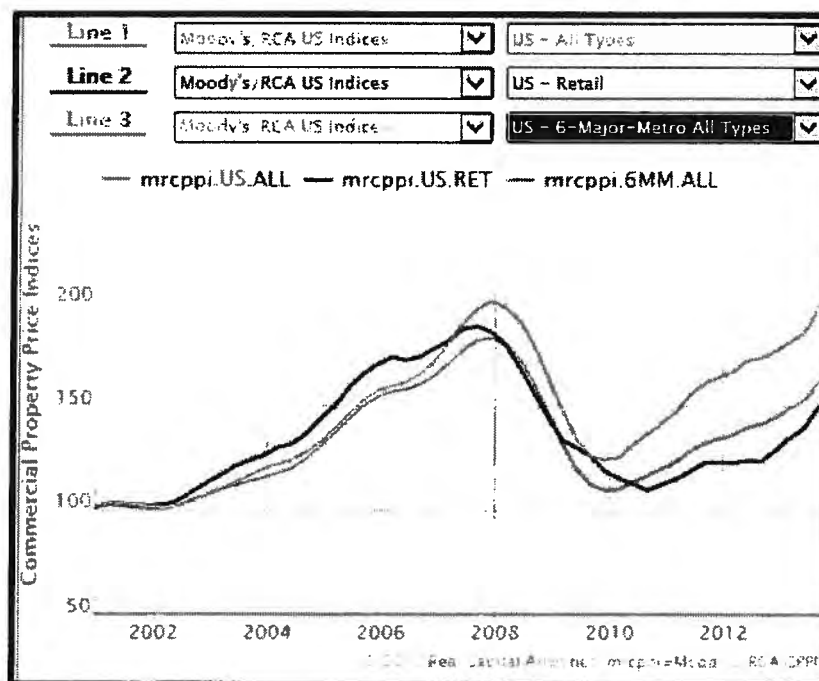
Conclusion

The eventual redevelopment of the waterfront will have a positive impact on Bellingham, increasing the city's appeal regionwide and bringing focus within the immediate community back downtown and to the waterfront.

Market Analysis

National & Regional Overview

Economic indicators show that the pace of recovery appears to be accelerating. The GDP increased by 2.6% in the fourth quarter of 2013, and by .1% in the first quarter of 2014. This represents a relatively sharp uptick from the first half of 2013. While there was some concern that the combined effects of the government shutdown, sharp cuts to federal spending, and easing of the Federal Reserve's bond buyback program would severely weaken the economy, recent indicators have shown that the recovery remains resilient, and the economic outlook for 2014 is for continued growth. Additionally, demand for high quality investment properties has risen substantially. As competition for the best investments pushed down rates of return, there is increasing evidence that investors are moving up the risk spectrum and turning their attention to "value add" properties with good prospects. This trend is highly positive for the commercial real estate industry, and is expected to continue in the near to medium term.

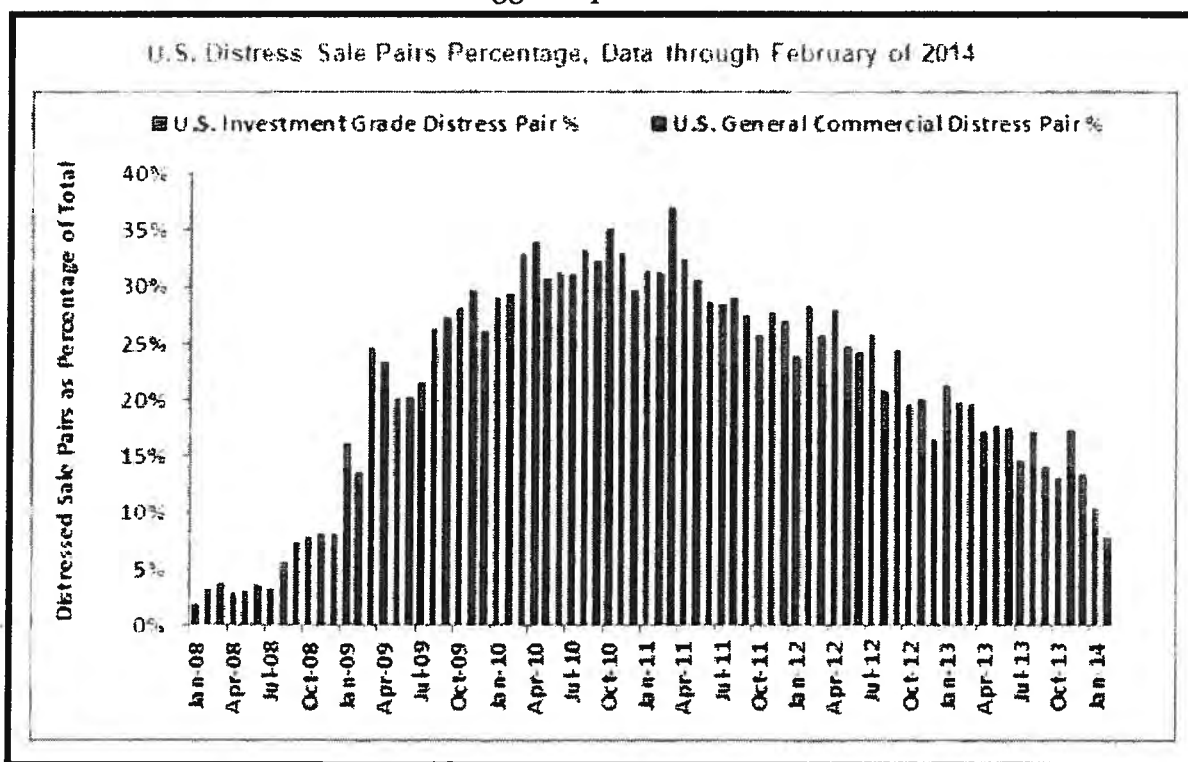


The Moody's/RCA Commercial Property Price Index (CPPI) was updated in April 2014 and reflects results through February 2014. They report that the national-all property composite index increased in February by .9%. This improvement was driven by rising apartment and core commercial prices. Over the last 12 months, the core commercial sector has seen price gains of 18.6%, which has exceeded gains in the apartment sector which has shown gains of 12.5%. The industrial sector has also been increasing, although not as quickly as retail and central business district office prices. Generally the price increases in non-major markets have closely reflected the price increases in major markets over the last three month period. The national all-property index has now recovered to 85% of its post-crisis loss.

At this time, the apartment prices in major markets are showing prices over 20% above their pre-crisis peak. This market is showing the strongest recovery currently. Suburban offices are showing the weakest recovery rates at this time, with prices 30% below peak. All of the other sectors have recovered over 40% of their peak-to-trough loss.

The latest results from the NCREIF Transactions Based Index (TBI) indicate that prices decreased -1.52% in the fourth quarter of the year, following a robust 4.37% gain in the third quarter of the year. Results for the West Region are slightly more positive, showing a decrease of -1.4% in the fourth quarter which follows a gain of 4.54% in the third quarter.

The CoStar Commercial Repeat-Sale Indices (CCRSI) was updated April 2014, with sales through February 2014. Along with the (equal weighted) US General Commercial Index and US Investment Grade Index, CoStar now provides the US Composite Index as a Value Weighted and Equal Weighted measure. The most recent update indicates the US General Commercial index is up 3.5% from the previous quarter, and the US Investment Grade index is up 4% from last quarter. Compared to one year ago, these indices have increased 15.7% and 15%, respectively. Over the last month, the US General Commercial index increased 1.8%, which is an increase over the prior January rate. On a value-weighted basis, the US Composite Index increased by 1.2% over the past quarter, and 1.1% over the last month. On an equal-weighted basis that is not as influenced by large transactions, this index increased 3.5% over the past quarter. The most recent CoStar report notes that this month's results continue a trend of broad recovery in the commercial real estate markets. Even the low-end properties are reportedly gaining momentum. In particular, the industrial and office sectors have been experiencing the strongest absorption gains over the last year. In general, absorption, rents, sales activity and pricing have seen broad gains across all markets and property types, and the percentage of distress properties has continued to fall rapidly. Vacancy rates have also fallen across the board. All of these factors suggest a positive outlook.



McKee & Schalka

Real Estate Appraisal Services & Consultants, Inc.

Waterfront Initial Development

Bellingham Commercial Vacancy Statistics

Whatcom County Real Estate Research Report Vacancy Statistics

Area	Office			Commercial			
	Vacant SF	Total SF	Vacancy %	Vacant SF	Total SF	Vacancy %	Vacant SF
Airport	4,356	88,622	4.92%	0	128,244	0.00%	24,000
Barkley Village	45,068	692,150	6.51%	6,582	381,484	1.73%	0
Bellis Fair Mall	0	0	0.00%	0	754,234	0.00%	0
Bennett - Marine Drive	47,186	106,690	44.23%	2,500	115,348	2.17%	26,532
Cordata	29,300	727,500	4.03%	20,500	589,000	3.48%	40,000
Downtown	95,037	1,400,725	6.78%	138,037	1,531,659	9.01%	0
Fairhaven Core	5,573	148,911	3.74%	18,021	358,103	5.03%	0
Fairhaven Waterfront	0	20,914	0.00%	800	78,135	1.02%	0
Fountain District	6,445	66,194	9.74%	23,528	171,819	13.69%	0
Hannegan Corridor	0	0	0.00%	0	128,714	0.00%	50,956
Iowa/Fraser	6,600	302,980	2.18%	12,365	202,800	6.10%	64,200
James Street	0	19,698	0.00%	0	113,915	0.00%	0
Kline/ Kelly Corridor	1,000	5,000	20.00%	4,000	10,000	40.00%	42,500
Lakeway/ Lincoln Corridor	21,658	136,822	15.83%	8,650	269,874	3.21%	0
Meridian Corridor	23,298	206,125	11.30%	71,666	1,594,557	4.49%	24,786
Northwest/Birchwood	500	216,232	0.23%	21,415	311,310	6.88%	0
Ohio Street	0	82,743	0.00%	23,258	510,612	4.55%	3,734
Old Town	700	56,273	1.24%	6,113	214,959	2.84%	0
Orchard St	26,983	51,059	52.85%	14,400	351,262	4.10%	2,100
Pacific Highway	3,445	63,904	5.39%	720	147,640	0.49%	8,000
Samish Way/Sehome Village	23,004	64,663	35.58%	21,635	280,762	7.71%	0
Squalicum Harbor	67,112	406,599	16.51%	1,035	104,806	0.99%	5,795
St Joseph Hospital	12,715	786,813	1.62%	0	0	0.00%	0
Sunset Square	0	27,046	0.00%	34,521	754,322	4.58%	0
Waterfront District	0	110,522	0.00%	0	70,839	0.00%	31,880
West Bakerview	10,500	142,499	7.37%	21,800	365,352	5.97%	0
Totals:	430,480	5,930,684	7.26%	451,546	9,539,750	4.73%	324,483

Whatcom County Real Estate Market

In order to gauge vacancy rates in the subject's area, we have used the 2013 *Whatcom County Real Estate Research Report* published by the Whatcom County Real Estate Research Committee with the cooperation of the Western Washington University College of Business and Economics. Please see the *Bellingham Commercial Vacancy Statistics* table within this section for visualization of the annual data published by the committee.

The total office vacancy rate in the Whatcom County area was 7.26% which is up from 6.32% in 2012, and down from 9.7% a year prior. Total retail vacancy however has declined substantially and currently sits at 4.73% as compared with 6.22% in 2012 and 7.4% in 2011. The industrial vacancy percentages have also dropped substantially and are currently at 3.59% compared to 8.77% in 2012. Industrial vacancy percentages were at 5.5% in 2011. All in all, the report estimates a total of roughly 1.2 million square feet of vacant office, retail, and industrial space within the Bellingham market, indicating 4.9% market vacancy among commercial properties. This is down from the estimate of 6.8% in 2012 and 7.5% in 2011.

The subject property is specifically located within what the report defines as the Central Business District (CBD). We have reviewed the various sections of the report based on potential uses of the subject land.

The Waterfront District, where the subject is located, is expected to have some multifamily housing, either in the form of apartments or condominiums. In the current market, apartments would be more likely. There are very few multifamily buildings in the CBD, evidenced by the sample size within the market report. Of the 9 buildings surveyed, a 0% vacancy rate was reported. This vacancy rate is consistent with the rate reported in 2012. In total, 5,656 apartments in Whatcom County were surveyed and together reported a vacancy rate of 2.9% which is a sizable drop from 2012's rate of 8.58%. Buildings of 20 units or more are reporting even stronger numbers. The report provides the following table of data since 2012.

**APARTMENT RENTS & VACANCY RATES BY
NO. OF BEDROOMS, WHATCOM COUNTY, MARCH 2013 AND SEPTEMBER 2012**
(Buildings of 20 units or more)

MARCH 2013

	All	Studio	1 Bedr.	2/1 bath	2/2 bath	3/2 bath
Market Vacancy (%)	1.8%	2.2%	1.3%	2.6%	0.9%	4.1%
Average Rent(\$)	\$805	\$651	\$717	\$808	\$882	\$1039
Avg. Rent per NRSF	\$0.998	\$1.461	\$1.141	\$0.926	\$0.942	\$0.908
Building Surveyed	29	6	26	24	16	12
Units Surveyed	3,432	134	1,192	948	875	170

SEPTEMBER 2012

	All	Studio	1 Bedr.	2/1 bath	2/2 bath	3/2 bath
Market Vacancy (%)	1.7%	1.3%	0.8%	2.8%	1.6%	1.8%
Average Rent(\$)	\$801	\$655	\$715	\$806	\$858	\$981
Avg. Rent per NRSF	\$0.986	\$1.638	\$1.143	\$0.930	\$0.916	\$0.856
Building Surveyed	30	5	26	26	15	14
Units Surveyed	3,658	79	1,188	1,172	882	282

Any new development on the waterfront will likely be very attractive to potential tenants, and we would expect it to compete well within the larger submarket at vacancy less than the county average.

Please see the exhibit included in this section for a break down by submarket of office, commercial, and industrial square footage and vacancy for the county. Each use type is expected in some amount in the Waterfront District, although only office and commercial are expected at the subject site. We have briefly discussed these two markets.

Office uses are also anticipated in the Waterfront District. This area would likely standard office, perhaps some marine related uses, and some extension of Western Washington University. The total square footage of office space in Whatcom County is 5,930,684 sf, and the 2013 vacancy rate was 7.26%. The subject's CBD submarket contains 1,400,725 sf or about 24% of all the office space in Whatcom County. The 2013 vacancy rate for this area was 6.78%, superior to the overall county average and suggesting that new office space near the waterfront would compete well within the county overall. The new construction and expected views would be competitive with more central downtown locations.

Retail uses total 9,539,750 sf within the County and the 2013 vacancy rate was reportedly 4.73%. The CBD submarket includes 1,531,426 or about 16% of the county total, and this submarket has a reported vacancy rate of 9.01%.

The Whatcom County Population and Economic Forecasts predict rising demand for developable land in the County over the next ten years. Between 2012 and 2022, demand for residential land is expected to rise to over 6,000 acres county-wide, with over 3,000 of those acres in Bellingham alone. This represents an increase of nearly 90% over ten years. Demand

for commercial land is expected to more than double in that same timeframe. Please see the "Whatcom County Growth and Land Statistics" exhibit earlier in this section for more detail. These increases will largely be fueled by population growth, and much of the new development will likely continue to occur near the periphery of the city. Demand for commercial land, including multifamily, is therefore likely to pick up as economic conditions improve and especially with the pressure of continued population growth.

Current Development

There are several developments underway in Bellingham, proving that multi-family residential development is feasible and desirable in the area. The following projects have been proposed in Bellingham and are in various stages of planning. Building permits have not yet been issued.

- 147 rental townhouse units, June Road
- 175 apartment units, Lincoln Road
- 154 units, Telegraph Road
- 50 low income units as Phase 1 of Catholic Community Housing, Phase 1, W Bakerview Rd
- 42 low income units as Phase 1, Catholic Housing Services, Cornwall Rd
- 10 townhouses, Fountain Street

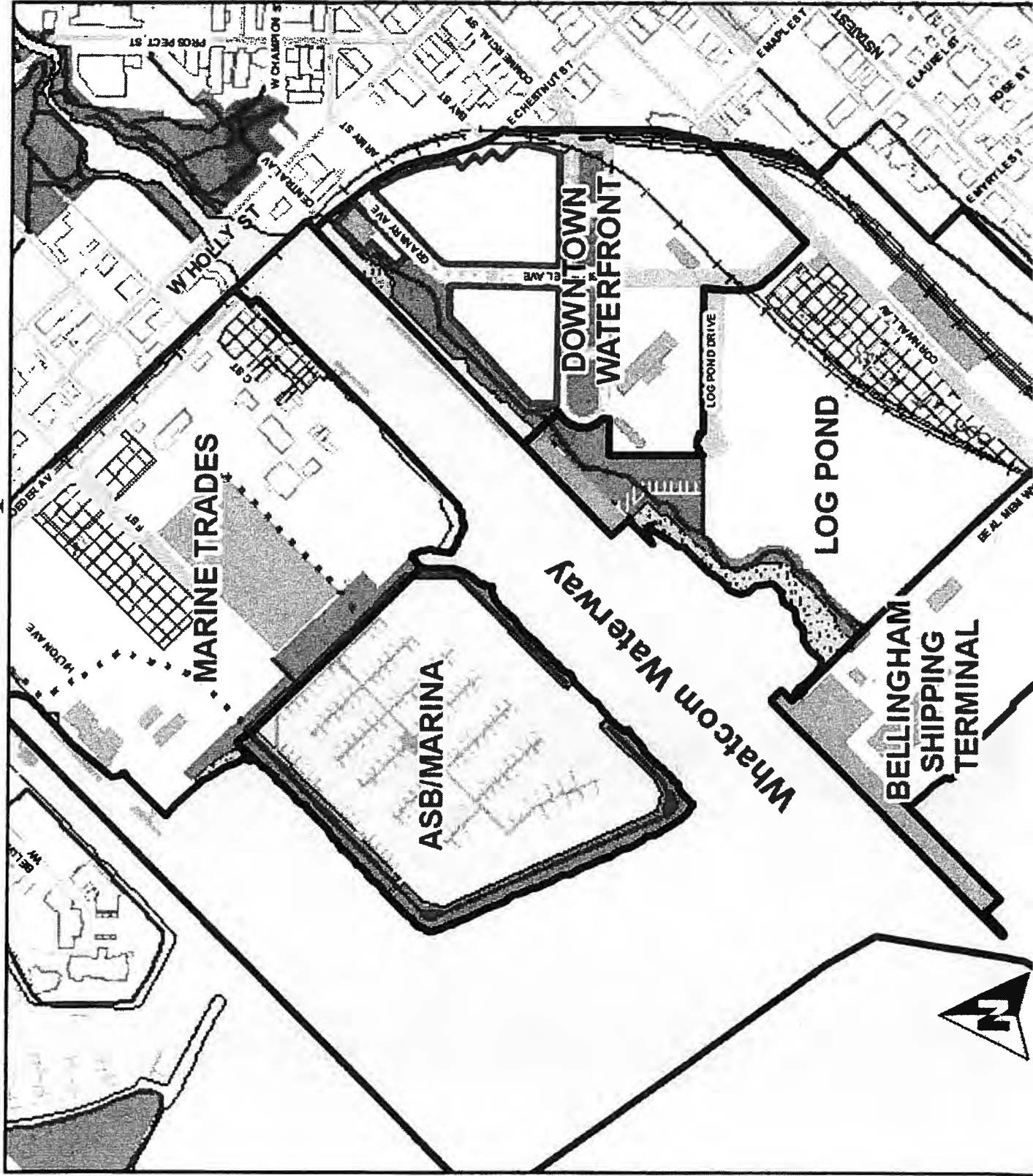
In Barkley Village, east of I-5 in a more suburban setting, there is a 100 unit "luxury" project nearing completion. Called the Cornerstone Building, the \$15.6 million development has two parking levels, 10,000 square feet of retail and office space, as well as four stories of apartment units. The site was originally planned as two 18-story condominium towers.

The new construction reflects the strength of the local apartment market. Rents have reportedly started increasing slightly since the March 2013 Whatcom County report, but it is not clear that rents will support substantial new construction for large projects outside of the downtown core and Barkley Village. The subject's proposed development represents one of the biggest development projects in Bellingham history and a lengthy absorption time would be expected over the course of a multi-phased development for the whole 10.8 acre property.

Conclusion

The subject property is located within Bellingham's downtown neighborhood with waterfront access and views. This area is slated for phased redevelopment from its historic industrial use to a vibrant commercial area containing a variety of uses, such as multifamily, industrial, office, and retail. The area has good access from Downtown and should compete favorably within this submarket and the county as a whole for commercial uses. Current vacancy rates suggest that the most likely uses at this time would be apartments and office with some small amount of supportive retail. As the regional and local economies continue to improve and the City of Bellingham continues its pattern of growth, the subject land will be well-placed within the nexus of planned development in the area.

Site Map



Property Description

Please refer to the "Site Map" which show the subject property boundaries.

Land Area and Shape

The subject measures 10.8 acres and is composed of three separate sites, all irregular in shape. The Granary site is the smallest, measuring about 34,000 sf or 0.78 acres. The Western Site is southwest of the Granary and measures 4.59 acres or about 200,000 sf. The Eastern Site measures 5.42 acres or about 236,000 sf.

Streets and Access

The subject sites will be accessed via proposed routes through the waterfront district, including Commercial Street, Granary Ave, and Bloedel Ave. The property has approximately 990 feet of frontage facing west to the waterfront, and approximately 1,700 feet of frontage on both sides of Granary Ave and Commercial Street. The eastern two sites have a total of 648 feet of frontage on W Chestnut St. All are corner sites.

Soil Conditions

We have not been provided with a soils report. We specifically assume the soils will be adequate to support any allowed improvements throughout their useful life. It is our understanding that any soil removed for development could stay on site or be disposed of in a typical landfill.

Topography

The area is generally flat with slight rolling terrain. The two easternmost sites have the most variation in gradient. Although the subject is mostly flat, it is significantly lower than the existing street grid, so when the grid is extended, it is our understanding that the roads will be structured streets retained by concrete.

Hydrology and Flood Hazard

According to FEMA Flood Map 53073C1213D dated January 16, 2004, the subject is located in "Zone X," which is outside of the 500-year floodplain, indicating limited flood hazard. We have not reviewed a hydrologic report for the subject.

Environmental Conditions

The property is subject to known environmental contamination due to its former use as a paper mill. According to the Interlocal Agreement, the Port is the designated lead party for conducting remedial actions, and will retain this responsibility following a sale. We understand that the site can be developed by a private party, but there is a soil cap in place. If the cap is pierced, the developer is responsible for notifying the Department of Ecology, resealing the cap, and disposing of any soils properly.

Utilities

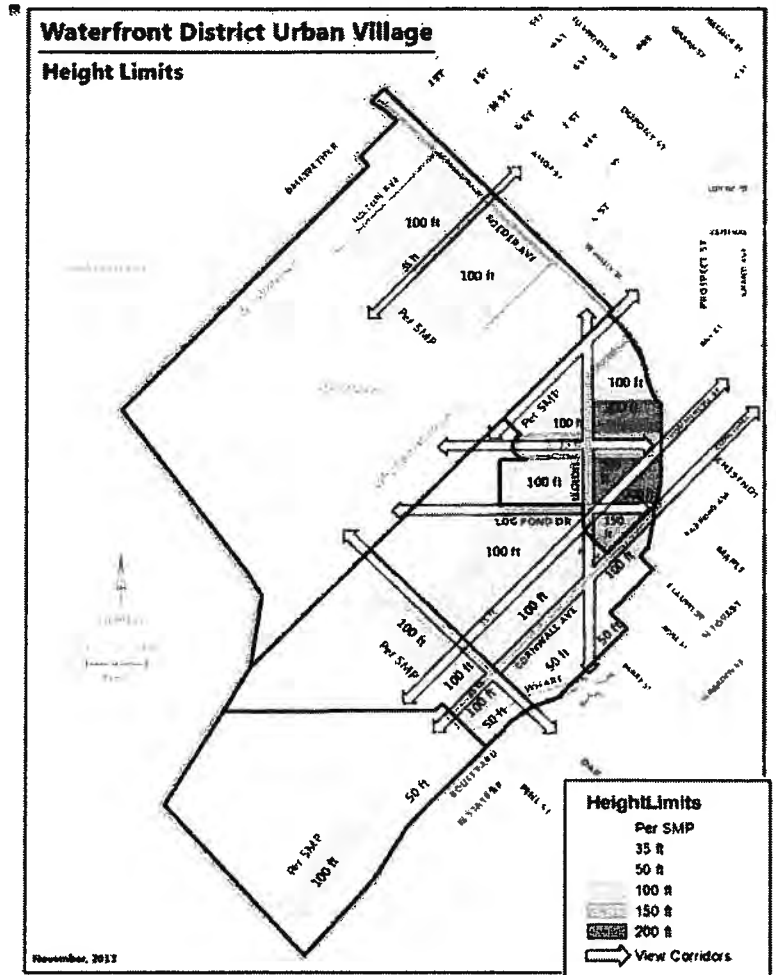
It is assumed that utilities will be available to the sites.

Zoning

Waterfront Mixed Use District

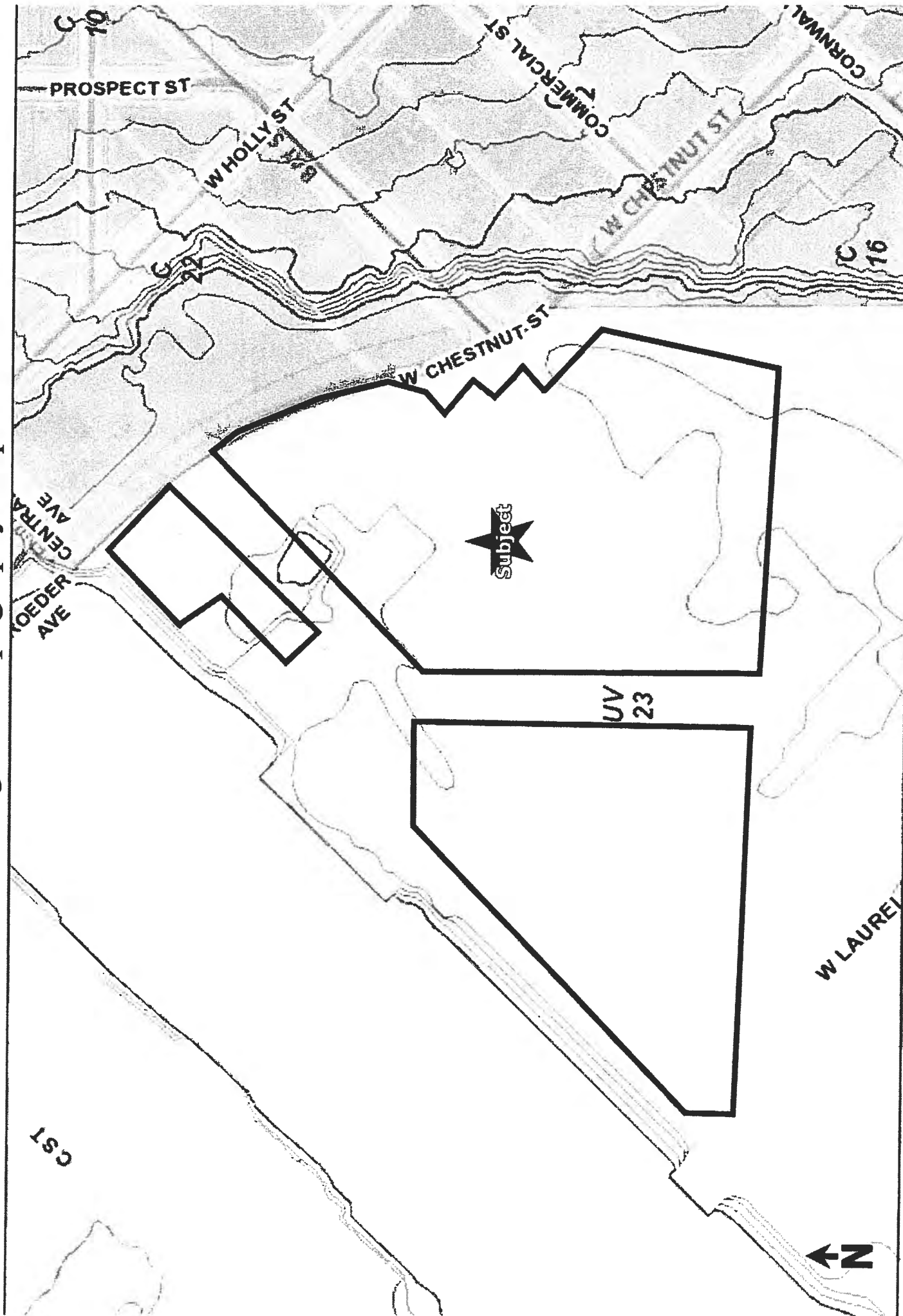
The subject is located within the Downtown Waterfront Commercial Mixed Use zone in the City of Bellingham. A broad range of uses is allowed in this zone including a hotels, residential uses, commercial recreation, restaurants and bars, offices, retail sales, services, medical services, institutional uses such as schools, community centers, clubs, and theaters, and primary use parking facilities. We note that hotel and residential uses cannot occupy the ground floor fronting Granary or Bloedel Avenues.

The subject is located north of Commercial Street and has frontage on Bloedel Avenue and Granary Avenue. Only a small portion of it (one of three parcels) is located within the Shoreline Master Plan (SMP) area. This part of the property is improved with an historic building that will be preserved as part of the planned development.



First we will discuss the zoning regulations outside the SMP. On the southeast section of the site, 200' height limits are allowed. The rest of the site is subject to a 100' height limit. The map included here shows which part of the site is subject to which height limit (as well as the boundary of the SMP). The base maximum FAR east of Bloedel is 3 with a maximum FAR achievable of 5 via floor area transfer and bonuses. West of Bloedel, closer to the water, the base FAR is 2 with a maximum possible of 4. Transfer of FAR can be between development properties that are part of a single development plan provided that the designs for sending and receiving between properties are reviewed at the same time and that the property owner(s) executes a covenant with the city that is recorded in the deeds reflecting the changes in development potential. Floor area bonus options include LEED or Living Building certification,

Zoning and Topography Map



public plazas and open spaces, affordable housing, or by taking part in the Lake Whatcom Watershed Property Acquisition Program.

There is no minimum lot size, width or depth; furthermore, there are no minimum required setbacks in this zone.

Parking requirements vary by use. Residential units will require 0.5 – 1.0 parking spaces/ unit depending on the number of bedrooms. Commercial and institutional uses will require 1 space per 500 sf of gross floor area.

Design standards for this new district are consistent with design standards in similar waterfront neighborhoods throughout the region. The standards intend to reinforce pedestrian activity, orientation of ground floor activity, and a lively street scene. Buildings are meant to be at the sidewalk edge with main entrances facing the street. Surface parking is meant to not impact streets, be located near the rear or side of buildings and drive-through lanes will be allowed but only along the side or rear of buildings. Otherwise, buildings are meant to have varied walls to avoid a monotonous landscape and include some public open space at ground level.

Overall, the zoning is fairly permissive and some of the densest allowed in the Whatcom County. It will provide for substantial new development of the waterfront.

2013 Shoreline Master Plan

Bellingham's Master Plan for the Waterfront District has been planned in accordance with the state's SMP. The following paragraph notes the most important points within the SMP as it relates to land use. The SMP establishes policy that preference be given to uses that are unique to or dependent upon a shoreline location. Consistent with this policy, these guidelines use the terms "water-dependent," "water-related," and "water-enjoyment," when discussing appropriate uses for various shoreline areas. Shoreline areas, being a limited ecological and economic resource, are the setting for competing uses and ecological protection and restoration activities. Some areas must be reserved for protecting and restoring ecological functions to control damage to the environment and public health. Shoreline, particularly harbor areas, should be used for water-dependent and associated water-related uses. The state requires that when planning for shoreline development such as in Bellingham, public access to the waterfront must be incorporated into the plan. When development occurs within areas affected by the SMP, communication and review with state agencies is required.

The new SMP chapter was accepted into the Bellingham Municipal Code February 13, 2013. This was the first update to Bellingham's shoreline program since 1989. An amendment to the SMP was passed in December 2013 creating an Exception Use Area and prohibiting residential uses within the waterfront mixed-use zone. The subject's area within the SMP does not fall in this exception area.

The small portion of the subject site west of Granary Avenue is located within the Shoreline Master Plan area within the Waterfront District Shoreline Mixed Use zone. The Shoreline Mixed Use zone has no setback requirements for water dependent uses, though they range

from 25'-200' for water related and water enjoyment uses. The buffer required in these areas is from 25-50'. The maximum height for structures has a base of 35' though this can be increased up to 50' based on view corridors or even higher if a variance is granted. This part of the subject is improved with an historic building that may be preserved to some degree in the development plan. It is assumed that this is a grandfathered building and will be allowed in the SMP area.

Waterfront District Planned Action Ordinance (PAO)

A Planned Action Ordinance (PAO) is an environmental review procedure adopted under the authority of SEPA to identify the impacts and mitigation for a proposed development project in advance to increase the certainty and predictability of environmental requirements during project permit review. During the extensive planning process of the Waterfront District, the Port completed an EIS that identifies the potential environmental impacts and mitigation measures required when the Waterfront District is fully developed. The PAO incorporates the mitigating conditions identified in the EIS and establishes environmental review procedures for development projects.

If a proposed project within the district is determined to be consistent with the PAO, The City can formally issue a determination of consistency identifying required mitigation and no separate SEPA review is required. This preliminary planning in place helps reduce risk to developers regarding environmental concerns with the site and eliminates some time and effort associated with planning and permitting projects. Our client at the Port of Bellingham estimates that the normal time get a SEPA review is 1-2 years in Bellingham. This project would likely be on the complex side of normal, suggesting a time savings of up to two years in the planning process. This provides an advantage over other waterfront sites in the region as well as other sites within Bellingham.

Waterfront District Impact Fees

We have referred to the Development Agreement between Port of Bellingham and the City of Bellingham to understand the impact fees that will be assessed on developments within the Waterfront District.

Transportation Impact Fees

The Waterfront District receives an impact fee credit for the number of PM peak hour vehicle trips generated by the former Georgia Pacific Mill and other historic industrial uses within the Waterfront District. This credit is retained by the Port and may be applied to projects within the District. The City will calculate remaining credit available by subtracting PM peak hour trips from existing uses, which total 1,077 historic peak trips. The credit is applied at the time of building permitting. The traffic impact fee credit will be used to offset the fees for commercial, office, institutional, and industrial development and will reduce development fees by \$1,907 per PM peak hour trip for commercial development. Normal fees will apply for residential development assuming similar rates as under the Urban Village zoning designation.

Park Impact Fees

Because the Port is transferring land to the City for parks and open space, a park impact fee credit will be granted. This credit is retained by the Port and may be applied to Projects within the Waterfront District by the Port. The credit is applied at the time of building permitting and will be provided to residential developments. The estimated savings from park impact fees is \$3,523 per residential unit.

Existing Improvements

The larger waterfront area is currently improved with a vacant paper mill that has not been in use since 2001. The existing buildings include an old granary building, board mill, chip bins, and an alcohol plant. There are also digester building tanks and ceramic tile tanks on the site. There is also associated paving and site improvements.

Some of these improvements are located on the subject land. In particular, the Granary Building is on the smallest parcel. It is uncertain whether developers will reuse this building or want it demolished, but the Port attributes no value to these improvements and offers to either leave them in place or demolish them at the request of the purchaser. The site improvements do not contribute significant value to the subject property and are not considered material in our valuation.

Functionality

The Waterfront District is well located within an easy distance of downtown Bellingham. The sites are large, and while irregular in shape, fully developable to the maximum extent allowed by the zoning. Potential development will have good views facing the water and downtown and good access following the planned construction of roads connecting this area to the downtown. Environmental clean-up of the site is the responsibility of the Port, and will remain the Port's responsibility following the sale, should additional clean-up be required. A developer would responsible for notifying Ecology, should the soil cap be pierced during development. Overall, the subject is fully functional as multiple development sites.

Highest and Best Use

"Highest & Best Use" is defined by the Appraisal Institute as:

The reasonably probable and legal use of vacant land or improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.

The concept of Highest and Best Use is based on the most profitable and valuable use that is both probable and appropriately supported. The Highest and Best Use must meet four criteria: it must be legally permissible, physically possible, financially feasible, and maximally productive.

Highest & Best Use as if Vacant and Unimproved

Physically Possible

Please refer to the site description and exhibits throughout this report for an understanding of the physical composition of the subject property. The subject site is physically capable of supporting a wide range of commercial or residential structures. The 10.8 acres of the subject are divided into three separate development sites, all of which are large, flat sites that are suitable for development in line with the zoning. Overall, there do not appear to be any significant physical constraints that would limit substantial development on the site.

Legally Permissible

The subject is zoned Waterfront Mixed Use in the Waterfront District of Bellingham. Please see the property description for a detailed description of the zoning. A wide variety of uses are allowed in this district, including multi-family residential, office, retail, and institutional uses. The maximum FAR achievable can reach up to 5.0 with appropriate bonuses and maximum heights ranging from 100' to 200' are permitted. The smallest of the three sites is additionally subject to Shoreline Master Plan regulations.

Financially Feasible and Maximally Productive

The location of the subject in the Downtown Waterfront development area with easy access to the downtown Bellingham area seems to present a viable setting for a residential or mixed-use development. The subject has excellent views facing west toward the Bellingham Bay and the Whatcom Waterway, which would benefit residential development. Based on the characteristics of the subject and the surrounding planned new development of the entire Waterfront District, it appears that multi-family residential development would be the highest and best use of the site, with some retail or office space on the ground floor facing Commercial Street and Granary Ave.

The analysis of the downtown Bellingham apartment market has indicated a very tight rental market, with the apartment buildings downtown consistently exhibiting 0% vacancy. Based on this analysis, we conclude rental units would likely be viewed as very desirable.

The most recent, similar proposed development project in Bellingham is located just north of the Waterfront District in the Old Town neighborhood and is known as the Army Street project. The City of Bellingham owned this parcel of land and conveyed it to the Bellingham Public Development Authority in March 2010. The vision includes an 800 space parking garage below grade, a hotel, residences, and commercial and office space around a pedestrian plaza that would provide a walkway over the street and railroad tracks to the Waterfront District. Based on published drawings, the BPDA has proposed buildings up to ten stories and a relatively dense urban environment similar to what could be expected at the subject site. This development would be in direct competition with the Waterfront District and given the advantages of the Waterfront District in terms of water access, reduced impact fees, and pre-planning work by the Port, it is unlikely that the Army Street project will be built immediately. It does reflect a second opinion on the kind of development Bellingham is looking for in coming years.

Discussions with Port of Bellingham representatives reflect ongoing negotiations with Harcourt Developers, which the Port reports plans to build about 50% residential uses on the site and about 50% other commercial uses such as office and retail. The developer also plans on including substantial low income units in order to achieve the FAR bonuses and develop to the maximum extent allowed by the zoning. Given the relative strengths of the residential versus commercial market, this breakdown of proposed space seems unsupportable. All of the local land sales we identified as the most similar to the subject were purchased for multi-family development, further supporting our conclusion that a higher proportion of residential is likely for the subject property.

As discussed in the market analysis section of this report, most new construction in the area has been multi-family in nature, with the only recent example of large scale commercial development coming from Barkley Village, which is a suburban mixed-use project master planned by a single developer. The commercial space in this development includes some office, but not in the proportion proposed at the subject.

It is our conclusion that the highest and best use as if vacant and unimproved for the subject property is planning and construction in line with the goals of the new Waterfront District in Bellingham. The subject sites are within the Waterfront Mixed Use District, where maximum height regulations suggest a maximum building size of 10-20 floors, though we believe this height is unlikely given high building costs at higher levels. We would expect a mix of buildings, which would include first floor retail, office, and residential uses, but likely well over 50% residential with a possibility for condominium units, a hotel and office.

Land Sale Comparison Photographs



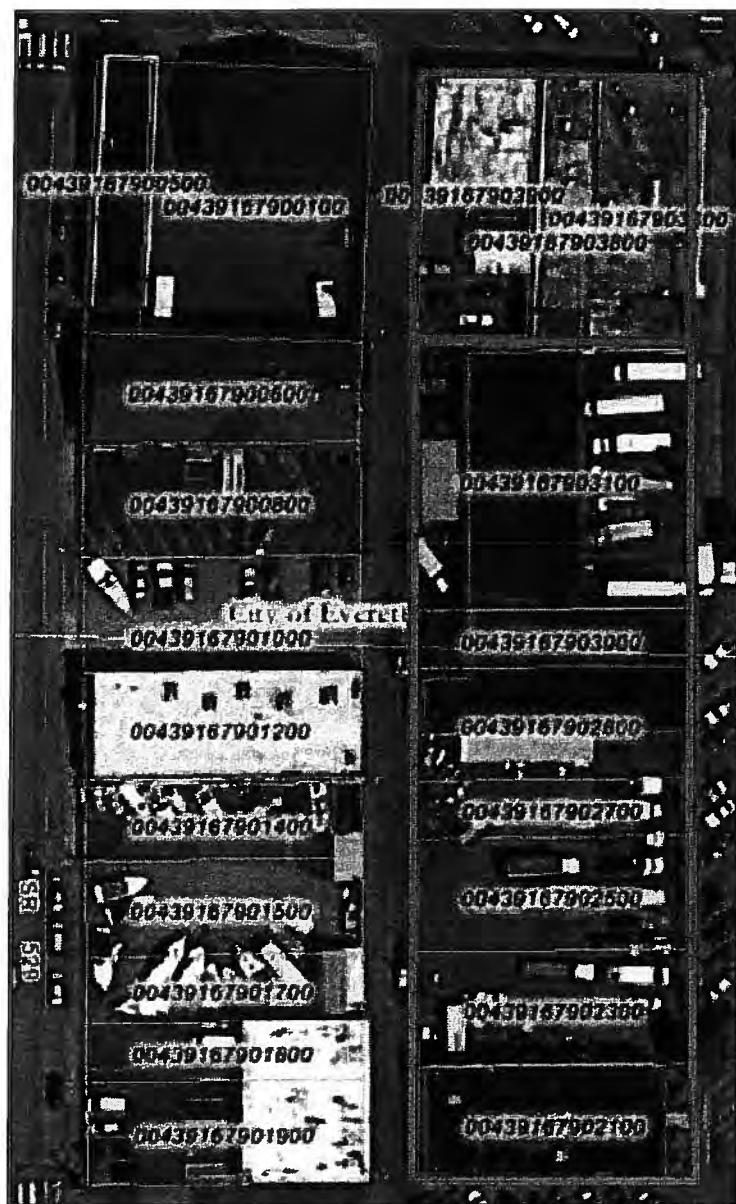
Regional Waterfront Sale 1

Indian Point
1901 Water St
Port Townshend, WA



Regional Waterfront Sale 2

Oak Street Property
201 W Front Street
Port Angeles, WA



Regional Waterfront Sale 3

Pagoda Village Site
Grand Ave bet Hewitt & Wall
Everett, WA



Regional Waterfront Sale 4

Eastside Mortgage Property
1231 Campbell Way
Bremerton, WA



Local Bellingham Sale 1

**D Street Site
1507 D Street
Bellingham, WA**



Local Bellingham Sale 2

**Downtown Fairhaven Site
13th & Harris
Bellingham, WA**



Local Bellingham Sale 3

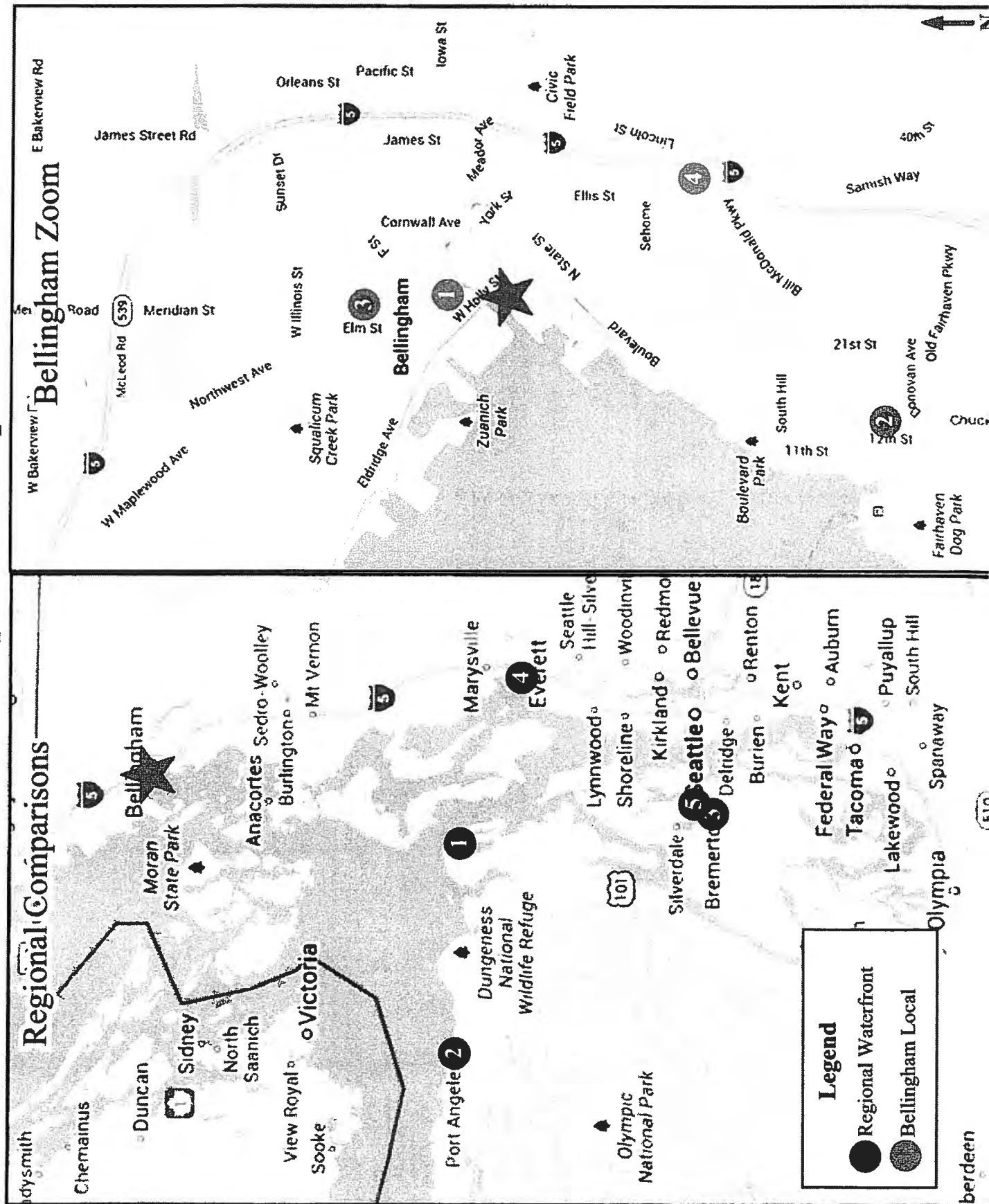
Peabody Parking Lots
2400 Peabody Street
Bellingham, WA



Local Bellingham Sale 4

Consolidation Ave Apt Site
3701 Consolidation Ave
Bellingham, WA

Sale Comparison Maps



Sale Comparison Approach

The Sale Comparison Approach uses analysis of sales of comparable properties to derive units of comparison that are then used to indicate value for the subject. Please refer to the "Sale Comparison Summary" figure which outlines the details of each of the sale comparisons. Photographs of each of these comparisons are located on earlier pages, as well as a map.

The subject is in a relatively unique situation in Bellingham on the waterfront. The zoning of the subject is also relatively special, and there have been no sales of comparable waterfront sites in the Bellingham area in the past few years. For this reason, we have considered recent sales of commercial properties throughout Bellingham as well as waterfront properties with similar zoning allowances throughout the region.

In the end, we have selected the eight most relevant sales relative to the subject in order to estimate value. Following our reconciliation, we will adjust the conclusion for the value benefit resulting from the lack of park and traffic impact fees for certain kinds of development at the subject. Factors considered for adjustment to the comparisons include location, size, plans/permits/improvements and zoning. Please see the "Sale Comparison Adjustment Grid" exhibit located in this section for further representation of our adjustments.

For market conditions, the 2009 sales requires upward adjustment, considering this time of uncertainty was in the depths of the recession. The late 2008 sale occurred after the initial big drop in the market in September 2008, and the buyer still chose to close at this price. Furthermore, the land market was slowing in 2008 sooner than the greater effects of the recession were felt, and overall, we believe that the decline since this sale has been mostly offset and no net adjustment for market conditions is warranted.

In our analysis, we have adjusted both the regional waterfront sales as well as the local Bellingham commercial sales relative to the subject. All of the comparisons require significant downward adjustment for size. Furthermore, the subject benefits from the pre-planning work performed by the Port and approved by the City and codified in the Planned Action Ordinance described in the site description. Essentially, this document reduces the amount of planning time by a year or two and eliminates risk, cost and holding time for a developer. We adjust all of the sales upward slightly to account for this advantage.

Regional Waterfront Sale Comparisons

Regional Waterfront Sale 1 is the November 2009 sale of a commercially zoned parcel of land along the Port Townsend waterfront. This parcel was listed in mid-2009 for \$2.2 million originally and was advertised as being a fully entitled lot with development approval from the City of Port Townsend. The property was listed for about six months before selling for just \$1,050,956, or about \$22/sf. The buyer is a Bellevue-based hotel developer. In a press release shortly after the sale, the owner noted he had no immediate development plans for the site but saw it as a good long term hold. The property remains vacant.

This sale is adjusted upward for location given the superior regional access and Bellingham location of the subject. Bellingham is a larger metro area relative to this and Sale 2. We make a downward adjustment for size given the very large area at the subject, which presents more risk associated with phased development and absorption relative to a smaller site. Finally, an upward adjustment for zoning is warranted given that this site has a maximum height limit of three stories.

Regional Waterfront Sale 2 is the November 2008 sale of a roughly 85,000 sf rectangular parcel near the waterfront in downtown Port Angeles. The property was on the market for just over a month before selling at \$1,300,000, or just over \$15/sf. According to public records, the buyer is Olympic Lodge, which also runs an existing hotel in Port Angeles. The sale of this property is a result of a long term effort by the City.

Comparison 2 requires similar adjustments as Comparison 1 though a larger upward adjustment for location is warranted. The Port Angeles zoning allows a maximum height of 45' in this zone.

Regional Waterfront Sale 3 is comprised of two transactions that consolidated a full half block in downtown Everett under single ownership in order to develop the Path Farmer's Market and Lobsang Dargey's mixed use project. We note that the buyer also bought a third parcel, but this is being independently developed as a hotel and is separated from the comparison parcels by a public alley and is not included in this analysis. According to Path America's website, the project to be built on this and the third parcel is described as follows:

"The Pagoda Village in Everett, an indoor venue with 60,000 square feet, will be an exciting and vibrant center that connects local agricultural businesses to the community and attracts both residents and visitors. In addition to the year-round market, the project will include 170 luxury apartments and a 110-unit Homewood Suites by Hilton hotel, both with spectacular views of the Puget Sound. The development will also have 15,000 square feet of commercial office space."

As we mentioned, the Homewood Suites site is not included in our analysis. Due to surrounding topography and existing buildings, the improvements will have good views facing west to the Puget Sound as well as good territorial views of downtown Everett.

The first transaction is the August 2012 sale of a 45,300 sf site, which was improved with several smaller commercial buildings that total 17,281 sf. The sale price for this property was \$3,743,592, which equates to \$83/sf of land area. The second part of the comparison is the September 2013 purchase of the neighboring 14,375 sf property, which sold for \$1,250,000 or \$87/sf of land area. The buyer applied for a demolition permit 5 days after closing, and demolition was confirmed by the city on October 1st 2012. Demolition costs were estimated at approximately \$10/sf of building area.

The comparison is located in Everett, which is much closer to the Puget Sound commercial hub of Seattle, and is thus superior to the subject's Bellingham location. We make a downward adjust for this and size. As discussed previously, a small upward adjustment for demolition is

appropriate. The site is zoned General Commercial (C1) in Everett. This zone has a maximum height limit of 50' and no setbacks. While this zone allows a broad range of uses, it permits less density, and so we make an upward adjustment relative to the subject.

Regional Waterfront Sale 4 is the September 2013 sale of a 23,958 sf waterfront parcel in Bremerton, north of the downtown area. This property is trapezoidal in shape with 120 feet of road frontage on Campbell Way and 72 feet along the water. It is about a block from the Warren Ave bridge, which connects south into downtown Bremerton. The road fronting section of the parcel is on the ridge which descends sharply to the waterfront edge. The listing broker reported that there was little interest in the parcel before it was purchased by a developer who planned on building 16 condo units. The listing broker also reported that the buyer is required to obtain numerous permits from the city to enable full development of the parcel due to waterfront setbacks, and constrained parking. They are apparently in talks with the city to set aside some of the road area for parking. Reportedly there were previous condo plans for the parcel which likely did contribute some value. The broker also reports that the seller discounted the property from the listing price of \$549,900 to the sale price of \$450,000 in order to obtain a quick closing by waiving the feasibility studies.

First we make a condition of sale adjustment that partly accounts for the nearly \$100,000 price reduction provided by the seller to entice the buyer to waive feasibility for a quick closing. Next, we make an upward adjustment to this sale for location. It is located apart from the Ferry, away from Downtown Bremerton. We make a small downward adjustment for contribution of planning in place at the time of sale. The Employment Center (EC) zoning in Bremerton allows a broad range of permitted uses. Maximum building height is 80' for residential uses and 60' for non-residential uses, with the predominant use dictating the height limit of mixed use buildings. In all, a small upward adjustment is warranted.

Local Bellingham Sale Comparisons

Local Bellingham Sale 1 is the first of our local Bellingham indications, all of which support a highest and best use apartments, and in the case of at least one (Downtown Fairhaven Sale), perhaps some ground floor retail. Sale 1 is a square shaped lot measuring 39,490 sf and currently cleared, vacant land. Due to surrounding topography, this site has good views facing toward Bellingham Bay and downtown, which would apply even on the first floor. The broker noted that the lot to the west has no height restrictions, and all interested potential purchasers mentioned this during marketing as the views towards the bay could be compromised. The property sold in June 2012 for \$676,000 or \$17.12/sf. The property was marketed about a year and a half and had several drops in listing price over that time. In the end, there were several offers around the sale price. Feasibility analysis suggests that the site will support 50 to 60 residential units.

We make an upward adjustment for location given the waterfront setting of the subject near downtown. This is more than offset by the downward adjustment for size. No other adjustment is warranted, except for the POA/reduced SEPA requirements applicable to the subject but not the comparisons.



Local Bellingham Sale 2 is a rectangular parcel located in downtown Fairhaven, which sold in April 2013 for \$355,000 or \$30/sf based on its 11,850 sf. The property is currently paved and in use as free surface parking. This property is subject to the historic zoning overlay in Fairhaven, which would require additional review for any excavation work but appears to be fully buildable in line with the zoning. It was purchased by an investor from California with an unknown timeline for development.

Downtown Fairhaven is a very good location, which we consider of similar quality to the Bellingham waterfront and make no adjustment for location. The property has a four story height limit, requiring upward adjustment.

Local Bellingham Sale No. 3 is the December 2013 sale of several parcels at 2400 Peabody Street. This site had been on the market for almost two years. For over a year, this 17,500 sf site was marketed along with the neighboring commercial building. However, the lots were ultimately sold separately. At the beginning of the marketing, the seller received an offer for the whole property, which allocated \$290,000 to this rear parking lot area, but the deal fell through. Feasibility analysis suggests that this site could support 18 residential units. It sold at \$280,000 or \$16/sf.

This comparison is located downtown in Bellingham but does not benefit from view potential or corner orientation. It is a mediocre location for its proposed residential development and requires very significant upward adjustment relative to the subject. The zoning comes with an 85' height limit and therefore we make a nominal upward adjustment.

Local Bellingham Sale No. 4 is a current listing that has been on the market for a month. This 27,443 sf parcel is being marketed as a multi-family development site near WWU. It is zoned Commercial Core within the Samish Way Urban Village and is listed at \$659,900 or about \$24/sf. The seller noted that over the month on the market, there have been three inquiries but no offers. He says that he will likely opt to develop the property himself. Preliminary drawings show 32 units on four floors, but these rough sketches are allocated no value to the listing price. At this time there is a single family residence on the property in good repair and rented at \$850/month, which would help offset holding costs and any adjustment for demolition costs. The site would achieve no water views, but a development could have some Mt. Baker views, and its proximity to WWU is beneficial.

We have not explicitly adjusted this comparison since it is a listing and not a closed transaction. However, we have considered that this indication would require upward adjustment for location and downward for size. The zoning has no maximum density, a wide range of allowed uses, and a maximum height limit of 85', warranting just a slight upward adjustment. In general, this listing supports the indications provided by the primary sale comparisons.

Sale Comparison Conclusion -Eastern and Western Parcels

The first two comparisons are waterfront commercial sites, both of which are expected to be improved with hotel uses. While they are located farther afield from the subject than the last three comparisons, they represent similar waterfront communities in the Puget Sound Region,

and a hotel use is a likely use of some of the subject's waterfront district in the future. Regional waterfront sale comparisons 3 and 4 are indications of multi-family and mixed use sites with strong water views. Regional Waterfront comparison 3 in particular, has similar highest and best use characteristics.

The last three comparisons plus the listing are local Bellingham sales that all transacted relatively recently. The subject's situation on the waterfront is superior to all of the comparisons, though its size requires some significant downward adjustment. These sales exhibit what local developers are planning in the area but do not represent the broader appeal of the subject site to regional developers given its size, prestige, and potential.

In all, the sales present a range of indications after adjustment of about \$17/sf to \$53/sf. The subject's size suggests a value toward the lower end of the range, while its excellent waterfront location, slightly lower expected cost to build parking compared to a similar site that would require some below grade excavation, the permissive zoning, and government support suggest a higher value. In all, we conclude to a value of \$25/sf land area before consideration of the reduced impact fees that apply to the site.

During our conversations with Port representatives, the idea of selling the property in smaller pieces also came up. As evidenced by the analysis, the large site size greatly impacts the price/sf value conclusion. All of the comparisons are under two acres, reflecting the typical single-phase development that developers are taking on in the current market. Were the subject to transact in parcels of two acres or so, we would not apply the 25% downward adjustment for size, and therefore, our value conclusion reflects a base land value for smaller sites of about \$31 to \$33/sf. We would expect some small variation within the prices/sf of smaller sites within the larger subject area based on orientation with the roads, water, and larger development. Generally, we believe that the higher FAR allowance on the Eastern Parcel roughly offsets being closer to the water on the Western Parcel, thus these two sites would have the same unit value.

Sale Comparison Conclusion -Granary Parcel

The subject includes a roughly 34,000 sf parcel of land in the northwest corner of the property that is presently improved with an old granary building that has a roughly 19,000 sf footprint. The Port attributes no value to this improvement and has offered to demolish the building for the sale of the property or to leave it standing. This parcel falls within the Shoreline Master Plan area, requiring significant buffers, lower height limits, and stricter requirements for use. As the building stands, it is very close to the water and presents a unique building that could be reused. Given the zoning standards, it is likely that the building will be kept by the developer and renovated into a commercial use, such as a brewery and restaurant or possibly office space.

This waterfront site has the benefit of close water views and water access, but is less buildable due to the presence of the SMP overlay. At most, a building on this piece of land would be able to achieve a 50' height, and the floor plate would likely be very limited by shoreline setbacks. The inferior zoning relative to the Eastern and Western Sites requires a large downward adjustment, but the superior water access and proximity, as well as small size somewhat offset this. In the end, we conclude that the value of the granary site is \$25/sf land area.

Contribution of Reduced Impact Fees

To the base land value, we must consider the relative superiority of the subject site based on reduced impact fees charged to developers. These fees were previously discussed in the Site Description. In sum, residential developers will face no park impact fees (a savings of \$3,523/unit). In the case of commercial development, no traffic impact fees (a savings of \$1,907 per PM peak hour trip) will be charged up to the 1,077 trips assigned to the previous use as a paper mill.

In order to assess the value impact, we have made some assumptions on the most likely planned buildout at the subject. The Eastern and Western Sites are expected to eventually be built out to their full FAR potential. Given the potential FARs of 4 and 5 for the Western and Eastern Sites as well as their relative sizes, about 200,000 sf and 236,000 sf respectively, the maximum potential FAR for these properties is 1.98 million sf.

Discussions with Port of Bellingham representatives reveal that Harcourt plans to build about 50% residential uses on the site and about 50% other commercial uses such as office and retail. The developer also plans on including substantial low income units in order to achieve the FAR bonuses and develop to the maximum extent allowed by the zoning. Given the relative strengths of the commercial and residential markets, this break down of proposed space seems unlikely. All of the local land sales we identified as the most similar to the subject were purchased for multi-family development, further supporting our conclusion that a higher proportion of residential is likely for the subject property. We estimate that about 60% of the total development, or 1,188,000 sf will be multifamily residential. We estimate an average unit size of 900 sf, resulting in a total number of units of 1,320.

The savings in park impact fees for the residential units is equal to 1,320 units x \$3,523/unit or \$4,650,360.

We believe there will be a ground floor retail element, consisting mostly of restaurants, which would serve the surrounding population and park users. This would be equal to about 19,800 sf or 1% of potential FAR, which would accommodate about three restaurants plus a couple smaller retail users. The long term plans also call for a hotel on the property. For our analysis, we estimate a 180 room hotel, measuring roughly 120,000 sf or 6% of the potential FAR. We would expect two peak trips generated per 1,000 sf of retail and hotel, so these areas total another 280 trips. Our assumption that a hotel would have a similar traffic profile as standard retail suggests that the 139,800 sf retail/hotel area could be allocated differently based on desired sizes by the developer.

The remainder of the buildable area will be office space. This 33% of the potential FAR is equal to about 650,000 sf of office space. We estimate that office space would require three peak trips per 1,000 sf, suggesting a total number of peak trips of 1,950.

By our calculation, the non-residential development of the Eastern and Western Sites will generate far more peak hour trips than the remaining credit available from existing uses, which

totals 1,077 historic peak trips. Thus, we cap this beneficial fee reduction at the maximum possible or $1,077 \times \$1,907$, which equals to **\$2,053,839**.

Together the park impact and traffic impact fee savings total **\$6,704,199**. These fees are paid at the time of permitting. We distribute this savings across the 436,000 square feet of the Eastern and Western Sites to arrive at an adjustment of \$15/sf, with the total value of the Eastern and Western sites then being \$40/sf, including the parking impact and traffic impact fee savings.

Thus, our final value conclusions are:

<u>Description</u>	<u>Effective Valuation Date</u>	<u>Value Conclusion</u>
Fee Simple Interest		
As Is Market Value - Eastern & Western Sites	May 23, 2014	\$40/sf
As Is Market Value - Granary Site	May 23, 2014	\$25/sf

We note that were the Eastern and Western Sites to be sold off in smaller parcels of about two acres or less, the value indication would be adjusted for the traffic and park impact fee benefits based on the proposed development on each parcel and whether the existing peak trip allotment has been used up yet.

ADDENDA

2013 Shoreline Master Plan Zoning Matrix
Whatcom County Area Description
Appraisers' Experience & Qualifications

2013 SHORELINE MASTER PLAN ZONING MATRIX

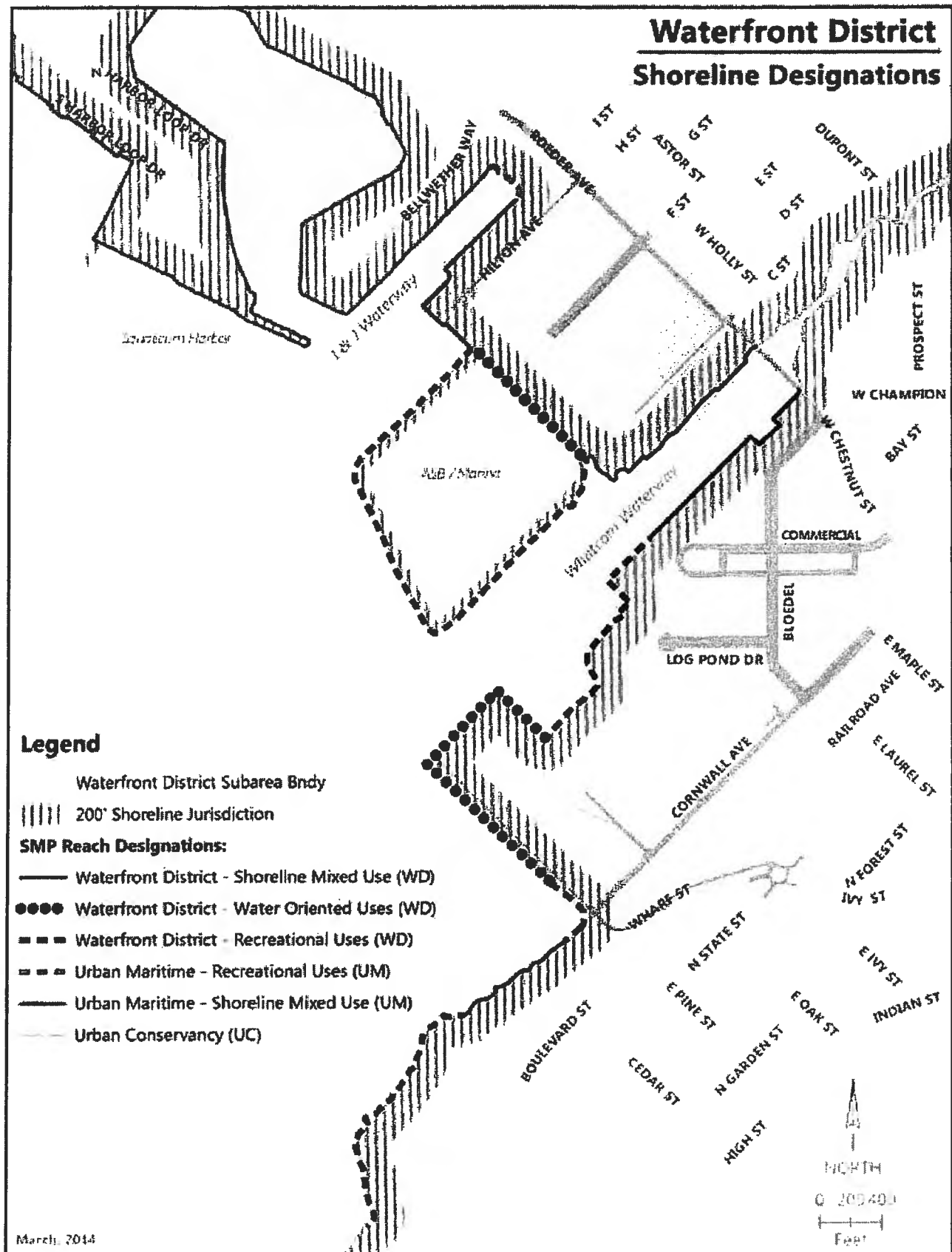
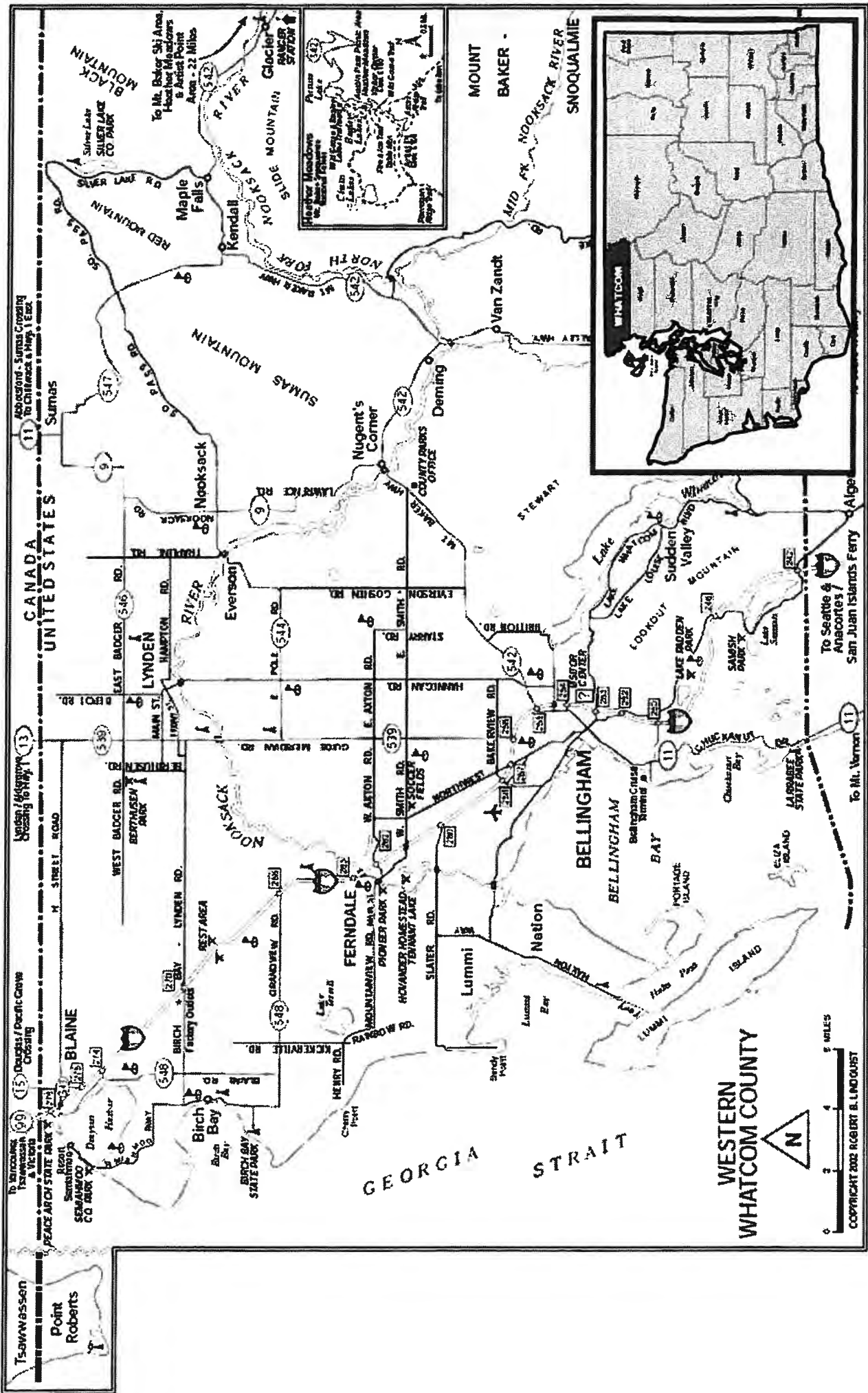


Figure 6

WHATCOM COUNTY AREA DESCRIPTION



Whatcom County Area Description

General Description

The subject property is located in Whatcom County, a northwestern county of the state of Washington. Whatcom County is bordered by British Columbia (Canada) to the north, the saltwater of the Straits of Georgia on the west, and Skagit County to the south. Generally, the eastern boundary is the crest of the Cascade Mountains. Major population centers lie along the saltwater bays and the Interstate-5 corridor in the western part of the county. Bellingham, the largest city, is located at the southwestern corner of the county on Bellingham Bay.

Whatcom County is accessible by Interstate-5, an interstate highway running from the Canadian border through the Western U.S. to the Mexican border. Interstate-5 runs north and south across the western portion of the county, skirting the east side of the Bellingham Central Business District, then running north to Ferndale and to Blaine. Blaine abuts the Canadian border, which is about 20 miles north of Bellingham.

The northwestern part of the county (from Bellingham north to the Canadian border) is relatively flat, with elevations ranging from sea level to a few hundred feet. The eastern two-thirds of the county is mostly wooded foothills and mountains, rising up to the mountain peaks of the north Cascade range. The terrain south of Bellingham is steep foothills. About one-third of all the land in the county is national forest.

The intensity of land use is greatest in Bellingham, with industry along the coast, a commercial core, and high-density residential radiating from the central city, generally becoming suburban toward the city limits. Over the past decade, however, retail, business park, and industrial uses have been developed close to or just beyond the city limits. The rural area in the flatlands to the north of the city is mainly agricultural, with resort and recreational uses clustered along some of the shoreline. As the foothills rise just east and south of the city, logging and recreation are the primary uses.

Bellingham

Bellingham, the county seat and largest city in the county, is located 88 miles north of Seattle and 55 miles south of downtown Vancouver, British Columbia. Bellingham is the principal retail and commercial center for Whatcom County. Roads in the area are laid in such a pattern as to funnel nearly all traffic going north or south across the county's Canadian border through the city of Bellingham. Bellingham Airport handles passenger jets, with flights daily to Seattle, Oregon, and California. A 900,000sf regional shopping center adjacent to the Interstate-5 freeway on the north edge of Bellingham (Bellis Fair Mall) opened in mid-1988. In October 1989, the Alaska Marine Highway System (Alaska Ferries) made Bellingham the "Lower 48" terminal

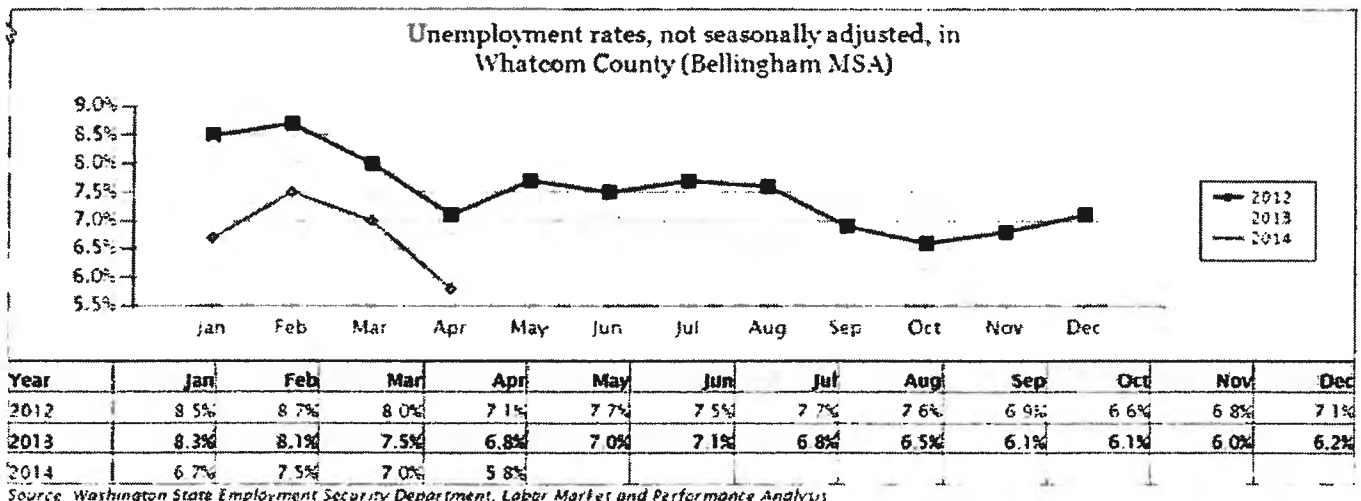
Whatcom County Employment Data

Civilian Labor Force and Unemployment Rate -Whatcom County					
Year	Period	Labor Force	No. of Employed	No. of Unemployed	Unemployment Rate
2014	April	102,590	96,630	5,960	5.8%

Historical Data for Unemployment Rate in Whatcom County			Current Employment Statistics (CES) in Bellingham MSA		
Year	Labor Force	Unemp. Rate %	Period	CES Industry Title	No. of Employed
2013	N/A	N/A	Mar-2014	Total Nonfarm	84,900
2012	108,520	7.3	Mar-2014	Total Private	67,800
2011	106,230	8.3	Mar-2014	Goods Producing	15,000
2010	107,354	9.0	Mar-2014	Natural resources & mining	6,100
2009	107,699	8.5	Mar-2014	Manufacturing	8,900
2008	109,180	5.0	Mar-2014	Service-Providing	69,900
2007	105,770	4.2	Mar-2014	Private Service Providing	52,800
2006	103,190	4.5	Mar-2014	Trade, Trans. & Utilities	15,600
2005	102,870	5.0	Mar-2014	Retail Trade	11,000
2004	99,660	5.8	Mar-2014	Financial Activities	3,300
2003	95,370	6.8	Mar-2014	Pro. and Business Services	7,700
2002	91,820	6.9	Mar-2014	Leisure and Hospitality	9,800
2001	87,720	6.5	Mar-2014	Government	17,100
2000	88,020	5.1	Mar-2014	Federal	1,300
1999	85,480	4.8	Mar-2014	State government	5,900
1998	81,320	5.0	Mar-2014	Local government	9,900
1997	79,840	5.5			
1996	79,310	6.5			
1995	78,810	7.0			
1990	68,190	5.1			

Sources:

Washington State Employment Security Department, Bureau of Labor & Statistics



site. Seattle had been the terminal site for decades. Bellingham was originally a wood products mill town and a large Georgia Pacific tissue mill on the downtown waterfront operated until 2007. Western Washington University is in Bellingham and is the county's largest employer with about 2,235 employees.

Whatcom County Municipalities Population

	1985	1990	1995	2000	2005	2010	2013
Whatcom County	116,000	127,780	148,300	166,814	180,800	201,140	205,800
Unincorporated	55,699	59,187	69,635	74,231	79,848	87,079	88,276
Incorporated	60,301	68,593	78,665	92,583	100,952	114,061	117,524
Bellingham	46,360	52,179	57,830	67,171	72,320	80,885	82,310
Blaine	2,420	2,489	3,125	3,770	4,240	4,684	4,785
Everson	1,100	1,490	1,800	2,035	2,080	2,481	2,550
Ferndale	4,600	5,398	6,830	8,758	9,750	11,415	12,290
Lynden	4,500	5,709	7,315	9,020	10,480	11,951	12,730
Sumas	736	744	940	978	1,112	1,338	1,410
Nooksack	585	584	825	863	970	1,307	1,449
State Total	4,384,100	4,866,673	5,429,900	5,894,121	6,256,400	6,724,540	6,882,400

Population and Employment

The table above summarizes the recent population history of the county. The following table shows the rate of population growth both in the county and in the state of Washington as a whole. The following information is from the Washington State office of Financial Management.

	Whatcom County	% Change	City of Bellingham	% Change	State of Washington	% Change
1980	106,701		45,794		4,132,353	
1990	127,780	19.80%	52,179	13.90%	4,866,663	17.80%
1995	148,300	16.10%	57,830	10.80%	5,429,900	11.60%
1996	152,800	3.00%	59,840	3.50%	5,516,800	1.60%
2000	166,814	3.42%	67,171	4.84%	5,803,400	0.80%
2001	170,600	2.27%	68,890	2.56%	5,974,900	2.96%
2002	172,200	0.94%	69,260	0.54%	6,041,700	1.12%
2003	174,500	1.34%	69,850	0.85%	6,098,300	0.93%
2004	177,300	1.60%	71,080	1.76%	6,167,800	1.14%
2005	180,800	1.97%	72,320	1.74%	6,256,400	1.44%
2006	184,300	1.94%	73,460	1.58%	6,375,600	1.91%
2007	188,300	2.17%	75,220	2.40%	6,488,000	1.76%
2008	191,000	1.43%	75,750	0.70%	6,587,600	1.54%
2009	193,100	1.10%	76,130	0.50%	6,668,200	1.22%
2010	201,140	4.16%	80,885	6.25%	6,724,540	0.84%
2011	202,100	0.48%	81,700	1.01%	6,767,900	0.64%
2012	203,500	0.69%	81,360	-.41%	6,817,770	0.73%
2013	205,800	1.13%	82,310	1.16%	6,882,400	0.94%

Whatcom County Major Employers

Commercial, Service & Education				
COMPANY	CITY	ZIP	BUSINESS TYPE	EMPLOYEES
Western Washington University	Bellingham	98225	Education	2235
St. Joseph Hospital	Bellingham	98225	Health Care	1757
Bellingham School District	Bellingham	98225	Education	1651
Whatcom County	Bellingham	98225	Government	930
Ferndale School District	Ferndale	98248	Education	910
City of Bellingham	Bellingham	98225	Government	858
Haggen	Bellingham	98225	Grocery	843
Sodexo Services	Bellingham	98225	Catering	648
Brown & Cole	Bellingham	98225	Grocery	634
T-Mobile	Bellingham	98226	Call Center	525
Fred Meyer	Bellingham	98225	Department Store/Grocery	441
Whatcom Community College	Bellingham	98226	Education	438
Lummi Indian Business Council	Bellingham	98248	Nonprofit	437
Everyday Staffing LLC	Bellingham	98225	Employment Agency	396
Mount Baker School District	Deming	98244	Education	389
Wal-Mart	Bellingham	98226	Department Store	350
Anvil Corp.	Bellingham	98225	Engineering Firm	345
Madrona Medical Group	Bellingham	98226	Health Care	340
Bellingham Technical College	Bellingham	98225	Education	337
Silver Reef Casino	Ferndale	98248	Casino	327
Blaine School District	Blaine	98230	Education	321
Olympic Health Management	Bellingham	98225	Health Care	321
Semiahmoo Resort	Blaine	98230	Hotels/Motels	250
Bellingham Cold Storage	Bellingham	98225	Food Storage	225
Premier Graphics	Bellingham	98226	Printers	225
Horizon Bank	Bellingham	98225	Bank	180
Peoples Bank	Bellingham	98225	Bank	177
Lowe's Home Improvement	Bellingham	98226	Building Supply	169
Whatcom Educational Credit Union	Bellingham	98225	Credit Union	160
Homestead Farms Golf Resort	Lynden	98264	Hotels/Motels	150
The Bellingham Herald	Bellingham	98225	Newspapers	150
DIS Corp.	Bellingham	98225	Software Developers	122
Home Depot	Bellingham	98226	Building Supply	100
Hardware Sales	Bellingham	98225	Building Supply	95
Best Western Lakeway Inn	Bellingham	98225	Hotels/Motels	90
Logos Bible Software	Bellingham	98225	Software Developers	85
Bellingham Athletic Club	Bellingham	98225	Health Clubs	80
Totally Chocolate	Blaine	98230	Promotional Companies	80
Moss Adams	Bellingham	98226	Accountants	63
Industrial Credit Union	Bellingham	98225	Credit Union	62
Bank of America	Bellingham	98225	Bank	60
Banner Bank	Bellingham	98225	Bank	58
US Bank	Bellingham	98225	Bank	58
Washington Mutual	Bellingham	98225	Bank	55
Whidbey Island Bank	Bellingham	98225	Bank	52
Bank Northwest	Bellingham	98225	Bank	50
Diehl Ford	Bellingham	98225	Auto Sales & Service	50
KeyBank	Bellingham	98225	Bank	50
Westside Building Supply	Lynden	98264	Building Supply	50

Contracting, Construction & Building				
COMPANY	CITY	ZIP	BUSINESS TYPE	EMPLOYEES
Diamond B Constructors	Bellingham	98225	General Contractor	350

Haskell Corp.	Bellingham	98225 General Contractor	350
Homestead Northwest	Lynden	98264 Home Builder	200
Johnson Outdoors/Ocean Kayak	Ferndale	98248 Boat Building	140
Mills Electric	Bellingham	98225 Electrical Contractors	140
Strider Construction	Bellingham	98226 General Contractor	120
Wilder Construction	Bellingham	98226 General Contractor	100
Fairhaven Shipyards	Bellingham	98226 Boat Repair	80
Dawson Construction	Bellingham	98225 General Contractor	75
Matrix Service Co.	Bellingham	98226 General Contractor	75
Sea Sport Boats	Bellingham	98226 Boat Building	60
Aluminum Chambered Boats	Bellingham	98226 Boat Building	51
Colacurcio Brothers Construction	Blaine	98230 General Contractor	50
Express Electric	Bellingham	98225 Electrical Contractors	50
Faber Brothers Construction	Lynden	98264 General Contractor	50
IMCO General Construction	Bellingham	98226 General Contractor	50

Manufacturing				
COMPANY	CITY	ZIP	BUSINESS TYPE	EMPLOYEES
Alcoa Intalco Works	Ferndale	98248	Aluminum Ingots	800
British Petroleum (BP)	Ferndale	98248	Petroleum Refining	550
Heath Techna	Bellingham	98226	Aerospace	420
Alpha Technologies	Bellingham	98226	Battery & generator back-up systems	300
ConocoPhillips	Ferndale	98248	Petroleum Refining	268
Georgia-Pacific West	Bellingham	98225	Manufacture paper products	240
Yamato Engine Specialists	Bellingham	98226	Rebuilt Import Auto Engines	170
South Everson Lumber	Everson	98247	Lumber Processing	150
Teldon International	Blaine	98230	Digital Offset & Direct Mail Printing & Color Separations	150
Whatcom Farmers Co-Op	Lynden	98264	Fertilizer Blending	150
Canfor USA	Bellingham	98225	Lumber Processing	140
Grizzly Industrial	Bellingham	98226	Woodworking and Metal working Machinery and accessories	140
Mt. Baker Products	Bellingham	98225	Plywood	140
Samson Rope	Ferndale	98248	Marine & Fishing Rope, Cordage & Twine	125
Sauder Moldings	Ferndale	98248	Interior Mouldings	125
Cascade Dafo, Inc.	Ferndale	98248	Pediatric Orthoses	121
Cascade Prosthetics	Ferndale	98248	Prosthetics	121
Nature's Path	Blaine	98230	Cereal	120
Ershigs-Biloxi	Bellingham	98225	Fiberglass pipes & tanks	100
Homax Products, Inc.	Bellingham	98226	Home Improvement Kits & Products	100
MAAX Hydro Swirl Mfg.	Bellingham	98225	Bathtubs	100
Allsop, Inc.	Bellingham	98226	Computer, consumer electronic, home & garden accessories	90
Botanical Labs	Ferndale	98248	Herbal & Homeopathic Supplements	85
Korvan	Lynden	98264	Harvesting Equipment	85
IKO Pacific	Sumas	98247	Asphalt Shingles	80
Great Western Lumber	Everson	98247	Lumber Processing, Sawdust & Pulpwood	75
Hertco Kitchens, LLC	Ferndale	98248	Kitchen Cabinets	75
Boundary Bay Brewing Co.	Bellingham	98225	Ale & lager	70
Flora, Inc.	Lynden	98264	Teas, Oils & Herbal Supplements	70
Current Industries, Inc.	Bellingham	98225	Cable & wire harness & electromechanical assembly	65
Arrowac Fisheries, Inc.	Bellingham	98226	Fish Processing	60
Nielsen Bros., Inc.	Bellingham	98226	Logging	60
Northwest Podiatric Laboratory	Blaine	98230	Orthotic Footwear	60
Bellingham Marine Industries	Bellingham	98225	Concrete marine docks	55
Elenbaas Co., Inc.	Sumas	98295	Animal Feed	53
Fairhaven Group, Inc.	Bellingham	98225	Computer bags & backpacks	52
Barlean's Organic Oils, LLC	Ferndale	98248	Flax Oils & Appetite Suppressants	50
Blue Sea Systems	Bellingham	98226	Marine battery boxes, circuit breakers & connectors	50
Chemco, Inc.	Ferndale	98248	Cedar Siding, Shakes & Shingles & Ex. Lumber & Plywood	50
FishKing Processors, Inc.	Bellingham	98225	Fish Processing	50
WestFarm Foods	Lynden	98264	Powdered Milk	50

Immediately south of Whatcom County is Skagit County which had a 2013 estimated population of 118,600. The Mount Vernon/Burlington area, the main population concentration in Skagit County, is about 30 minutes south of Bellingham along Interstate-5. Snohomish and King Counties are located just south of Skagit County. Snohomish has a 2013 estimated population of 730,500 and King 1,981,900. The city of Everett in Snohomish County is one hour south of Bellingham along Interstate-5 and the city of Seattle in King County is 1½ hours south of Bellingham on Interstate-5.

Abutting Whatcom County to the north is the province of British Columbia, Canada. The suburbs of the city of Vancouver, B. C. extend southward to the Whatcom County border. The greater Vancouver metropolitan population as of 2013 is estimated at 2,451,779 with one-third of that number residing south of the Fraser River (within about 15 miles of the Whatcom County border).

Western Washington University is a large economic and cultural influence in the area, and it is the third largest university in Washington State with 14,950 students in the 2013-2014 academic year. The faculty count as of Fall 2013 was about 706. This is the largest employer in Whatcom County.

Whatcom County employment has been based historically on fishing, agricultural, timber, and other natural resource industries. Another source of jobs has been Western Washington University. In the 1950s and 1960s, two major oil refineries and an aluminum smelter established facilities in the county, taking advantage of deep water ocean access and relatively inexpensive electrical power. These refineries and the smelter are located at Cherry Point, four miles south of Birch Bay.

Please refer to the tables within this section that indicate major industries and employers within the county. Data for April 2014 indicates a current unemployment rate of 5.8% which represents a 1.5% drop from two year ago and a 1.2% drop from March 2014 figures. The unemployment rate has been as high as 7.5% in February 2014, but was closer to 6% in November and December of 2013. This non-adjusted rate remains below the Washington unemployment rate of 6.1%. This rate is lower than the 6.3% April 2014 national rate.

The Taxable Retail Sales table in this report shows the recent history of retail sales in the city of Bellingham and for Whatcom County as a whole. In addition, this report indicates the USD/CAD exchange rates for each year. One long term trend for this area is increased patronage from cross-border shopping, and the retail sector has been a major economic growth component over the past 20 years. This cross-border shopping varies with changes in the interest rate, and occasionally heightened border security.

Taxable retail sales in Whatcom County rose every quarter since 1998, until the third quarter of 2008, when they pulled back by 1.1%, then about 10% to 12% (year over year) for four consecutive quarters before settling at negative 1.2% in the final quarter of 2009. This pullback was significantly more pronounced within the City of Bellingham, which saw sales tumble over 5% in 2008, and 9.8% in 2009. Retail sales are up 1.6% from 2009 to 2010 in Whatcom County, but are up 4.4% in the more volatile Bellingham market. The recovery has strengthened over

Taxable Sales

Bellingham

Whatcom County

Canada \$
in US Funds

% change from Yr Prior			% change from Yr Prior		Bellingham sales as % of County Total	(as of January of the year)
Between '03 and '04 the state switched from SIC codes to NAIC codes						
2004	\$1,795,814,981		\$2,604,947,669		68.9%	\$0.77
2005	\$1,925,885,723	7.2%	\$2,853,709,508	9.5%	67.5%	\$0.83
2006	\$2,056,571,755	6.8%	\$3,128,450,639	9.6%	65.7%	\$0.88
2007	\$2,153,523,750	4.7%	\$3,236,590,032	3.5%	66.5%	\$0.93
2008	\$2,042,629,436	-5.1%	\$3,159,006,607	-2.4%	64.7%	\$0.82
2009	\$1,843,043,183	-9.8%	\$2,860,207,856	-9.5%	64.4%	\$0.96
2010						
1st Qtr	\$417,809,295	2.6%	\$634,665,670	1.6%		
2nd Qtr	\$473,533,457	5.8%	\$716,003,421	1.0%		
3rd Qtr	\$505,473,819	2.7%	\$766,414,021	1.5%		
4th Qtr	\$526,949,626	6.3%	\$789,104,290	2.3%		
	\$1,923,766,197	4.4%	\$2,906,187,402	1.6%	66.2%	\$1.00
2011						
1st Qtr	\$446,444,967	6.9%	\$657,658,617	3.6%		
2nd Qtr	\$498,562,840	5.3%	\$742,635,728	3.7%		
3rd Qtr	\$531,252,000	5.1%	\$797,712,467	4.1%		
4th Qtr	\$550,025,053	4.4%	\$828,140,996	4.9%		
	\$2,026,284,860	5.3%	\$3,026,147,808	4.1%	67.0%	\$0.98
2012						
1st Qtr	\$474,253,829	6.2%	\$716,125,125	8.9%		
2nd Qtr	\$525,645,315	5.4%	\$792,140,146	6.7%		
3rd Qtr	\$578,607,134	8.9%	\$860,867,899	7.9%		
4th Qtr	\$593,750,920	7.9%	\$891,517,840	7.7%		
	\$2,172,257,198	7.2%	\$3,260,651,010	7.7%	66.6%	\$1.02
2013						
1st Qtr	\$501,902,131	5.8%	\$757,059,193	5.7%		
2nd Qtr	\$573,048,467	9.0%	\$853,193,248	7.7%		
3rd Qtr	\$603,494,343	4.3%	\$915,278,415	6.3%		
4th Qtr	\$604,141,759	1.8%	\$907,940,126	1.8%		
	\$2,282,586,700	5.1%	\$3,433,470,982	5.3%	66.5%	\$0.99

Dept of Revenue Research Dept., and Federal Reserve for exchange rates.

McKee & Schalka, Inc.

the past year, with sales up 4.1% in the County, and 5.3% in Bellingham. The recovery has continued with approximately 5% increase in sales in both Bellingham and Whatcom County over the past few years.

Overall, due to significant historical gains within the retail sector over the long term, we note that the recent retail pullback was a significant challenge for the local economy. However, retail conditions have improved over the past four years in conjunction with a stronger Canadian Dollar.

Recreation and Vacation Industry

Whatcom County has long been a vacation destination for Canadians from the Vancouver, B.C. area, and in the mid 1980s new high quality resort facilities were built on the Birch Point Peninsula at Blaine in the extreme northwest corner of the county along the salt water shoreline. The Resort at Semiahmoo was the initial development, with a resort and meeting hotel, marina, Arnold Palmer designed golf course, and private home sites along the shoreline and golf course.

The Resort at Semiahmoo has seen much expansion, with an addition of a second golf course, a 15,000 sf. meeting and conference area, and a wedding and reception venues. These additions at Semiahmoo have helped to create a beautifully multi-faceted resort and vacation spot. The resort ran into financial problems after the economy plummeted, but a new company purchased the hotel and recently renovated the property to the tune of \$7 million.

The Resort at Semiahmoo draws hotel guests and permanent residents from not only Whatcom County and Vancouver, B.C., but from Western Washington and beyond. A number of home owners at Semiahmoo moved up from California. The Resort at Semiahmoo has helped expose Whatcom County to many more people than in the past.

Outlook for Whatcom County

Growth in both employment opportunities and population in the Bellingham area should continue over the long term, and significant higher education/public sector employment within Whatcom County. However, as retailing is such a large factor in the Bellingham economy and because many of the retail dollars are Canadian, the rate of economic growth will depend not only on the local and U.S. economic developments, but also the Vancouver, B.C., economy and the U.S.-Canadian dollar exchange rate. Currently the Canadian exchange rate is pretty on par with that of the US. But at the same time, the US economy continues to expand mitigating this somewhat. Overall, we expect the retail sector to continue to improve.

Whatcom County, Washington

EMPLOYMENT STATUS	Estimate	Percent
Population 16 years and over	159,366	159,366
In labor force	103,411	64.9%
Civilian labor force	103,247	64.8%
Employed	94,761	59.5%
Unemployed	8,486	5.3%
Armed Forces	164	0.1%
Not in labor force	55,955	35.1%
Civilian labor force	103,247	103,247
Percent Unemployed	(X)	8.2%
Females 16 years and over	81,117	81,117
In labor force	48,730	60.1%
Civilian labor force	48,716	60.1%
Employed	45,146	55.7%
Own children under 6 years	12,519	12,519
All parents in family in labor force	7,601	60.7%
Own children 6 to 17 years	27,710	27,710
All parents in family in labor force	18,582	67.1%
COMMUTING TO WORK		
Workers 16 years and over	92,557	92,557
Car, truck, or van -- drove alone	67,972	73.4%
Car, truck, or van -- carpooled	8,861	9.6%
Public transportation (excluding taxicab)	2,604	2.8%
Walked	4,197	4.5%
Other means	3,264	3.5%
Worked at home	5,659	6.1%
Mean travel time to work (minutes)	20.6	(X)
OCCUPATION		
Civilian employed population 16 years and over	94,761	94,761
Management, business, science, and arts occupations	31,454	33.2%
Service occupations	18,186	19.2%
Sales and office occupations	24,168	25.5%
Natural resources, construction, and maintenance occupations	9,857	10.4%
Production, transportation, and material moving occupations	11,096	11.7%
INDUSTRY		

Civilian employed population 16 years and over	94,761	94,761
Agriculture, forestry, fishing and hunting, and mining	3,084	3.3%
Construction	6,582	6.9%
Manufacturing	9,715	10.3%
Wholesale trade	2,725	2.9%
Retail trade	12,767	13.5%
Transportation and warehousing, and utilities	3,970	4.2%
Information	1,857	2.0%
Finance and insurance, and real estate and rental and leasing	5,800	6.1%
Professional, scientific, and management, and administrative and	8,514	9.0%
Educational services, and health care and social assistance	20,347	21.5%
Arts, entertainment, and recreation, and accommodation and food	10,693	11.3%
Other services, except public administration	4,587	4.8%
Public administration	4,120	4.3%

Source: U.S. Census Bureau, 2006-2010 American Community Survey

Whatcom County, Washington

CLASS OF WORKER		
Civilian employed population 16 years and over	94,761	94,761
Private wage and salary workers	71,846	75.8%
Government workers	15,027	15.9%
Self-employed in own not incorporated business workers	7,782	8.2%
Unpaid family workers	106	0.1%
INCOME AND BENEFITS (IN 2010 INFLATION-ADJUSTED)		
Total households	78,186	78,186
Less than \$10,000	6,260	8.0%
\$10,000 to \$14,999	4,671	6.0%
\$15,000 to \$24,999	8,694	11.1%
\$25,000 to \$34,999	8,762	11.2%
\$35,000 to \$49,999	11,310	14.5%
\$50,000 to \$74,999	15,398	19.7%
\$75,000 to \$99,999	10,683	13.7%
\$100,000 to \$149,999	8,337	10.7%
\$150,000 to \$199,999	2,156	2.8%
\$200,000 or more	1,915	2.4%
Median household income (dollars)	49,031	(X)
Mean household income (dollars)	62,066	(X)
With earnings	61,807	79.1%
Mean earnings (dollars)	59,855	(X)
With Social Security	20,118	25.7%
Mean Social Security income (dollars)	16,073	(X)
With retirement income	12,948	16.6%
Mean retirement income (dollars)	23,942	(X)
With Supplemental Security Income	3,257	4.2%
Mean Supplemental Security Income (dollars)	8,881	(X)
With cash public assistance income	2,880	3.7%
Mean cash public assistance income (dollars)	3,174	(X)
With Food Stamp/SNAP benefits in the past 12 months	7,846	10.0%
Families	47,698	47,698
Less than \$10,000	1,466	3.1%
\$10,000 to \$14,999	1,353	2.8%
\$15,000 to \$24,999	3,720	7.8%
\$25,000 to \$34,999	4,283	9.0%
\$35,000 to \$49,999	6,469	13.6%
\$50,000 to \$74,999	11,284	23.7%
\$75,000 to \$99,999	8,519	17.9%
\$100,000 to \$149,999	7,148	15.0%
\$150,000 to \$199,999	1,824	3.8%

\$200,000 or more	1,632	3.4%
Median family income (dollars)	64,586	(X)
Mean family income (dollars)	75,941	(X)
Per capita income (dollars)	25,407	(X)
Nonfamily households	30,488	30,488
Median nonfamily income (dollars)	28,172	(X)
Mean nonfamily income (dollars)	38,203	(X)
Median earnings for workers (dollars)	24,780	(X)
Median earnings for male full-time, year-round workers (dollars)	47,109	(X)
Median earnings for female full-time, year-round workers (dollars)	34,690	(X)

Source: U.S. Census Bureau, 2006-2010 American Community Survey

APPRAISERS' EXPERIENCE & QUALIFICATIONS

McKEE & SCHALKA
REAL ESTATE APPRAISAL SERVICES & CONSULTANTS, INC.

1200 Sixth Avenue, Suite 1805, Seattle, Washington 98101

Telephone (206) 343-8909 Fax (206) 386-5777

EXPERIENCE & QUALIFICATIONS

KENNETH A. BARNES, MAI, CRE

Mr. Barnes graduated from the University of Missouri - Columbia with a BS in Biochemistry in 1982. In 1988 Mr. Barnes received an MBA with a Finance concentration from the University of Chicago.

Mr. Barnes received the MAI (Member Appraisal Institute) designation in 1989. He also holds the CRE designation awarded by the Counselors of Real Estate. Mr. Barnes entered the real estate business in 1981, first as a principal acquiring and renovating small rental properties, and then as an appraiser in 1983 with Moore & Shryock in Columbia, Missouri. In 1984 Mr. Barnes moved to Chicago to join Real Estate Research Corporation. He joined Cushman & Wakefield in 1989 as a Senior Appraiser in Seattle. In 1990, Mr. Barnes was elected an officer of the company as a Director and Manager of the Seattle practice. In 1998 he left the company to travel and returned to CB Richard Ellis. After 18 months of corporate advisory work he joined first one, and then a second, startup in executive roles. Mr. Barnes returned to Cushman & Wakefield in 2001 as Director. Mr. Barnes joined McKee & Schalka as Principal in 2006.

Mr. Barnes has authored a number of articles in the Appraisal Journal and other real estate publications, and has been a guest speaker or panelist for real estate organizations including NAIOP, IREM and the Appraisal Institute.

Mr. Barnes is a Certified General Real Estate Appraiser (Washington State Certificate No. 1100578), and has completed the requirements of the continuing education program of the Appraisal Institute. In his appraisal experience, Mr. Barnes has appraised and analyzed a wide variety of commercial property types, and provided critical appraisal, consultation and litigation services to a diversified range of clients.

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EXPERIENCE & QUALIFICATIONS

ALLISON ROSELLE, MAI

Ms. Roselle graduated from Vassar College with a Bachelor of the Arts Degree in Geography. She received her Master Degree in Urban Planning from New York University. Prior to joining McKee and Schalka, Ms. Roselle worked as a budget analyst for the City of New York.

In her several years of appraisal experience, Ms. Roselle has appraised a variety of property types, including retail, industrial, office, special purpose, and multi-family residential. Her appraisal experience has focused on King, Snohomish, Pierce and Kitsap Counties. Ms. Roselle also has experience with partial acquisition appraisals for public agency acquisition and worked on the appraisal of the underground interests to be acquired by Sound Transit for the Capitol Hill (downtown to UW) segment.

Ms. Roselle is a Certified General Real Estate Appraiser (Washington State Certificate No. 1102038) and received the MAI designation in May 2012.

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EXPERIENCE & QUALIFICATIONS

TATIANA BUTLER

Ms. Tatiana Butler joined McKee & Schalka in the fall of 2013 as a prospective appraiser. In 2014, Tatiana became a State Registered Trainee (Washington State Certificate No. 1001757). Appraisal course work includes USPAP; most current 2014-2015 update course, Basic Appraisal Principles, and Basic Appraisal Procedures. Property types appraised include churches, fast food establishments, flex industrial properties and industrial warehouses, general office, medical and dental offices, community centers, automotive retail and dealerships, restaurants and miscellaneous retail properties, along with commercial and residential vacant land.

Ms. Butler graduated from Amherst College in 2010 with a Bachelors of Art degree in Biology, and a concentration in Fine Arts. Tatiana studied abroad in South Africa, traveling to Kruger National Park, Cape Town and numerous other national parks to study field biology and South African culture and ecology. During college she worked as a residential counselor, as well as a fisheries technician in Alaska and Montana.

Prior to joining the McKee & Schalka team, she worked for two non-profits in Washington DC, both focused on the environment and science literacy. Tatiana grew up in Nikiski, Alaska and loves all outdoors activities. In particular she is an avid backpacker and horseback rider and looks forward to developing her skiing skills further in the Cascades.

MCAULIFFE & MCMAHON
COLUMBIA VALUATION GROUP, INC. — SEATTLE
Real Estate Appraisers and Consultants

2402 Northwest 195th Place
Shoreline, Washington 98177
206-364-8556 (Fax)
206-364-8580

June 17, 2014

Ms. Shirley McFearin
Director of Real Estate
Port of Bellingham
1801 Roeder Avenue
P.O. Box 1677
Bellingham, Washington 98227

RE: 10.8 Acres of Waterfront Land
 Bellingham Waterfront, West Corner of Cornwall and Chestnut
 Bellingham, Washington 98227

CVG File No.: 14-113
Port of Bellingham Purchase Order No.: 44960

Dear Ms. McFearin:

At your request, we have prepared a narrative appraisal report of the above captioned property. The purpose of this appraisal is to provide an opinion of the As Is Value of the fee simple interest in the above-captioned property as of the date of inspection. This valuation is subject to a number of hypothetical conditions that are outlined in the report, including that the subject is assumed as vacant and that all environmental contamination issues have been remedied and the site is covered by a Consent Decree with the Department of Ecology; that the subject is served by an interior road network and all necessary utilities requisite for development; and that the permitting and development process will be expedited through the coordination of the Port and the City of Bellingham.

This report conforms with the Uniform Standards of Professional Appraisal Practice and with the guidelines of the Port of Bellingham. A copy of your letter of engagement is included in the addendum.

The real property interest appraised is the fee simple estate. The appraisal is subject to the general Certification, Assumptions, and Limiting Conditions as well as specific assumptions and limiting conditions contained in the report.

Ms. Shirley McFearin
June 17, 2014
Page 2

Based on the analyses contained in this report, our concluded opinion of value for the subject, as of May 21, 2014, is:

Fee Simple Estate – Bellingham Waterfront Development Land – May 21, 2014
NINE MILLION SEVEN HUNDRED THOUSAND DOLLARS
\$9,700,000

Respectfully submitted,

COLUMBIA VALUATION GROUP, INC. – SEATTLE



Kevin H. McAuliffe, MAI



John C. Bryan

A NARRATIVE APPRAISAL REPORT
& VALUATION ANALYSIS

10.8 Acres of Waterfront Land on Bellingham Bay
West Corner of Chestnut and Cornwall, Bellingham, Washington

PREPARED FOR:
Port of Bellingham
1801 Roeder Avenue
P.O. Box 1677
Bellingham, Washington 98227

As Is Date of Value: May 21, 2014

Columbia Valuation Group, Inc. – Seattle
2402 Northwest 195th Place
Shoreline, Washington 98177
206-364-8580

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ADDENDUM

- Exhibit I: Whatcom County Assessor Records
- Exhibit II: Client’s List of Assumptions and Conditions
- Exhibit III: Letter of Engagement
- Exhibit IV: Appraisers’ Qualifications

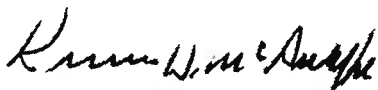
SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Location	Bellingham Waterfront West corner of Cornwall Avenue and East Chestnut Street Bellingham, Washington 98225
Property Description	Land along the Bellingham Bay waterfront.
Site Size	10.8 acres; retail lot sizes assumed at 1.08 acres each
Tax Parcel Number	Portion of 3802255220210002
Zoning	Commercial Mixed-Use
Highest and Best Use	Mixed-use development
Date of Value	May 21, 2014
Appraisers	Kevin H. McAuliffe, MAI John C. Bryan
VALUE CONCLUSIONS	
As Is Values as of May 21, 2014	
Retail Value of Economic Parcels (10)	\$1,670,000 each
Bulk Value	\$9,700,000

CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by our reported assumptions and limiting conditions, and are our personal, unbiased, impartial, professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representative.
- John Bryan inspected the subject property that is the subject of this report on May 21, 2014.
- No one provided significant real property appraisal assistance to the persons signing this report. We have performed no services, as appraisers or in any other capacity, regarding the subject property within the 3 years immediately preceding this appraisal.
- As of the date of this report, Kevin H. McAuliffe, MAI, has completed the requirements of the continuing education program of the Appraisal Institute and the State of Washington. John Bryan has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members. We are competent and qualified to perform the appraisal engagement.



6/17/2014

Kevin H. McAuliffe, MAI
Washington Certified General Appraiser
No. 1100752



6/17/2014

John C. Bryan, Appraiser
Washington Certified General Appraiser
No. 1101826

ASSUMPTIONS AND LIMITING CONDITIONS

1. That legal description furnished the appraisers is correct, and that no survey has been furnished.
2. That the title to the property is good and marketable, free and clear of liens; and, unless otherwise mentioned in this report, is appraised as if owned in fee simple title without encumbrances.
3. That responsible ownership and competent management exist for the property.
4. The appraisers are not responsible for the accuracy of opinions or information furnished by others and contained in this report. Nor are the appraisers responsible for the reliability of government data utilized herein. The appraisers have made a reasonable attempt to consider all available governmental regulations or restrictions, but assume no responsibility for future conditions that are not readily available or public knowledge at the time the appraisal is made.
5. The date of value to which the opinions expressed in this report apply is set forth in the letter of transmittal, the certification page, and in the body of the report within the Factual Description section. The appraisers assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.
6. That any sketches in this report are included to assist the reader in visualizing the property. The appraisers have not made a survey of the property, and assume no responsibility for accuracy of surveys or plans prepared by others.
7. That the values assigned to improvements, shown in this report, are in proportion to the contribution said improvements made to the value of the properties as a whole. The separate valuations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used or if used separately.
8. That neither all nor part of the contents of this report shall be conveyed to the public through advertising, public relations, news sales, or other media without the written consent and approval of the authors, particularly as to valuation conclusions, the identity of the appraisers or firm with which they are associated, or any reference to the Appraisal Institute.
9. That compensation for appraisal services is dependent only upon delivery of this report, and is not contingent upon values estimated, or approval of a loan.
10. That this report considers nothing of legal character, and the appraisers assume no responsibility for matters of legal nature.

11. That testimony or attendance in court is not required by reason of this appraisal unless arrangements are previously made therefore.
12. That reasonable inspection has been made and the appraisers assume there are no hidden or unapparent conditions of the subject property, subsoil, or structures that would render it more or less valuable. The appraisers assume no responsibility for such conditions, nor for engineering that might be required to discover such factors.
13. The appraisers have completed a commercially reasonable investigation for the presence of toxic waste and hazardous materials. Although the results of this investigation do not indicate an environmental problem, a real estate appraiser is not an expert in this field. The appraisers are not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraisers that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment.

The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The appraisers' value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report.

No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraisers' descriptions and resulting comments are the result of the routine observations made during the appraisal process.

14. That information furnished by property owner, agent, or management is correct and complete.
15. That no part of this report may be reproduced without permission of the appraisers.
16. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
17. It is assumed that all applicable zoning and land use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in the appraisal report.
18. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from local, state, or national government or

private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

19. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
20. Unless otherwise stated, this appraisal takes no account of the potential for a higher price that may result from buyers such as abutters who may gain special benefits from acquisition. Discovery of the identity, motivation, and purchasing power of parties in a position to gain special benefits requires information not publicly available, and is beyond the scope of this appraisal.
21. **Unavailable Information:** The following information was not available for review by the appraisers: 1) soils survey, 2) title report, or 3) environmental assessment. The site is assumed clean therefore an environmental assessment was not necessary. We assume that this information, although unavailable, does not indicate the presence of any detrimental factors that would impact the value of the property, and if it does, we reserve the right to amend our value conclusion.
22. **Hypothetical Conditions:** We have been asked to develop a value for the subject as of our date of inspection in May 2014, subject to the following hypothetical conditions. It is our understanding that all of these conditions will eventually be fulfilled but, for purposes of this analysis, the Client has requested that we make these assumptions as though they are currently in place. We note that these conditions have a significant effect on our conclusions of value.
 - 1) Any contamination on the site has been remediated and the site is in receipt of a Consent Decree. A soils management plan will still be required for all dirt excavated from the site and an environmental cap over contaminated areas will need to be maintained.
 - 2) The site is vacant and overlaid with a gravel base.
 - 3) The subject site is serviced by internal roads and utilities.
 - 4) The permitting process will be streamlined and both the Port and City of Bellingham will assist in facilitating the process.
 - 5) Impact credit fees totaling \$5,430 per residential development unit will be available to the developer.

- 6) There is a building on the site known as the Granary Building. The property has been valued as vacant without deductions for the demolition of the structure or allocations for any interim or shell value it might offer.

SUBJECT PHOTOGRAPHS

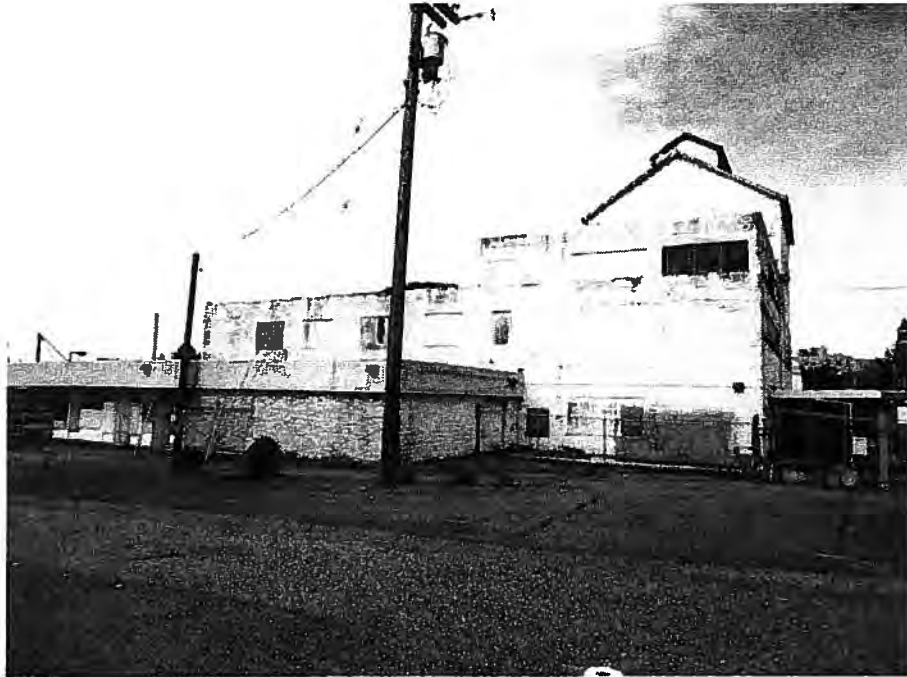


Looking West over Subject Site from Future Granary Avenue Corridor



Looking East along Future Granary Avenue Corridor

SUBJECT PHOTOGRAPHS



View of Granary Building Parcel

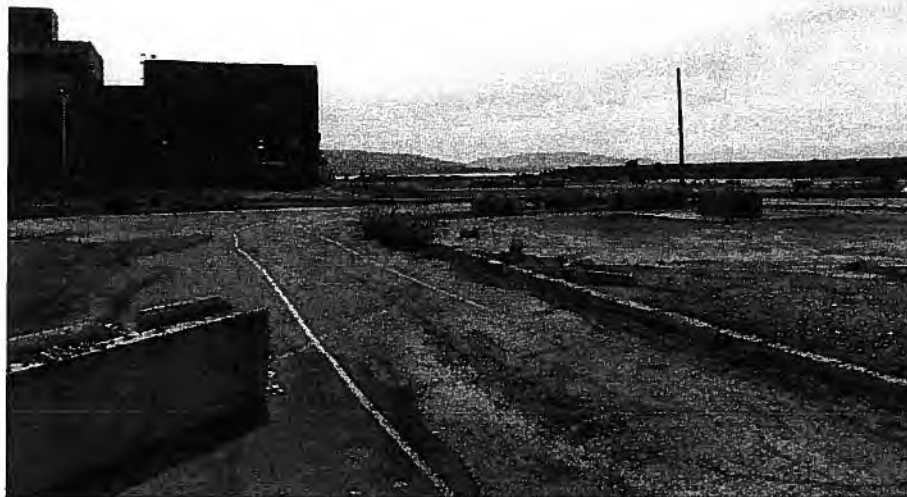


Looking Southeast over Subject Site

SUBJECT PHOTOGRAPHS



Looking Northwest over Subject Site



Representative Westerly View from Westernmost Area of Subject

NARRATIVE APPRAISAL REPORT

OSTENSIBLE OWNER OF RECORD AND PROPERTY HISTORY

No title report was available for review by the appraisers. According to Whatcom County Assessor records, the subject is owned by the Port of Bellingham.

LOCATION

The property is located on the Bellingham waterfront, west of the intersection of Bay Street and Chestnut Street. Access to the site is via Roeder Avenue, opposite the intersection with Central Avenue. There are no street addresses associated with the property, to our knowledge. The property is located in Whatcom County Census Tract Number 6.

PRESENT AND PROPOSED USE

The subject site consists of 10.8 acres of land located along the Bellingham Bay waterfront. The site is currently predominantly vacant. There is one building on the site, known as the Granary Building. We have not considered any effects on value from this building, either for interim use or the shell contributing value or the cost of demolishing the building as a deduction. This is a hypothetical condition of this analysis.

The site is divided into three tracts that are separated from one another by areas reserved for future city streets. The topography of the site is mostly level and the shapes of the tracts that comprise the property are irregularly shaped, both individually and collectively. Municipal utilities are either currently available to the site or will be made available in conjunction with redevelopment of the site. The site is adjacent to downtown Bellingham but geographically separated by railroad tracks and an elevated roadway. Access and exposure are both rated above average.

The site is zoned Commercial Mixed-Use and this designation is meant to accommodate a mix of uses including residential, commercial, recreational and public uses. A wide range of possible uses are legally permitted in this zone. Height limits range from 100 to 200 feet, depending on orientation toward the waterfront, and the base floor area ratio ranges from 2 to 3 with the potential to be increased by an additional factor of 2 by meeting certain performance standards.

This site has historically been known for its connection with the operations of Georgia Pacific's timber milling and processing. The Port of Bellingham purchased this property in 2005 and the transaction included a total of 137 acres of uplands and tidelands with the understanding that the Port of Bellingham would assume responsibility for the environmental cleanup of the site.

The site is reportedly contaminated and the Port proposes to remediate the contamination of the site. This process will eventually culminate in the receipt of a Consent Decree from the Washington State Department of Ecology. Any subsequent purchasers of the property would be indemnified by this Decree, provided that they comply with other regulations and covenants that are part of this process. It is a hypothetical condition of this valuation that this process has already been completed and the Consent Decree is in place.

The Port has issued requests for proposals from developers interested in redeveloping the site and has received a number of proposals that they are currently in the process of evaluating. Once a developer or team of developers are selected, both the City and the Port will work with the developer(s) in order to expedite the permitting process and to provide all required infrastructure to serve the property. We do not know if there is a specific timeline for the selection of a developer or for the ultimate redevelopment of the property.

LEGAL DESCRIPTION

No title report was provided for review by the appraisers. A copy of the public records for the legal tax parcel where the subject is located is included in the Addenda and includes an abbreviated legal description of that parcel, of which the subject is only a portion. For purposes of identifying the subject, we refer to the Site Plan map at the end of the Site Description section of this report. Until this area is replatted, it is beyond the appraisers' ability to legally describe the subject property.

PURPOSE OF APPRAISAL

The purpose of the appraisal is to develop a value of the fee simple interest in the subject as of the effective date of value on May 21, 2014 and subject to a number of hypothetical conditions. This analysis develops a retail value for economic sized parcels and a bulk value for the property based on the sale of these economic sized parcels over time.

DISCLOSURE OF CLIENT AND INTENDED USER(S)

The term **client** is defined in *Uniform Standards of Professional Appraisal Practice*, 2014-15 edition as:

"The party or parties who engage, by employment or contract, an appraiser in a specific assignment."

The term **Intended User(s)** is defined in *Uniform Standards of Professional Appraisal Practice*, 2014-2015 edition as:

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

This report is for use only by the Port of Bellingham (the client) and other users as authorized by the Client.

DISCLOSURE OF CLIENT'S INTENDED USE

The term **Intended Use** is defined in *Uniform Standards of Professional Appraisal Practice*, 2014-15 edition as:

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

This intended use of this report is to establish values for the purpose of negotiating the potential sale of the subject and for decision-making purposes. This report is not intended for any other use.

SCOPE OF APPRAISAL - EXTENT OF THE APPRAISAL PROCESS

The scope of the appraisal assignment included the following tasks:

- An inspection of the subject property was performed on May 21, 2014.
- The subject and the market where it is located were analyzed based on the Waterfront District Development Plans and associated documentation available from the City of Bellingham and the Port of Bellingham.
- A search for comparable sales was conducted using the Commercial Brokers' Multiple Listing Service, Costar Comparables and the Northwest Multiple Listing Service.
- All comparable sales were inspected and, to the greatest extent possible, confirmed with parties to the transaction.
- Market characteristics and trends were analyzed using U.S. Census data coupled with an abbreviated fundamental demand analysis based on this data.
- The property was valued using the sales comparison approach to develop a retail value for an economic lot size, estimated in this analysis at 1.08 acres. The As Is Value of the property was developed using a discounted cash flow analysis that models the

absorption of these parcels over a projected period of 10 years. As vacant land, no other approaches were applicable.

DEFINITION OF MARKET VALUE

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

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

(OCC, 12 CFR Part 34, Subpart C, 34.42)

DEFINITION OF BULK VALUE

The value of multiple units, subdivided lots, or properties in a portfolio as though sold to a single buyer in one transaction. Sometimes called bulk sale value.

The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

PROPERTY RIGHTS APPRAISED

The ownership interest appraised is fee simple estate.

The Fee Simple Estate *is absolute ownership unencumbered by any other interest or estate; subject only to the limitations imposed by the government powers of taxation, eminent domain, police power, and escheat.*

(The Dictionary of Real Estate Appraisal, 5th Ed. Chicago: Appraisal Institute, 2010)

REASONABLE EXPOSURE TIME/MARKETING PERIOD

The term "marketing period" is defined by the *Uniform Standards of Professional Appraisal Practice* (USPAP), 2014-15 Edition, as:

"an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal."

The term "exposure time" is defined by the *Uniform Standards of Professional Appraisal Practice*, 2014-15 Edition, as the

"estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market."

The market for multifamily development sites in Bellingham is quite strong presently, especially in areas that are well-located with respect to shopping and services and offer lifestyle amenities similar to those that will be available at the subject. Looking forward, we project a marketing period of less than a year. Looking backward, we project a similar exposure period of less than a year.

COMPETENCY

We are competent to appraise the subject property. We have appraised waterfront properties and other highly amenitized residential and mixed-use developments around the Puget Sound region. We have additionally valued other parts of the Bellingham waterfront, including a larger site of which the subject is part. Please refer to the Scope of the Appraisal, the Appraiser Qualifications at the end of the report, and the research and presentation of data throughout the report for verification of competency.

DATE OF INSPECTION

May 21, 2014

DATE OF VALUATION

May 21, 2014

DATE OF REPORT

June 17, 2014

REGIONAL OVERVIEW

Whatcom County is located in Washington State in the farthest northwest corner of the contiguous 48 United States. It is bordered to the west by the Strait of Georgia and the associated bays, harbors and waterways; to the north by the international border crossing with Canada and the Canadian province of British Columbia; to the south by Skagit County; and to the east by Okanogan County. The population of Whatcom County, as of Census 2010, was at 201,140. Bellingham is the county seat and principal city, with a population of 80,885. Lynden is the second-largest city in the county with 11,951 residents, and Ferndale is a close third with 11,415 residents.

The principal industries in the county are health care, education, government and retail sales. Oil and aluminum refining are significant industries as well, with two operating oil refineries west of Ferndale and Intalco aluminum operating a refining operation in that area. There is a substantial agricultural component to the economy as well, with the areas located east of the Interstate 5 corridor representing prime agricultural lands. Principal crops include blueberries, raspberries and strawberries as well as dairy operations, nut cultivation and vegetable row crops. Other industries include some logging and timber operations, boat building, fishing, gravel and mineral mining.

A large source of income to the county comes from Canadian visitors. There are more than 1.6 million Canadians living within an hour's drive of Bellingham. The volume of retail sales has historically been connected to the value of the Canadian dollar. Canadians are heavy investors in and owners of Whatcom County real estate, especially recreation properties and, in recent years, agricultural lands that have been made more affordable by the falling U.S. dollar.

POPULATION TRENDS

Year	County	% Change ⁺	Bellingham	% Change ⁺
Census 2000	163,500	N/Ap.	64,720	N/Ap.
Census 2010	201,140	2.30%	80,885	2.50%
2013	205,800	2.32%	82,310	1.76%
ANNUAL AVERAGE		1.99%		2.09%

⁺Annually

The service sector is the largest segment of the Whatcom economy, with government jobs, goods production, and retail trade the three largest components. With the exception of a slight contraction in the non-durable manufacturing sector and stagnancy in natural resources, the Washington Employment Security Department is forecasting growth across the entire employment spectrum between 2008 and 2012. The largest areas of growth are construction, wholesale trade, and federal governmental employment. The construction growth is attributable to the significant development that has occurred in recent years. The increase in wholesale trade is attributable to the strengthening of the Canadian dollar which makes

domestic goods more affordable to Canadian buyers. Blaine is one of the largest border crossings in terms of border trade. The increase in federal governmental jobs is due to the increased security presence at the US-Canada border. Overall, employment trends are strong, although lagging anticipated population growth. This disparity can be attributed to immigrating retirees and a growing component of self-employed and telecommuting residents.

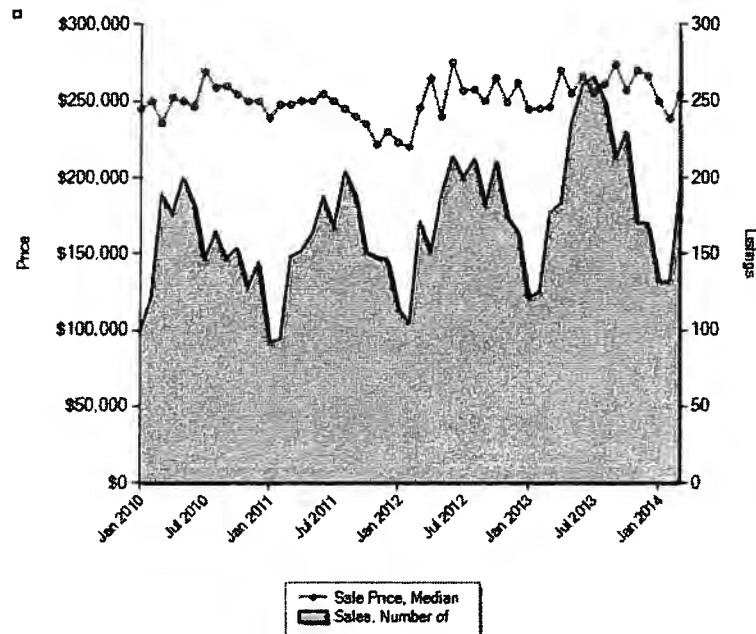
WHATCOM COUNTY'S LARGEST EMPLOYERS

<u>Employer</u>	<u>Employees</u>
1 St. Joseph's Hospital/PeaceHealth Whatcom	2,753
2 Western Washington University	1,575
3 Bellingham School District	1,200
4 BP Cherry Point Refinery	1100
5 Heath Tecna Inc.	850
6 City of Bellingham	807
7 Whatcom County Government	805
8 Haggen, Incorporated	787
9 Lummi Tribal Office	700
10 Fred Meyer	660
11 Alcoa Intalco	625
12 Aarmark	620
13 Ferndale School District	600
14 Silver Reef Casino and Hotel	578
15 The Markets LLC	522
16 Matrix Service, Inc.	475
17 Whatcom Community College	440
18 Costco	400
18 Alpha Group	400
20 Sterling Health	362

Source: Western Washington College of Business and Economics (2013 is most current data)

The Bellingham MSA labor force, as of February 2014, was 104,280 and this is 80 fewer than in the work force a year prior in February 2013. The current unemployment rate is projected at 7.6 percent, which is down 0.5 percent from the rate a year prior. The projected median household income for 2013 was \$51,910, up 1.25 percent from the median a year prior.

The median sale price for homes in Whatcom County has been volatile over the past few years but generally in the range of \$250,000. The following chart shows total sales volume over the past 4 years on the right axis with median price on the left axis.



Source: NWMLS

The volume of sales showed very slight improvement between 2010 and 2012 but volume increased substantially in 2013. The median price has failed to follow the uptick in volume and this presumably reflects the absorption of overhanging inventory. If sales volume continues to grow, a sustained increase in the median price is projected.

There have been 625 sales year to date in 2014, compared to 628 the year prior during the same period. There are currently 452 pending or contingent sales and 1,435 active listings. Based on the year to date rate of sales coupled with the pending sales, it appears that there is less than 6 months of inventory in the market and this is further reason to anticipate upward pressure on prices.

Bellingham is attractive because of affordable housing and less traffic, offering a small-town appeal that is fading from Seattle. Bellingham has the single largest concentration of housing in Whatcom County. Bellingham's housing stock accounts for about half of the county's total housing stock; however, the inflow of new residents seeking rural appeal fuel some subdivision development in the county and other cities in Whatcom County. Future demand will be fueled by overflow from the greater Seattle area, as well as the lower mainland of British Columbia, as these areas build to capacity and as investment and commerce between these two major regions grows.

The Bellingham area offers alternatives to Canadian companies wanting an operational base on the U.S. side of the border. Commercial and industrial real estate investors have historically looked to Whatcom County to purchase suitable sites, viewing it as a gateway location with skilled labor and free trade zones. In the past Canadian customers have accounted for up to 30 percent of Whatcom County's retail sales. In recent years, Canadian spending in Whatcom

County waned due to the falling Canadian dollar, imposition of higher tariffs on liquor and cigarettes, more vigorous enforcement of import restrictions on other goods, and better competition from BC retailers. The resurgence of the Canadian dollar over the past 6 years has helped support retail sales throughout the county. During 2011 there were more southbound crossings than there had been since 2001 when tighter border security measures were put in place and resulted in a substantial drop in crossings. This is due in large part to the strength of the Canadian dollar which, as of April 2014, is trading below parity with the US dollar, at about \$0.91 US dollars per Canadian dollar. The exchange rate has receded from high points of recent years when the Canadian dollar was trading above parity but the current rate is still far stronger than prior to the recession of 2007-08. This rate attracted more Canadian buyers back to the U.S. after a drop-off in cross-border traffic following the events of September 2001.

Overall, trends have been stable to moderately declining for the Bellingham area and the wider Whatcom County market over the past few years. Despite a national housing slowdown, the real estate market in Whatcom County has remained more stable than many other regions of Western Washington. The most significant impact of the current economic slowdown has been on the residential land segment of the real estate market, with few lot sales and little interest in land available for residential development on the part of developers.

MARKET AREA DATA

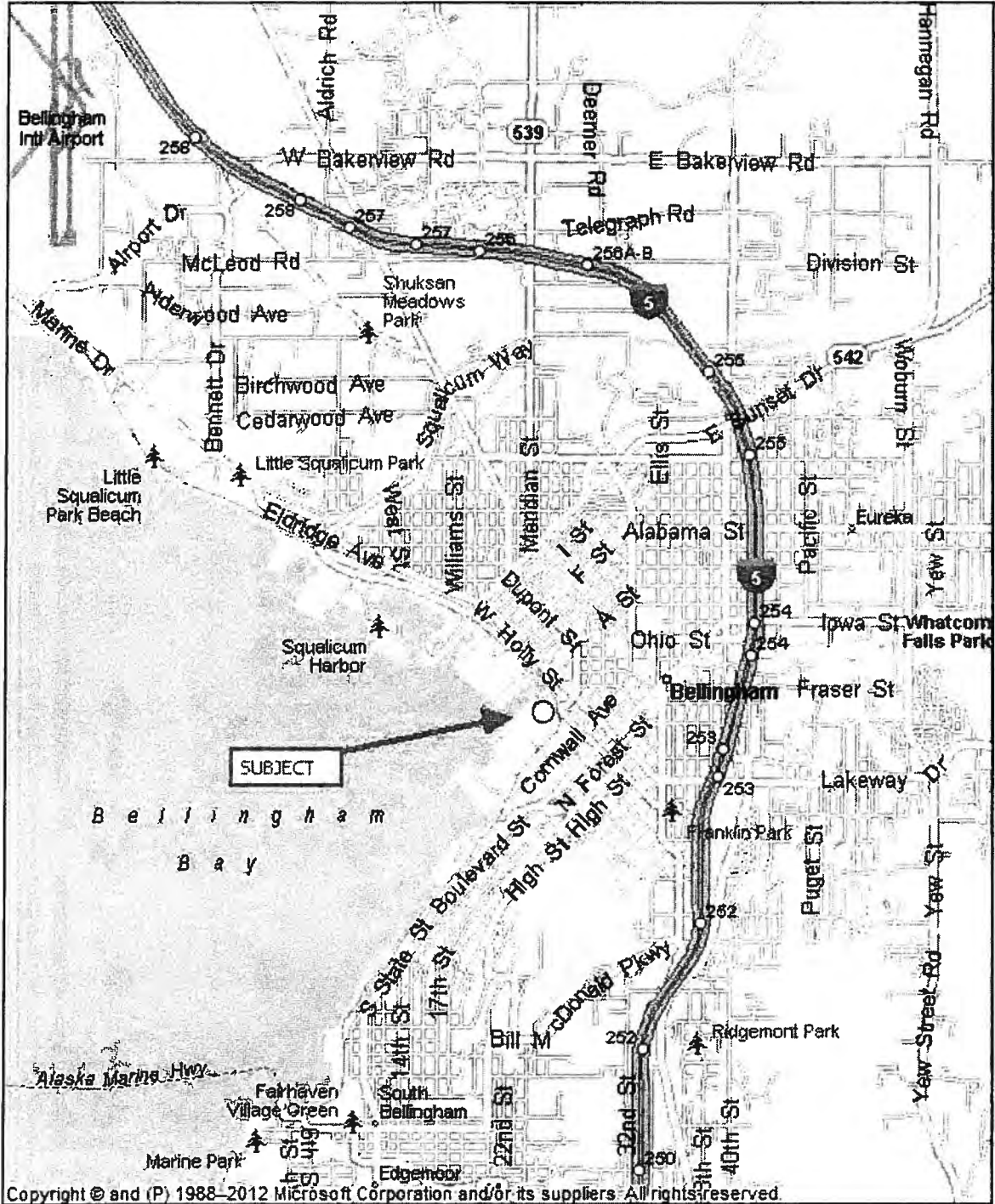
A market area can be defined as an area of complementary land uses. A market area's boundaries identify the area that influences the value of the subject property. The subject property is located along the Bellingham waterfront and has historically been known as the Georgia Pacific site. The market area has been identified with heavy industrial uses throughout most of Bellingham's history. In 2005, the Port of Bellingham finalized a purchase of the Georgia Pacific site, some 137+ acres, in exchange for the Port assuming responsibility for remediation of contamination by toxic chemicals associated with the GP's timber processing operations. At present, the Port has planned an ambitious redevelopment of the waterfront which will include mixed land uses, including residential, commercial and light industrial components along with civic uses, recreational areas and facilities to accommodate marine dependent commerce.

The market area is effectively the Bellingham waterfront. The geographic boundaries that define this market area are Bellingham Bay to the southwest, the bluff that rises above Cornwall Avenue and the railroad right of way to the southeast, Squalicum Way to the north and West Holly Street/Eldridge Avenue to the northeast.

The downtown commercial core is located to the immediate east of the subject and onramps for Interstate 5 are located approximately 1 mile to the east of the subject. Western Washington University is located on the bluff to the south of the subject's market area. As mentioned, the subject market area has historically been identified with heavy industry and marine dependent commercial uses. The New Whatcom waterfront plan aims to redevelop the Georgia Pacific site to a mix of residential and commercial uses as well as a number of civic and institutional uses, including an extension of Western Washington University, and recreational uses, including city parks and a public beach.

In conclusion, the subject market area is very well located with regard to the downtown area of Bellingham and the redevelopment of this market area is an ambitious long range plan that will eventually capitalize on the valuable amenity that is the Bellingham waterfront. Market trends at present are being affected by recessionary forces but this is a national phenomenon and not limited to this market area. The future of this area is projected to be positive and eventual developments in this area will likely be well-received by the market providing that the needs of the market are met.

MARKET AREA MAP



COLUMBIA VALUATION GROUP, INC. - SEATTLE

Seattle

Tacoma

Wenatchee

Yakima Valley

Bellingham

MARKET ANALYSIS

The subject property consists of 10.8 acres of land located along the Bellingham waterfront. This market area has historically been associated with heavy industrial uses. The Waterfront Development Plan proposes to redevelop these lands toward higher density residential and commercial uses. This land will represent new supply introduced to the downtown area of Bellingham and it is appropriate to consider a timeline for this new area to absorb because it likely exceeds the immediate needs of the market.

Based on our scaled measurements of the site taken from zoning maps and the provided site plans, it appears that approximately 40 percent of the site is subject to lower floor area ratios, between 2 and 4 depending on the incorporation of density bonuses, and 60 percent of the site subject to higher floor area ratios, between 3 and 5, also dependent on density bonuses. The chart following details how much of this area would be allocated toward each density.

<u>Site Specifics:</u>		
10.8 Acres =	470,448	Square Feet
40% @ FAR 2 to 4 =	188,179	Square Feet
60% @ FAR 3 to 5 =	282,269	Square Feet

The chart following shows approximately how much area could be developed on the subject based on three different floor area ratios and three different mix ratios of residential to commercial development. The Waterfront District Permitting Handbook shows that the minimum percentage of commercial use is 20 percent and the minimum percentage of residential use is 35 percent. We have not considered the potential for alternative types of use like institutional or industrial because these uses generally result in a lower land value per square foot than residential and commercial uses. Our model considers the residential component comprising between 40 and 60 percent of the potential developable area and the commercial component occupying the remainder.

For purposes of this analysis, we have assumed the efficiency of prospective residential and commercial buildings to be 85 percent. Equivalent residential units are calculated based on the assumption that the average unit is approximately 700 square feet per unit. The charts following show nine scenarios, ranging from the base to the maximum floor area ratios and with three unit mixes of residential to commercial space ranging from 40 percent to 60 percent.

The charts show that the various scenarios could deliver between approximately 600 and 1,600 residential units and between about 415,000 and 1,100,000 square feet of commercial area. This is a very wide range and the primary question is how much of this potential area could the Bellingham market absorb given typical growth trends inferred from historical data.

Potential Development Area

	Base FAR	Mid FAR	Max FAR
FAR 2 to 4	2	3	4
Potential Square Footage	376,358	564,538	752,717
FAR 3 to 5	3	4	5
Potential Square Footage	846,806	1,129,075	1,411,344
Total Square Footage	1,223,165	1,693,613	2,164,061

Base Floor Area Ratio (2 to 3)

Residential %	40%	50%	60%
Residential Area (SF)	489,266	611,582	733,899
Equivalent Residential Units	594	743	891
Commercial %	60%	50%	40%
Gross Commercial Area (SF)	733,899	611,582	489,266
Rentable Commercial Area (SF)	623,814	519,845	415,876

Midrange Floor Area Ratio (3 to 4)

Residential %	40%	50%	60%
Residential Area (SF)	677,445	846,806	1,016,168
Equivalent Residential Units	823	1,028	1,234
Commercial %	60%	50%	40%
Commercial Area (SF)	1,016,168	846,806	677,445
Rentable Commercial Area (SF)	863,743	719,785	575,828

Maximum Floor Area Ratio (4 to 5)

Residential %	40%	50%	60%
Residential Area (SF)	865,624	1,082,030	1,298,436
Equivalent Residential Units	1,051	1,314	1,577
Commercial %	60%	50%	40%
Commercial Area (SF)	1,298,436	1,082,030	865,624
Rentable Commercial Area (SF)	1,103,671	919,726	735,781

Basic Demand

In order to project how long it would require for this new space to absorb, we performed an abbreviated fundamental demand analysis based on available data on the Bellingham market. This data is from the U.S. Census and American Community Surveys and the Whatcom County Real Estate Research Report.

Information taken from the U.S. Census and American Community Surveys is summarized on the following chart. This information includes numerous categories for projecting baseline demand for residential rental units.

U.S. Census and American Community Survey Data

Year	2000	2005	2007	2010	2012
Bellingham Population	67,171	69,057	75,418	80,885	80,930
Occupied Housing Units	27,999	32,385	33,913	34,671	33,805
Renter-Occupied Units	14,512	17,383	17,464	18,833	18,186
Rental Percentage	52%	54%	51%	54%	54%
Rental Vacancy Rate	4.6%	4.0%	2.1%	4.7%	3.5%
Imputed Rental Units	15,212	18,107	17,839	19,762	18,846
Rental Units/Person	0.23	0.26	0.24	0.24	0.23
Population Growth Rate per year (2000 to 2010)		1.88%			
Population Growth Rate per year (2000 to 2012)		1.56%			
Population Growth Rate per year (2007 to 2012)		1.42%			

There is some variation among the data due to the different survey methods. The population growth rate between the two censuses was 1.88 percent, compounding annually. Since 2010, all indications are that population growth has tapered significantly. This is most likely attributable to the recession's effects in depressing birth rates and reducing in-migration. Looking forward, we project a return to higher growth rates but lagging the level between 2000 and 2010. We project a stabilized growth rate of 1.7 percent for purposes of the projections in this section.

The data show that the range of rental units per person in the city has ranged between 0.23 and 0.26 units. The data also show that vacancy rates have consistently been below 5 percent and often significantly below. Recent real estate reports indicate that vacancy rates are at very low levels although there are a number of developments currently under construction. Looking forward, due to the low vacancy rates and aging housing stock, we project that a strong demand cycle could support up to 0.29 residential units per person. The baseline scenario is forecast at 0.24 units, the approximate average among the data.

The Whatcom County Real Estate Report is issued annually and covers the Bellingham and Whatcom County markets. In 2010, the Whatcom County Real Estate Report had the most comprehensive survey of commercial space for the Bellingham market, indicating an inventory of 17,557,048 square feet of commercial and office space in the market. In other years of the report, the inventory has varied by up to 15 percent between years based on the quality of data reported and categorization of the types of space. The report from 2010 showed the highest inventory among numerous years of the report. The approximate vacancy rate for that year was 6.4 percent. The population in 2010, based on the U.S. Census, was 80,885. This equates to approximately 217 square feet of commercial space per person in the city. For purposes of this analysis, we project a low rate of 210 square feet of commercial space per person. At the upper end, we project a rate of 230 square feet of space per person. This upper limit considers the potential for a robust demand cycle and the displacement of aging structures by newer more competitive product.

Subject Competitive Position

Among the primary benefits to the waterfront properties are the following:

- The subject benefits from the waterfront amenity and proximity to downtown Bellingham and recreational areas.
- The infrastructure required for development will be largely paid for by the City and Port of Bellingham, including street and sidewalk construction and utility connections.
- Permitting will be expedited as part of the public-private partnership.
- Residential units will receive \$3,523 in impact fee credits for parks and up to \$1,907 in impact fee credits per P.M. trip generated toward commercial development.
- The development densities available to the waterfront properties are among the highest available in the City of Bellingham.

The primary detriments affecting the waterfront properties are the following:

- The waterfront properties have weak linkage traits both with nearby neighborhoods and regional transportation corridors. The location is geographically isolated from downtown Bellingham by railroad tracks and the elevated viaduct for Chestnut Street. Until a complete neighborhood evolves, any proposed developments will be pioneering.
- The areas to the north remain predominantly industrial with inconsistent development patterns and few signs of investment.
- Another factor affecting the waterfront properties is the likelihood that proposed developments will be required to use pilings in order to achieve adequate structural support. This will result in increased costs that are difficult to quantify without information about soil conditions and the associated costs for constructing this type of foundation.
- There are significant areas located farther to the southwest along the waterfront that could be redeveloped in the future and would compete directly with the subject.

On balance, we conclude that the waterfront properties have a very good competitive position and should compete favorably. The primary competition would be from the existing waterfront developments to the north, the Fairhaven waterfront to the southwest and the downtown area of Bellingham.

Subject Capture Projections

For prospective residential developments, it is worthwhile to note that over half of the households in Bellingham are renters (54%) and approximately 49 percent of those households pay at least 35 percent of their household income in gross rent. Approximately 36 percent of the rental units in the market lease for over \$1,000 per month in gross rent (includes utilities). This equates to approximately 6,550 units. A majority of any new units at the subject would be part of this market segment. At the lowest base development densities for the waterfront properties, the new units would increase the size of this market by over 10 percent. Assuming the waterfront parcels would capture a larger proportion of demand than their proportion of the market, new residential units could seek a baseline of about 9 percent of the market (0.1 / 1.1). At the upper end, we project that the capture rate could be 15 percent. This upper end considers the potential for fee-owned condominium sales of portions of the subject, which would not be reflected in the model using only rental units, as well as the potential for newer and higher density types of development like micro-apartments.

For commercial demand, the most recent Whatcom County Real Estate report indicated that there was a statistically insignificant amount of commercial vacancy in the waterfront districts of the Port and in Fairhaven. There has been very low vacancy reported in these areas among any of the WCRER surveys over numerous years. In the Downtown market, the reported vacancy rate for 2012 was 6.7 percent across all types of commercial space. In the 2013 WCRER, the commercial vacancy rate for all of Bellingham was reported at about 5.7 percent. This is a low enough level to accommodate frictional demand as well as supporting the introduction of new space in the market. The total square footage for reported in the 2013 report was approximately 15,500,000 square feet. At the lowest development densities, the subject would represent 2.7 to 4.0 percent of the total commercial space in the Bellingham market, based on this reported inventory. We note that, for the 2010 WCRER, the reported commercial space was larger by almost 2 million square feet.

Considering the very low vacancy rate in the waterfront districts and the relatively low vacancy rate in the Downtown market, we project that the commercial component at the subject could capture up to 20 percent of new commercial demand in the market. This projection considers that the waterfront properties could potentially attract a corporate headquarters or regional offices of a large corporation. At the low end, we project that capture would occur at only half of this rate, at 10 percent.

Projected Absorption Scenario

The chart on the following page shows our projected absorption scenario based on the upper and lower limits of the fundamental demand and the upper and lower limits of the projected capture rates.

Projected Absorption Scenarios

	1	2	3	4	5	6	7	8	9	10	TOTAL
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Population	83,709	85,132	86,580	88,051	89,548	91,071	92,619	94,193	95,795	97,423	15,113
Population Growth	1,399	1,423	1,447	1,472	1,497	1,522	1,548	1,575	1,601	1,629	4,383
Residential Demand (Units) - High	406	413	420	427	434	441	449	457	464	472	3,627
Residential Demand (Units) - Low	336	342	347	353	359	365	372	378	384	391	3,627
Commercial Demand (SF) - High	335,825	341,534	347,340	353,245	359,250	365,357	371,568	377,885	384,309	390,842	3,627,154
Commercial Demand (SF) - Low	293,847	298,842	303,922	309,089	314,344	319,687	325,122	330,649	336,270	341,987	3,173,760
Subject Capture - Residential (High)	61	62	63	64	65	66	67	68	70	71	657
Subject Capture - Residential (Low)	30	31	31	32	32	33	33	34	35	35	326
Subject Capture - Commercial (High)	67,165	68,307	69,468	70,649	71,850	73,071	74,314	75,577	76,862	78,168	725,431
Subject Capture - Commercial (Low)	29,385	29,884	30,392	30,909	31,434	31,969	32,512	33,065	33,627	34,199	317,376

Assumptions:

Forecast Stabilized Population Growth Rate	1.70%
High Forecast Residential Rental Unit Demand (Units/Person)	0.29
Low Forecast Residential Rental Unit Demand (Units/Person)	0.24
High Forecast Commercial Space Demand (SF/Person)	240
Low Forecast Commercial Space Demand (SF/Person)	210
Residential Capture Rate (High)	15%
Residential Capture Rate (Low)	9%
Commercial Capture Rate (High)	20%
Commercial Capture Rate (Low)	10%

This scenario has obvious limitations due to the number of projections required. Without detailed plans for use mixes and densities, our estimate of fundamental demand relies on broad measures related only to population growth. The model does not consider the relationship of commercial space demand to basic industries, job creation, and employment multiplier effects or disposable income. Numerous factors could affect our projections but they function as a useful guideline for projecting likely absorption scenarios.

The scenario shows that the waterfront properties might expect to capture between 326 and 657 residential units of fundamental demand for residential rental units. Referring back to the projected density charts at the start of this section, this demand would equate to the base density level with the residential component comprising between 40 and 50 percent of the overall development.

For the commercial component, the scenarios show that the waterfront properties might expect to capture between about 320,000 and 725,000 square feet of fundamental demand for commercial space. This is a very wide range but the approximate mid-point would be about 525,000 square feet of space. Referring back to the projected density charts at the start of this section, this demand would equate to the base density level with the commercial component would comprising about 50 percent of the overall development.

Among the most important indications from this model is that there is very little fundamental support for developing the property to the maximum allowable densities. Development to the highest densities would most likely result in a significant oversupply of space to the market and potentially damage other submarkets in the city by attracting tenants away from those areas. On a longer development timeline, the higher densities could start to contribute value but this is speculative. This additional value would be realized as a result of entrepreneurial efforts in devising a compelling and consistently competitive development scheme rather than any intrinsic element attributable to the land. Therefore our absorption projections are for a 10 year timeline.

Based on these indications, we project that there is limited contributory value to the impact fee credits available to the subject beyond the base allowable density. This will be discussed further in the valuation section of this report.

There are a number of scenarios that could hasten the absorption of the land. Among these scenarios is the possibility of a corporate or regional headquarters location that would absorb a large part of the property and provide an immediate source of demand for any surplus parcels. Another possibility is micro-housing developments, which are an increasingly popular type of development in the Seattle metropolitan area. The proximity to Western Washington University would most likely support the market for this housing type. Also possible are artisan craft spaces or small-scale marine trade facilities, both of which are development options that could find a market niche at the subject.

Conclusion

The market position of the waterfront properties should be good to very good, based on the amenity value of the location proximate to the waterfront, the infrastructure and public spaces that will be developed and the facilitation of any proposed developments by the City and Port of Bellingham.

Based on our analyses and projected absorption scenario, we project that there is fundamental demand to support the equivalent of 600 to 650 residential units and 500,000 to 600,000 square feet of commercial space over the next 10 years. Our projected absorption scenario most closely parallels a use mix of 50 percent residential to 50 percent commercial. While there is significant additional density available for development, there is limited evidence of fundamental demand to support these increased densities. Achieving higher densities would protract the absorption timeline and might not result in a significantly higher value to the underlying land than development to the lower densities with a faster absorption.

SITE DESCRIPTION

Photographs of the subject property appear in the front of this report and a color aerial of the parcels that comprise the subject are included at the end of this section. A site map of the subject that was provided by the Port of Bellingham is located at the end of this section.

LOCATION

The property is located on the Bellingham waterfront, west of the intersection of Bay Street and Chestnut Street. Access to the site is via Roeder Avenue, opposite the intersection with Central Avenue. There are no street addresses associated with the property, to our knowledge. The property is located in Whatcom County Census Tract Number 6.

SHAPE AND AREA

The site contains 10.8 acres total, divided into three tracts containing 0.6 acres, 3.5 acres and 6.4 acres, separated by the road right of way for Granary Avenue, which is assumed will be constructed in conjunction with the proposed development of the subject. The three tracts are individually and collectively irregular in shape.

EASEMENTS

There was no title report provided for this assignment. The subject will be re-platted with streets and utility corridors and any easements or encumbrances will most likely be relocated as part of this process.

TOPOGRAPHY AND SOILS

The topography of the site ranges from level to lightly rolling. The site will be made predominantly level prior to sale. There were no soil surveys or geotechnical reports provided for this assignment. Based on other developments performed by the Port of Bellingham, prospective developments will most likely need to utilize pilings in order to support foundations of future developments.

UTILITIES

All utilities necessary for development will be routed through the subject as part of the future development of the area.

ENVIRONMENTAL CONCERNS

No environmental assessment was provided for this appraisal but the wider area is known to have contamination issues as a result of the industrial history of the area. Remediation of these conditions will be performed in conjunction with the redevelopment of this area. It is a hypothetical assumption of this report that the subject has a Consent Decree in place that will insulate prospective developers from any environmental liability issues.

ACCESS AND EXPOSURE

The property will be served by an internal road network. The main access point to the subject parcels will be from Roeder Avenue, on the south side of the Granary Building that is currently located on the 0.6 acre parcel outlined on the provided site map. The site is currently somewhat geographically isolated from the city street system but there will be a street system installed as part of the proposed redevelopment. The site is highly visible from numerous vantage points around the city and traffic on Roeder Avenue/Chestnut Street. Exposure is rated above average. In terms of accessibility, the site is located adjacent to the downtown area and access will be average to above average.

SITE AMENITIES AND OUTSIDE INFLUENCES

The subject will be located on the Bellingham waterfront, an area that is proposed for redevelopment with mixed residential, commercial and some light industrial uses along with civic uses including an extension of Western Washington University as well as city parks and beaches. Good to excellent quality views should be available to most of the site.

SITE IMPROVEMENTS

Once the redevelopment of the area is complete, there will internal streets with curb and gutters, utilities and stormwater sewers.

ZONING

The site is part of the Waterfront District Urban Village planning area and is specifically zoned Commercial Mixed Use. This zoning designation is meant to accommodate a mix of uses including residential, commercial, recreational and public uses. A wide range of possible uses are legally permitted in this zone.

Height limits are 100 feet in the areas closest to the waterfront and 200 feet along the easternmost portion of the site. In the areas closest to the waterfront, the base floor area ratio is 2 with potential to be increased to 4 by meeting certain requirements to receive bonuses, including meeting LEED standards, providing affordable housing and/or providing public

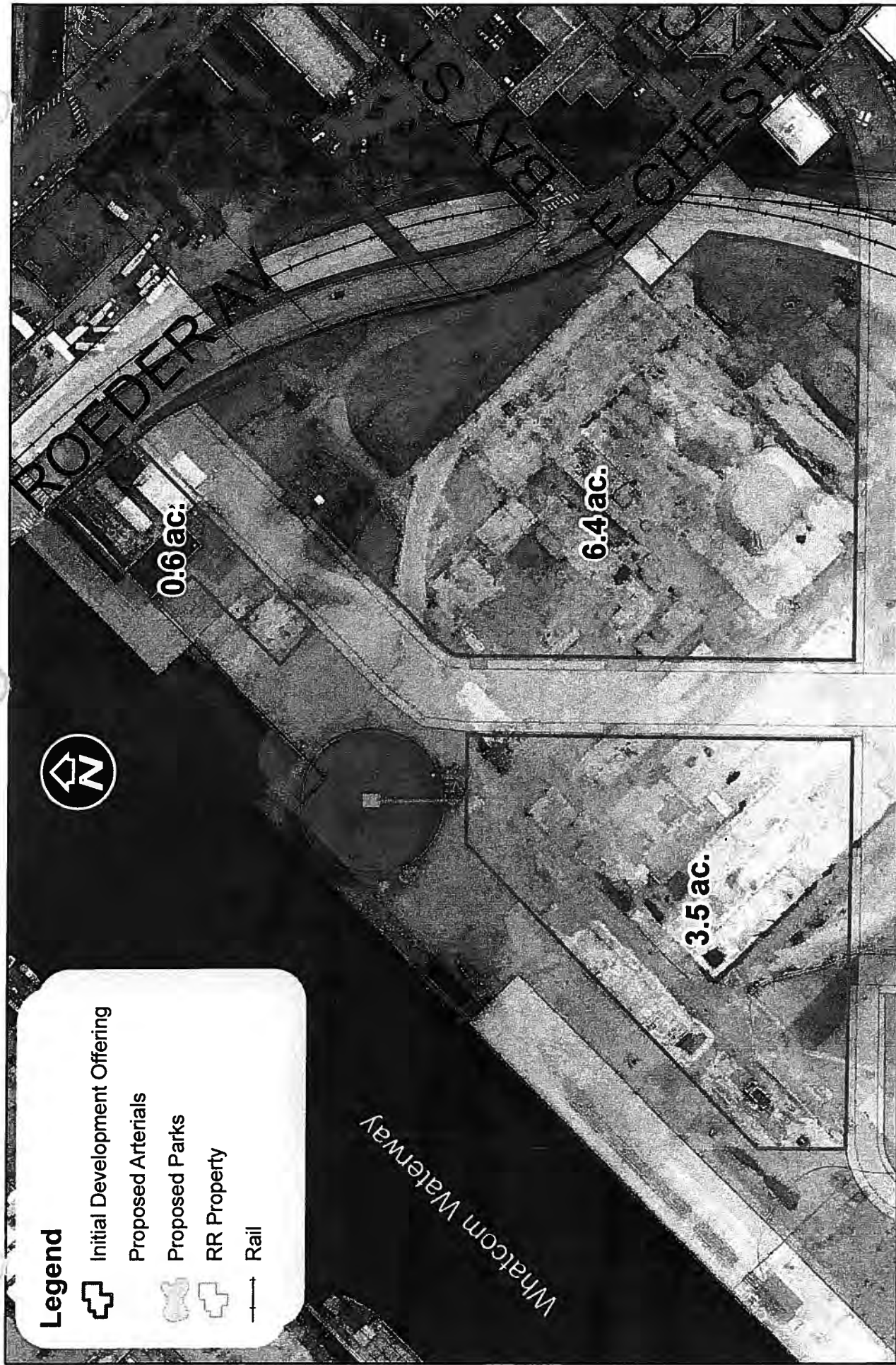
plazas and open spaces. The easternmost part of the site has a base floor area ratio of 3 with the potential to be increased to 5 through bonuses. There are no setback requirements for proposed buildings.

Parking requirements include 0.5 parking spaces for studio apartments, 0.75 spaces for 1-bedroom units and 1 space for a 2-bedroom unit. Commercial and institutional uses require 1 parking space per 500 square feet of gross building area. Bicycle parking is also required. For residential uses, there is a minimum of 2 long term parking spaces required or 0.5 long-term spaces per bedroom and studio unit, whichever is greater, and 2 short term spaces, or 1 per 20 residential units, whichever is greater. Commercial uses require a minimum of 2 long term spaces, or 1 per 12,000 square feet of gross floor area, whichever is greater, and 2 short term spaces, or 1 per 5,000 square feet of gross building area, whichever is greater.

ASSESSED VALUATION

The subject appears to be a portion of a single tax parcel but this is difficult to ascertain because the plat maps are very convoluted along the waterfront areas. The chart below details the assessed value of the tax parcel that we believe contains the subject. There are no taxes on the property because it is owned by a municipal entity.

Parcel Number	Size (SF)	Size (Acres)	Assessed Value - Land	Assessed Value - Bldg.	Assessed Value - Total
3802255220210002	730,937	16.78	\$4,297,910	\$0	\$4,297,910



Site Area

FIGURE



PORT OF BELLINGHAM
Washington State

Waterfront District: Initial Development Offering



1

DATA ANALYSIS AND VALUATION INTRODUCTION

Analysis and valuation of the subject property involves determining the highest and best use of the site, estimating the value for the subject by current appraisal theory, and reconciling to a final estimate of value.

The first step in valuation and analysis is determining the highest and best use of the site. The four criteria highest and best use must meet are: Legal permissibility, physical possibility, financial feasibility, and maximum productivity. Two types of analyses were made in determining the highest and best use. The first is highest and best use of the site as if currently vacant; the second is highest and best use if developed as proposed.

Three approaches to value form the foundation for current appraisal theory: the cost approach, the sales comparison approach, and the income capitalization approach.

Cost Approach

The cost approach is based upon the principle that the informed purchaser would pay no more than the cost to produce a substitute property with the same utility as the subject property. It is particularly applicable when the property being appraised involves relatively new improvements that represent the highest and best use for the land or when relatively unique or specialized improvements are located on the site and for which there exists no comparable properties on the market.

Sales Comparison Approach

The sales comparison approach utilizes process paid in actual market transactions of similar properties to estimate the value of the subject. This appraisal technique is dependent upon utilizing truly comparable sales data that have occurred near enough in time to reflect market conditions relative to the time period of the subject appraisal.

Income Approach

The income capitalization approach is widely applied in appraising income producing properties. Anticipated present and future net operating income, as well as any future reversions, are discounted to a present worth figure through the capitalization process. This approach also relies upon market data to establish current market rents and expenses levels to arrive at an expected net operating income. This approach typically is not applicable in the appraisal of unimproved land.

The resulting indications of value from the three approaches are correlated into a final estimate of value. It is not always possible or practical to use all three approaches to value. The nature of the property being appraised, and the amount, quality, and type of data available dictates the use of each of the approaches.

The subject property consists of 10.8 acres of waterfront land that is proposed for mixed-use development. As such, the sales comparison approach is the most market typical method for valuing this type of property and no other approaches are as reliable. The As Is value of the site has been developed using a discounted cash flow analysis.

HIGHEST AND BEST USE ANALYSIS

The Appraisal of Real Estate, 14th edition, published by the *Appraisal Institute* defines Highest and Best Use as:

The reasonably probable use of property that results in the highest value.

The highest and best use of a property is concluded after the four criteria are applied and various alternative uses are eliminated. The remaining use that fulfills all four criteria is the highest and best use. These criteria include: legally permissible, physically possible, financially feasible, and maximally productive.

AS VACANT

The subject site is large and level and located along the Bellingham waterfront. The zoning is assumed to be mixed-use and accommodating to a mix of uses, including residential and commercial floor area ratios and height limits that allow for a wide range of development options. From a financial feasibility perspective, as a vacant site, this is typically inferred from the pricing of comparable properties in the market. In terms of maximally productive use, the mixed use zoning allows for a variety of potential developments that would meet the needs of the market. The maximally productive use of the subject will have to combine a mix of uses that mesh with the urban character of the market and attract a broad range of users for commercial, residential and civic developments. In conclusion, the highest and best use of the subject is for a mix of uses that accommodate a wide array of market demands and capitalize on the extensive proposed amenities.

SALES COMPARISON APPROACH

The sales comparison approach is an examination of the property's value based on the comparison of similar properties that have sold, are listed for sale, have purchase options, or have offers to purchase. Like the cost approach, the sales comparison approach is based on the principle of substitution, which indicates that when a property is replaceable in the market, its value would be no greater than the cost of acquiring an equally desirable substitute property, assuming no costly delay in acquiring the substitute property. The following steps in the sales comparison approach are typically used to reach an estimate of value:

1. Recent sales of similar vacant sites and finished lots were found in the immediate and general area of the subject land.
2. The market data gathered was verified as factual, accurate, and reflective of arm's-length transactions.
3. The most consistent unit of comparison was selected based on consideration of the market data, and a comparative analysis was then developed.
4. The comparables were directly compared with the subject land based on the unit of comparison, and adjustments were made to the sales.
5. The various indications of market value resulting from this process are reconciled into a conclusion of the retail value of the subject's lots.

The economic principle of substitution applies to the sales comparison approach. The value of a property that can be replaced in the market tends to be set by the cost of acquiring an equally desirable substitute property. The sales comparison approach is usually given greatest weight when sufficient comparable sales are available to allow for the value patterns in the market to be developed. When the sales are reasonably well confirmed, the comparison process can be carried out with confidence.

SITE VALUATION

Based on our analyses, we have valued the subject property based on economic sized parcels, estimated at 1.08 acres each, of which there would be 10. This does not conform precisely with the sizes of each parcel but offers a reasonable benchmark for valuing the site. After concluding a retail value for each of these economic parcels, the subsequent sale of these parcels over a projected absorption period is modeled using a discounted cash flow analysis to arrive at a bulk value

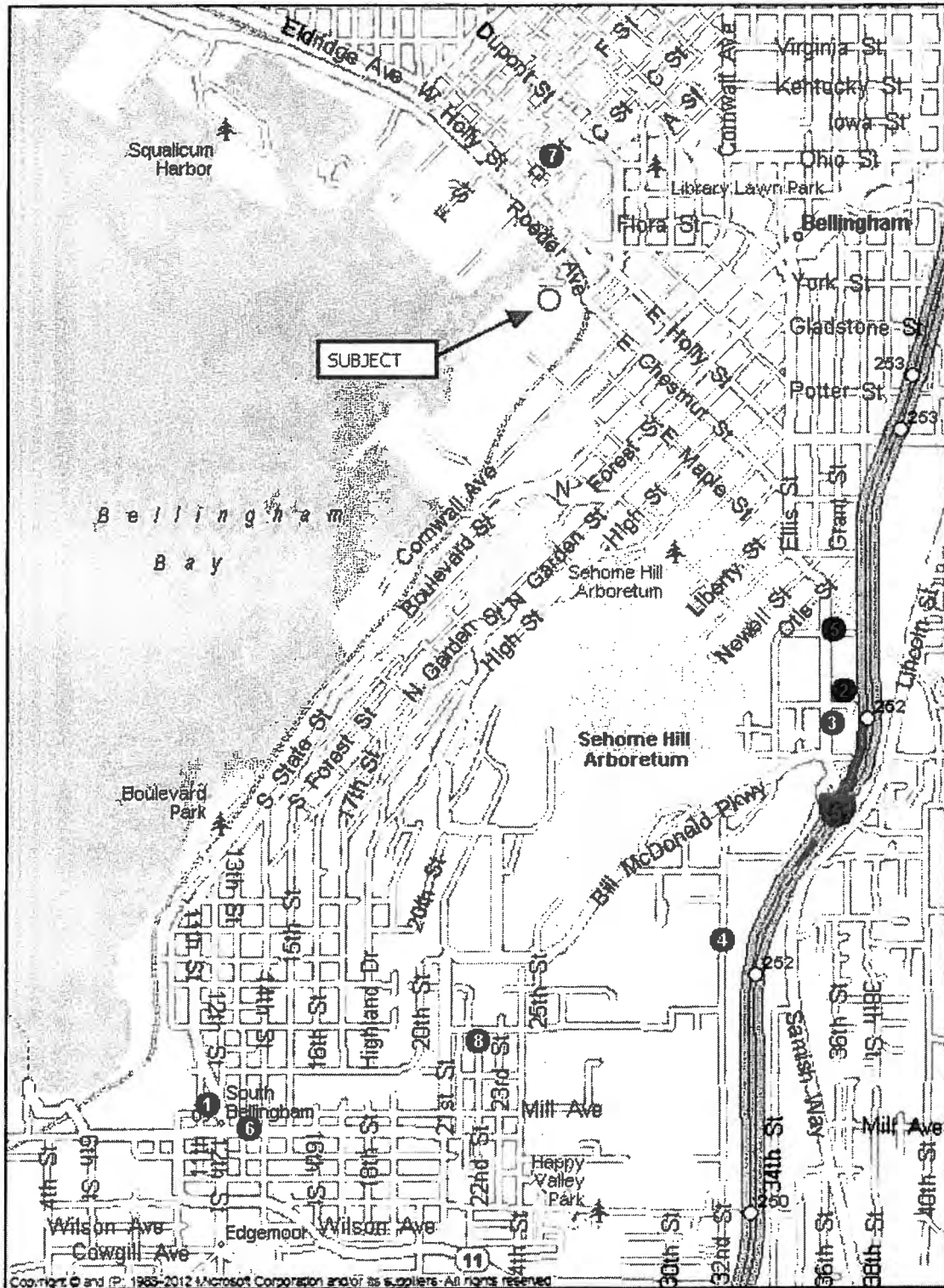
A search was conducted for sales of sites with similar development potential and/or similar view amenities. The included comparables are the best indication of value for the subject site as retail-sized portions. Most of the sales are situated in the immediate market area of the subject and have similar development potential as the subject. Following are a summary table, location map, plat maps, and photographs of each comparable property.

LAND SALES SUMMARY TABLE

Former Georgia Pacific Site, Bellingham Waterfront - West Corner of Chestnut and Cornwall, Bellingham, Washington

Sale	Location	Sale Date	Adjusted Sale Price	Land Size (SF)	Price per SF	Zoning	Shape	Topography	View
1	11th and Mill Streets, Bellingham Parcel(s): 370201092140, -103145, -103140, -102135, -102130, -094135, -093145	Listing 1.25 yrs.	\$4,800,000	48,000	\$100.00	Urban Village	Rectangle	Sloped	Bay, island
2	3613-3701 Consolidation Avenue, Bellingham Parcel(s): 380331461144, -472150	Listing (2 mos.) 7/1/2013	\$659,900 \$415,000	27,443	\$24.05 \$15.12	Urban Village	Rectangle	Level	Territorial
3	109 South Samish Way, Bellingham Parcel(s): 380331442120	Pending 12/22/2009	\$1,500,000 \$1,300,000	50,043	\$29.97 \$25.98	Urban Village	Rectangle	Level	Territorial
4	705-09 32nd Street, Bellingham Parcel(s): 370306320388, -308376, -319376	Pending	\$986,000	58,000	\$17.00	Multifamily Residential	Rectangle	Rolling	Territorial
5	218 North Samish Way, Bellingham Parcel(s): 380331450235	1/3/2014	\$355,000	20,776	\$17.09	Urban Village	Irregular	Level	Territorial
6	NEC 13th Street & Harris Avenue Parcel(s): 370201176105	4/24/2013	\$355,000	11,850	\$29.96	Urban Village	Rectangle	Level	Bay, island
7	1507 D Street, Bellingham Parcel(s): 380330043374, -033379, -039371, -040387, -048379	6/18/2012	\$676,000	39,490	\$17.12	Multifamily Residential	Rectangle	Sloping; Above Grade	Bay, island
8	1029 22nd Street, Bellingham Parcel(s): 370201518188	4/18/2012	\$375,000	20,000	\$18.75	Multifamily Residential	Rectangle	Slight Slope	Territorial
Subject	Georgia Pacific site, Bellingham Waterfront W Corner of Cornwall and Chestnut	5/21/2014	-	-47,000 SF parcels	-	Commercial Mixed-Use	Irregular	Level	Expansive city and bay

COMPARABLE LAND SALES MAP



COLUMBIA VALUATION GROUP, INC. - SEATTLE

Seattle

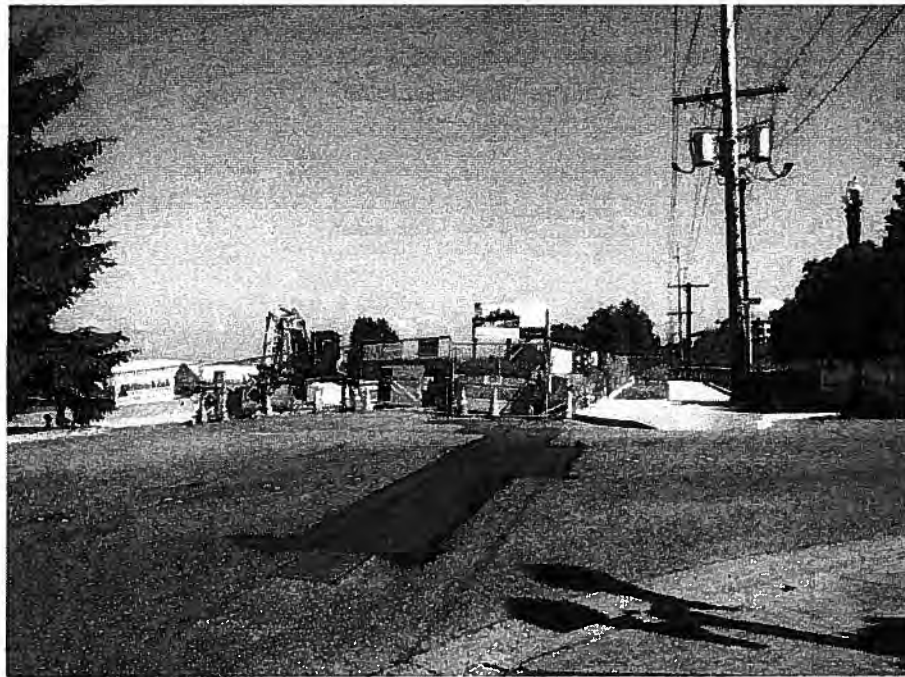
Tacoma

Wenatchee

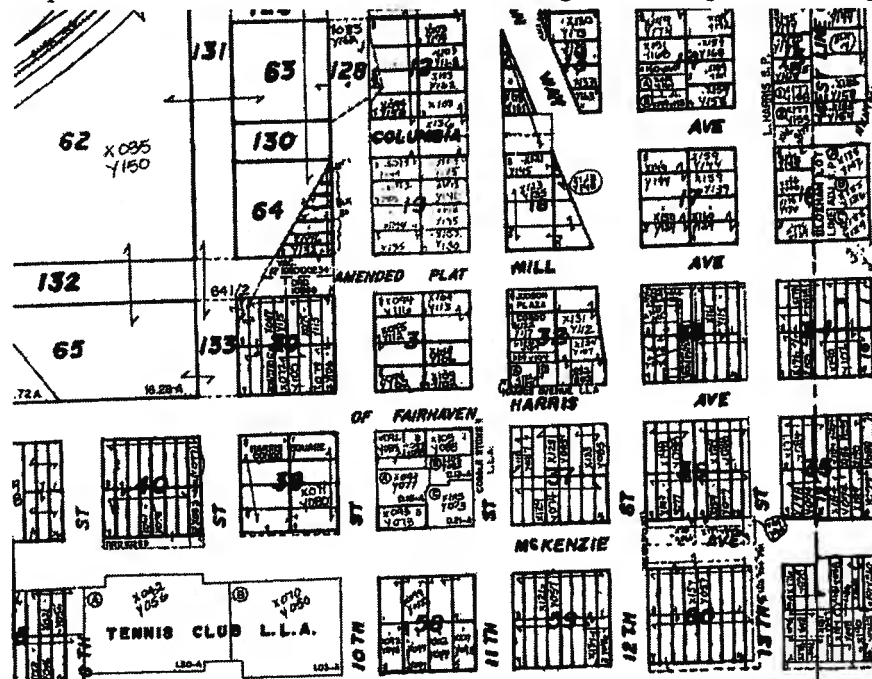
Yakima Valley

Bellingham

COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



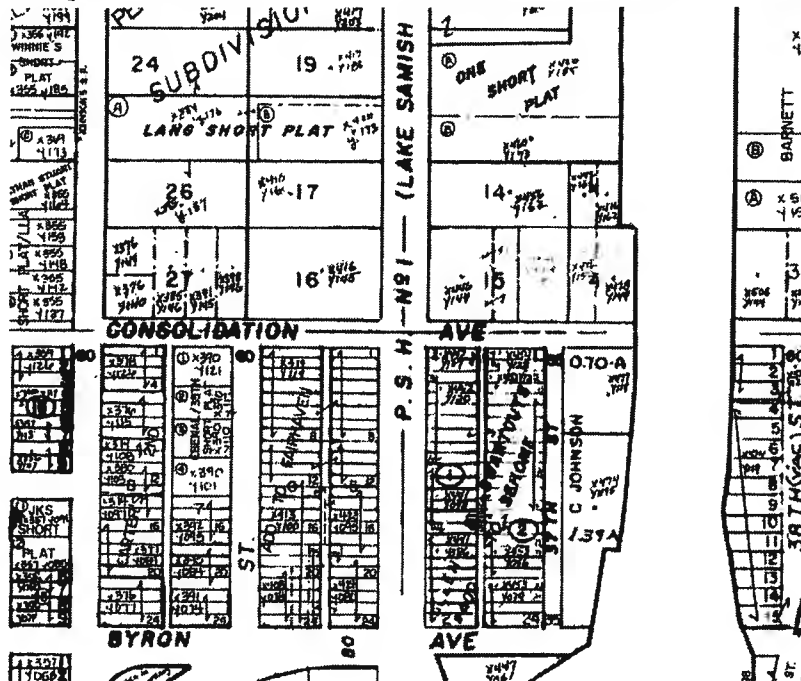
Comparable 1 – 11th and Mill Streets, Bellingham (comparable at right)



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



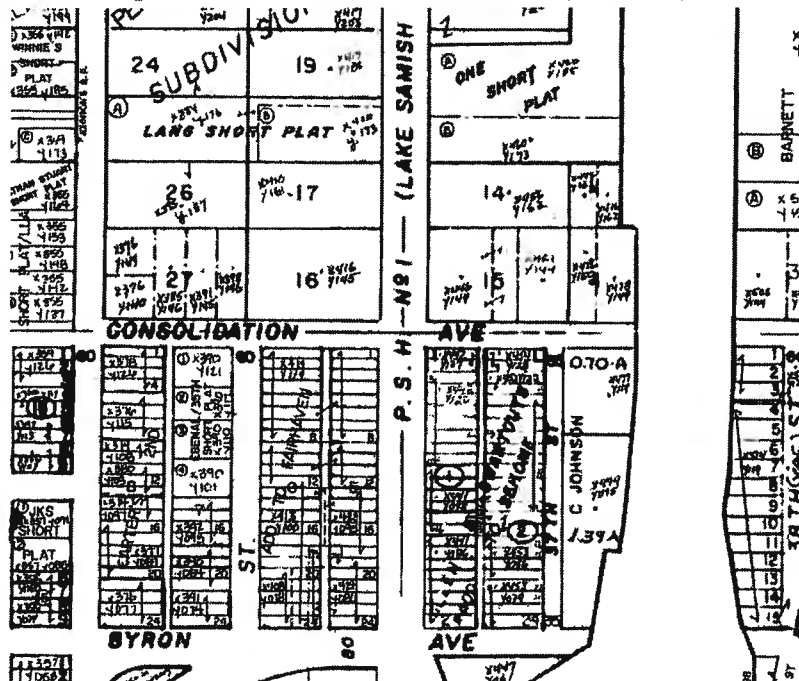
Comparable 2 - 3613-3701 Consolidation Avenue, Bellingham



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



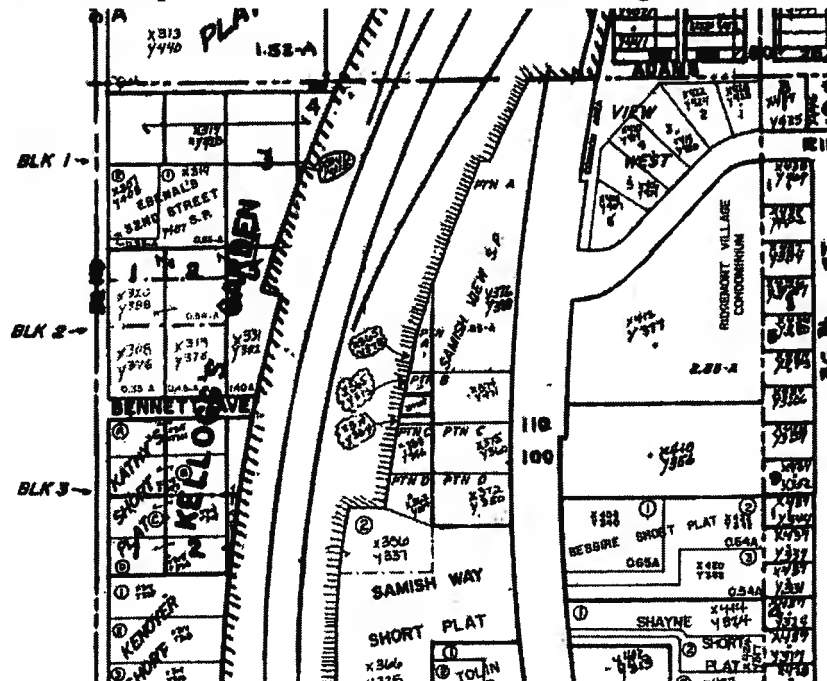
Comparable 3 - 109 South Samish Way, Bellingham



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



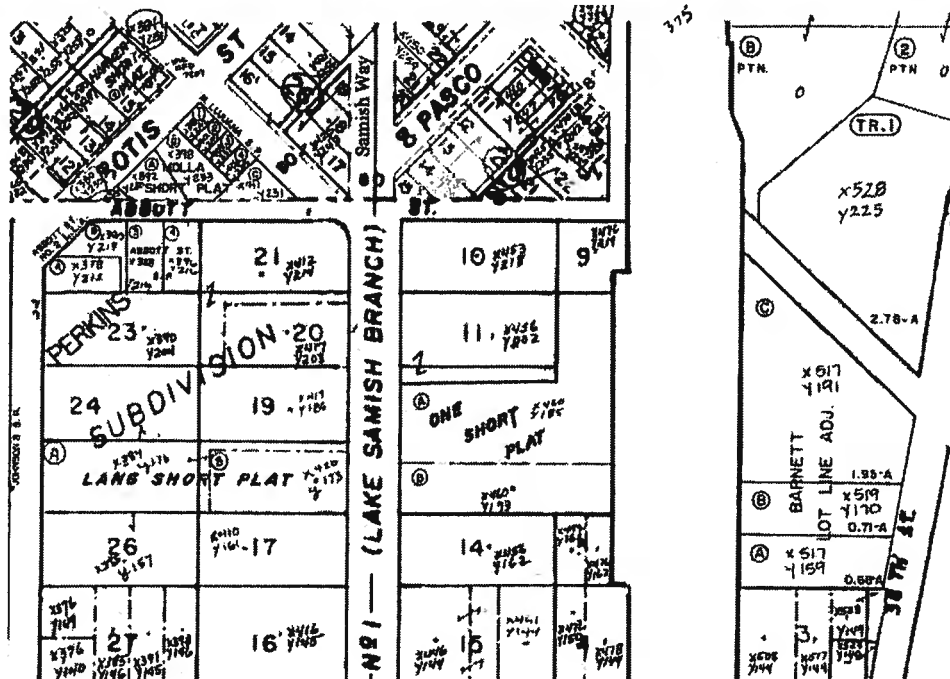
Comparable 4 – 705-09 32nd Street, Bellingham



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



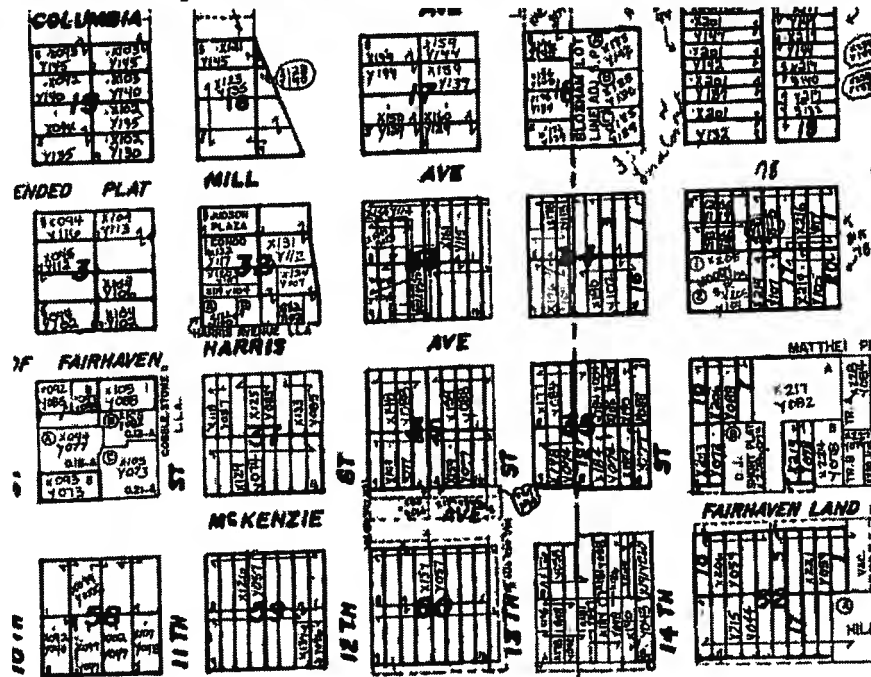
Comparable 5 – 218 North Samish Way, Bellingham



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



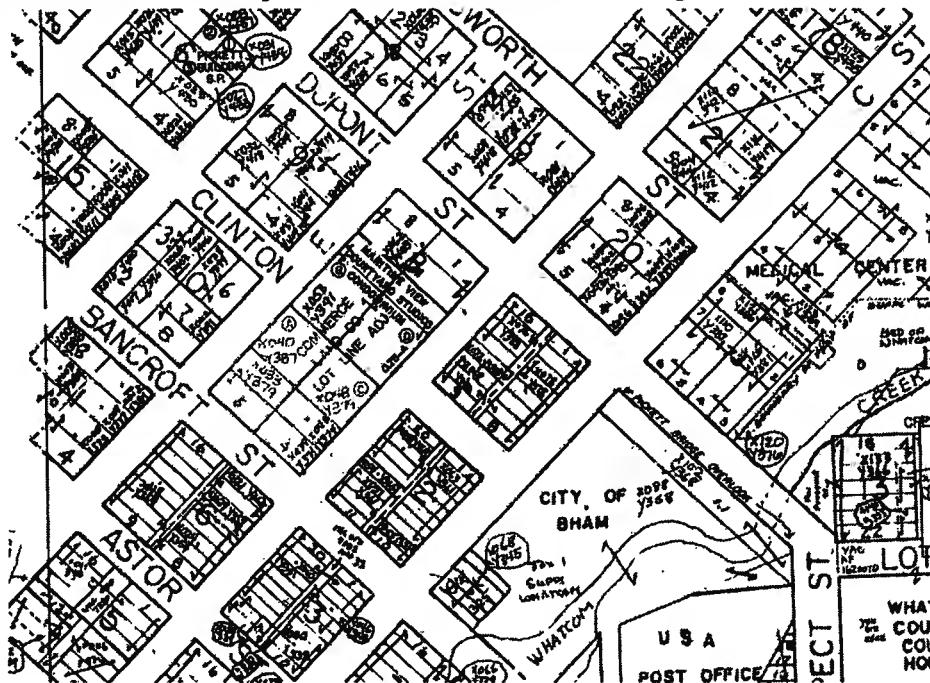
Comparable 6 – NEC 13th Street & Harris Avenue



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



Comparable 7 – 1507 D Street, Bellingham



COMPARABLE LAND SALE PHOTOGRAPHS AND PLAT MAPS



Comparable 8 – 1029 22nd Street, Bellingham



DISCUSSION OF COMPARABLE SALES

Comparable 1 (\$100.00/SF) is the current listing of a 48,000 square foot site zoned for mixed-use developments in the Fairhaven neighborhood. This site is currently used as a parking lot and is located immediately to the east of a site that is currently under development with a mixed-use project. This property has been on the market for 1.25 years with no price reductions. While there have been some parties interested in this property, no offers have been formally presented, based on comments from the listing agent.

Comparable 2 (\$24.05/SF) is the current listing of a 27,443 square foot mixed-use zoned site along the Samish Way corridor. This property is located on a secondary arterial, a short distance to the east of Samish Way. This site is currently improved with a rented single-family residence. Preliminary drawings prepared for this site show a potential for 32 units with surface parking. The seller of this property purchased the property last year for \$415,000 and also owns the property to the immediate west, which is also listed for sale.

Comparable 3 (\$29.97/SF) is the pending sale of a 50,043 square foot site with mixed-use zoning located along the Samish Way corridor. This site was formerly used as a restaurant and the building remains but is in fair condition. This property has been under contract for a protracted period while the prospective buyer goes through feasibility analysis. The buyer is reportedly a national drugstore chain with strong credit.

Comparable 4 (\$17.00/SF) is the pending sale of a 58,000 square foot multifamily development site located in the Happy Valley neighborhood. This property was on the market for only 7 days prior to being placed under contract. While the exact pending price was not disclosed, based on some of the numbers offered by the listing agent, it appears that this property sold at list price or possibly slightly higher. This property is improved with two rental houses that are in fair condition. Preliminary drawings indicate that this site could accommodate 58 units.

Comparable 5 (\$17.09/SF) is the January 2014 sale of a 20,776 square foot site zoned for mixed use development along the Samish Way corridor. This is an irregularly shaped site with a narrow frontage onto Samish Way and longer frontage along two other secondary arterials. The buyer of this site reportedly plans to develop the site with a small retail building.

Comparable 6 (\$29.96/SF) is the April 2013 sale of an 11,850 square foot site zoned for mixed-use development in the Fairhaven neighborhood. This property is currently used as a parking lot. The buyer of this site reportedly plans to develop an apartment project but the timeline for this development is unknown.

Comparable 7 (\$17.12/SF) is the June 2012 sale of a 39,490 square foot site zoned for multifamily development in the Lettered Streets neighborhood to the east of the waterfront. This site was

formerly permitted for an apartment development and the buyers of this site plan to develop a similar type of project. This was a bank-owned site at the time of sale.

Comparable 8 (\$18.75/SF) is the April 2012 sale of a 20,000 square foot site in the Happy Valley neighborhood that is zoned for multifamily development. This property was improved with a single family residence at the time of sale that has since been demolished. This sale included permits for developing the property with an apartment building.

UNIT VALUE CONCLUSION

The comparable sales and listings indicate a range of unit values between \$17.00 and \$100.00 per square foot. The listing at \$100.00 per square foot is the clear outlier and excepting this comparable narrows the range to between about \$17.00 and \$30.00 per square foot. The comparables all have similar development potential as the subject but lack the waterfront location and other amenities that are assumed for the purposes of this analysis. Alternately, the comparables are all located in neighborhoods that are built-out and offer commercial and residential synergy while the subject's location is pioneering and it will take a number of years for a similar level of synergy to develop.

In the course of this assignment, we interviewed a number of realtors for their opinions of the retail values for the sites that will comprise the subject. These opinions were uniformly in the range of \$25 to \$30 per square foot, depending on the orientation with the waterfront and the size of the parcels. As a base value for the land, we conclude to a value of \$27.50 per square foot. This conclusion aligns with the unit values for land located in other Urban Village areas of the Bellingham market. The locations are typically available for traffic impact credits ranging from 22 to 50 percent. Our conclusion of a unit value for the site includes the value of these credits at the high end of this range. Additional value allocable to these impact fee credits is discussed following.

IMPACT FEE CREDIT VALUE

In addition to the value of the underlying site value, there is value allocable to the credits toward impact fees that are part of the value of the site. As concluded in the Market Analysis section of this report, the impact fee credits available to the site beyond the base allowable density are speculative and it is unlikely a buyer would pay a premium for credits that might not demonstrate value for a number of years into the future, if at all. The chart following shows the value allocable to the impact credits at the base density and based on three use configurations of 40 to 60 percent residential to commercial. We note that our concluded value for the site at \$27.50 per square foot is based on comparables with Urban Village type zoning that are eligible for the reduced levels of traffic impact fees at approximately 50 percent of the current rate. Therefore, we project that the traffic impact fees, which have a maximum value of \$1,907 per P.M. trip generated, would only have a contributory value of \$954 per P.M. trip.

The traffic impact fee schedule is complicated and requires numerous assumptions in order to project the contributory value. For purposes of this analysis, we project a mix of commercial uses at 70 percent office, 15 percent specialty retail and 15 percent food types of uses. The chart shows the associated trip generation for these types of uses.

<u>Impact Fee Credits</u>	<u>Assumed Commercial Use Mix and Associated Trip Generation</u>	
\$3,523 per residential unit	70% Office	1.49 Trips/1,000 SF
\$954 per peak PM trip	15% Specialty Retail	2.71 Trips/1,000 SF
	15% Food Uses	4.9 Trips/1,000 SF

	Residential Units	Impact Fee Credits	Commercial Trips	Traffic Impact Credits	Total Credit Value	Credit Value (\$/SF)
Base Floor Area Ratio (2 to 3)						
Residential-Commercial 40%-60%	594	\$2,093,045	1,363	\$1,299,355	\$3,392,400	\$7.21
Residential-Commercial 50%-50%	743	\$2,616,306	1,136	\$1,082,796	\$3,699,102	\$7.86
Residential-Commercial 60%-40%	891	\$3,139,567	908	\$866,237	\$4,005,804	\$8.51

As discussed in the Market Analysis, our projected absorption aligns closest with a 50-50 mix of commercial and residential development. The associated value for these credits would equate to \$7.86 per square foot of site area. We have rounded this up to a contributory value of \$8.00 per square foot. Adding this to the concluded base unit value of \$27.50 per square foot results in a unit value of \$35.50 per square foot.

VALUE CONCLUSION – ECONOMIC UNIT

Based on the comparable sales, the most likely parcel size would be in the range of 0.75 to 1.00 acres. These parcel sizes are typically constrained by the original platting of blocks and the limits of assembling contiguous ownerships. Developers generally prefer larger parcels for high-density residential and mixed-use developments, provided that there is sufficient demand to support the development, because larger sites allow for a variety of development configurations and economies of scale in the construction costs.

The projected absorption timeline developed in the Market Analysis section of this report indicates an absorption period of 10 years. This equates to economic units of approximately 1.08 acres each (10.8 acres / 10 years), or 47,045 square feet. This is very close to the typical development size seen in the market.

Applying the concluded unit value of \$35.50 per square foot, which includes an allocation for the impact fee credits, to the assumed site sizes of 47,045 square feet results in a value per parcel of \$1,670,098, rounded to \$1,670,000. This is the base retail value for each 1.08 acre parcel that is assumed to sell at the rate of 1 per year over a 10 year absorption period.

AS IS VALUE - BULK VALUE

The bulk value of the 10 assumed parcels at the subject, each approximately 1.08 acres in size and absorbing over the next 10 years, is detailed in this section. This analysis has been performed using a discounted cash flow analysis to model the absorption over time.

Absorption Analysis

Based on the analyses in the Market Analysis section of this report, we project a 10-year absorption schedule. We project the first sale would occur immediately and is shown on the discounted cash flow analysis as a presale and is not subject to discounting.

The other assumptions underpinning the DCF are enumerated following:

- Closing costs and costs of sale are estimated at 3 percent for closing costs and 4 percent for sale commissions.
- Developer's overhead is estimated at 2 percent of sales.
- The discount rate applied is 16 percent and this rate includes an allocation for profit. This rate is based on the rates reported by the *PriceWaterhouseCooper Real Estate Survey* of institutional land developers. This survey shows discount rates for land development in the range of 18 to 22 percent but these are typically for much larger developments than the subject. These developments also typically require the developer to construct most of the infrastructure and to develop the property without the level of facilitation offered by the City and Port of Bellingham for the development of the subject. These factors support a lower discount rate.
- The sale price for the units appreciates at a rate of 5 percent per year. This rate emphasizes that, as the amenities in the area develop, the Bellingham waterfront will become a very desirable location. For the near term, land values would likely appreciate apace with other land in the market area, which is emerging from a protracted depressed period. Over the longer term, as the neighborhood materializes, this appreciation will likely outpace other areas in the city. The stabilized appreciation rate of 5 percent compounding annually over a 10 year absorption period reflects this projected trend.

A copy of the discounted cash flow analysis is included on the following page.

Bulk Value - Discounted Cash Flow Analysis

Summary of Market Supported Assumptions				Summary of Results						
Total Parcels	10									
Average Price	\$1,670,000									
Absorption per Year	1									
Annual Discount Rate (%)	16.00%									
Closing Costs	3.00% of sales									
Sales Commissions	4.00% of sales									
Dev. Overhead	2.00% of sales									
Presales	1									
Annual Appreciation Rate	5.00%									
Year	Presales	1	2	3	4	5	6	7	8	9
Cumulative Sales	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Cumulative Dollar Sales	\$1,670,000	\$3,340,000	\$5,093,500	\$6,934,675	\$8,867,909	\$10,897,804	\$13,029,194	\$15,267,154	\$17,617,012	\$20,084,362
Unsold Inventory	9.0	8.0	7.0	6.0	5.0	4.0	3.0	2.0	1.0	0.0
Unit Sales	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Dollar Sales	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000	\$1,670,000
Appreciation	\$0	\$0	\$83,500	\$171,175	\$263,234	\$359,895	\$461,390	\$567,960	\$679,858	\$797,351
Total Dollar Sales	\$1,670,000	\$1,670,000	\$1,753,500	\$1,841,175	\$1,933,234	\$2,029,895	\$2,131,390	\$2,237,960	\$2,349,858	\$2,467,351
Impact Fee Credit Value										
Closing Costs	\$50,100	\$50,100	\$52,605	\$55,235	\$57,997	\$60,897	\$63,942	\$67,139	\$70,496	\$74,021
Sales Commissions	\$66,800	\$66,800	\$70,140	\$73,647	\$77,329	\$81,196	\$85,256	\$89,518	\$93,994	\$98,694
Dev. Overhead	\$33,400	\$33,400	\$35,070	\$36,824	\$38,665	\$40,598	\$42,628	\$44,759	\$46,997	\$49,347
Net Cash Flows	\$1,519,700	\$1,519,700	\$1,595,685	\$1,675,469	\$1,759,243	\$1,847,205	\$1,939,565	\$2,036,543	\$2,138,371	\$2,245,289
Monthly Discount Factor		0.862	0.743	0.641	0.552	0.476	0.410	0.354	0.305	0.263
Discounted Cash Flows	\$1,519,700	\$1,310,086	\$1,185,854	\$1,073,402	\$971,614	\$879,478	\$796,079	\$720,589	\$652,257	\$590,405

AS IS VALUE CONCLUSION – DEVELOPMENT LAND

The subject is assumed to consist of 10 economic parcels of approximately 1.08 acres, each with a concluded value of \$1,670,000. The projected absorption period of 10 years results in a bulk discounted value of \$9,699,466, which is rounded to **\$9,700,000**. This is the concluded As Is Value for the subject site as of May 21, 2014.

RECONCILIATION AND FINAL VALUE OPINION

Reconciliation is the process of assigning, or placing various levels of emphasis to each of the different approaches used in the appraisal report. Typically, this process considers the quality and quantity of information available in the various approaches to determine which approach or combination of approaches is the most relevant to the final value of the subject. Considerations include the reliability of data and the acceptability of the various valuation approaches within the particular industry, market area, or property type.

The subject is land that is suitable for mixed-use development. The sales comparison approach was applied to determine the retail value of the individual parcels that comprise the subject and the bulk discounted value was determined using a discounted cash flow analysis. Individual findings of each approach indicated the following opinions of value for the subject:

VALUE INDICATIONS AS OF MAY 21, 2014

Retail Site Value – 1.08 Acres Assumed Site Sizes

Cost Approach	Not Developed
Income Capitalization Approach	Not Developed
Sales Comparison Approach	\$1,670,000

Bulk Discounted / As Is Value – 10.8 Acre Site, 10 Assumed Parcels

Discounted Cash Flow Analysis	\$9,700,000
-------------------------------	-------------

Sales Comparison Approach

For the sales comparison approach, listings and sales of development land were analyzed in order to determine a retail value for the parcels that comprise the subject. The findings of this analysis were then analyzed with a discounted cash flow analysis in order to derive an As Is Value for the entire site. Sole weight is allocated to these approaches.

VALUE CONCLUSION

On the basis of the discussion and analyses included in this report, with sole emphasis on the sales comparison approach, our concluded opinion of value for the subject, as of May 21, 2014, is:

Fee Simple Estate – Bellingham Waterfront Development Land – May 21, 2014

NINE MILLION SEVEN HUNDRED THOUSAND DOLLARS

\$9,700,000

This value conclusion is based on numerous hypothetical conditions that are outlined at the beginning of this report. These conditions include, but are not limited to, that the site is not affected by any environmental contamination and that the sites are serviced by utilities and street networks. It is essential that these conditions be reviewed and understood within the context of this valuation because the effect on value could be significant.

Exhibit I:

Whatcom County Assessor Records

Whatcom County Assessor & Treasurer

Property Search Results > 53361 PORT OF BELLINGHAM for Year 2013 - 2014

Property

Account

Property ID: 53361

Legal Description: NEW WHATCOM TIDELANDS
TISSUE RESERVE AREA-SUBJ
TO RESERVATION OF CERTAIN
RIGHTS REC AF 2050103046

Geographic ID: 3802255220210002

Agent Code:

Type: Real

Tax Area: 0109 - BELLINGHAM 501 AH LIFT Land Use Code 91

Open Space: N DFL N

Historic Property: N Remodel Property: N

Multi-Family Redevelopment: N

Township: T38N

Section: 25

Range: R02E

Location

Address: 411 W CHESTNUT ST
BELLINGHAM, WA

Mapsco:

Neighborhood: 5410650500

Map ID:

Neighborhood CD: 5410650500

Owner

Name: PORT OF BELLINGHAM

Owner ID: 89437

Mailing Address: PO BOX 1677
BELLINGHAM, WA 98227-1677

% Ownership: 100.0000000000%

Exemptions: EX

Pay Tax Due

There is currently No Amount Due on this property.

Taxes and Assessment Details

Property Tax Information as of 06/04/2014

Amount Due if Paid on: 

NOTE: If you plan to submit payment on a future date, make sure you enter the date and click RECALCULATE to obtain the correct total amount due.

Click on "Statement Details" to expand or collapse a tax statement.

Year	Statement ID	First Half Base Amt.	Second Half Base Amt.	Penalty	Interest	Base Paid	Amount Due
▶ Statement Details							
2014	33372	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
▶ Statement Details							
2013	33738	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Values

(+) Improvement Homesite Value:	+	\$0
(+) Improvement Non-Homesite Value:	+	\$0
(+) Land Homesite Value:	+	\$0
(+) Land Non-Homesite Value:	+	\$4,297,910
(+) Curr Use (HS):	+	\$0 \$0
(+) Curr Use (NHS):	+	\$0 \$0
(=) Market Value:	=	\$4,297,910
(-) Productivity Loss:	-	\$0

(=) Subtotal:	=	\$4,297,910
(+) Senior Appraised Value:	+	\$0
(+) Non-Senior Appraised Value:	+	\$4,297,910
(=) Total Appraised Value:	=	\$4,297,910
(-) Senior Exemption Loss:	-	\$0
(-) Exemption Loss:	-	\$4,297,910
(=) Taxable Value:	=	\$0

Map List

Map No.	Map Area
1	Whole section
2	NE Quarter
3	NW Quarter
5	SE Quarter

Taxing Jurisdiction

Owner: PORT OF BELLINGHAM
 % Ownership: 100.000000000000%
 Total Value: \$4,297,910
 Tax Area: 0109 - BELLINGHAM 501 AH LIFT

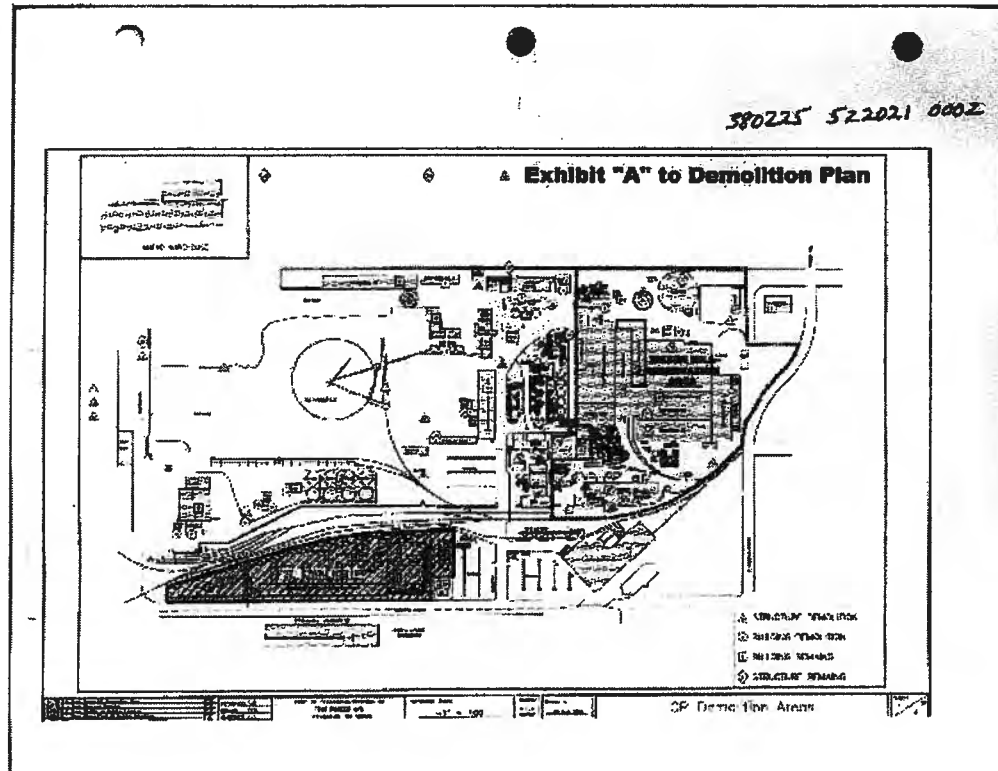
Levy Code	Description	Levy Rate	Appraised Value	Taxable Value	Estimated Tax
BH01BOND	CITY OF BELLINGHAM 2001 BOND	0.0000000000	\$4,297,910	\$0	\$0.00
BHAH	CITY OF BELLINGHAM AFF HSG	0.1169037338	\$4,297,910	\$0	\$0.00
BHFP	CITY OF BELLINGHAM FIRE PENSION	0.2249900129	\$4,297,910	\$0	\$0.00
BHGEN	CITY OF BELLINGHAM GENERAL FUND	1.6163438811	\$4,297,910	\$0	\$0.00
BHGW3	CITY OF BELLINGHAM GREENWAYS III	0.5394900397	\$4,297,910	\$0	\$0.00
BHRDA	CITY OF BELLINGHAM RDA	0.0038419641	\$4,297,910	\$0	\$0.00
CFL	CONSERVATION FUTURES	0.0431269009	\$4,297,910	\$0	\$0.00
FCZDL	FLOOD CONTROL ZONE	0.1388336157	\$4,297,910	\$0	\$0.00
PTBOND	PORT OF BELLINGHAM GO BOND	0.0549286263	\$4,297,910	\$0	\$0.00
PTGEN	PORT OF BELLINGHAM GENERAL FUND	0.2335740908	\$4,297,910	\$0	\$0.00
PTRDA	PORT OF BELLINGHAM RDA	0.0002118638	\$4,297,910	\$0	\$0.00
SD501B	BELLINGHAM SCHOOL #501 BOND	1.3775545130	\$4,297,910	\$0	\$0.00
SD501CP	BELLINGHAM #501 CAPITAL PROJECTS	0.6057763110	\$4,297,910	\$0	\$0.00
SD501MO	BELLINGHAM SCHOOL #501 M&O	2.5017285334	\$4,297,910	\$0	\$0.00
WA	WA STATE GENERAL FUND	2.6164263372	\$4,297,910	\$0	\$0.00
WAREF	WA STATE REFUND FUND	0.0000000000	\$4,297,910	\$0	\$0.00
WCCE	COUNTY CURRENT EXPENSE	1.1132362078	\$4,297,910	\$0	\$0.00
WCCT	COUNTY COMBINED TREATMENT	0.0124999999	\$4,297,910	\$0	\$0.00
WCDD	COUNTY DEVELOPMENTAL DISABILITY	0.0124999999	\$4,297,910	\$0	\$0.00
WCER	COUNTY ELECTION RESERVE	0.0152030518	\$4,297,910	\$0	\$0.00
WCVR	COUNTY VETERANS RELIEF	0.0112499999	\$4,297,910	\$0	\$0.00
AHBH13	AFFORDABLE HOUSING BHAM	0.2338074677	\$4,297,910	\$0	\$0.00
Total Tax Rate:		11.4722271507			

Taxes w/Current Exemptions: \$0.00
 Taxes w/o Exemptions: \$49,306.58

Improvement / Building

Property Image

This property contains TIFF images. Click on the button(s) to download the full image (which may contain multiple pages).



Land

#	Type	Description	Acres	Sqft	Eff Front	Eff Depth	Market Value	Prod. Value
1	9130	INDUSTRIAL	16.7800	730937.00	0.00	0.00	\$4,297,910	\$0

Roll Value History

Year	Improvements	Land Market	Current Use	Total Appraised	Taxable Value
2014		N/A	N/A	N/A	N/A
2013		\$0	\$4,297,910	\$0	\$4,297,910
2012		\$0	\$4,297,910	\$0	\$4,297,910
2011		\$0	\$4,297,910	\$0	\$4,297,910
2010		\$0	\$4,297,910	\$0	\$4,297,910

Deed and Sales History

Payout Agreement

No payout information available..



This website is under active development. Some functionality is not yet available and data is not guaranteed.
[Assessor Home Page](#) [Treasurer Home Page](#) [Full County Map](#) [Disclaimer](#) [Privacy Policy](#)

Exhibit II:

Client's List of Assumptions and
Conditions

Assumptions for Waterfront District Initial Development Area Appraisal:

Site: Initial 10.8 acres at the northern end of the Downtown Waterfront, shown on attached Exhibit A.

The properties shall be appraised with the following assumptions:

1. **Fee Simple Land Sale:** The property will be sold to one developer in one or more parcels over the next several years. The appraisal should reflect the 2014 land value.
2. **Site Conditions and Environmental Cleanup :** This is a former industrial site. Prior to 2008 the Site was an industrial facility and had been used for various industrial operations for the preceding 70 years. Therefore, like many former industrial sites, it has a number of below ground features consistent with a historic industrial property. Soil and groundwater at the site have been identified to contain various levels of contamination consistent with historic industrial operations. Existing site conditions and associated environmental remediation are presented below:
 - a. Historic Below Ground Industrial Artifacts. As typical of a former long used industrial site, it is anticipated that underground piping, vaults, conduits, piling and other artifact structures will be encountered. There is no reliable mapping of these anticipated artifacts. The cost of dealing with these industrial artifacts will be borne by the Developer Entity. It is anticipated that a Developer Entity will design a project to minimize the costs of dealing with these industrial artifacts.
 - b. Historic Environmental Contamination. Consistent with historic industrial operations, soil and groundwater at the Site have been identified to contain various levels of contamination. The Site has been the subject of a remedial action supervised by the Washington State Department of Ecology. The remedial action consisted of (i) testing of the soils and groundwater and (ii) developing a remedial plan protective of both human health and the environment. That plan includes (i) some focused excavation and removal of heavily contaminated soils, (ii) isolation of the rest of the soils on the Site (presumed to be lightly contaminated) with a physical cap over the site and restrictions placed on use of the ground water of the Site. Much of the Site is already capped with building foundations and asphalt parking areas.
 - c. Consent Decree with Ecology. The approved remedial plan will be the subject of a formal Consent Decree whereby the Port agrees to undertake the remedial plan and the Department of Ecology agrees to settle any environmental liability. Under Washington law a Consent Decree also provides protection against any third party claims. The Port will be responsible for implementing the remedial plan and will indemnify any purchaser for any activity required under the remedial plan or any

failure of the remedial plan. The Consent Decree will contain a "soils management plan" which will provide direction on handling soils excavated from the site as part of non-remedial construction projects (for example the soil excavated as part of a building foundation will need to be properly tested before removal from the Site and, if contaminated, disposed of in accordance with law).

- d. **Restrictive Covenant:** The Development Entity will be responsible for compliance with the environmental covenants (including Ecology notification requirements, maintaining integrity of environmental caps, and materials management) during the development and with any liability arising from violation thereof. For example, if the cap is disturbed it will have to be replaced as part of the construction process. The cap may consist of a building foundation, an asphalt parking lot, soil and landscaping over a separation membrane, a street or a gravel layer over the top of a separation membrane. The cost of complying with the restrictive covenant will be borne by the Developer Entity. It is anticipated that a Developer Entity will design a project to minimize the costs of dealing with these requirements.

3. **Development Regulations:** The Sub-area Plan, development regulations and Planned Action Ordinance adopted in December, 2013 will govern development of the site. The appraisal should reflect the development character, allowable uses, density, height limits, reduced parking requirements and other entitlements described in the following documents, available for review on the City of Bellingham website:

<http://www.cob.org/services/planning/waterfront/index.aspx>

- Waterfront district Sub-area Plan (December, 2013)
 - Waterfront District Development Regulations (December, 2013)
 - Waterfront District Design Standards (December, 2013)
 - Waterfront District Planned Action Ordinance (December, 2013)
 - Shoreline Master Program (December, 2013 amendment)
 - Waterfront District Permit Handbook (2014)
4. **Permit Process:** It is assumed that the City and Port will work together with the developer to expedite the development permit process as described in the Waterfront Permit Handbook. This streamlined process includes predictable environmental review and application of the State Environmental Policy Act (SEPA) mitigation requirements described in the approved Environmental Impact Statement and SEPA Planned Action Ordinance adopted for this site.
5. **Infrastructure:** All provisions of the Interlocal Agreement for Facilities dated 12.18.13 will be implemented. Specifically, it is assumed that the City of Bellingham will construct the

Whatcom Waterway Park, the first phase of the Commercial Street Green park, Granary and Bloedel Avenue through the site, and interim Laurel Street to Cornwall Avenue plus associated utilities over the next several years in conjunction with site development.

6. **Impact Fee Credits:** The Parks and Traffic Impact Fee credits described in Section 9 a. and b. of the 12.16.13 Waterfront district Development Agreement will apply to this site. No Park Impact Fees will be assessed for residential development on the site, resulting in a parks impact fee reduction of \$3,523 per residential unit . The Traffic Impact Fee credit described in Section 9.a. of the Development Agreement will be used to off-set City of Bellingham Traffic Impact Fees for all commercial, offices, Institutional and Industrial development. This will reduce development fees by \$1,907 per pm peak hour trip for commercial development. Normal City of Bellingham Traffic Impact Fee rates will apply to residential development, assuming that the traffic impact fee reductions associated with a designated Urban Village will apply to this site.

Exhibit III:

Letter of Engagement



PORT OF BELLINGHAM

Washington State

May 1, 2014

John Bryan, Appraiser
Columbia Valuation Group, Inc.
2402 Northwest 195th Place
Shoreline, WA 98177

RE: Bellingham Waterfront appraisal update

Dear John,

The Port is in need of an update to the appraisal prepared by your office, CVG File No. 09-188, dated June 10, 2009. The assumptions and specific site for this update are attached.

Prior to proceeding, please provide a cost estimate and approximate completion date.

Sincerely,

PORT OF BELLINGHAM


Shirley McFarrin, Managing Broker
Director of Real Estate

Subject: RE: Bellingham Waterfront appraisal update
From: "Ilahi, Terry" <terryi@portofbellingham.com>
Date: 5/6/2014 2:28 PM
To: 'John Bryan' <jbryan@cvgseattle.com>
CC: "McFearin, Shirley" <ShirleyM@portofbellingham.com>

John,

Thank you for your email. Please proceed and use purchase order number 44960 for this assignment.

Best Regards,

Terry

Terry Ilahi
Port of Bellingham
Real Estate Account Representative
360-715-7375
360-676-2500 ext 328

From: John Bryan [mailto:jbryan@cvgseattle.com]
Sent: Tuesday, May 06, 2014 1:43 PM
To: Ilahi, Terry
Subject: Re: Bellingham Waterfront appraisal update

Hi Terry,

After reviewing the provided documentation, we could do \$3,800 and deliver by the end of May. There will obviously be more questions that come up through the process and we appreciate your assistance in answering these questions thus far.

Thank you for your consideration and we look forward to working with you.

Sincerely,

John Bryan, Appraiser
Columbia Valuation Group, Inc.
206.364.8580 Office
206.817.4516 Cell
206.364.8556 Fax

On 5/1/2014 11:27 AM, Ilahi, Terry wrote:

Good morning John,

Please see the attached documents related to appraisal update:

- 1- Letter requesting a cost estimate and completion date
- 2- Initial Development Offering appraisal assumptions
- 3- Site map

Please contact me should you have any questions.

Best Regards,

Terry

Terry Ilahi
Port of Bellingham
Real Estate Account Representative
1801 Roeder Avenue
PO Box 1677
Bellingham, WA 98227
Direct: 360-715-7375
Fax: 360-671-6411

This email and related attachments and any response may be subject to public disclosure under State law.

Exhibit IV:

Appraisers' Qualifications

QUALIFICATIONS

John C. Bryan

EDUCATION

State University of New York at Albany — Bachelor of Arts, English
University of Washington – Certificate of Construction Management

Appraisal Institute – General Applications
Appraisal Institute – Advanced Sales Comparison and Cost Approaches
Appraisal Institute – Advanced Concepts and Case Studies
Appraisal Institute – Advanced Income Capitalization
Appraisal Institute – Uniform Appraisal Standards for Federal Land Acquisitions
Appraisal Institute – Analysis of Operating Expenses
International Right of Way Association 401 – Appraisal of Partial Acquisitions
Uniform Standards of Professional Appraisal Practice
State of Virginia Right of Way Consultant Seminars
State of Washington Right of Way Consultant Seminars

PROFESSIONAL DESIGNATION

General Certified Appraiser, License No. 1101826
Formerly Licensed as Real Estate Salesperson

EXPERIENCE

2007 to Present – Real Estate Appraiser - Columbia Valuation Group

2002 to 2007 – Real Estate Appraiser - PGP Valuation

1998 to 2002 – Right of Way Acquisition Agent

TYPICAL ASSIGNMENTS

- Industrial buildings, single and multi-tenant
- Retail developments, ranging from freestanding single-tenant buildings to neighborhood shopping centers with outparcels
- Office buildings, ranging from freestanding single tenant to small midrise
- Residential and commercial plats; planned unit developments
- Apartments, condominiums, townhouse and mixed-use buildings
- Agricultural and resource properties
- Golf courses and country clubs
- Right of way appraisal, including complex damages
- Tidelands, waterfront and submerged lands
- Across-the-fence valuations, including rail corridors

REAA 860

JOHN C BRYAN
2402 NW 195TH PLACE
SHORELINE WA 98177

STATE OF WASHINGTON
CERTIFIED GENERAL REAL ESTATE APPRAISER

JOHN C BRYAN
2402 NW 195TH PLACE
SHORELINE WA 98177

CERT/LIC NO.
1101826

EXP. DATE
07/26/2014

John Hilt
Director

STATE OF WASHINGTON

DEPARTMENT OF LICENSING - BUSINESS AND PROFESSIONS DIVISION
THIS CERTIFIES THAT THE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A
CERTIFIED GENERAL REAL ESTATE APPRAISER



JOHN C BRYAN
2402 NW 195TH PLACE
SHORELINE WA 98177

Cert/Lic No.
1101826

Issued Date
05/04/2007

Expiration Date
07/26/2014

John Hilt
Director

PRINCIPAL QUALIFICATIONS

Kevin H. McAuliffe, MAI

EDUCATION

Western Michigan University — Graduate Studies in Regional Planning
Western Michigan University — Bachelor of Arts in Geography / Urban Planning
American Institute of Real Estate Appraisal — Real Estate Appraisal Principles
American Institute of Real Estate Appraisal — Basic Valuation Procedures
American Institute of Real Estate Appraisal — Capitalization Theory and Techniques, Part A
American Institute of Real Estate Appraisal — Capitalization Theory and Techniques, Part B
American Institute of Real Estate Appraisal — Case Studies in Real Estate Valuation
American Institute of Real Estate Appraisal — Standards of Professional Practice
American Institute of Real Estate Appraisal — Valuation Analysis and Report Writing
American Institute of Real Estate Appraisal, The Appraisal Institute and The International Right of Way Association — Uniform Standards of Professional Appraisal Practice (USPAP), Discounted Cash Flow Analysis; Investment Analysis; Applied Sales Comparison Approach; Appraising for Pension Funds; Subdivision Analysis; Rates, Ratios, and Reasonableness; Comprehensive Appraisal Workshop; FIRREA, Overview and Practical Application; Environmental Assessment and Audits; Easement Valuation; 1031 Tax Deferred Exchanging; Technical Inspection of Real Estate; The Appraiser as an Expert Witness; Fair Lending; Attacking and Defending an Appraisal in Litigation; Litigation Skills for the Appraiser; Standards of Professional Practice-Part C; Internet Search Strategies for Real Estate Appraising; Appraisal of Nonconforming Uses; GIS Applications for Real Estate; Income Valuation of Small Mixed Use Properties; Scope of Work; Real Estate Fraud; Operating Expenses; Small Hotel Valuation; Business Value and Going Concern Value; Analyzing Distressed Real Estate; Partial Interest Valuation, Divided and Undivided; Washington State Planning and Land Use Seminar; Appraising Vineyards and Wineries; and Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book)

PROFESSIONAL DESIGNATION

Member Appraisal Institute, MAI
General Certified Appraiser, Washington State

EXPERIENCE

Columbia Valuation Group, Inc. - Seattle, Seattle, WA, *Founding Principal*
1992 - Current

Seafirst Bank, Seattle, WA, *Assistant Vice President and Senior Appraisal Officer* — Real estate advisory and appraisal services
1986- 1992

COLUMBIA VALUATION GROUP, INC. - SEATTLE

Seattle

Tacoma

Wenatchee

Yakima Valley

Bellingham

STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THAT THE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A

CERTIFIED GENERAL REAL ESTATE APPRAISER



KEVIN H MCAULIFFE
2402 NW 195TH PLACE
SHORELINE WA 98177

Cert/Lic No.
1100752

Issued Date
12/11/1991

Expiration Date
05/25/2015

John H. Hilt
Director

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NUMBER 1**

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NO: 1
DATE: NOVEMBER 4, 2015**

This **AMENDMENT NO 1** (the "Amendment") to the Master Development Agreement is effective as of date noted above, and entered into by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation (the "Port") and **HARCOURT BELLINGHAM LLC**, a Washington limited liability corporation ("Harcourt").

WHEREAS, the Port and Harcourt executed the Master Development Agreement (the "Agreement") on May 19, 2015.

WHEREAS, pursuant to section 16.17 of the Agreement the Port and Harcourt may amended the Agreement by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants contained in this Amendment No 1 and in the Agreement the Port and Harcourt agree as follows.

1. Amendment to Agreement. The Agreement shall be amended as follows.

Effective Date	Agreement Section or Exhibit	Description of Change
November 4, 2015	Exhibit 4.1	Modify note 4 to extend date for building permit to February 19, 2016

A strike-through underline change to the section(s) or exhibit(s) amended by this Amendment is attached hereto as Exhibit A and is incorporated herein. In any conflict between the description above attached exhibit, the attached exhibit shall control.

2. Other Terms and Conditions. All other terms and conditions of the Agreement remain unchanged.

3. Authority. Each of the undersigned represents and warrants that (i) the party for which they are signing has all necessary rights, title, interest, power, and authority to enter into this Amendment and perform in accordance with its terms and provisions, (ii) that the individual(s) signing this Amendment have the authority to bind the respective entity and to enter into this transaction, and (iii) the respective entity has taken all requisite action to legally authorize the execution, delivery, and performance of this Amendment.

4. Execution in Counterparts and Electronic Transmission. This Amendment may be executed in any number of counterparts each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Amendment. All electronic transmissions of this Amendment shall be treated as originals for all purposes.

IN WITNESS WHEREOF, the parties hereto have executed this document as of the day and year first above written.

PORT OF BELLINGHAM



Rob Fix
Executive Director

HARCOURT BELLINGHAM, LLC



Its: _____

WATERFRONT DISTRICT MASTER DEVELOPMENT SCHEDULE (EXHIBIT 4.1)

Activity/ Date	Year Ending:	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Master Development Agreement (MDA) Signed ¹	X																								
Site Preparation, Cleanup and Binding Site Plan approval ²																									
Phase 1 Infrastructure: Granary and Bloedel Ave, Waterway Park ³	-----																								
Granary Building (45,000 SF) ⁴	----	=====																							
Second Development Project (minimum size- 40,000 SF) ⁵	---	-- ==	=																						
Third Development Project ⁶							-----	---				****	****												
Additional Development Projects to reach Cumulative 500,000 SF ⁷																	****	****							
Additional Development Projects to reach Cumulative 1 million SF ⁸																		****							
Interlocal Agreement for Facilities expires if 1 million SF has not been constructed S of Waterway																									X

* This Waterfront District Master Development Schedule will be modified each time additional acreage is added to the Master Development Area.

Waterfront District Development Schedule Milestones:

1. Master Development Agreement will be signed in **March, 2015**.

2. Environmental Cleanup will be completed by the end of **2016**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.4 will apply)

3. Phase 1 City Infrastructure will be installed by the end of **2017**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.3 will apply)

4. A complete building permit application for the Granary Building will be submitted to the City within ~~6 months of MDA approval~~ nine months of MDA approval which based upon the MDA execution date of May 19, 2015 will be February 19, 2016. Construction of the Granary Building will begin within 90 days after issuance of building permits and will be completed within 36 months of building permit issuance.

5. A complete building permit for a second building will be submitted within 12 months of MDA approval and construction will of the second building will be completed within 48 month of building permit issuance.

6. The schedule for design, permitting and construction of the third building project will be jointly determined by the Port and Harcourt after the second building is under construction. Construction should commence shortly after the completion of the second development project and be completed within 36 months.

7. Additional development projects to increase cumulative square footage to 500,000 SF will occur by **the end of 2029**, with a 24 month extension available. Substantial completion on 500,000 SF Floor Area will occur by the end of **2029**, unless an extension is granted under MDA Section 4.1.

8. Additional development projects to increase cumulative Floor Area to 1,000,000 SF will occur by **the end of 2034**, with a 24 month extension available under Section 4.1 of MDA. Substantial completion on 1,000,000 SF Floor Area will occur by the end of **2034**, unless an extension is granted under MDA Section 4.1. A further extension may be approved to reflect the prevailing conditions at the time subject to the agreement of all parties bound by the MDA and the Infrastructure Agreement for Facilities.

NOTE: The Infrastructure Agreement for Facilities will expire at end of 2038 if a cumulative building square footage south of the Whatcom Waterway has not reached 1.0 million square feet. Section C.4.2.A of the Infrastructure Agreement requires a total of 1.4 MSF to trigger the design and construction of the Commercial Street Bridge, and that sufficient vacant land must remain to allow construction of 2.0 million square feet at full build-out. Progress toward this infrastructure trigger will be monitored over time.

Planning/ Permit Submittal	-----
Permit Review/Approval	=====
Project Construction	
Potential Extension	****

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NUMBER 2**

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NO: 2
DATE: MAY 3, 2016**

This **AMENDMENT NO. 2** (the "Amendment") to the Master Development Agreement is effective as of date noted above, and entered into by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation (the "Port") and **HARCOURT BELLINGHAM LLC**, a Washington limited liability corporation ("Harcourt").

WHEREAS, the Port and Harcourt executed the Master Development Agreement (the "Agreement") on May 19, 2015.

WHEREAS, pursuant to section 16.17 of the Agreement the Port and Harcourt may amended the Agreement by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants contained in this Amendment No. 2 and in the Agreement the Port and Harcourt agree as follows.

1. Amendment to Agreement. The Agreement shall be amended as follows.

Effective Date	Agreement Section or Exhibit	Description of Change
May 3, 2016	Exhibit 4.1	Modify note 5 to extend date for the Building #2 Project Memorandum and Design Review Application to November 19, 2016

A strike-through underline change to the section(s) or exhibit(s) amended by this Amendment is attached hereto as Exhibit A and is incorporated herein. In any conflict between the description above and the attached exhibit, the attached exhibit shall control.

2. Other Terms and Conditions. All other terms and conditions of the Agreement remain unchanged.
3. Authority. Each of the undersigned represents and warrants that (i) the party for which they are signing has all necessary rights, title, interest, power, and authority to enter into this Amendment and perform in accordance with its terms and provisions, (ii) that the individual(s) signing this Amendment have the authority to bind the respective entity and to enter into this transaction, and (iii) the respective entity has taken all requisite action to legally authorize the execution, delivery, and performance of this Amendment.
4. Execution in Counterparts and Electronic Transmission. This Amendment may be executed in any number of counterparts each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the

same Amendment. All electronic transmissions of this Amendment shall be treated as originals for all purposes.

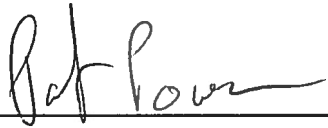
IN WITNESS WHEREOF, the parties hereto have executed this document as of the day and year first above written.

PORT OF BELLINGHAM



Rob Fix
Executive Director

HARCOURT BELLINGHAM, LLC



Its: DIRECTOR

WATERFRONT DISTRICT MASTER DEVELOPMENT SCHEDULE (EXHIBIT 4.1)

Activity/ Date	Year Ending:	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Master Development Agreement (MDA) Signed ¹	X																								
Site Preparation, Cleanup and Binding Site Plan approval ²																									
Phase 1 Infrastructure: Granary and Bloedel Ave, Waterway Park ³																									
Granary Building (45,000 SF) ⁴																									
Second Development Project (minimum size- 40,000 SF) ⁵																									
Third Development Project ⁶																									
Additional Development Projects to reach Cumulative 500,000 SF ⁷																									
Additional Development Projects to reach Cumulative 1 million SF ⁸																									
Interlocal Agreement for Facilities expires if 1 million SF has not been constructed S of Waterway																									X

* This Waterfront District Master Development Schedule will be modified each time additional acreage is added to the Master Development Area.

Waterfront District Development Schedule Milestones:

- 1. Master Development Agreement will be signed in **March, 2015**.
- 2. Environmental Cleanup will be completed by the end of **2016**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.4 will apply)
- 3. Phase 1 City Infrastructure will be installed by the end of **2017**. (if delayed, Master Development Schedule extension provisions in MDA Section 4.1.3 will apply)
- 4. A complete building permit application for the Granary Building will be submitted to the City within nine months of MDA approval which based upon the MDA execution date of May 19, 2015 will be February 19, 2016. Construction of the Granary Building will begin within 90 days after issuance of building permits and will be completed within 36 months of building permit issuance.
- 5. A ~~complete building permit~~ Project Memorandum and Design Review Application for a second building will be submitted within ~~12 months of MDA approval~~ 18 months of MDA approval which is based on the MDA execution date of May 19, 2015 will be November 19, 2016 and construction will of the second building will be completed within 48 month of building permit issuance.

- 6. The schedule for design, permitting and construction of the third building project will be jointly determined by the Port and Harcourt after the second building is under construction. Construction should commence shortly after the completion of the second development project and be completed within 36 months.
- 7. Additional development projects to increase cumulative square footage to 500,000 SF will occur by **the end of 2029**, with a 24 month extension available. Substantial completion on 500,000 SF Floor Area will occur by the end of **2029**, unless an extension is granted under MDA Section 4.1.
- 8. Additional development projects to increase cumulative Floor Area to 1,000,000 SF will occur by **the end of 2034**, with a 24 month extension available under Section 4.1 of MDA. Substantial completion on 1,000,000 SF Floor Area will occur by the end of **2034**, unless an extension is granted under MDA Section 4.1. A further extension may be approved to reflect the prevailing conditions at the time subject to the agreement of all parties bound by the MDA and the Infrastructure Agreement for Facilities.

NOTE: The Infrastructure Agreement for Facilities will expire at end of 2038 if a cumulative building square footage south of the Whatcom Waterway has not reached 1.0 million square feet. Section C.4.2.A of the Infrastructure Agreement requires a total of 1.4 MSF to trigger the design and construction of the Commercial Street Bridge, and that sufficient vacant land must remain to allow construction of 2.0 million square feet at full build-out. Progress toward this infrastructure trigger will be monitored over time.

Timeline Symbols		
Planning/ Permit Submittal		-----
Permit Review/Approval		=====
Project Construction		
Potential Extension		*****

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NUMBER 3**

**MASTER DEVELOPMENT AGREEMENT
AMENDMENT NO: 3
DATE: April 13, 2017**

This **AMENDMENT NO. 3** (the "Amendment") to the Master Development Agreement is effective as of date noted above, and entered into by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation (the "Port") and **HARCOURT BELLINGHAM LLC**, a Washington limited liability corporation ("Harcourt").

WHEREAS, the Port and Harcourt executed the Master Development Agreement (the "Agreement") on May 19, 2015.

WHEREAS, pursuant to section 16.17 of the Agreement the Port and Harcourt may amended the Agreement by an instrument in writing signed by a duly authorized representative of each party hereto in the same manner as such party has authorized this Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants contained in this Amendment No. 3 and in the Agreement the Port and Harcourt agree as follows.

1. Amendment to Agreement. The Agreement shall be amended as follows.

Effective Date	Agreement Section or Exhibit	Description of Change
May <u>16</u> , 2017	Exhibit A of MDA	Add Exhibit A-1 modifying Exhibit A by removing 0.46 acres from the Master Development Area to be used for parks and adding 0.49 acres to the Master Development Area.

Exhibit A-1, which is attached hereto, modifies Exhibit A as indicated in the Description of Change above.

2. Other Terms and Conditions. All other terms and conditions of the Agreement remain unchanged.
3. Authority. Each of the undersigned represents and warrants that (i) the party for which they are signing has all necessary rights, title, interest, power, and authority to enter into this Amendment and perform in accordance with its terms and provisions, (ii) that the individual(s) signing this Amendment have the authority to bind the respective entity and to enter into this transaction, and (iii) the respective entity has taken all requisite action to legally authorize the execution, delivery, and performance of this Amendment.
4. Execution in Counterparts and Electronic Transmission. This Amendment may be executed in any number of counterparts each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Amendment. All electronic transmissions of this Amendment shall be treated as originals for all purposes.

IN WITNESS WHEREOF, the parties hereto have executed this document as of the day and year first above written.

PORT OF BELLINGHAM



Rob Fix
Executive Director

HARCOURT BELLINGHAM, LLC



Its: Patrick Power
Director

HARCOURT MDA AMENDMENT NO. 3 - EXHIBIT A-1

