KPMG

Oregon State University-Cascades Innovation District Market and Feasibility Study

2019

INTRODUCTION

The purpose of this study is to provide a detailed level of understanding of Bend, Oregon's real estate market to inform long term campus planning and decision-making related to the development of a mixed-use "Innovation District" on the OSU-Cascades campus. Specifically, the study will assess the market by asset type through an interpretation of relevant and available market data, market participant discussion, and supply and demand analysis. KPMG will evaluate each of the asset types (as detailed below) and provide guidance as to which of the asset types are more suitable for Oregon State University-Cascade's proposed development based on market conditions.

The Subject Property is located within the southwest quadrant of the City of Bend. The competitive market to potential development at the Subject Property is generally the greater Bend market because of limited development outside of the immediate metro area.

Within the study, KPMG will assess the following asset types (based on discussions with Oregon State University-Cascades) within the Bend metropolitan area; office space, student housing, for rent housing, for sale housing, industrial space, retail space, hotel, athletic center, conference space and senior housing.

We note that the end-user of this report is to be Oregon State University-Cascades (henceforth referred to as "the University"). We will provide our analysis in a context that is relevant to the University will create an understanding of relevant opportunities within the Bend market to the University.

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1.0 EXECUTIVE SUMMARY

Since the inception of OSU-Cascades, providing access to high-quality teaching and research to Central Oregon, delivering transformational educational experiences and serving as a positive catalyst for the region have been key components. As envisioned by the University's Long Range Development Plan, an Innovation District comprised of a strategic mixture of the land use categories evaluated in this study offers the potential to provide a physical location to achieve those goals and connect to the community.

1.1 Office / Innovation District

The Bend metropolitan area continues to see significant year over year employment growth, driving the need for more office space. Per the U.S. Bureau of Labor Statistics, the Bend metropolitan area has seen an average of 6.00 percent year over year job growth in professional and business services every year since 2015. Given Bend's continued positive absorption and consistent job growth, market demand shows the market's ability to bear additional office space, however, development costs continue to be an impediment of future growth.

Additionally, The Bend office investment market has limited available space particularly in terms of Class A office space. This limited space is fueled by low net delivery numbers since 2014; only 200,000 square feet of office space has been delivered since the first quarter of 2014. We note that over the past two years, the Bend office submarket has seen net absorption of 87,000 and 129,000 square feet, respectively. Per discussion with market participants, there is hesitancy for supply to meet demand given Bend's unusually high cost to develop relative to achievable rents.

1.2 Housing

The Bend housing market represents an enticing opportunity given limited current development and consistent year-over-year population growth. Both factors indicate that we will likely see continued increase in market rental rates, although these increases will be compressed given recent legislation capping Oregon's annual rent increase at 7.00 percent. Despite such, Bend represents an opportunity with an expanding demand via population growth that will likely not be able to be sustained by current supply.

The Bend single-family home market specifically represents an enticing opportunity given consistent year-over-year population growth. This consistent growth is additionally supported by the potential for companies to permanently relocate to the area given its relative low cost of living in comparison to larger economic hubs (i.e. New York and San Francisco). As such, we assess market demand is strong enough to allow the market to bear both additional single-family homes and multifamily units.

Additionally, the University appears to be offering an appropriate amount of on-campus student housing at this time. As displayed in our analysis, it is recommended that the University continues to expand its student housing offerings at a level consistent with its enrollment. Given the University's anticipated growth in-line with campus expansion, it is likely that additional student housing space can be added as needed.

1.3 Industrial

There appears to be a shortage of industrial space based on both the current supply as well as projected future supply. Further, while the current supply shortage will be met by the current pipeline, demand will quickly exceed supply going forward based on projected deliveries. The market demand analysis herein is supported by discussions with market participants, who indicate that tight vacancy and limited additions to the supply have created demand for industrial space that exceeds the current supply.

While rent growth is strong due to inherent lack of supply, rents have not yet reached a level that make development financially feasible for those developers looking to introduce supply into the market given the high cost of development. If the University is able to pair with a developer and share in the development costs, additional industrial space would be welcomed by the market at a likely market-setting rental rate.

1.4 Retail

An assessment of market conditions indicates there is relatively limited demand for retail space in the Bend area relative to office space and industrial space. As with other use types, Bend's unusually high cost to develop has constrained additions to the supply, however, the lack of deliveries into the market has not lead to meaningful rent growth amongst the existing inventory; only 106,000 square feet has been delivered since the first quarter of 2016. In looking at the retail market for the Bend metropolitan area, rent growth has remained relatively flat over the previous five years, with rent growth ranging between 0.00 to 2.00 percent over the period. Additionally, net absorption has weakened over the last few years as evidenced net positive absorption of 255,000 square feet in 2016, followed by relatively balanced absorption of 31,000 square feet in 2017, 25,000 square feet in 2018 and is currently -37,000 square feet through the second quarter of 2019. With relatively little upward growth potential for the supply already existing in the market, it would appear unlikely that additional supply would be readily met with demand. Additionally, even if there was a minor uptick in demand for retail space, demand for other spaces such as office space and industrial space would outweigh such by a significant amount.

However, despite the aforementioned factors indicating insufficient demand for new retail supply in Bend, based on discussions with market participants and a study of similar developments, there is some opportunity for experiential retail development as well as the development of needs-based retail to service the student body.

1.5 Hotel

Despite upcoming additions to the supply, the Bend market continues to see additional hotel space. Additionally, based on a CBRE report, the forecasted growth rates for demand in both the Upscale and Upper Upscale markets are expected to lead all market segments over the next five years (Section 11.1.9 for additional discussion). The Bend market is currently only comprised of 32.00 percent of hotels in these market segments (Section 11.2 for additional discussion), therefore there appears to be greater opportunity to develop hotels in this growing market segment as opposed to the more saturated upper midscale and economy market segments (which are currently 55.00 percent of the Bend market inventory).

Additionally, hospitality development at the University would benefit from certain synergies with the Hospitality Management program. A hotel on site would create certain opportunities for students to benefit from hands-on experience as well as allow hotel operators access to an educated labor pool.

1.6 Athletic Center

We note that there are only two large-space athletic facilities located in the Bend metro area, the Athletic Club of Bend and Juniper Swim and Fitness Center. Both of these facilities offer additional space beyond traditional indoor fitness such as full-sized swimming pools and fitness class space. Additionally, a Planet Fitness was recently added to the market through renovation of a former grocery store. This added an additional 40,000 square feet of indoor fitness space to the Bend Metro area. Further, there is an additional 36,000 square feet of indoor fitness space currently in the market's pipeline (an expansion of Bend's senior center) which will become active within the next two years.

Despite these additions to the market's athletic center supply, there does appear to be market demand based on Bend's population relative to the existing and known proposed supply of available athletic centers. It should be noted that the Athletic Club of Bend, a primary competitor within the market, is located less than a mile away from the Subject Property.

1.7 Conference Center

From a conference market standpoint, Bend's natural attributes, direct flights to major metropolitan areas, and visibility as a recreational destination offers the potential for the addition of conference center facilities in the Bend market. In similarly situated communities, meetings and conferences that rotate on a regional basis, retreats catering to corporate/trade groups and associations, or social organizations would view this mix of assets as an attractive draw to non-local event organizers.

At the present time, the primary event spaces in the Bend market include an 8,000 person capacity outdoor amphitheater, a hotel facility which can accommodate a maximum of 1,700 indoor attendees; a 300 person venue; and a range of unique meeting spaces for smaller gatherings. In addition, the existing facilities of the OSU-Cascades campus have consistently generated a noteworthy amount of revenue for non-university events, notwithstanding the absence of any specific outreach for that purpose.

Based on local interviews and research on comparable venues, the development of a conference center as part of the Innovation District, even if it appears large in relative terms to the local market, represents an opportunity to strategically advance some of University's overall academic and economic goals, especially if combined with complementary hospitality investments which would support the likely loss leader costs of operating the facility. Given the location of the District, a properly programmed conference facility at the campus gateway could serve as a centerpiece to introduce key business and community decision-makers to the work of the University, its students and faculty.

While the facility's ultimate scope and size will depend on developing an operating framework and funding model that does not burden the University, detailed investigation of a facility associated with an academic institution that can accommodate 2,500 or more attendees and that would distinguish the Innovation District within the market should be pursued.

1.8 Senior Living Facility

Senior living facility demand will continue to grow at a macro level as the U.S. continues to see significant growth in the 65+ population group. Per the Administration on Aging's 2017 Profile of Older Americans Report, people over the age of 65 represented 15.20 percent of the U.S. population in 2016 but are expected to represent 21.70 percent of the population by 2040. Additionally, the population of people over the age of 85 is expected to double from 6.40 million in 2016 to 14.60 million in 2040. As this population grows, demand will increase significantly even if senior living facility enrollment remains consistent at 5.00 percent.

The Bend metro area will see a number of senior housing developments come online within the next two years, which will total 382 new beds into the market. Despite the upcoming increase to supply, there does appear to be indications of additional demand as evidenced by waitlists as well as discussions with market participants. Additionally, senior housing development at the Subject Property would benefit from the educated labor pool at the University (in particular the Human Development and Family Sciences program) and in turn the University would have the opportunity to provide hands-on experience to students.

2.0 BACKGROUND AND KEY FACTS

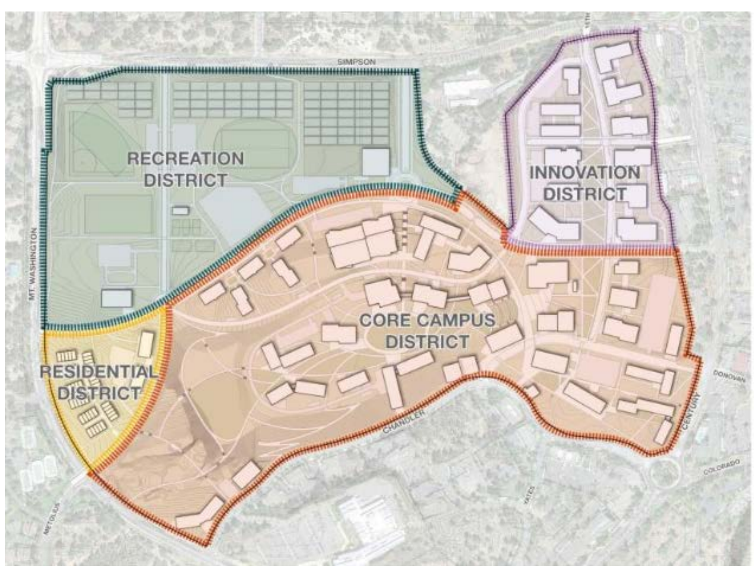
The 128-acre OS-Cascades campus is located in a desirable Central Oregon location and has been sized to enable enrollment growth to serve students and the community over the long term.

2.1 Summary of Important Facts

Subject Property:	Oregon State University - Cascades
Location:	1500 SW Chandler Avenue, Bend, Oregon, USA 97702
Effective Date of Analysis:	July 22nd, 2019
Date of Report:	July 22nd, 2019

Site Area: Approximately 128.00 acres of existing and proposed development. Existing development includes a current ten-acre campus. The University recently acquired two additional adjacent land sites (totaling 118.00 acres): a former pumice mine and a demolition landfill. These two sites are currently in the planning stage of development. The entirety of the development shall henceforth be referred to as the "Subject Property".

Zoning/Land Use: Mixed-Use. In 2017, the Subject Property was defined as a "Special Planned District" by the city of Bend, which allows for the creation of the Oregon State University – Cascades Overlay Zone ("Overlay Zone"). The Overlay Zone is a determined lineation of the Subject Property which specifies certain areas of the Subject Property for development limited to a certain use. The Subject Property will be lineated as such:



Source: OSU-Cascades Long Range Development Plan published in March 2018.

Existing and Proposed Development Summary: As of Fall 2019, the campus enrolled 1,311 undergraduate and graduate students[1]. The University is seeking to expand its campus footprint to such a capacity that it can sustain a long-term enrollment target of 3,000 to 5,000 student headcount[1]. In order to support such expansive growth in student headcount, the University is seeking to expand its classroom square footage, increase multifamily unit count and add additional support space in the form of commercial, retail and supporting ancillary space. The University also seeks to develop an "innovation district" to integrate university academic programs and research with industry and entrepreneurs.

2.2 Scope of Work

The scope of this summary narrative market study is to research and compile a market study of certain real property assets that may potentially be developed on the additional land sites recently granted to the University.

The scope of work includes the following general elements:

- Review of existing property conditions and supporting documentation for development plan
- Review of other jurisdictional land use restrictions and land use plans, gather a listing of possible land use developments and analyze the current supply and demand for each;
- Evaluation of each land use for possible consideration by developing prospective returns; and,
- Provide initial guidance on the most suitable uses.

2.3 Purpose of Market Study

The purpose of the market study is to estimate the market demand and analyze the market conditions for the existing and proposed developments of the Subject Property.

2.4 Date of Market Study

The market study is effective as of July 22nd, 2019.

2.5 Identification of the Property

The Subject Property is comprised of a 128.00 gross acre mixed-use development[2] located at 1500 Southwest Chandler Avenue in Bend, Oregon. The undeveloped land is slated to be developed to expand the size and enrollment of the University. The existing developed portion of the University is a 10.00 acre site.

2.6 Adjacent Uses

The following describe the adjacent uses to the Subject Property:

- North of the Subject Property: Single family home development;
- East of the Subject Property: Limited commercial and retail development;

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[1] Undergraduate and Graduate Enrollment, November 2019.
2 Per RealQuest Property Tax records.

- South of the Subject Property: Pre-kindergarten educational facility and limited commercial development;
- West of the Subject Property: Broken Top Golf Club.

2.7 Background of the Property[3]

Plans were approved in 2012 to expand the OSU-Cascades campus in Bend to a four-year university, offering a range of undergraduate and graduate degrees. At that time, the University purchased and renovated the Graduate and Research Center building to allow for short-term growth while exploring land purchase options for a future campus.

In 2013, OSU-Cascades purchased a ten-acre site at the intersection of Southwest Chandler Avenue and Southwest Century Drive in Bend to make way for future campus expansion. Concurrently, the university invited community input on the vision for the campus. These discussions led to a series of recommendations that have been integral to long-term campus planning and development.

Construction of the ten-acre campus began in the summer of 2015 and included an academic building called Tykeson Hall, the Dining/Academic Building, and Residence Hall along with internal streets, paths, and parking. In 2016, Tykeson Hall opened on the new campus, and the University finalized the purchase of the adjacent 43-acre parcel, a former pumice mine. OSU-Cascades secured the final purchase of an additional 72-acres in 2018, resulting in a total of 128-acres of contiguous land for the OSU-Cascades campus.

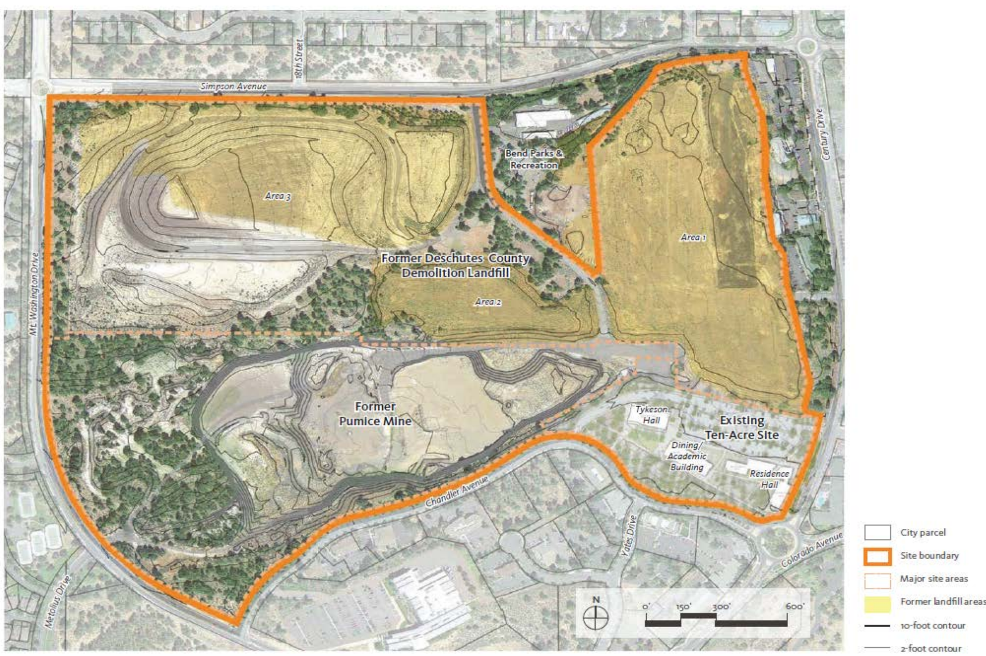
3 Per the University's Long Range Development Plan published in March 2018.

3.0 PROPERTY DESCRIPTION

The purpose of the site data and analysis is to provide a description of the characteristics of the site associated with the Subject Property including the legal description and other information about pertinent physical characteristics as well as the evaluation of the site characteristics in relation to the market area that create, enhance or detract from the utility or marketability compared with other sites which the Subject Property site competes.

3.1 Location Map

The Subject Property is located west of Southwest Century Drive, south of Southwest Simpson Avenue and north of Chandler Avenue. The following site map shows the Subject Property's location:



Source: Long Range Development Plan published in March 2018.

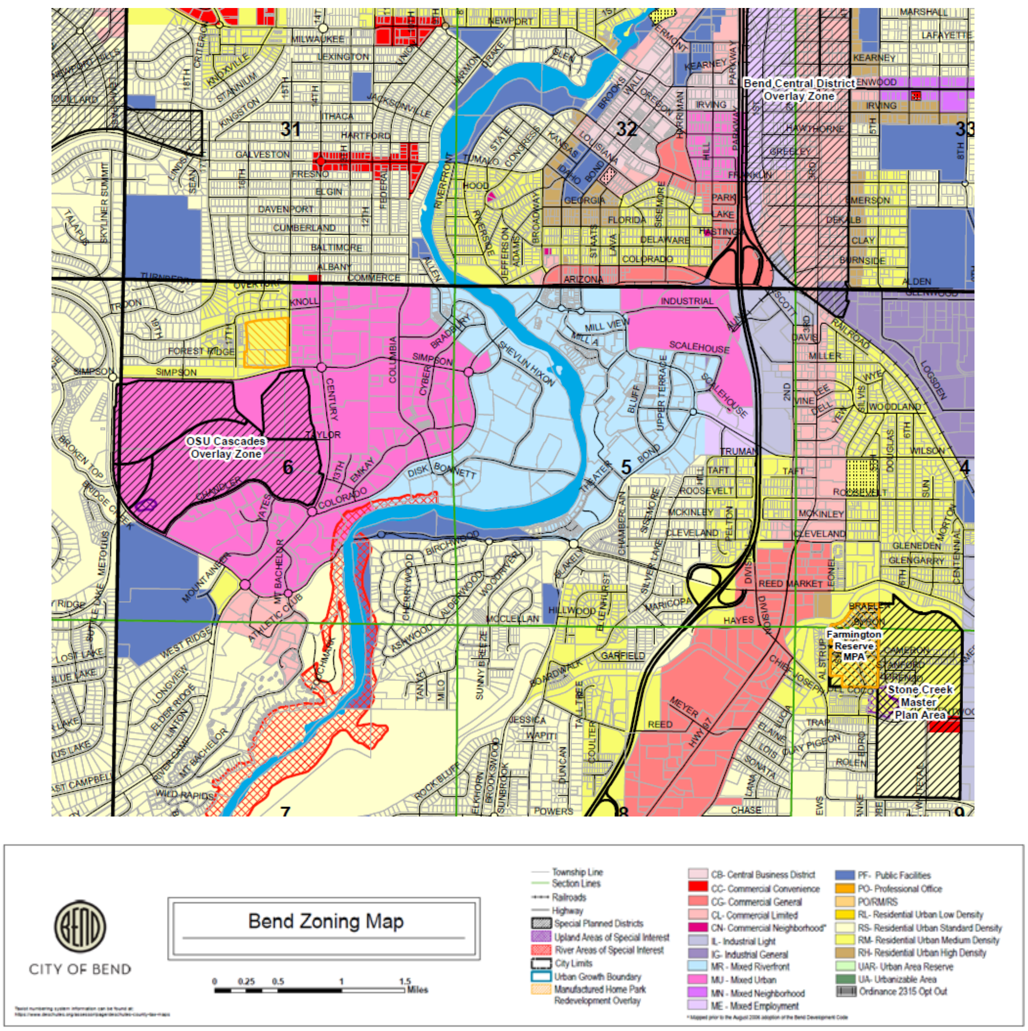
3.2 Site Dimension, Area and Shape

The Subject Property is comprised of an estimated 128.00 gross acres of site area. The table below depicts the acreage associated with each component of the Subject Property:

Parcel Area	Land Area (Acres)	Land Area (Sq. Ft)
Demolition Landfill	72.00	3,316,000
Pumice Mine	46.00	2,004,000
Current Campus	10.00	436,000
TOTAL	**128.00**	**5,576,000**

3.3 Land Use Map

Per the City of Bend, the Subject Property is situated within the specially designated OSU-C Overlay Zone (please refer to Section 2.1 of this report for further information). Please refer to the map below for the City of Bend's zoning regulations for the area surround the Property:



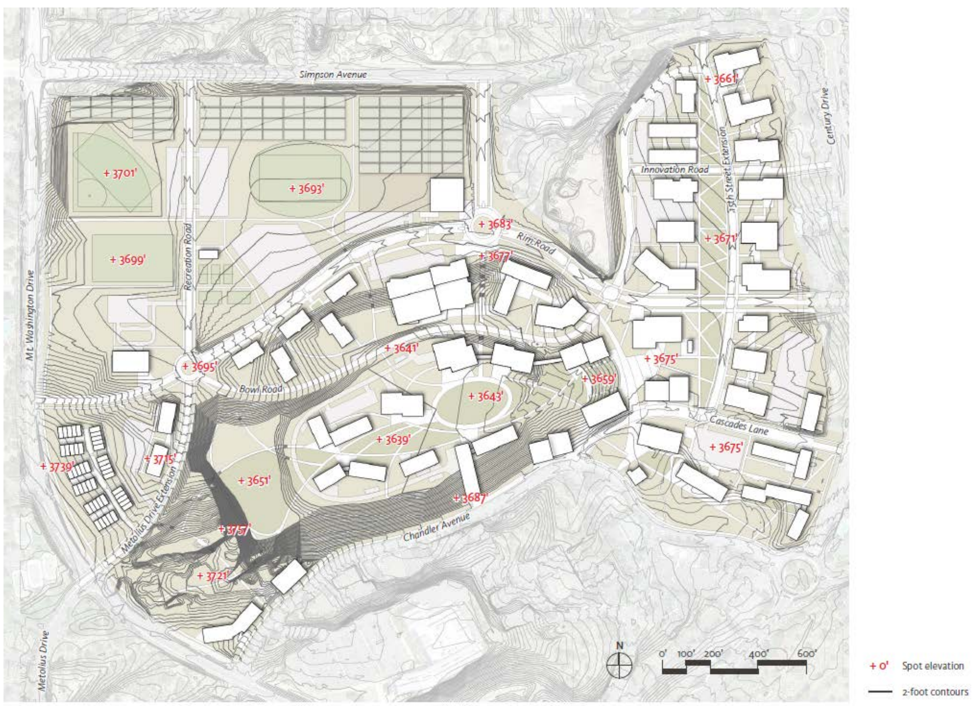
Source: City of Bend

3.4 Legal Identification

The Subject Property is identified by the City of Bend as multiple Assessor ID Numbers, previously identified in Section 2.5 of this report.

3.5 Topography

The Subject Property's expansion area features a reclaimed pumice mine and demolition landfill, both of which require significant regrading prior to any further development. Per discussion with University leadership, the current regrading plan will result in a multi-level site. Per the University's LRDP, the Subject Property's regraded topography will be such:



Source: Long Range Development Plan published in March 2018.

3.6 Access and Visibility

The existing development component of the Subject Property is accessible both on foot and in an automobile via Southwest Chandler Avenue.

4.0 EXISTING AND PROPOSED IMPROVEMENT ANALYSIS

The purpose of the site data and analysis is to provide a description of the characteristics of the site associated with the Subject Property including the legal description and other

4.1 Current Campus Description and Enrollment

The University's existing campus site features the following improvements:

- Tykeson Hall: a 43,650 square foot academic center that features classrooms, teaching labs and flexible working space.
- Obsidian Hall: A 27,000 square foot multi-use property that features a dining hall, coffee shop, multi-faith reflection room and flexible working space.
- An 86,000 square foot, 300-bed residence hall that features a fitness facility and recreational lounge.

4.2 Enrollment Projections

In 2018, the University expected to have 1,272 total students (both undergraduate and graduate) enrolled for the 2019 – 2020 academic year and exceeded that with entering class of 1,311. Per the University's Long Range Development Plan, the University seeks to expand enrollment by approximately 3,800 total students to a total of approximately 5,000 total students[4]. Per discussion with University leadership, the University anticipates growing enrollment by an average of 8.50 percent annually. For a breakdown of anticipated growth over the next ten years, please refer to the table below:

Projected Headcount	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Graduate	187	187	229	269	309	309	309	339	384	424
New Freshman	241	277	291	335	352	370	381	392	404	416
New Transfers	203	207	164	171	232	255	358	369	512	526
Continuing Undergraduate Students	641	774	940	1005	1034	1131	1157	1250	1216	1317
Total	**1272**	**1445**	**1624**	**1780**	**1927**	**2065**	**2205**	**2350**	**2516**	**2683**
Growth Rate	*1.03%*	*13.60%*	*12.39%*	*9.61%*	*8.26%*	*7.16%*	*6.78%*	*6.58%*	*7.06%*	*6.64%*

4 Per the University's Long Range Development Plan published in March 2018.

4.3 Management Projected Demand Needs

Per discussion with University leadership, the University projects necessary expansion of certain real property components in order to sustain projected enrollment growth. The University developed a space planning model which determined the space expansion requirements to be such[4]:

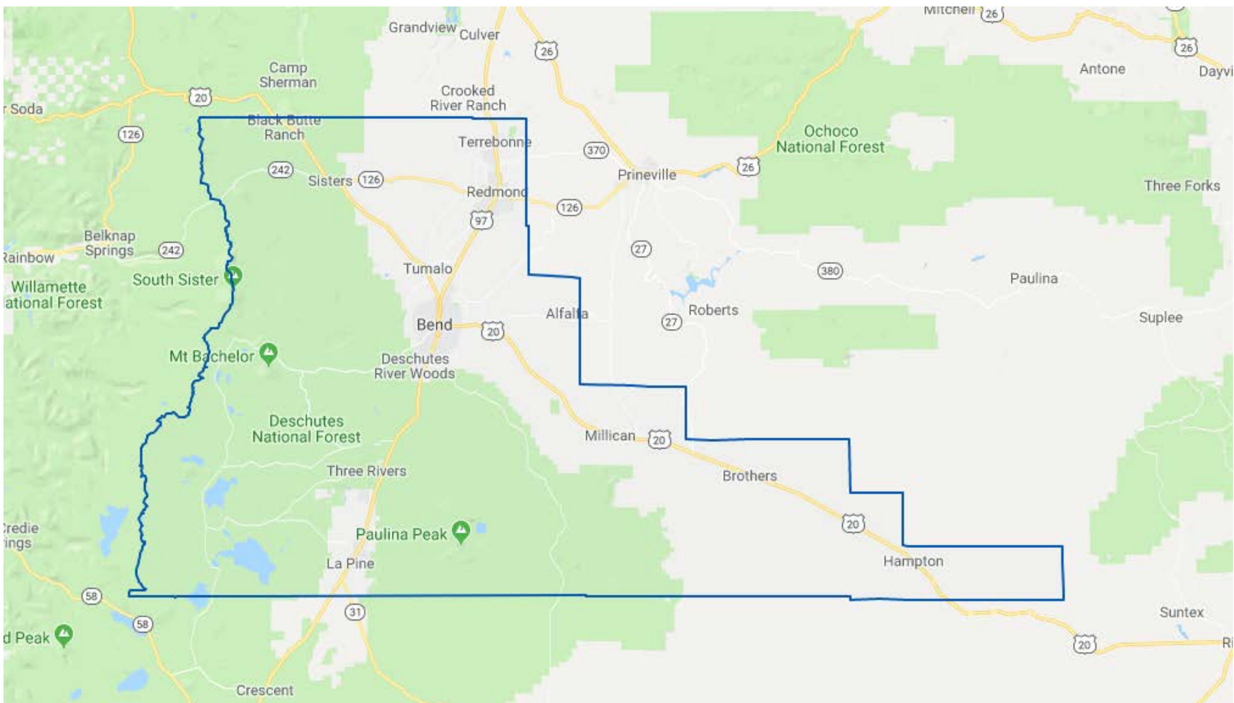
Component	Existing Space	Expansion Plan Needs (Sq. Ft.)	New Space Required (Sq. Ft.)
Core Campus Space			
Classrooms	22,479	46,000	23,521
Teaching Labs	6,351	39,000	32,649
Research Labs	-	24,000	24,000
Office and Support	26,885	104,000	77,115
Library and Study	3,400	51,000	47,600
Flexible Working Space	2,281	21,000	18,719
Media	-	5,000	5,000
Core Campus Space Subtotal	*61,396*	*290,000*	*228,604*
Campus Life Space			
Assembly	-	14,000	14,000
Exhibition	-	4,000	4,000
Dining	6,965	18,000	11,035
Lounge and Social Space	1,766	16,000	14,234
Retail	2,957	8,000	5,043
Meeting	433	10,000	9,567
Support	1,330	34,000	32,670
Healthcare	-	3,000	3,000
Indoor Recreation	1,762	59,000	57,238
Campus Life Subtotal	*15,213*	*166,000*	*150,787*
TOTAL	**76,609**	**456,000**	**379,391**

5.0 SUBJECT PROPERTY LOCATION AND DEMOGRAPHICS

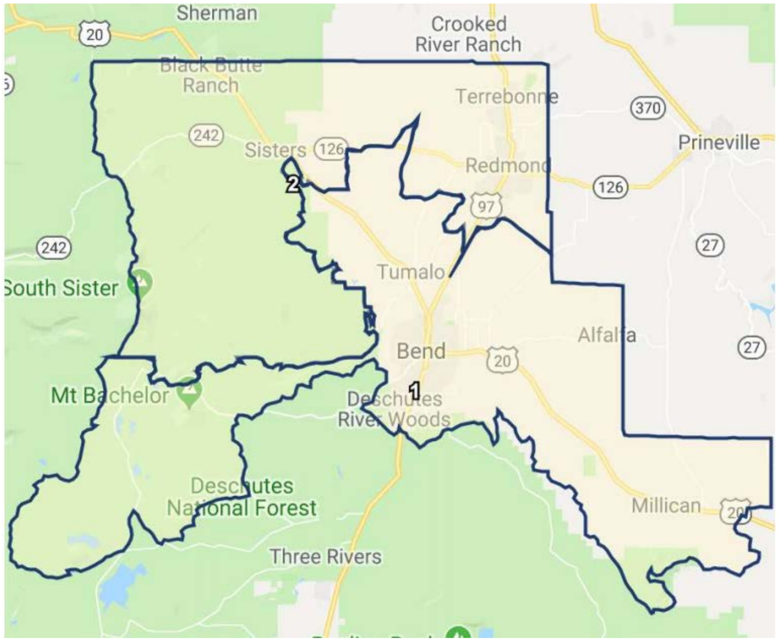
The Bend Metro market is expected to outpace the U.S. Market across the key metrics of population growth, household growth and employment levels.

5.1 Subject Property Location

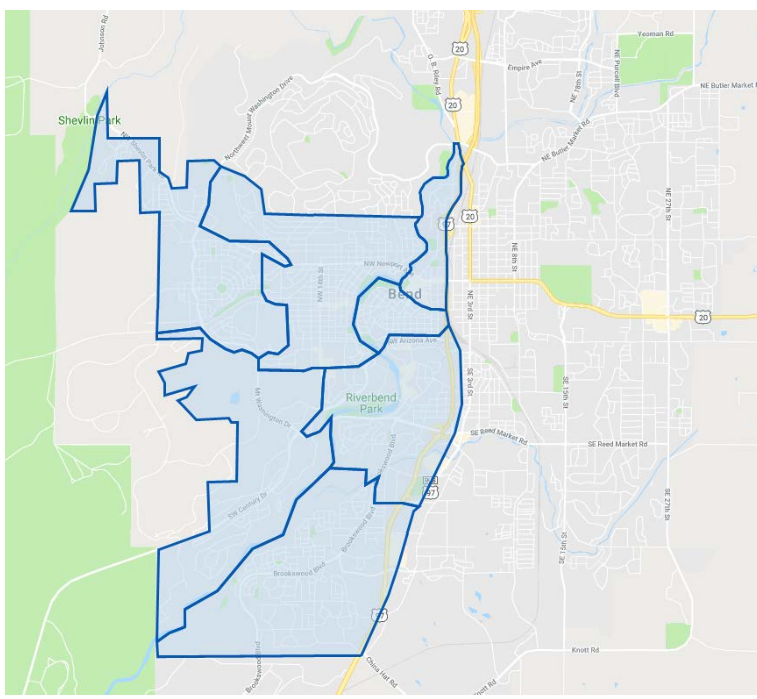
The Subject Property is located in the Bend, Oregon Metro market. The Bend Metro market, as delineated by CoStar, is detailed in the map below:



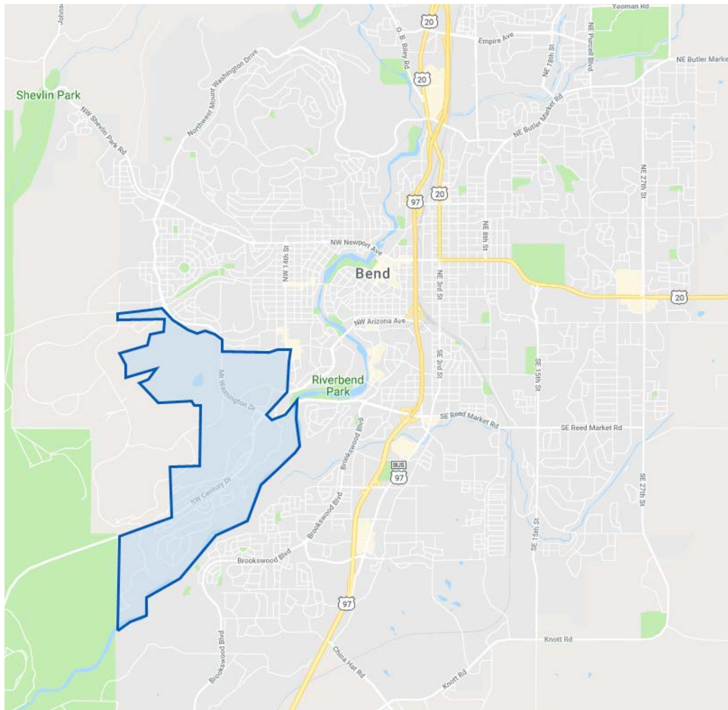
CoStar further delineates the major areas of the Bend Metro market into two submarkets; Bend/Central Deschutes County (marked as 1 in the map below) and Redmond/North Deschutes County (marked as 2 in the map below). The Subject Property is located within the southwestern section of the Bend/Central Deschutes County submarket.



Based on discussions with market participants, the submarkets in the City of Bend are further divided into East and West Bend, with Highway 97 serving as the unofficial divide between the two market areas. Further, market participants note that East Bend is general considered inferior to West Bend (highlighted by the demographic differences – as detailed in Section 5.2 below). The West Bend submarkets are delineated in the map below:



Specifically, the Subject Property is located within the Century West submarket. The Century West submarket is detailed in the map below:



5.2 Demographic Information

The following chart is based on information on a report provided by CoStar (with data provided by Oxford Economics), and delineates the key demographic information for the Subject Property across the market contexts as considered above.

	Current Level		Current Change		10-Year Change		Forecast Change (5 yrs.)	
Category	Metro	US	Metro	US	Metro	US	Metro	US
Population	196,485	329,157,563	2.7%	0.6%	2.2%	0.7%	2.2%	0.7%
Households	78,164	121,219,695	2.6%	0.5%	2.1%	0.6%	2.1%	0.6%
Median Household Income	$69,940	$63,650	3.4%	3.3%	3.0%	2.2%	4.3%	4.4%
Labor Force	97,171	163,355,641	2.0%	0.9%	1.6%	0.6%	1.4%	0.6%
Unemployment	4.1%	3.6%	0%	-0.3%	-1.2%	-0.6%	-	-

Source: Oxford Economics

Please note the 10 year and 5 year changes as noted above represent annual average changes in the key metrics. Further, KPMG notes that the Bend Metro market is expected to outpace the US market across all key metrics as noted above (with the exception of median household income over the next 5 years, where the US is expected to outpace the metro by 10 basis points on average year over year). The Bend Metro market expects to see robust population growth coupled with a drop in unemployment.

KPMG further considered the context of the Subject Property's location in West Bend relative to East Bend. The key demographic differences between East and West Bend are detailed in the chart below:

	West Bend Submarkets	East Bend Submarkets	Difference (%)
Avg. Household Inc.	$89,700	$71,000	26.2%
Pop. Growth-5 yrs (20-29)	4.2%	1.5%	2.7%
Pop. Growth-5 yrs (30-39)	1.7%	1.1%	0.6%
Pop. Growth-5 yrs (40-54)	19.4%	24.2%	-4.8%
Pop. Growth 5 yrs (55+)	23.3%	19.7%	3.6%
Pop. Growth 5 yrs	15.4%	14.5%	0.9%

Source: CoStar

As noted above, the West Bend submarkets outpace the East Bend submarkets in terms of growth across all key metrics (with the exception of population growth for 40-54 year olds). Most notably, the average household income is 26.20% greater in the West Bend submarkets than the East Bend submarkets. The trend continues when considering the Subject Property's location relative to the surrounding areas:

	1 mile radius	3 mile radius	5 mile radius
Avg. Household Income	$86,764	$64,565	$65,135
Households	3,622	26,220	42,787
HH Growth – 5 years	14.61%	14.77%	13.90%
Population	8,757	63,219	104,796
Pop. Growth - 5 years	15.30%	14.96%	14.10%
Median Home Value	$498,068	$368,190	$343,337

Source: CoStar

Based on the demographic information as noted above, the Subject Property is well located within the primary market area of the Bend Metro market, which is expected to outpace the US across almost key demographics over the next 5 and 10 years.

The above data has been corroborated based on discussions with market participants who confirmed that the West side of Bend is the most desirable for future development in part due to the strong demographics relative to the remainder of the metro.

Assessment of Land Use Types

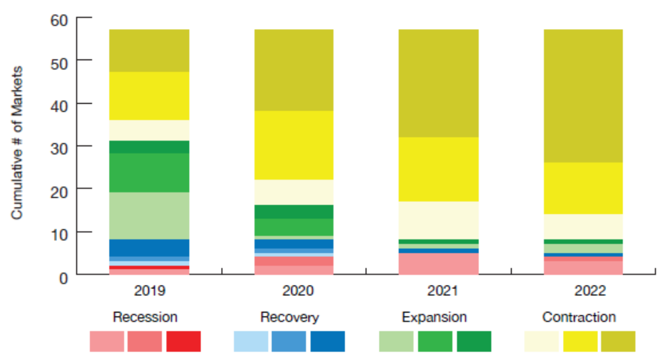
6.0 OFFICE AND CREATIVE OFFICE / INNOVATION DISTRICT MARKET STUDY

6.1.1 National Office Market Overview

The following is stated in PwC National Real Estate Investor Survey for the first quarter of 2019 about the future of the office market,

"The U.S. office sector remains on solid footing entering 2019 with most metros in either expansion or contraction. Over our forecast period, however, more metros are expected to move into the contraction phase as vacancy rates rise and rent growth faces downward pressure as a result of both new supply and slowing demand"

PwC REAL ESTATE BAROMETER
U.S. Office Markets - 2019 to 2020

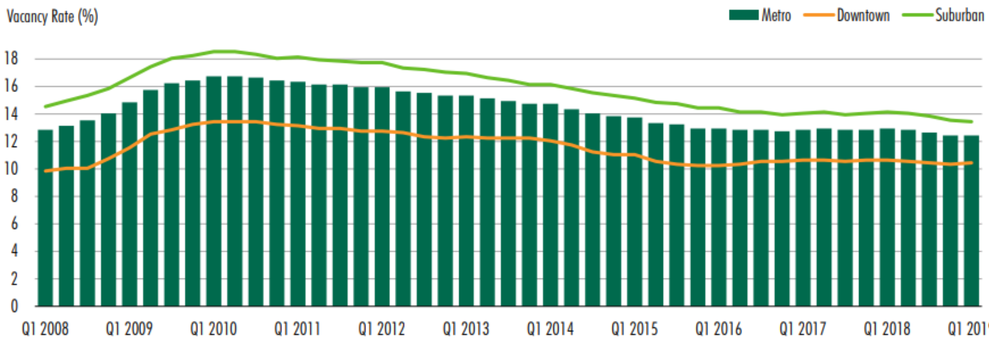


Source: Data provided by CBRE, compiled and analyzed by PwC

Additionally, based on the Q1 2019 U.S. Office report published by CBRE, tech hubs were among the primary drivers for job growth, with Seattle, San Francisco, and San Jose all within the top-10 markets generating the most new-office using jobs over the past year. San Francisco led the results with almost 25,000 new-office using jobs created in 2018 and led all markets in net absorption of the first quarter 2019 and over all of 2018, an indication that the tech industry remains a strong driver of office demand. This if further supported by the following, as noted in the 2018 Tech-30 Report published by CBRE Research:

"The U.S. high-tech software/services industry created 1.1 million jobs since 2010 at an annual growth rate of 5.00 percent - a pace three times the national average. While the annual rate of tech industry job growth slowed to 4.10 percent in the first half of 2018, high-tech's share of major office leasing activity increased to 21.00 percent and remained the largest sector."

CBRE further noted that the U.S. office vacancy rate stabilized at 12.50 percent in the first quarter of 2019, remaining at the lowest level since the prior to the recession (2007).



Source: CBRE Econometric Advisors, Q1 2019.

Ultimately, KPMG notes that the tech jobs are driving office space demand in the current cycle. As noted above, some of the markets that have continued to see growth in this cycle (San Jose, San Francisco, and Seattle) are positioned as some of the primary markets for tech jobs in the country. Other markets that continue to grow (i.e. Austin and Charlotte) have also benefited immensely from tech industry expansion. Therefore, the Bend market could benefit from increased exposure to tech jobs, however attracting employers would likely require development of additional Class A office space which is not currently available in the market.

6.1.2 Operating Expenses

The following section includes the market ranges for office income and expenses. We have referenced the Institute of Real Estate Management's ("IREM") 2018 Report.

The following chart compares revenue and expenses published by the IREM 2018 Report for National
Office Buildings (suburban) on per rentable square foot basis.

Suburban Office Operating Statement - Dollar Per Rentable Square Foot									
	Total US			Region X			Portland		
	Low	Med	High	Low	Med	High	Low	Med	High
Income									
Offices	$12.14	$16.97	$22.08	$11.44	$15.51	$20.26	$15.41	$20.73	$23.55
Other Income	3.36	4.84	7.69	3.09	4.42	4.83	3.20	3.86	4.65
Vacancy / Delinquent Rents	-1.36	-2.53	-4.50	-0.98	-2.18	-3.41	-2.32	-3.29	-3.33
Total Collections	$14.14	$19.28	$25.27	$13.55	$17.75	$21.68	$16.29	$21.30	$24.87
Expenses									
Utilities	$1.10	$1.76	$2.31	$1.39	$1.86	$2.32	$1.65	$1.86	$2.25
Janitorial / Reparis and Maintenance	1.27	2.06	2.86	1.41	2.20	2.61	1.42	2.11	2.73
Admin / Payroll	0.71	1.08	1.58	0.62	0.89	1.24	0.83	1.25	1.80
Services	0.55	0.74	1.04	0.59	0.72	0.96	0.74	0.86	0.97
Insurance	0.11	0.17	0.26	0.12	0.18	0.24	0.14	0.25	0.27
Real Estate Taxes	1.44	2.11	3.28	1.78	2.24	3.12	1.72	2.14	2.43
Other Taxes / Fees / Permit	0.01	0.07	0.25	0.00	0.01	0.11	0.00	0.00	0.01
Total Operating Costs	$5.90	$8.09	$10.58	$6.18	$8.24	$10.14	$6.64	$8.45	$10.03
Net Operating Income	$8.24	$11.19	$14.69	$7.37	$9.51	$11.54	$9.65	$12.85	$14.84

Source: IREM 2018

Note: Region X is defined as the United States' Pacific Northwest region.

KPMG notes that the Subject Property's Region has average operating expenses above the national average for suburban office while average rents fall slightly below the national average. As detailed above, the difference in operating expenses is attributed primarily to higher average utility costs, repairs and maintenance, and real estate taxes (due to higher property values and tax rates relative to the national average).

As an additional point of comparison, the following chart compares revenue and expense ratios published by the IREM 2018 Report for National Office Buildings on percentage of total revenue basis.

Suburban Office Operating Statement - Percentage of Total Revenue									
	Total US			Region X			Portland		
	Low	Med	High	Low	Med	High	Low	Med	High
Income									
Offices	85.9%	88.0%	87.4%	84.4%	87.4%	93.5%	94.6%	97.3%	94.7%
Other Income	23.8%	25.1%	30.4%	22.8%	24.9%	22.3%	19.6%	18.1%	18.7%
Vacancy / Delinquent Rents	-9.6%	-13.1%	-17.8%	-7.2%	-12.3%	-15.7%	-14.2%	-15.4%	-13.4%
Total Collections	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenses									
Utilities	7.8%	9.1%	9.1%	10.3%	10.5%	10.7%	10.1%	8.7%	9.0%
Janitorial / Reparis and Maintenance	9.0%	10.7%	11.3%	10.4%	12.4%	12.0%	8.7%	9.9%	11.0%
Admin / Payroll	5.0%	5.6%	6.3%	4.6%	5.0%	5.7%	5.1%	5.9%	7.2%
Services	3.9%	3.8%	4.1%	4.4%	4.1%	4.4%	4.5%	4.0%	3.9%
Insurance	0.8%	0.9%	1.0%	0.9%	1.0%	1.1%	0.9%	1.2%	1.1%
Real Estate Taxes	10.2%	10.9%	13.0%	13.1%	12.6%	14.4%	10.6%	10.0%	9.8%
Other Taxes / Fees / Permit	0.1%	0.4%	1.0%	0.0%	0.1%	0.5%	0.0%	0.0%	0.0%
Total Operating Costs	41.7%	42.0%	41.9%	45.6%	46.4%	46.8%	40.8%	39.7%	40.3%
Net Operating Income	58.3%	58.0%	58.1%	54.4%	53.6%	53.2%	59.2%	60.3%	59.7%

Source: IREM 2018

Overall, assuming a competent operator, office development at the Subject Property could reasonably obtain the market expense ratios for Region X as noted above in the IREM 2018 market survey.

6.1.3 Overview of Office Investment Rates

In order to gain a current perspective on possible investment rates for the Subject Property, we have provided 2019 market surveys that show the overall capitalization, discount, and terminal capitalization rates of investment-grade office properties. The following table presents results from three standard and generally accepted investor surveys:

Investment Rates									
Survey	Discount Rate			Overall Capitalization Rate			Terminal Capitalization Rate		
	Low	Avg	High	Low	Avg	High	Low	Avg	High
PwC 1Q19 - National Suburban Office Market	6.00%	8.18%	12.00%	5.00%	6.64%	10.00%	5.25%	7.38%	10.25%
PwC 1Q19 - National CBD Office Market	5.25%	6.95%	9.50%	3.00%	5.48%	7.00%	4.50%	6.02%	8.50%
PwC 1Q19 - Pacific Northwest Office Market	5.50%	7.21%	10.00%	4.00%	5.69%	8.00%	5.00%	6.32%	9.00%
RERC 1Q19 - West First Tier Suburban Office	7.50%	8.50%	10.00%	5.00%	6.70%	8.30%	6.50%	7.40%	9.30%
RERC 1Q19 - Portland Suburban Office	-	7.40%	-	-	5.80%	-	-	6.40%	-
IRR 2019 - Portland - CBD Office	-	7.50%	-	-	5.75%	-	-	7.25%	-
IRR 2019 - Portland - Suburban Office	-	8.25%	-	-	6.00%	-	-	8.25%	-

The PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for suburban office properties have flattened, decreasing 0 basis points from third quarter 2018 levels and increasing 16 basis points since 2014. PwC reports that the average discount rate is 8.18 percent in the first quarter of 2019. Terminal capitalization rates have declined 12 basis points since the third quarter of 2018, with the average terminal capitalization at 7.38 percent.

On the other hand, the PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for Pacific Northwest office properties continued to compress, decreasing 12 basis points from third quarter 2018 levels and 71 basis points since 2014. PwC reports that the average discount rate is 7.21 percent in the first quarter of 2019. Terminal capitalization rates have declined 7 basis points since the third quarter of 2018, with the average terminal capitalization at 6.32 percent.

KPMG also held discussions with market participants who indicated that Class A office development at the Subject Property could reasonably expect capitalization rates of 5.50 to 5.75 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 7.50 to 7.75 percent for discount rates.

Further, investors would require a slight risk premium for development of Class B / C, medical, and creative office space in the market. Market participants indicated that the aforementioned subtypes of office development could reasonably expect capitalization rates of 6.00 to 6.25 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 8.00 to 8.25 percent for discount rates.

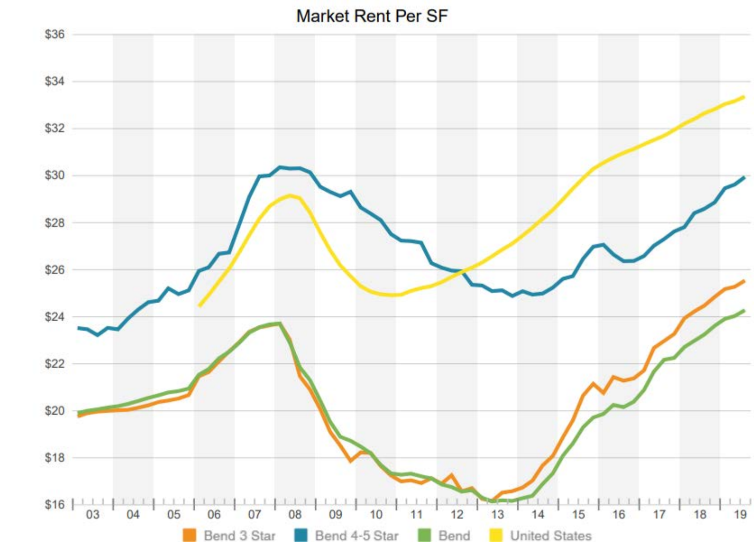
From the surveyed data as well as discussions with market participants, new office development at the Subject Property would expect a capitalization rates between 5.50 and 6.25 percent and discount rates between 7.50 and 8.25 percent.

6.1.4 National Office Market Conclusion

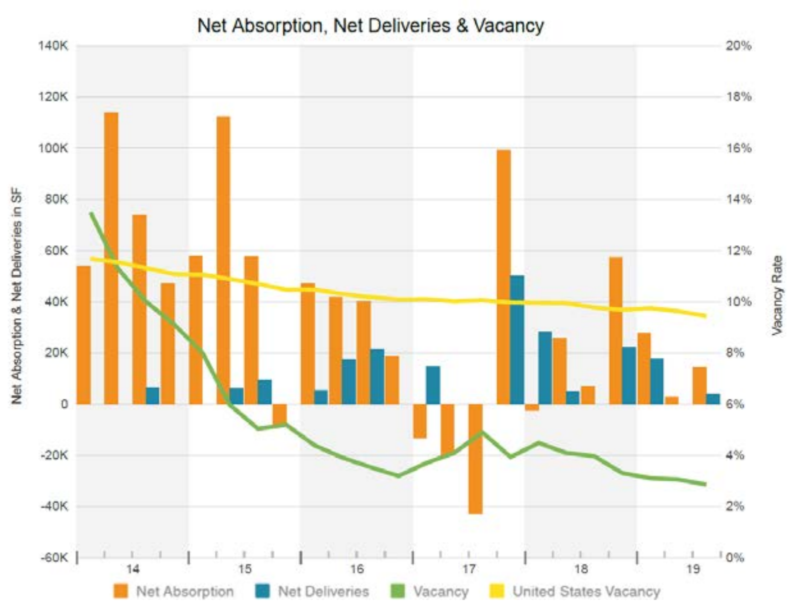
Overall, national office vacancies remain at a post-recessionary low, driven in part by the continued strength of the tech sector and the strength of CBD office markets. However, KPMG notes that investment rates for national suburban office have flattened as vacancy rates rise and rent growth faces downwards pressure due to increased supply and decreased demand. Additionally, based on information in the PwC Real Estate Investor Survey, the Pacific Northwest office market continues to see a compression in investment rates, driven in part by job growth in Portland and leasing momentum in Bellevue and Seattle.

6.2 Local Trends

Based on information obtained via CoStar, office rents levels in Bend have only just reached the pre-recession peak, after a five-year growth trend beginning in 2014 (please refer to Section 12.2 for further discussion). The Bend recovery was slower than the US national average, which reached pre-recessionary rent levels at the end of 2014. While rent growth has sharply declined since mid-2017, the current figure still remains a strong improvement on the historical average.



Source: CoStar's Submarket Second Quarter 2019 Analytics & Insights.



Source: CoStar's Submarket Second Quarter 2019 Analytics & Insights.

Other signs of recovery are seen the office sector's low vacancy rate (almost one third of the national average) and in renewed pipeline activity. Recent construction projects include spec buildings, an encouraging sign after a modest delivery schedule over this recovery cycle (please refer to Section 5.5 of this report for further information). Based on discussions with market participants, investors are mostly local, and sales volume is typically moderate.

6.3 Key Local Industries

Bend originated as a logging town but now has a strong reputation as a tourist and retiree destination. It is particularly well known as a launching point for outdoor sports, including camping, rock-climbing, whitewater rafting, and skiing—of the top seven regional private employers, two are ski resorts. Though above the national rate, Bend's unemployment rate is essentially at full employment. In the past 12 months, professional and business services saw strong job growth, and the manufacturing sector also saw gains. However, government employment contracted.

6.4 Large Local Employers

According to Economic Development for Central Oregon, as of 2018, Bend's largest employers are such:

Bend's 40 Largest Employers - 2018					
Rank	**Name**	**Employees**	**Rank**	**Name**	**Employees**
1	St. Charles Health System	3,361	**21**	BendBroadband / TDS Telecom	280
2	Bend-La Pine School District	2,133	**22**	G5	258
3	Deschutes County	1,075	**23**	The Center (Ortho/Neuro Care & Research)	252
4	COCC	999	**24**	Navis	237
5	Mt. Bachelor	840	**25**	10 Barrel Brewing	236
6	City of Bend	661	**26**	Epic Air	230
7	Safeway	584	**27**	PacificSource	223
8	U.S. Forest Service	575	**28**	Albertson's	220
9	IBEX	540	**29**	Riverhouse on the Deschutes	220
10	Summit Memorial Group	532	**30**	U.S. Bank	209
11	Bend Parks and Recreation	526	**31**	Athletic Club of Bend	200
12	Les Schwab	456	**32**	Tetherow	200
13	JELD-WEN	375	**33**	Touchmark at Mt. Bachelor	196
14	Bend Research	361	**34**	J Bar J Youth Services	174
15	Deschutes Brewery	340	**35**	First Interstate Bank	151
16	Costco	339	**36**	Target	150
17	Fred Meyer	319	**37**	The Bulletin	140
18	Mosaic Medical	303	**38**	High Lakes Health Care	140
19	OSU-Cascades	283	**39**	Olive Garden	120
20	Walmart	281	**40**	Seventh Mountain Resort	116

Source: Economic Development for Central Oregon 2018 Report

6.5 Current Pipeline / Development in Progress

Over the current cycle, Bend's office inventory has increased by about 4.00 percent, and just two post-recession deliveries exceed 20,000 square feet. The deliveries over the current cycle are not representative of historical construction activity in the Bend market. A large number of properties broke ground in 2006 and 2007—however office development in Bend was abruptly halted by the recession (please refer to Section 12.2 of this report for further information).

With regard to the pipeline, the properties under construction are mostly speculative medical office buildings with strong preleasing activity. Two of these projects are part of the Shelvin Health & Wellness Center expansion, 4,000 square feet and 8,000 square feet respectively. In the first quarter of 2019, the 18,000 square foot Clearwater Crossing delivered, a speculative project fully available for lease. The ground floor is marketed to retail tenants, while the second and third floors are intended for office space[5].

Four office buildings delivered in 2018. The 22,000 square foot Desert Orthopedics Westside Clinic Complex was the largest, a build-to-suit medical office building. Two other projects were both part of District 2: an 11,000 square foot and a 17,000 square foot building, both delivered in first quarter of 2018 and both fully occupied. The third delivery, just 5,000 square feet, was part of the ongoing Shelvin Health & Wellness Center expansion.

6.6 Comparable Rent Transactions

We analyzed the Bend office submarket in order to find comparable leased properties to those that would hypothetically be constructed at the Subject Property. We then assessed the contract rent levels on an annual per square foot basis to determine a reasonable range which could be commanded by an office space located at the Subject Property. Please find our findings below:

5 Per CoStar Submarket Second Quarter Analytics & Insights.

Class A Office:

Address	City	State	Space Leased (Sq. Ft.)	Rent per Sq. Ft. (Annual)	Reimbursement Structure	Sign Date
721 Southwest Industrial Wy.	Bend	OR	6,000	$ 28.20	Triple-Net	2/1/2019
721 Southwest Industrial Wy.	Bend	OR	7,328	28.20	Triple-Net	2/6/2017
721 Southwest Industrial Wy.	Bend	OR	23,600	29.40	Triple-Net	2/1/2017
360 Southwest Bond St.	Bend	OR	8,891	22.00	Triple-Net	Listing
550 Northwest Franklin Ave.	Bend	OR	2,737	27.60	Triple-Net	Listing
721 Southwest Industrial Wy.	Bend	OR	3,260	27.00	Triple-Net	Listing
2738 Northwest Potts Ct.	Bend	OR	2,100	28.00	Triple-Net	Listing

Low	$ 22.00
Average	27.20
High	29.40

Class B Office:

Address	City	State	Space Leased (Sq. Ft.)	Rent per Sq. Ft. (Annual)	Reimbursement Structure	Sign Date
606 Northwest Ave.	Bend	OR	3,500	$ 24.00	Triple-Net	1/2/2019
606 Northwest Ave.	Bend	OR	3,500	22.20	Triple-Net	11/6/2018
255 Southwest Bluff Dr.	Bend	OR	3,368	22.20	Triple-Net	5/5/2018
404 Southwest Columbia St.	Bend	OR	2,219	19.20	Triple-Net	5/2/2018
1051 Northwest Bond St.	Bend	OR	2,779	22.80	Triple-Net	10/26/2017
650 Southwest Bond St.	Bend	OR	2,704	26.40	Triple-Net	7/1/2017
543 Northwest York Dr.	Bend	OR	3,066	19.80	Triple-Net	6/30/2017
400 Southwest Bond St.	Bend	OR	6,887	29.40	Triple-Net	Listing
2900 Northwest Clearwater Dr.	Bend	OR	5,549	28.80	Triple-Net	Listing
123 Southwest Columbia St.	Bend	OR	7,541	21.00	Triple-Net	Listing
1160 Southwest Simpson Ave.	Bend	OR	11,218	25.80	Triple-Net	Listing

Low	$ 19.20
Average	23.78
High	29.40

[1] We performed the above search using the following parameters: 1. Leases signed subsequent to 1/1/17, 2. Triple-Net reimbursement structure, 3. Construction subsequent to 2005, 4. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

6.7 Competitive Set

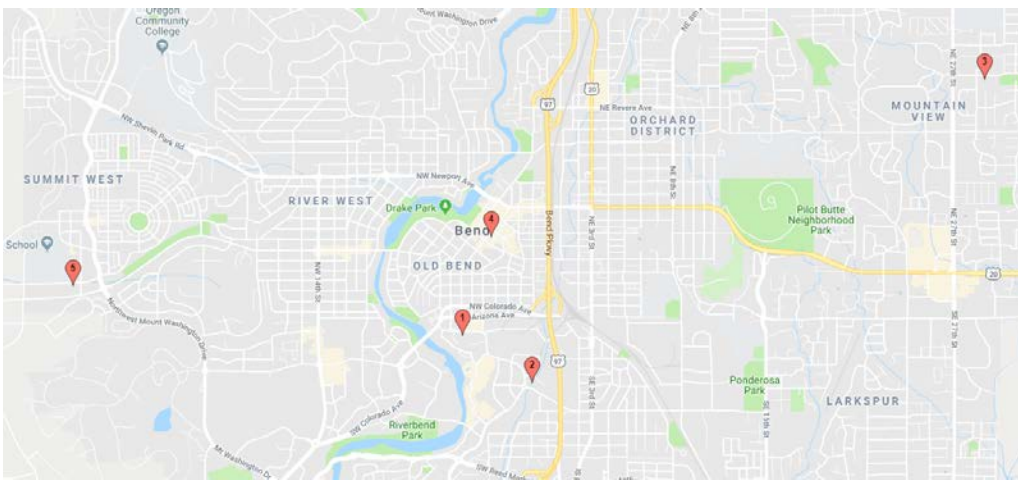
In order to better assess the market's ability to bear additional office space supply, we analyzed similar overall developments in order to develop a competitive set which potential office space at the Subject Property may compete with in the market. We looked at Class A and Class B developments and narrowed the set based on parameters that a market participant would likely consider (defined below). Please find our findings below:

Competitive Set - Class A & B Office:

Map ID #	Address	City	State	Year Built	Building Size (Sq. Ft.)	Average Asking Rent	% Occupied	Distance from Subject (Miles)	Reimbursment Structure
1	721 Southwest Industrial Wy.	Bend	OR	2017	50,000	$ 27.00	93.50%	1.30	Triple-Net
2	360 Southwest Bond St.	Bend	OR	2008	81,679	29.00	71.80%	1.50	Triple-Net
3	2965 Conners Ave.	Bend	OR	2008	78,330	21.00	100.00%	6.50	Triple-Net
4	550 Northwest Franklin Ave.	Bend	OR	2007	110,000	27.60	97.50%	1.70	Triple-Net
5	2738 Northwest Potts Ct.	Bend	OR	Development	52,210	29.40	0.00%	2.20	Triple-Net
				Low	50,000	$ 21.00	0.00%	1.30	
				Average	74,444	26.80	72.56%	2.64	
				High	110,000	29.40	100.00%	6.50	

[1] We performed the above search using the following parameters: 1. Building size in excess of 25,000 square feet, 2. Construction subsequent to 2005, 3. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

Additionally, we performed a mapping analysis to assess the location of the developments within the competitive set relative to the Subject Property. Please find our findings below:



Source: Mapping performed via BatchGeo.

KPMG also held discussions with market participants who notes that rent at the Subject Property would be influenced by the build-out of the space. The market participants noted the Subject Property could reasonably command rents as set out in the table below:

Build-Out	Market Rent (per Sq. Ft.) Low	Market Rent (per Sq. Ft.) High
Office - Class A	$ 27.00	$ 30.00
Office - Class B/C	24.00	27.00
Office - Medical	20.00	22.00
Office - Creative	19.00	20.00

Ultimately, market participants noted that the Subject Property is well located on the west side of Bend allowing it to command asking rents near the high end of the noted comparable transactions. Further, KPMG notes that office development at the Subject Property would benefit from certain synergies with the University. In particular, employers would gain access to a well-educated labor pool as well as increase the exposure of their firm.

6.8 Office Demand Analysis

In order to estimate the current and future demand for office space in the Subject Property's market, KPMG performed a market demand analysis as detailed below:

Bend,OR - Office Market Demand Analysis by Ratio Method					
Line No.		**Current Year**	**+ 5 Years**	**+ 10 Years**	**Source**
1	Total employment in Bend-Redmond, OR	92,900	99,868	106,835	Survey data: BLS and Oregon Employment Department Economist, Footnote 1
2	Total occupied office space in Bend, OR (sq. ft.)	5,258,129			Survey data: CoStar - Bend Metro Market
3	Ratio of square feet occupied office space per employee	56.6	55.0	53.7	Calculation: (Line 2/Line 1) for current ratio. Ratio in Year 5 and 10 based on annual increases to total demand from discussions with market participants : Line 4/Line 1
4	Total demand for occupied office space in Bend, OR (sq. ft.)		5,495,629	5,733,129	Calculation: Line 1 x Line 3
5	Plus: Frictional vacancy of 5.00 percent	276,744	289,244	301,744	Calculation: (Line 4 / 0.95) – Line 4 for current year. Line 6 x 0.05 for Year 5 and 10
6	Total supportable (adjusted) citywide office demand in square feet	5,534,873	5,784,873	6,034,873	Calculation: Line 5 + Line 6 for current year. Year 5 and 10 based on annual demand increases of 50,000 per year based on discussions with market participants.
7	Less: Current competitive sq. ft.	5,437,569	5,471,032	5,607,032	Survey data: CoStar - Bend Metro Market
8	Bend, OR office marginal demand--net (excess) shortage (Based on current supply)	97,304	313,841	427,841	Calculation: Line 6 - Line 7
9	Less: Estimated new construction	33,463	136,000	139,381	CoStar - Bend Metro Market, Footnote 2
10	Bend, OR office marginal demand--net (excess) shortage (Based on projected supply)	63,841	177,841	288,460	Calculation: Line 8 - Line 9
11	Bend, OR office marginal demand--net (excess) shortage : Rounded	64,000	178,000	288,000	Line 10 rounded to nearest 1,000
12	**Subject Property Absorption Low** ***25.00 percent***		44,500	72,000	**Survey data: discussions with market participants. Calculate Line 11 x 0.25**
13	**Subject Property Absorption High** ***40.00 percent***		71,200	115,200	**Survey data: discussions with market participants. Calculate Line 11 x 0.40**

Notes

[1] Employment growth projections are based on a report published by the Oregon Employment Department Economist which indicated that Central Oregon employment would grow by 15.00% by 2027. KPMG estimates half of the growth will have occurred by Year 5.

[2] Delivery projections are based on information obtained via CoStar. Delivery projections were not available beyond Year 5, therefore KPMG estimated Year 10 deliveries at a rate consistent with the projected deliveries by Year 5.

Ultimately, KPMG notes that there appears to be a shortage of office space based on both the current supply as well as projected future planned supply. The market demand analysis displayed above is supported by discussions with market participants, who indicate that tight vacancy and limited additions to the supply have created demand for office space that exceeds the current supply.

6.9 Conclusion

The Bend metropolitan area continues to see significant year over year employment growth, driving the need for more office space. Per the U.S. Bureau of Labor Statistics, the Bend metropolitan area has seen an average of 6.00 percent year over year job growth in professional and business services every year since 2015. Given Bend's continued positive absorption and consistent job growth, market demand shows the market's ability to bear additional office space, however, development costs continue to be an impediment of future growth. Specific to the Subject Property, the western portion of Bend is considered to be a premium location in relation to the rest of the Bend office market given its proximity to desirable residential locations. Given such, an office space located at the Subject Property would likely command a premium in comparison to the overall Bend office market.

Additionally, The Bend office investment market has limited available space particularly in terms of Class A office space. This limited space is fueled by low net delivery numbers since 2014; only 200,000 square feet of office space has been delivered since the first quarter of 2014. We note that over the past two years, the Bend office submarket has seen net absorption of 87,000 and 129,000 square feet, respectively. Per discussion with market participants, there is hesitancy for supply to meet demand given Bend's unusually high cost to develop relative to achievable rents.

7.0 STUDENT HOUSING MARKET STUDY

7.1 Macro Market Trends

University enrollment in the U.S. was approximately 19.9 million in 2018[6]. While total enrollment has plateaued recently, the U.S. National Center for Education Statistics forecasts that enrollment will increase by more than 600,000 between 2018 and 2027 to 20.5 million students.

The following is stated in CBRE'S 2019 U.S. Student Housing Report about the future of the student housing market,

"International student enrollment – a key demographic for student housing usage – hit a record 1.1 million in 2017 or about 5.00 percent of total U.S. enrollment[6]. Most industry experts expect a temporary slowdown in rising international student numbers, due in part to the more onerous process of obtaining student visas. Students from the top-two countries of origin, China and India, represent approximately 50.00 percent of the total enrollment of international students in the U.S. The growing middle-class and levels of student enrollment in these two countries suggest strong demand in the future.

On average, the country's largest 175 universities can only house 21.50 percent of their undergraduates in on-campus housing. A majority of the remaining 78.50 percent live in off-campus housing, with the balance living at home.

Occupancy levels for both on-campus and off-campus housing have stayed fairly constant over the past years at approximately 95.00 percent".

The U.S. has a mature supply of student housing investments. Student housing investment volumes have surged since 2010, as the sector became an institutionally accepted asset class. Between 2014 and 2016, U.S. student housing investment volume more than tripled to almost $10 billion. This increase was largely driven by portfolio sales. In 2018, investment volume totaled $11 billion, consisting of 278 properties and 165 transactions.

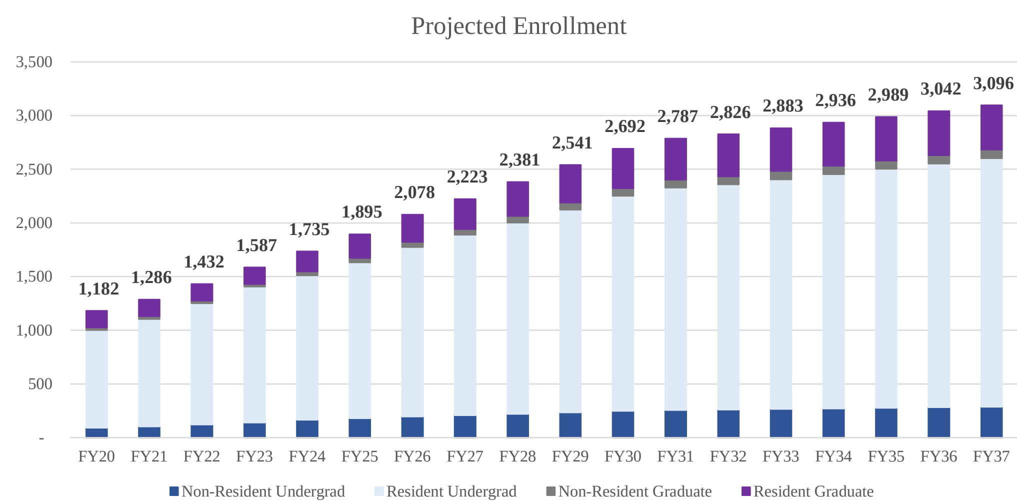
6 Per CBRE's U.S. Housing Report 2019.

Source: CBRE National Student Housing, 2018.

7.2 Enrollment Projections

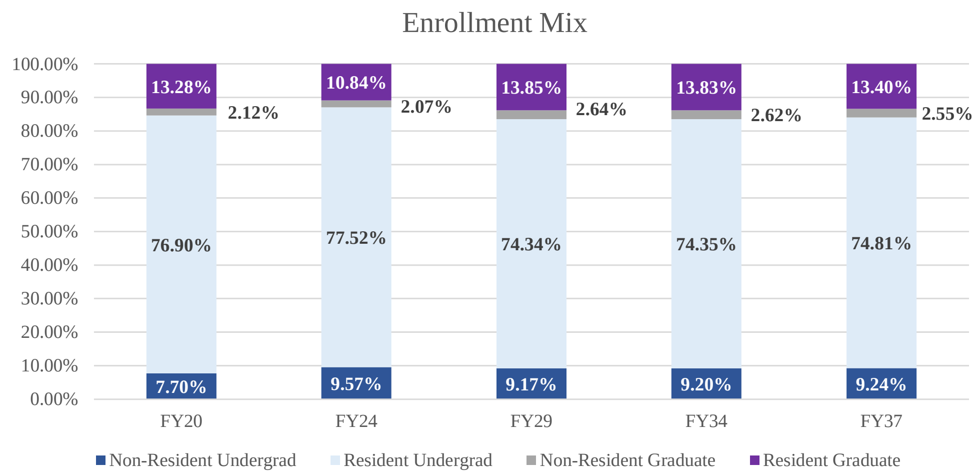
KPMG notes that the University enrollment projections, based on information provided by the University, through fiscal year 2037 are as follows:

Headcount Projections	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37
Non-Resident Undergrad	91	103	120	139	166	179	195	208	220	233	248	256	259	265	270	275	281	286
Resident Undergrad	909	1,001	1,130	1,266	1,345	1,452	1,579	1,681	1,782	1,889	2,003	2,072	2,098	2,140	2,183	2,227	2,271	2,316
Non-Resident Graduate	25	25	25	25	36	42	49	53	61	67	71	74	75	77	77	78	78	79
Resident Graduate	157	157	157	157	188	222	255	281	318	352	370	385	394	401	406	409	412	415
Total Enrollment	**1,182**	**1,286**	**1,432**	**1,587**	**1,735**	**1,895**	**2,078**	**2,223**	**2,381**	**2,541**	**2,692**	**2,787**	**2,826**	**2,883**	**2,936**	**2,989**	**3,042**	**3,096**



Ultimately, the University expects to see approximately 162.00% enrollment growth over the available projection period. Additionally, the University noted a total enrollment goal of 5,000 students.

KPMG notes the aforementioned enrollment projections breaks down into the following enrollment mix:



Further, KPMG notes that despite the large projected increases to total student enrollment, the enrollment mix projects to be relatively similar to the current enrollment mix. Thus, it is reasonable to assume that demand for on-campus housing will remain similar over the analysis period.

7.3 Current On-Campus Housing

Based on discussions with the University, the current supply of on-campus housing is 306 beds, with 170 to 180 beds expected to be occupied (14.38% to 15.23% of the projected enrollment) in the upcoming fall (fiscal year 2020).

In the OSU-Cascades Master Plan/Rezone Planning Commission Public Hearing (henceforth referred to as "the Master Plan")[7], the University divided future enrollment goals into four phases. The enrollment goals for each of the phases are outlined below:

	Current	Phase I	Phase II	Phase III	Phase IV
Total Enrollment	1,182	2,407	2,924	3,958	4,992

Additionally, KPMG notes that the University has student housing expansion options on campus. The student housing expansion options for the University (as well as the projected phase of construction and corresponding projected on-campus housing capacity) are outlined in the tables below:

[7]Source: https://www.bendoregon.gov/Home/ShowDocument?id=34791

		Current	Phase I	Phase II	Phase III	Phase IV
	Total Enrollment	1,182	2,407	2,924	3,958	4,992
[1]	Projected Beds	306	472	721	986	1,993
	On-Campus Housing Capacity	**25.9%**	**19.6%**	**24.7%**	**24.9%**	**39.9%**

[1] Based on the OSU-Cascades Mastr Plan/Rezone Planning Commission Public Hearing - April 9, 2018.

[2] Differences in the current number of beds based on information provided by the University.

Residence Hall Expansion Options	# of Beds	Sq Ft	Proj. Yr	Phase
Student Housing R5	166	63,000	FY28	Phase I
Student Housing R3	96	36,000	FY35	Phase II
Student Housing R4	153	58,500	FY35	Phase II
Student Housing R2	209	75,000	TBD	Phase III
Student Housing R6	56	22,500	TBD	Phase III
Student Housing R7	97	35,000	TBD	Phase IV
Student Housing R8	68	26,000	TBD	Phase IV
Student Housing R9	90	32,500	TBD	Phase IV
Student Housing R10	56	22,500	TBD	Phase IV
Student Housing R11	69	22,500	TBD	Phase IV
Student Housing R12	69	22,500	TBD	Phase IV
Student Housing R13	212	74,000	TBD	Phase IV
Student Housing R14	200	66,000	TBD	Phase IV
Student Housing R15	146	45,000	TBD	Phase IV
Total	**1,687**	**601,000**		

In total, the University has expansion options totaling 1,687 beds, which would bring the University to a total bed count of 1,993 beds upon completion of Phase 4.

7.4 Student Housing Demand

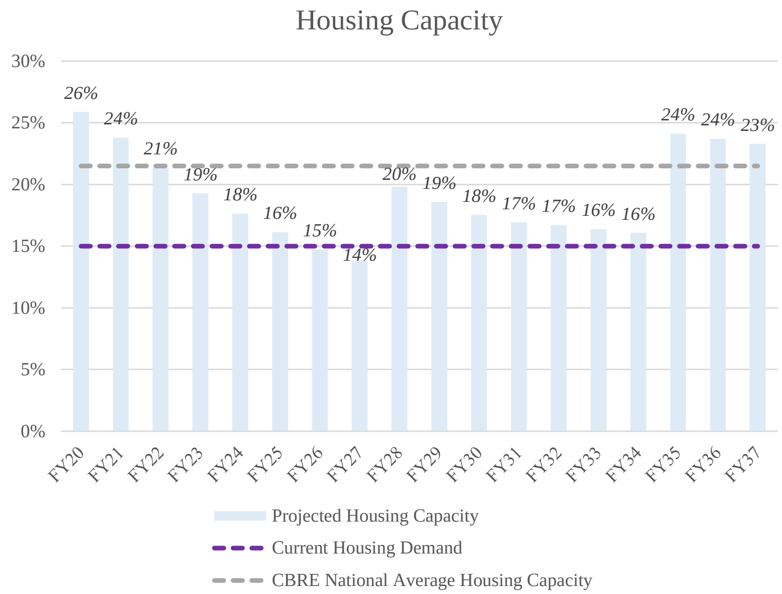
In order to estimate the current and future demand for the private development student housing in the Subject Property's market (giving consideration to the University expansion options), KPMG performed a market demand analysis as detailed below:

	Headcount Projections	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37
	Total Enrollment	**1,182**	**1,286**	**1,432**	**1,587**	**1,735**	**1,895**	**2,078**	**2,223**	**2,381**	**2,541**	**2,692**	**2,787**	**2,826**	**2,883**	**2,936**	**2,989**	**3,042**	**3,096**
[1]	Projected Housing Demand	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
	Projected Unit Demand	177	193	215	238	260	284	312	333	357	381	404	418	424	432	440	448	456	464
[2]	Less : Current On-Campus Housing Supply	306	306	306	306	306	306	306	306	306	472	472	472	472	472	472	472	721	721
	Student Housing Marginal Demand	(129)	(113)	(91)	(68)	(46)	(22)	6	27	51	(91)	(68)	(54)	(48)	(40)	(32)	(24)	(265)	(257)
	Less : Planned University Development	-	-	-	-	-	-	-	-	166	-	-	-	-	-	-	249	-	-
	Net (excess) shortage for Private Development	(129)	(113)	(91)	(68)	(46)	(22)	6	27	(115)	(91)	(68)	(54)	(48)	(40)	(32)	(273)	(265)	(257)
	Projected Housing Capacity	*26%*	*24%*	*21%*	*19%*	*18%*	*16%*	*15%*	*14%*	*20%*	*19%*	*18%*	*17%*	*17%*	*16%*	*16%*	*24%*	*24%*	*23%*

[1] Based on discussions with the University, approximately 170 to 180 beds will be occupied in FY20 (approximately 14.4% to 15.2%). KPMG assumed approximately 15.00% of students would live on campus during the forecast period.

[2] Based on information provided by the University.

Ultimately, the University is well positioned to meet future demand increases, resulting in limited opportunity for private development of student housing. To further display, KPMG considered the projected housing capacity against both the current housing demand at the University as well as the CBRE National average student housing capacity (21.50% as noted above). The findings are displayed in the table below:



Based on discussions with the University, the large number of commuter students decreases the demand for student housing relative to the national average. Currently, the University is well positioned to meet current demand with the housing supply on campus projected to be 55.55% to 58.82% occupied in upcoming fall. The current University housing supply is sufficient, based on the current demand, until fiscal year 2027, when the housing capacity will drop slightly below the current demand. However, considering the University is projected to reach the enrollment goal for Phase II in fiscal year 2028, the planned development of R5 by the University (166 beds) in fiscal year 2028 will satisfy the projected supply shortage and bring the University capacity in line with the national average. Further, considering the University is projected to reach the enrollment goal for Phase III in fiscal year 2035, the planned development of an additional 249 beds in fiscal year 2035 brings the University above the national average for student housing capacity as noted by CBRE through the remainder of the available projection period.

To further evaluate the potential for private development of student housing, KPMG considered the projected housing capacity for the University upon completion of Phase IV (5,000 students):

		Phase IV		
	Headcount Projections	**Current Demand**	**Nat. Avg**	**Max Demand**
	Total Enrollment	**5,000**	**5,000**	**5,000**
[1]	Projected Housing Demand	15.0%	21.5%	39.9%
	Projected Unit Demand	750	1,075	1,993
[2]	Less : Current OSU-Cascades On-Campus Housing Supply	306	306	306
	Student Housing Marginal Demand - net (excess) shortage	444	769	1,687
	Less : Planned University Development	1,687	1,687	1,687
	Net (excess) shortage for Private Development	(1,243)	(918)	-

[1] Based on information provided by the University.

Ultimately, KPMG notes that upon reaching full enrollment, planned University development will satisfy the projected unit demand (based on both the current demand as well as the national average capacity as noted by CBRE). In fact if all expansion options were to be developed, the University would have the capacity to house approximately 40.00% of the projected enrollment on campus (double the current national average). Thus, as noted above, there is limited opportunity for the private development of student housing.

7.5 Conclusion

Per available market research, the University appears to be providing appropriate levels of student housing in its current state given current enrollment. Further, while there is anticipated to be a shortage of supply based on projected enrollment increases, this will be met by additional supply added by the University per the Master Plan. Thus, while there would be opportunity for development of student housing based purely on supply and demand, private development opportunity would be limited due to the University Master Plan and expansion options.

8.0 FOR RENT HOUSING MARKET STUDY

8.1.1 National Office Market Overview

The following is stated in CBRE Research's 2019 U.S. Real Estate Market Outlook Report about the future of the multifamily market:

"Demand for multifamily housing has been very healthy through this cycle due to a combination of cyclical and secular factors. Total multifamily demand in 2019 should mirror the high level achieved in 2018.

Lifestyle trends favoring multifamily housing in recent years should sustain multifamily demand in 2019. These include delayed marriage, delayed child-bearing and preference for renting (vs. owning) for financial flexibility and mobility. Sustained popularity of urban or "urban-like" living, combined with the development of new, attractive multifamily communities in the urban and "urban-suburban" conurbations also will keep multifamily demand very strong in 2019.

The financial challenges of moving into homeownership will continue to bolster multifamily demand in 2019. Homeownership rates are likely to inch up one-half point to 65.00 percent in 2019, largely due to the size of the millennial cohort and its age demographics. Yet even with moderate movement into homeownership, most millennials will remain in rental housing next year. Rising home prices (albeit it at a lower level than recent years), high mortgage rates and limited availability of moderately priced homes will sideline many potential buyers.

Multifamily construction trends will move in two directions in 2019. Unit deliveries will keep pace with 2018, but constructions starts should finally decline. Construction starts in 2017 and 2018 were at very high levels nationally. These translate into high levels of completions in 2019 and at least early 2020. Completions in 2019 will likely mirror the current cycle peak of 290,000 units in 2018.

The high level of new supply will constrain owners' ability to increase rents in some submarkets in 2019. While the pockets of oversupply will remain mostly in urban core submarkets, some suburban submarkets in higher growth metros will also be impacted".

8.1.2 Overview of Multifamily Investment Rates

In order to gain a current perspective on investment rates for the Subject Property, we have provided 2019 market surveys that show the overall, discount, and terminal capitalization rates of properties similar to the Subject Property. The following table presents results from two standard and generally accepted investor surveys:

Investment Rates									
Survey	Discount Rate			Overall Capitalization Rate			Terminal Capitalization Rate		
	Low	Avg	High	Low	Avg	High	Low	Avg	High
PwC 1Q19 - National Apartment Market	5.25%	7.11%	10.00%	3.50%	5.03%	7.00%	4.00%	5.39%	7.00%
PwC 1Q19 - Regional Apartment Market (Pacific)	5.50%	6.63%	10.00%	3.65%	4.54%	6.00%	4.00%	5.00%	6.00%
RERC 1Q19 - SITUS Investment Report: Apartments	5.50%	6.60%	7.30%	4.00%	6.00%	5.10%	5.50%	6.20%	6.90%

KPMG also held discussions with market participants who indicated that traditional multifamily development at the Subject Property could reasonably expect capitalization rates of 4.25 to 5.25 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 6.25 to 7.25 percent for discount rates.

8.2 Local Trends

Bend's economy and apartment market have been improving for years, and a cascade of projects has delivered to the metro after a prolonged absence of new construction. Based on information obtained via CoStar, inventory has increased by 40.00 percent over the past three years. Though vacancies have fluctuated due to the surge in recent deliveries, demand has also risen, and the apartment market's fundamentals remain sound. Robust rent growth ranks Bend among the strongest-performing Oregon metros. Only one community is presently under construction, offering further optimism for rent and vacancy performance in the near future. As further indication of Bend's widespread attraction for tenants, developers, and investors alike, sales volume over the past 12 months is about quadruple the historical average.

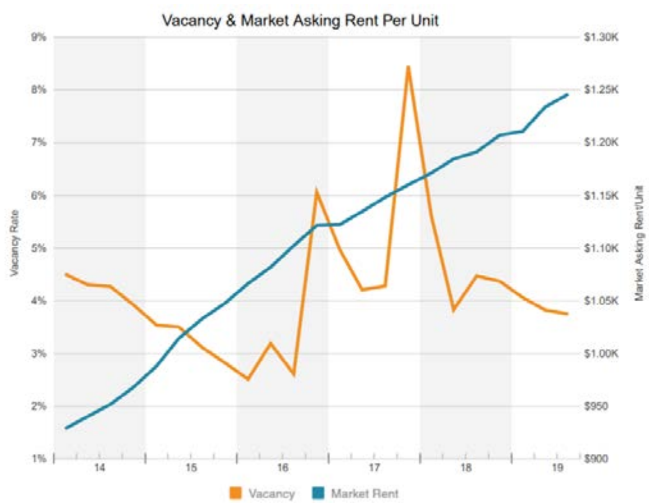
Robust economic growth in Bend has given rise to a surge of apartment demand and construction, and the metro's inventory has increased by about 40.00 percent over the past three years. Still, Bend has a relatively small multifamily footprint. Vacancy has fluctuated significantly in the face of new construction but demand seems to be holding up with the new supply. For example, the 4 Star Outlook at Pilot Butte, a 205-unit community that delivered in three phases from November 2016 to August 2017, stabilized by October 2017. Metro wide, renters occupy about 35.00 percent of all households.

Substantial metro employment centers on Bend's role as a hub for tourism and outdoor recreation. Located at the foot of the Cascade Mountains, Bend attracts both tourists and transplants, with an extensive microbrewery scene as well as ski resorts, the Cascade Lakes, and other leisure entities, the sector employing a total workforce near 14,000. Total employment gains handily exceed the national average. Over time, the population is increasingly skewing older, and residents post median incomes higher than the national level. Deschutes County as a whole is historically blue-collar and centered on the logging industry.

In February 2019, Oregon passed a statewide annual rent growth cap of 7.00 percent plus inflation. The law impacts apartments at least 15 years old and went into immediate effect upon passage. This is the first instance of statewide rent control across the United States. The law also placed strong restrictions on evicting tenants without cause. Additionally, if a tenant is evicted without cause, landlords are required to pay the tenant a relocation fee equivalent to one month's rent.

Additionally, Bend has seen significant population growth over the current cycle. Per the United States Census Bureau, since 2010, Bend's population has grown by 28.00 percent to just under 100,000. Given such growth, it can be reasonable to expect equal growth in the totality of Bend's housing sectors.

Per discussion with market participants, a major point of attention is the explosive growth of cost of living in the San Francisco Bay Area. Companies in the San Francisco Bay Area are locked in a constant battle of providing competitive compensation packages in a city with one of the U.S.'s highest cost of living[8]. As companies, specifically, technology start-ups, located in the San Francisco Bay Area look to minimize these costs, relocation to less expensive cities is considered a possible alternative. If a significantly-sized tech company (or multiple) were to relocate to the Bend area, multifamily market rents would increase significantly in correspondence with an increased demand for housing.



Source: CoStar's Submarket Second Quarter 2019 Analytics & Insights.

Bend consistently exhibits strong rent performance, and 2019 is building on the gains of the prior year. Especially with a slowing pipeline, there are few indications that rent growth will lose steam. Still, multifamily stakeholders must now contend with the annual statewide rent cap of 7.00 percent plus inflation.

8.3 Current Pipeline / Development in Progress

Within the past three years, Bend's apartment inventory has increased by 40.00 percent, though this figure represents the construction of just fewer than 15 new communities. However, with only one community under construction, the flow of new supply will slow in the near future. Both single-family and multifamily housing were hard hit in Bend during the

8 Per the Council for Community and Economic Research: http://coli.org/quarter-1-2019-cost-of-living-index-released/

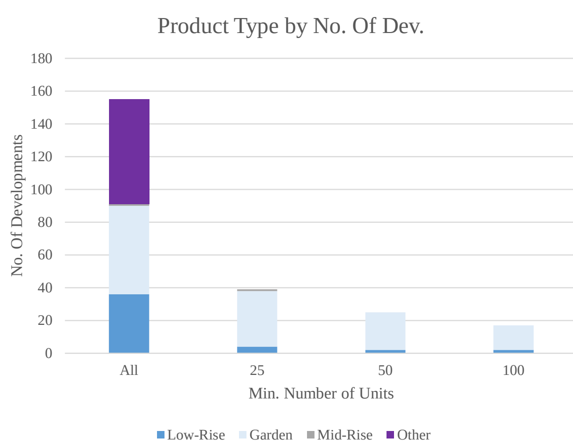
recession. Developers were initially slow to return but have made up for lost time. Most of the newest developments are concentrated around Bend's city center.

In January 2019, 120-unit The Reserve at Metolius delivered its first phase. It is only one of two communities located in Redmond to deliver since the recession. Amenities include a community hot tub and indoor/outdoor pool (fully enclosed in winter), a 24-hour fitness center and a playground. The 199-unit Westside Village is also in the pipeline, with delivery anticipated for fall 2019. By comparison to the robust development outlook in 2019, the prior year saw just two small communities delivered, comprising fewer than 60 total units.

The largest delivery of the cycle is the 228-unit, 4 Star Seasons at Farmington Reserve, which began delivering in the third quarter of 2016 and completed in October 2017, stabilizing within the month. The community consists of one- and two-bedroom units with rents averaging around $1,600 per month, or $1.75 per square foot. Units are considerably larger than the metro average, with two-bedrooms at 1,170 square feet (compared with the metro's 950 square feet) and some one-bedrooms topping 850 square feet (690 square feet for the metro). Amenities include granite countertops, stainless steel appliances, a dog park and a fully equipped gym. Less than a year after all units delivered, Seasons at Farmington Reserve sold in Bend's largest multifamily sale of 2018.

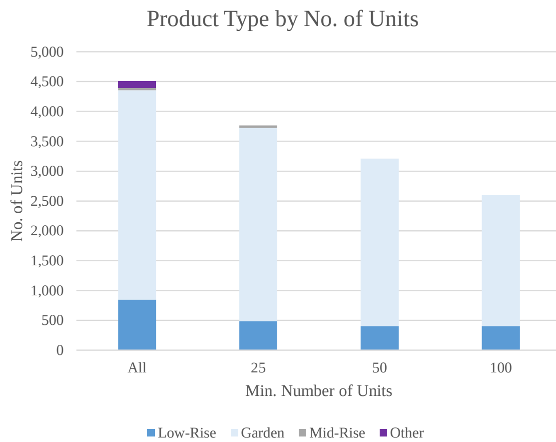
8.4 Product Type

The chart below displays the composition of product type in the Bend Market based on information provided by CoStar. The data below has been segregated to look at the number of developments based on a minimum number of units.



Source: CoStar

On a number of developments basis, the product type in the Bend market is primarily composed of low-rise developments. However, when looking at larger developments (greater than 25 units) in the Bend market, garden style developments comprise the majority of projects. KPMG also considered the product mix on a number of units basis, to understand the composition of the total supply of units based on product type.



Source: CoStar

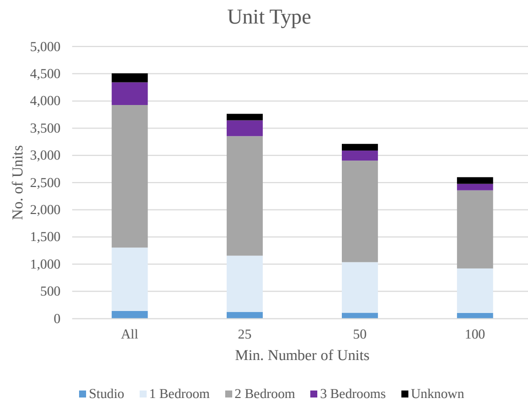
Further, garden style developments clearly make up the majority of the multifamily stock in the Bend market on a per unit basis. Of the 4,507 units in the Bend market (including 199 units currently in the pipeline) 3,507 of them are in garden style developments (or approximately 77.80%). This percentage increases with the larger developments, with approximately 86.00%, 87.40%, and 84.40% of total unit supply for developments of at least 25 units, 50 units, and 100 units respectively, within garden style developments.

KPMG notes that despite the current market composition of primarily garden style developments, there have been two recent low-rise style developments in Bend that comprise approximately 47.59% of the low-rise unit stock (956 total units) in the Bend market and 100.00% of the low-rise unit stock for projects greater than 50 units. These projects include the under-construction Westside Village (199 units with an estimated completion of spring 2020 and located within 0.50 miles of the Subject Property) as well as the Outlook at Pilot Butte (2016 construction and located within 5.00 miles of the Subject Property). While Westside Village has not begun leasing activity yet, the Outlook at Pilot Butte have experienced positive leasing momentum and was well received in the market (despite the inferior location relative to the Subject Property) and is currently operating at 4.88% vacancy.

Ultimately, while development in the Bend market has traditionally focused on garden style projects, the current pipeline and leasing momentum indicate that low-rise development would also be well received in the market.

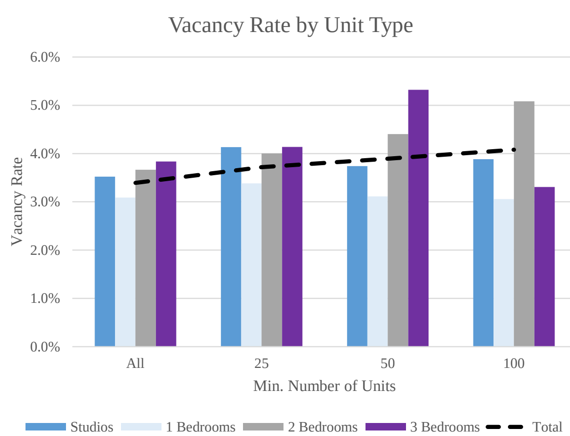
8.5 Unit Mix

The chart below displays the composition of unit types in the Bend Market based on information provided by CoStar. The data below has been segregated to look at the number of units based on a minimum number of units within the development.



Source: CoStar

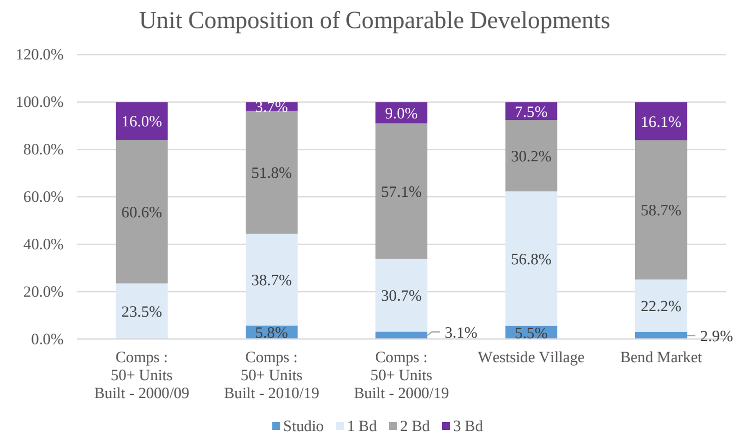
Further, two bedroom units currently make up a majority of the multifamily stock across all development sizes, comprising approximately 58.10% of all units within the Bend market. However, despite the outsized portion of two bedroom units in the market, there is evidence that the demand for development of one bedroom units is greater. The chart below displays the vacancy rates within the Bend market based on unit type.



Source: CoStar

KPMG notes that despite having the highest number of units, two bedrooms in developments greater than 100 units also have the largest vacancy rate at 5.10% which is greater than the 4.10% market level vacancy for developments of this size. Conversely, one bedroom units have a vacancy rate that is below the Bend average across all development sizes at approximately 3.40%, 3.10%, and 3.10% developments greater than 25, 50, and 100 units respectively.

In addition to considering the market vacancy levels on a per unit basis, KPMG also considered the unit composition of comparable developments as displayed in the chart below.



Source: CoStar

KPMG notes that the proportion of two bedroom units has decreased in developments within the last 10 years relative to developments within the first 10 years of the decade. New developments have opted to increase the portion of smaller units with a larger percentage of both studio and one bedroom units relative to the prior decade. KPMG has also considered the unit mix of the under-construction Westside Village, which has opted for a unit mix comprised primarily of one bedroom units as well as 5.50% percent studio units. This trend is further underscored when considering that of the eight developments completed since 2010, four were primarily comprised of one bedroom units.

Ultimately, KPMG notes that a unit composition in line with Westside Village would be appropriate for multifamily development at the Subject Property, if development was determined to be feasible based on projected supply and demand.

8.6 Unit Size

To understand current market standards for unit size, KPMG considered market rate developments greater than 50 units developed within the past 10 years. The findings are displayed in the table below.

		Units	Average Unit Size				
Community	**Year Built**	**Total**	**Studio**	**1 Bd**	**2 Bd**	**3 Bd**	**Total**
Westside Village	2019	199	495	684	949	1,184	791
Escena Apartments	2017	136	-	-	999	1,115	1,008
Seasons at Farmington Reserve	2017	228	-	767	1,170	-	915
Range	2017	132	-	677	754	-	690
Outlook At Pilot Butte	2016	205	597	691	1,097	-	776
Bellevue Crossing	2016	153	-	769	1,070	-	881
Boulder Pointe	2016	96	-	691	876	1,053	875
Sage Springs High Desert Apartments	2013	104	-	-	990	-	990

	Studio	1 Bd	2 Bd	3 Bd	Total
Min	**495**	**677**	**754**	**1,053**	**690**
Max	**597**	**769**	**1,170**	**1,184**	**1,008**
Average	**546**	**713**	**988**	**1,117**	**866**
Median	**546**	**691**	**995**	**1,115**	**878**

Source : CoStar

Ultimately, KPMG notes that average unit sizes in line with recent developments would be appropriate for the Subject Property.

8.7 Competitive Set

In order to better assess the market's ability to bear multifamily supply, we analyzed similar overall developments in order to develop a competitive set which potential multifamily units at the Subject Property may compete with in the market. We looked at multifamily developments and narrowed the set based on parameters that a market participant would likely consider (defined below). Please find our findings below:

Competitive Set - Multifamily: 1 Bedroom

Map ID #	Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	% Occupied	Distance from Subject (Miles)
1	3001 Northwest Clearwater Dr.	Bend	OR	2017	132	677	$ 1,452	98.50%	2.30
2	61560 Aaron Wy.	Bend	OR	2017	228	767	1,433	95.20%	2.50
3	488 Northeast Bellevue Dr.	Bend	OR	2016	153	769	1,291	94.80%	4.80
4	784 Northeast Ross Rd.	Bend	OR	2016	96	691	1,102	99.00%	4.40
5	20240 Reed Ln.	Bend	OR	2007	132	755	1,065	99.20%	2.40
				Low	96	677	$ 1,065	94.80%	2.30
				Average	148	732	1,269	97.34%	3.28
				High	228	769	1,452	99.20%	4.80

Competitive Set - Multifamily: 2 Bedroom

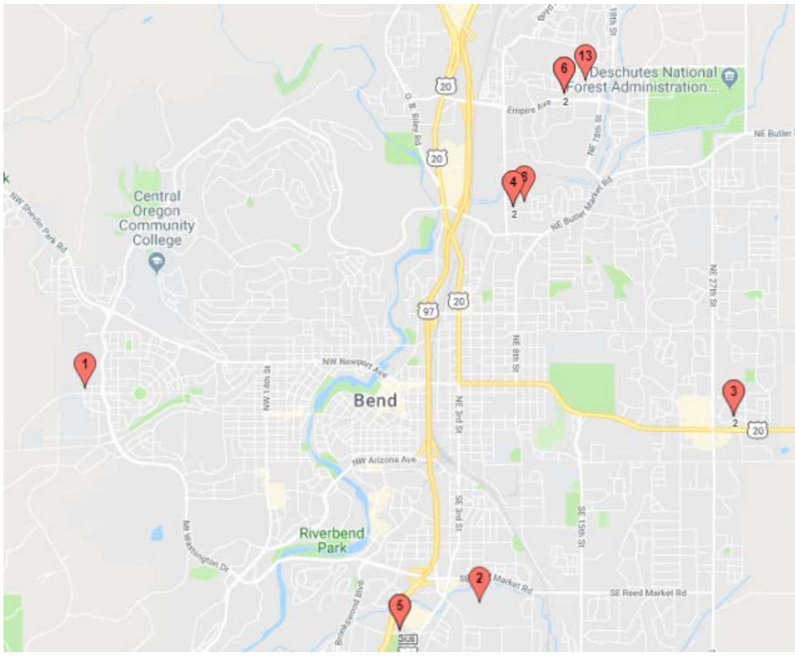
Map ID #	Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	% Occupied	Distance from Subject (Miles)
6	20750 Empire Ave.	Bend	OR	2017	136	999	$ 1,507	80.10%	5.30
7	488 Northeast Bellevue Dr.	Bend	OR	2016	153	1,070	1,597	94.80%	4.80
8	990 Northeast Warner Pl.	Bend	OR	2013	104	990	1,251	-	4.60
9	20240 Reed Ln.	Bend	OR	2007	132	1,006	1,250	99.20%	2.40
				Low	104	990	$ 1,250	80.10%	2.40
				Average	131	1,016	1,401	91.37%	4.28
				High	153	1,070	1,597	99.20%	5.30

Competitive Set - Multifamily: 3 Bedroom

Map ID #	Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	% Occupied	Distance from Subject (Miles)
10	20750 Empire Ave.	Bend	OR	2017	136	1,115	$ 1,706	80.10%	5.30
11	784 Northeast Ross Rd.	Bend	OR	2016	96	1,053	1,413	99.00%	4.40
12	20240 Reed Ln.	Bend	OR	2007	132	1,216	1,391	99.20%	2.40
13	20814 Sierra Dr.	Bend	OR	2006	86	1,492	1,542	96.50%	5.70
				Low	86	1,053	$ 1,391	80.10%	2.40
				Average	113	1,219	1,513	93.70%	4.45
				High	136	1,492	1,706	99.20%	5.70

[1] We performed the above search using the following parameters: 1. Building is either Class A or Class B, 2. Construction subsequent to 2005, 3. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

Additionally, we performed a mapping analysis to assess the location of the developments within the competitive set relative to the Subject Property. Please find our findings below:



Source: Mapping performed via BatchGeo.

Ultimately, KPMG notes that there has been a limited number of available comparable development in the Subject Property's market area (West Bend submarkets). However, based on information provided by CoStar, there is currently a 199 unit low-rise apartment building (Westside Village) under construction that is within 0.50 miles of the Subject Property.

Additionally, KPMG notes that based on discussions with market participants, the Subject Property's location is superior to other areas in Bend. This is underscored by the following table, which displays the average rent per square foot in the west Bend submarkets relative to the remainder of the Bend market area (as delineated by CoStar). The findings are displayed in the table below:

	Market	Total NRA	Units	Avg. Ask Rent PSF
[1]	West Bend Submarkets	792,525	1,098	$1.48
	Remainder of Bend	2,907,941	3,409	$1.37
	Bend Market Area	**3,700,466**	**4,507**	**$1.38**

Source: CoStar

[1] Includes the following CoStar submarkets: River West MF, Southern Crossing MF, Summit West, MF, Aubrey Butte MF, Downtown Bend MF, Century West MF, Old Bend MF.

[2] Total Bend Market Area includes current pipeline.

Ultimately, KPMG notes that on average the West Bend submarket commands an approximately 7.90% premium on asking rent relative to the remainder of the Bend market area. With the aforementioned Westside Village development projected to be completed in spring 2020, this gap is likely to widen further.

Therefore, it would be reasonable for multifamily development at the Subject Property to command rents above the market average and within range of the noted comparables.

8.8 For Rent Housing Demand Analysis

In order to estimate the current and future demand for multifamily units in the Subject Property's market, KPMG performed a market demand analysis as detailed below:

Bend, OR - Apartment Market Demand Analysis by Ratio Method

Line No.		Current Year	+ 5 Years	+ 10 Years	Source
1	Total population in Bend Metro	196,485	214,355	238,994	Survey data: CoStar - Bend Metro Market
2	Total occupied apartment units in Bend, OR	4,144	n/a	n/a	Survey data: CoStar - Bend Metro Market; Footnote 1
3	Ratio of units occupied per person	0.021	0.021	0.021	Calculation: Line 2 / Line 1
4	Total demand for occupied units in Bend, OR (SF)	4,144	4,521	5,041	Calculation: Line 1 x Line 3
5	Plus frictional vacancy @ 5%	218	238	265	Calculation: (Line 4 / 0.95) – Line 4
6	Total supportable (adjusted) citywide apartment demand	4,362	4,759	5,306	Calculation: Line 2 + Line 5
7	Less current competitive units	4,308	4,507	4,907	Survey data: CoStar - Bend Metro Market; Footnote 1
8	Bend, OR apartment marginal demand--net (excess) shortage (Based on current supply)	54	252	399	Calculation: Line 6 - Line 7
9	Less estimated new construction	199	400	400	CoStar - Bend Metro Market
10	Bend, OR apartment marginal demand--net (excess) shortage (Based on projected supply)	(145)	(148)	(1)	Calculation: Line 8 - Line 9

[1] We note that the Bend Metro area currently has a supply of 4,308 units, however, there is a vacancy rate of 3.80 percent as of Q2 '19. Given such, we based our demand analysis of currently occupied units.
[2] We note that per CoStar, the construction of the Westside Village development will add an additional 199 units to the Bend Metro area. The Westside Village development will add 11 studio units, 113 one-bedroom units, 60 2-bedroom units and 15 three-bedroom units.

It should be noted that the Westside Village development, a 199-unit complex coming online in 2020, is located less than half a mile northeast of the Subject Property. The Westside Village development is a component of the Westside Yard development. Westside Yard will bring approximately 15,000 square feet of additional retail space to the Bend market.

KPMG notes that inventory in the Bend multifamily market has increased 40.00% over the past three years, and with 199 units currently in the pipeline (located within 0.50 miles of the Subject Property) opportunity for current development of multifamily housing is limited. However, KPMG notes that the projection of an excess of multifamily units in the market over the next five and ten years is based on projected increases to the pipeline. Considering the quality of the Subject Property's location, enrollment increases, and the future development of an innovation district at the Subject Property, a well-timed development of low-rise or garden style multifamily housing has the potential to attract tenants from inferior current supply and reach stabilized occupancy despite the forecasted excess in the overall market.

8.9 Conclusion

Ultimately, KPMG notes the multifamily market appears to be currently oversupplied based on a frictional vacancy of 5.00 percent as well as the current pipeline.

Specific to the Subject Property, the western portion of Bend is considered to be a premium location in relation to the rest of the Bend multifamily market given its proximity to desirable retail locations such as Westside Yards. Additionally, the west Bend is further removed from the more industrial east Bend which adds to the desirability of it as a residential location. Given such, multifamily units located at the Subject Property would likely command a premium in comparison to the overall Bend multifamily market.

9.0 FOR SALE HOUSING MARKET STUDY

9.1 Macro Market Trends

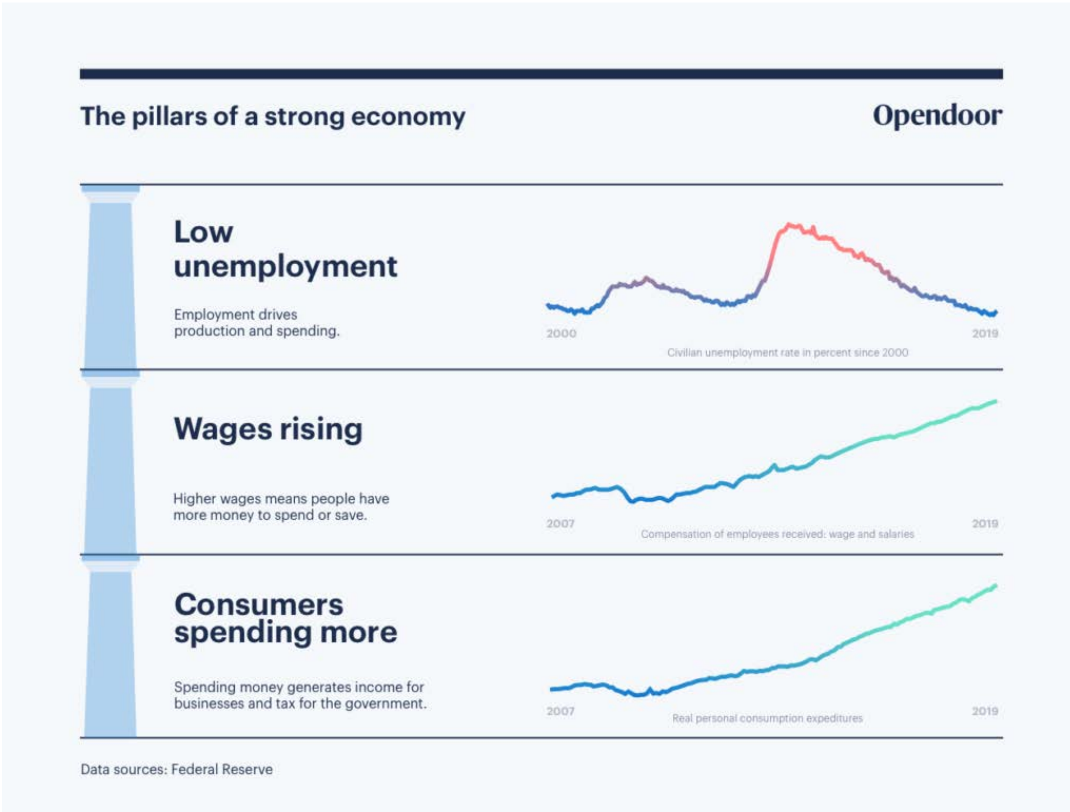
The U.S. has seen strong year-over-year growth since 2008. This growth has been fueled by a decade long period of economic expansion that has seen home values appreciate significantly.

The following is stated in OpenDoor's 2019 U.S. Housing Market Trends Report about the state of the single-family home market,

"When the housing market crashed in 2008, it led to one of the worst economic periods since the Great Depression, often called the Great Recession. The economy has not just recovered from this period, but grown steadily each year since the crash. Over a decade after the Great Recession, unemployment is the lowest it's been in 50 years, wages are rising at a faster rate, and consumers continue to spend more, which fuels the economy.

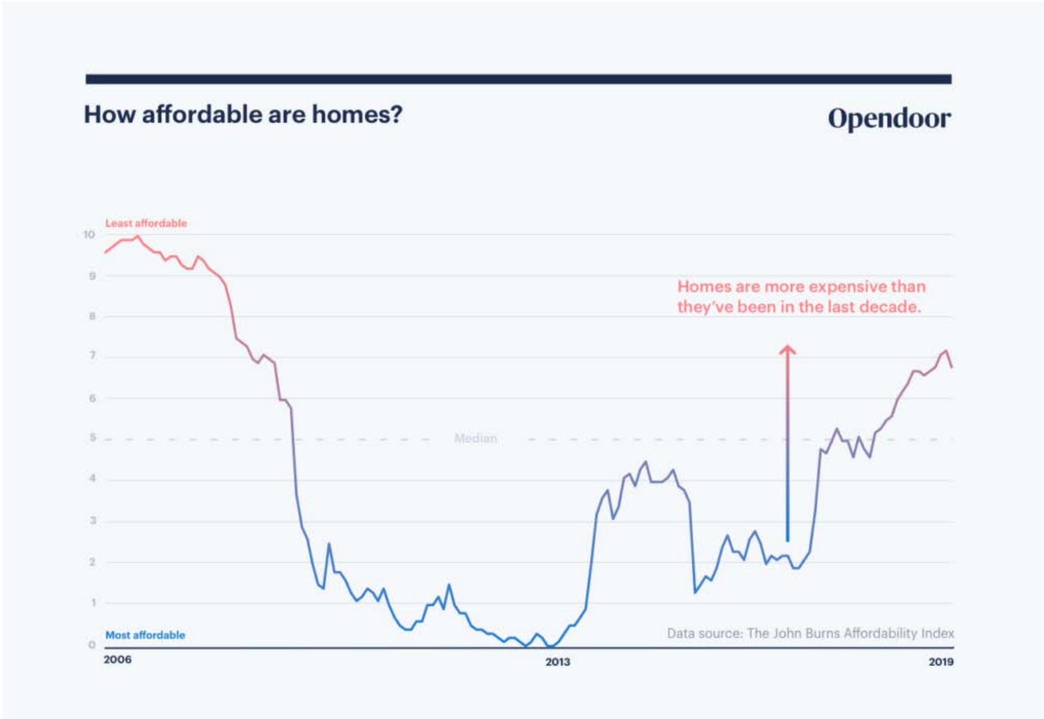
Source: OpenDoor 2019 U.S. Housing Market Trends Report.

Since 2012, the number of eager home buyers increased faster than the number of homes for sale–demand rose faster than supply.



Source: OpenDoor 2019 U.S. Housing Market Trends Report.

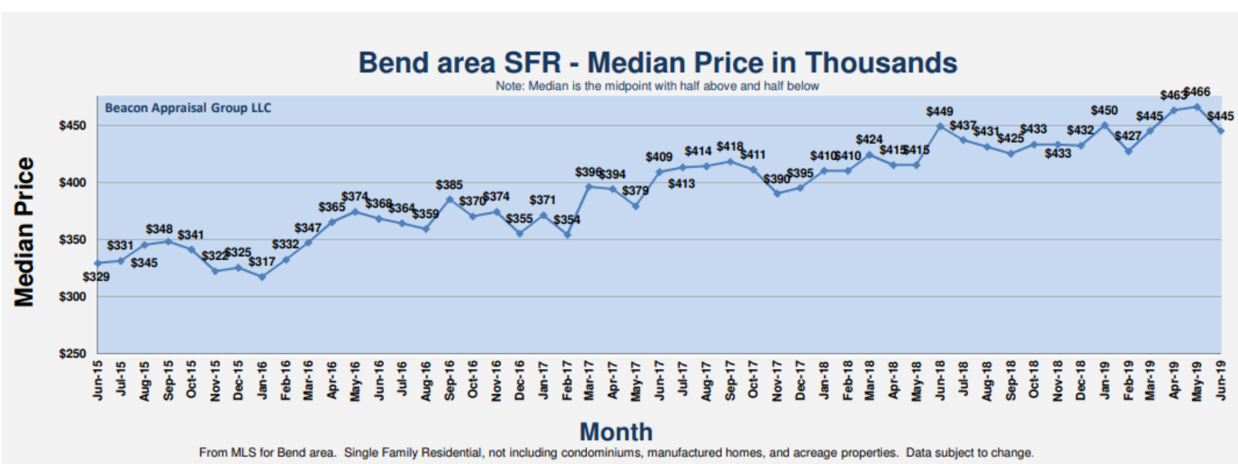
In the last few years especially, the low unemployment rate combined with low costs of financing a home meant more people could afford a home; demand increased. At the same time, the number of homes for sale reached the lowest in decades, in part because fewer homes were being built and because many homeowners had financial incentives not to sell; supply stayed low".



Source: OpenDoor 2019 U.S. Housing Market Trends Report.

9.2 Local Trends

KPMG notes the Bend single family home market to be competitive. Per RedFin, the average home in Bend transacts for approximately $462,000 at $245 per square foot. This represents a 10.00 percent increase from prior year. Additionally, homes are typically only listed for 19 days and sell for 1.00 percent less than list price, on average.



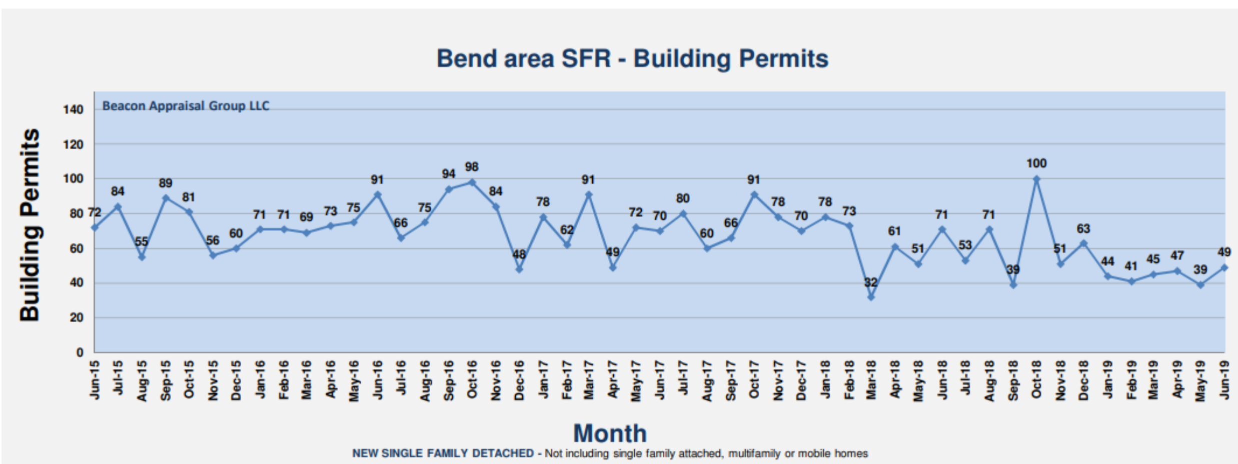
Source: Beacon Appraisal Group, LLC.

Additionally, Bend has seen significant population growth over the current cycle. Per the United States Census Bureau, since 2010, Bend's population has grown by 28.00 percent to just under 100,000. Given such growth, it can be reasonable to expect equal growth in the totality of Bend's housing sectors.

Per discussion with market participants, a major point of attention is the explosive growth of cost of living in the San Francisco Bay Area. Companies in the San Francisco Bay Area are locked in a constant battle of providing competitive compensation packages in a city with one of the U.S.'s highest cost of living. As companies, specifically, technology start-ups, located in the San Francisco Bay Area look to minimize these costs, relocation to less expensive cities is considered a possible alternative. If a significantly-sized tech company (or multiple) were to relocate to the Bend area, single-family home values would appreciate significantly in correspondence with an increased demand for housing.

9.3 Current Pipeline / Development in Progress

Single-family home development has remained relatively consistent over the past four years. KPMG notes that per the Beacon Group, a residential appraisal and valuation firm located in Oregon, the Bend area has seen approximately 40 – 100 building permits granted per month.



Source: Beacon Appraisal Group, LLC.

9.4 Conclusion

The Bend single-family home submarket represents an enticing opportunity given consistent year-over-year population growth and the potential for companies to permanently relocate to the area given its relative low cost of living in comparison to larger economic hubs (i.e. New York and San Francisco). Bend represents an opportunity with an expanding demand via population growth that will likely not be able to be sustained by current supply. As such, we believe market demand is strong enough to allow the market to bear additional single-family home units.

Additionally, while there appears to be a shortage of single family homes based on current demand, KPMG notes that the Bend single family housing market was heavily impacted during the Recession (40.00 percent reduction in median single family home value). Therefore, despite a projected shortage in supply, the market may be apprehensive to add additional supply despite demand given the perceived pricing risk based on market performance during the Recession.

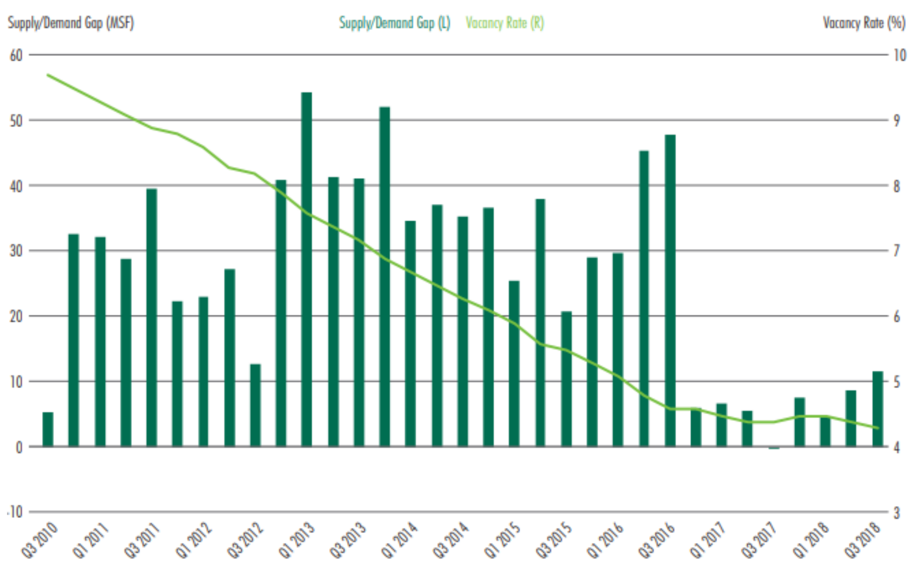
10.0 INDUSTRIAL MARKET STUDY

10.1.1 National Industrial Market Overview

The following is stated in PwC National Real Estate Investor Survey for the first quarter of 2019 about the future of the industrial market,

"U.S. industrial fundamentals remain strong as the sector expands to support a healthy economy and e-commerce growth. New supply, however, appears poised to catch up with demand and could outpace it over the forecast period. In addition, vacancy rates, which had reached historically low levels, could begin to climb. Consequently, the bulk of this sector is expected to sit in the contraction phase of the cycle during the next four years"

Additionally, based on the 2019 Industrial Outlook report published by CBRE, the industrial vacancy rate pushed to historic lows, strengthened by an integration of retail and logistics space, with both online retailers looking to increase their brick and mortar footprint and traditional retailers looking to expand their e-commerce channels. CBRE also noted that low vacancy and limited new construction will continue to place upwards pressure on asking rents in tight markets, further increasing already robust investor demand for industrial and logistics product. Further, CBRE noted that demand has exceeded supply in 32 of 33 quarters in the industrial and logistics market. The findings are displayed in the chart below:



Source: CBRE Research, CBRE Econometric Advisors, Q3 2018.

10.1.2 Overview of Industrial Investment Rates

In order to gain a current perspective on investment rates for the Subject Property, we have provided 2019 market surveys that show the overall, discount, and terminal capitalization rates of properties similar to the Subject Property. The following table presents results from three standard and generally accepted investor surveys:

Investment Rates									
Survey	Discount Rate			Overall Capitalization Rate			Terminal Capitalization Rate		
	Low	Avg	High	Low	Avg	High	Low	Avg	High
PwC 1Q19 - National Warehouse Market	5.25%	6.21%	8.00%	3.00%	4.64%	6.25%	4.50%	5.46%	6.75%
PwC 1Q19 - Pacific Region Warehouse Market	5.00%	5.88%	7.00%	3.25%	4.35%	6.00%	4.00%	5.00%	6.50%
RERC 1Q19 - West First Tier Warhouse	7.00%	8.20%	9.00%	5.00%	6.30%	7.50%	5,5%	6.90%	8.00%
RERC 1Q19 - West First Tier R&D	7.00%	8.60%	10.00%	5.00%	6.50%	7.50%	6.00%	7.10%	8.00%
RERC 1Q19 - West First Tier Flex	7.00%	8.40%	9.00%	5.00%	6.60%	7.50%	6.00%	7.20%	8.00%
RERC 1Q19 - Portland First Tier Warhouse	-	7.70%	-	-	6.10%	-	-	6.80%	-
RERC 1Q19 - Portland First Tier R&D	-	8.10%	-	-	6.20%	-	-	6.80%	-
RERC 1Q19 - Portland First Tier Flex	-	7.90%	-	-	6.30%	-	-	6.80%	-
IRR 2019 - Portland - Industrial	-	7.00%	-	-	5.75%	-	-	7.00%	-
IRR 2019 - Portland - Flex Industrial	-	7.00%	-	-	6.75%	-	-	8.00%	-

The PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for national warehouse properties have continued to compress, decreasing 12 basis points from third quarter 2018 levels and 129 basis points since 2014. PwC reports that the average discount rate is 6.21 percent in the first quarter of 2019. Terminal capitalization rates have declined 5 basis points since the third quarter of 2018, with the average terminal capitalization at 5.48 percent. PwC reports that overall capitalization rates have flattened after several years of compression, increasing 8 basis points from third quarter 2018 but still down 152 basis points since 2014. Ultimately, this trend is expected to continue with 80.00 percent of PwC survey respondents indicating they expect the market to hold steady over the next 6 months.

On the other hand, the PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for Pacific Region warehouse properties continued to compress, decreasing 10 basis points from third quarter 2018 levels and 144 basis points since 2014. PwC reports that the average discount rate is 5.88 percent in the first quarter of 2019. Terminal capitalization rates have flattened and declined 0 basis points since the third quarter of 2018, with the average terminal capitalization at 5.00 percent. PwC reports that overall capitalization rates continue to compress due to strong demand and market fundamentals, with overall capitalization rates decreasing 10 basis points since third quarter 2018 and 160 basis points since 2014. Ultimately, this trend is expected to continue with 100.00 percent of PwC survey respondents indicating they expect the market to hold steady over the next 6 months.

KPMG also held discussions with market participants who indicated that industrial development at the Subject Property (warehouse / distribution as well as flex / R&D) could reasonably expect capitalization rates of 5.75 to 6.25 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 7.75 to 8.25 percent for discount rates.

From the surveyed data as well as discussions with market participants, new office development at the Subject Property would expect a capitalization rates between 5.75 and 6.25 percent and discount rates between 7.75 and 8.25 percent.

10.1.3 National Industrial Market Conclusion

Overall, the national industrial market remains strong after an extended period of expansion. Low overall capitalization rates and historically low vacancy levels have begun to temper investor expectations with 44.00 percent of PwC survey respondents reporting they believe the sector to be overpriced. However, the Pacific Warehouse market remains strong, with investment rates below the national averages due primarily to strong leasing activity in the market. The following is quoted directly from the Situs RERC Real Estate Report for first quarter 2019;

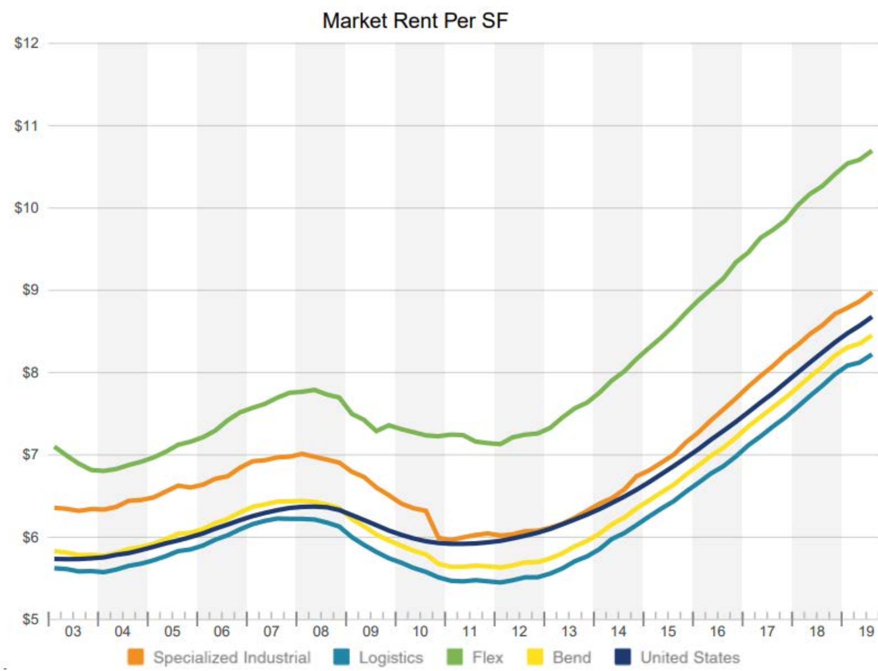
"Overall industrial transaction volume on a rolling 12-month basis posted an almost 20.00 percent increase over transaction volume in the 12 months ending in 1Q 2018, according to RCA. Warehouse transaction volume over the last 12 months was up more than 31.00 percent over the previous 12 months, posting its second highest 12-month volume in RCA's history, dating back to 2001. In terms of dollars transacted, flex declined YoY, with volume down nearly 10 percent in 1Q 2019. Per RCA, cap rates in 1Q 2019 for the overall industrial property type increased 10 bps to 6.4 percent but have remained relatively steady in the 6.30 to 6.40 percent range over the past seven quarters. Both industrial subtypes saw cap rates of 6.40 percent in 1Q 2019, but moved in opposite directions – warehouse cap rates increased 10 bps over last quarter, while flex cap rates decreased 10 bps and reached a record low for its subtype, according to RCA.

Situs RERC institutional survey respondents believe that the industrial warehouse sector has the most favorable investment conditions of all the property types. Its strength is reflected in the sector's vacancy rate, which remained at a record low of 4.80 percent in 1Q 2019, according to CoStar. Situs RERC has noticed an increased demand for warehouse distribution space and data centers, while a rise in new business formation of small manufacturing companies that sell their goods via e-commerce has increased demand in the flex sector.

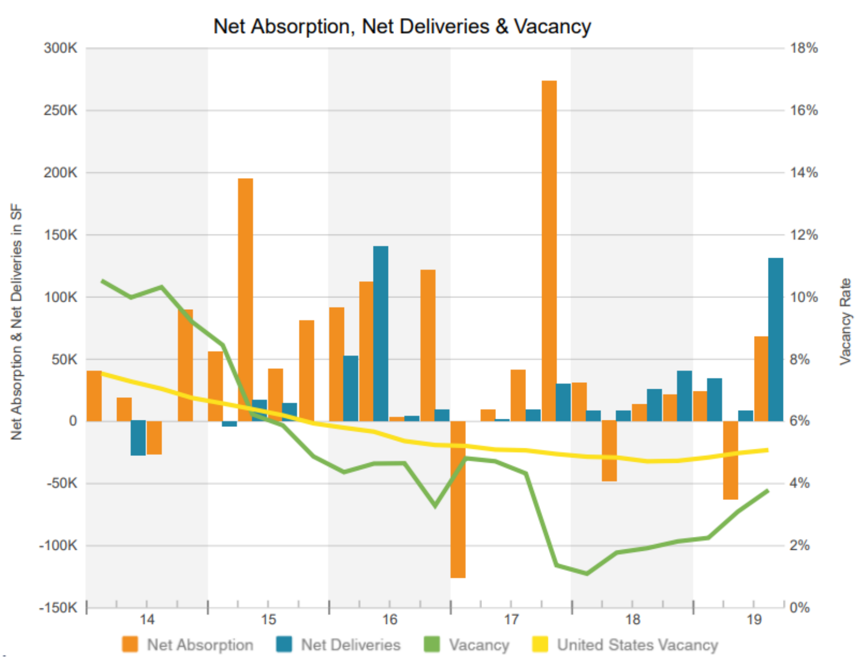
CoStar's data shows that completions have overtaken absorption the past two quarters, although demand remains strong. This is due to the large ramp-up in recent quarters' new deliveries to meet demand in the sector. As more supply sits in the construction pipeline, investors are cautious amid concerns that fundamentals may not live up to expectations, or that higher interest rates may push pricing beyond the potential yields; however, most of Situs RERC's institutional survey respondents still view industrial as the best property type in the near term and expect it to remain on track with high yields."

10.2 Local Trends

Largely due to limited supply given Bend's high development costs, vacancies are low and rent growth is strong year-over-year. Market rent has recovered to levels higher than those seen pre-recession, fueled by year over year market rent growth that has consistently sat between 4.00 to 7.00 percent across all industrial uses since 2014.



Source: CoStar’s Submarket Second Quarter 2019 Analytics & Insights.



Source: CoStar’s Submarket Second Quarter 2019 Analytics & Insights.

We note that there is significant demand for industrial space in the Bend area, as evidenced by vacancy rate compression over the last five years (please refer to Figure 10 above), however, there is hesitancy for supply to meet demand given Bend's unusually high cost to develop. With development opportunity appearing bleak, those properties that are already in the market will continue to enjoy consistent rent growth until property income levels reach such that are financially feasible in line with development costs.

10.3 Key Local Industries

The Bend metropolitan area has long been reliant on the manufacturing and logging industries but has diversified significantly in the past decade. While the manufacturing sector's growth is in line with national performance, natural resources, mining, and construction have each exhibited outstanding growth over the past calendar year. Per discussion with market participants, small logistics may receive an upwards boost from the legalization of marijuana. In 2015, the state of Oregon declared recreational marijuana legal, further increasing demand from growers looking for logistics space[9].

Notable industrial tenants include BasX Solutions, which designs and manufactures products for industrial and technological use; Epic Aircraft, an aircraft manufacturer; and Builders FirstSource, a lumber supplier. FedEx occupies a 69,000 square foot build-to-suit distribution center off Brinson Boulevard, delivered in the second quarter of 2016[10]. Deschutes Brewery also occupies a building constructed in 2016, which represents an expansion of their existing facilities. Deschutes is one of the largest breweries in Oregon and is a testament to the strength of the beer industry in the Bend metropolitan area and the surrounding areas.

10.4 Large Local Employers

According to Economic Development for Central Oregon, as of 2018, Bend's largest employers are such:

Bend's 40 Largest Employers - 2018					
Rank	**Name**	**Employees**	**Rank**	**Name**	**Employees**
1	St. Charles Health System	3,361	21	BendBroadband / TDS Telecom	280
2	Bend-La Pine School District	2,133	22	G5	258
3	Deschutes County	1,075	23	The Center (Ortho/Neuro Care & Research)	252
4	COCC	999	24	Navis	237
5	Mt. Bachelor	840	25	10 Barrel Brewing	236
6	City of Bend	661	26	Epic Air	230
7	Safeway	584	27	PacificSource	223
8	U.S. Forest Service	575	28	Albertson's	220
9	IBEX	540	29	Riverhouse on the Deschutes	220
10	Summit Memorial Group	532	30	U.S. Bank	209
11	Bend Parks and Recreation	526	31	Athletic Club of Bend	200
12	Les Schwab	456	32	Tetherow	200
13	JELD-WEN	375	33	Touchmark at Mt. Bachelor	196
14	Bend Research	361	34	J Bar J Youth Services	174
15	Deschutes Brewery	340	35	First Interstate Bank	151
16	Costco	339	36	Target	150
17	Fred Meyer	319	37	The Bulletin	140
18	Mosaic Medical	303	38	High Lakes Health Care	140
19	OSU-Cascades	283	39	Olive Garden	120
20	Walmart	281	40	Seventh Mountain Resort	116

Source: Economic Development for Central Oregon 2018 Report

9 Per NPR: https://www.npr.org/sections/thetwo-way/2015/07/01/419208482/recreational-marijuana-is-now-legal-in-oregon
10 Per CoStar Submarket Second Quarter Analytics & Insights.

10.5 Current Pipeline / Development in Progress

Bend was hit hard during the recession, when industrial vacancies peaked at about 27.00 percent. Vacancy compression has been evident in Bend throughout the recovery, mainly a result of steady absorption and limited development. A number of smaller speculative properties have been making their way through the pipeline, and vacancy is slowly ticking up as these projects come on line.

Tight vacancy and high rent growth offer incentives for speculative development in Bend, and as of April 2019, all properties underway broke ground before securing tenants. Of the space under construction, about 20.00 percent has preleased. In a particularly notable project, all seven buildings under construction at High Desert Industrial Park are speculative. The development totals 127,000 square feet.

The cycle's two largest developments both delivered in 2016: the 69,000 square foot FedEx building at 20750 Brinson Boulevard, which the developer sold in an investment transaction later the same year, and the 58,000 square foot Deschutes Brewery Warehouse Expansion at 399 SW Shevlin Hixon Dr., an owner/user project. No single new project has exceeded 30,000 square feet since the beginning of 2017. Overall, an additional 6.00 percent of industrial inventory has come on line in the Bend metro since the start of the cycle.

10.6 Comparable Rent Transactions

KPMG analyzed the Bend industrial submarket in order to find comparable leased properties to those that would hypothetically be constructed at the Subject Property. We then assessed the contract rent levels on an annual per square foot basis to determine a reasonable range which could be commanded by an industrial space located at the Subject Property. Please find our findings below:

Class A & B Industrial:

Address	City	State	Space Leased (Sq. Ft.)	Rent per Sq. Ft. (Annual)	Reimbursement Structure	Sign Date
615 SE Glenwood Dr.	Bend	OR	3,923	$ 9.48	Triple-Net	7/1/2019
61438 American Ln.	Bend	OR	4,200	10.20	Triple-Net	6/27/2019
61426 American Ln.	Bend	OR	8,400	10.20	Triple-Net	6/24/2019
61400 American Ln.	Bend	OR	8,400	10.20	Triple-Net	4/23/2019
20802 Sockeye Pl.	Bend	OR	14,906	15.00	Triple-Net	3/13/2019
62860 Boyd Acres Rd.	Bend	OR	2,400	9.00	Triple-Net	12/12/2018
63052 Layton Ave.	Bend	OR	3,516	13.20	Triple-Net	9/9/2018

Low	$ 9.00
Average	11.04
High	15.00

[1] We performed the above search using the following parameters: 1. Leases signed subsequent to 1/1/17, 2. Triple-Net reimbursement structure, 3. Construction subsequent to 2000, 4. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

Flex / R&D						
Address	City	State	Space Leased (Sq. Ft.)	Rent per Sq. Ft. (Annual)	Reimbursement Structure	Sign Date
2777 NW Lolo Dr	Bend	OR	1,703	$ 22.20	Triple-Net	May-19
2777 NW Lolo Dr	Bend	OR	1,703	22.20	Triple-Net	Feb-19
2777 NW Lolo Dr	Bend	OR	5,085	23.40	Triple-Net	Dec-18
2797 NW Clearwater Dr	Bend	OR	1,710	18.00	Triple-Net	Dec-18
2777 NW Lolo Dr	Bend	OR	3,344	23.40	Triple-Net	Nov-18
2777 NW Lolo Dr	Bend	OR	1,703	23.40	Triple-Net	Nov-18
2777 NW Lolo Dr	Bend	OR	1,703	24.00	Triple-Net	Nov-18
549 NW York Dr	Bend	OR	1,139	19.80	Triple-Net	Dec-17
			Low	$ 18.00		
			Average	22.05		
			High	24.00		

[1] We performed the above search using the following parameters: 1. Leases signed subsequent to 1/1/17, 2. Triple-Net reimbursement structure, 3. Construction subsequent to 2000, 4. Within the west Bend submarkets. Source: CoStar.

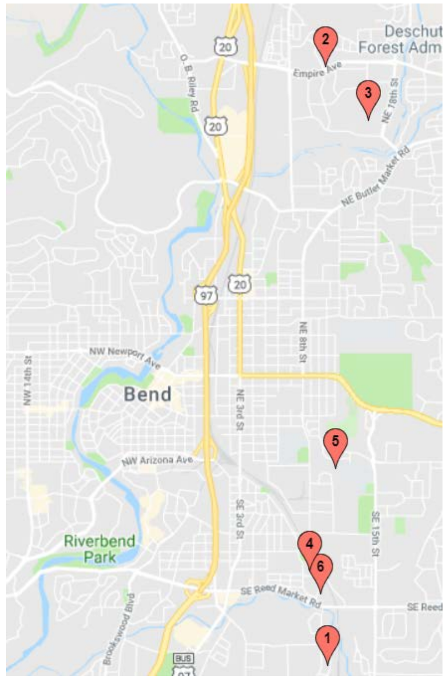
10.7 Competitive Set

In order to better assess the market's ability to bear additional industrial space supply, we analyzed similar overall developments in order to develop a competitive set which potential industrial space at the Subject Property may compete with in the market. We looked at Class A and Class B developments and narrowed the set based on parameters that a market participant would likely consider (defined below). Please find our findings below:

Competitive Set - Class A & Class B Industrial:									
Map ID #	Address	City	State	Year Built	Building Size (Sq. Ft.)	Average Asking Rent	% Occupied	Distance from Subject (Miles)	Reimbursment Structure
1	20729 Carmen Loop	Bend	OR	2018	8,400	$ 9.00	100.00%	3.10	Triple-Net
2	63052 Layton Ave.	Bend	OR	2018	8,000	13.20	100.00%	5.00	Triple-Net
3	20750 Brinson Blvd.	Bend	OR	2016	69,367	6.50	100.00%	5.70	Triple-Net
4	1020 SE Paiute Wy.	Bend	OR	2015	8,400	9.00	100.00%	2.60	Triple-Net
5	48 Southeast Bridgeford Blvd.	Bend	OR	2008	15,214	8.50	99.20%	2.90	Triple-Net
6	1134 Centennial Ct.	Bend	OR	2002	10,950	11.00	100.00%	2.60	Triple-Net
				Low	8,000	$ 6.50	99.20%	2.60	
				Average	20,055	9.53	99.87%	3.65	
				High	69,367	13.20	100.00%	5.70	

[1] We performed the above search using the following parameters: 1. Building size in excess of 5,000 square feet, 2. Construction subsequent to 2000, 3. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

Additionally, we performed a mapping analysis to assess the location of the developments within the competitive set relative to the Subject Property. Please find our findings below:



Source: Mapping performed via BatchGeo.

KPMG also performed a similar search to identify the competitive set for Flex R&D space. KPMG notes that the second phase of the Northwest Crossing Development (located within 2.50 miles of the Subject Property) – District 2 West is almost completed. The development experienced positive leasing momentum is Phase 1 with tenants including Hydro Flask, Manzama Software, Kollective Software, GP Analytics, Bio Pharma, Pro Q Web Development, and Thump Coffee. Ultimately the development serves as a positive case study for the reception of flex R&D space into the market. The recently signed leases at District 2 are noted in the table in the prior section (2777 NW Lolo Drive).

Additionally, KPMG held discussions with market participants to determine a range of rent that the Subject Property could reasonably command. The details of the discussions are outlined in the table below:

Build-Out	Market Rent (per Sq. Ft.)	
	Low	High
Warehouse/Distribution	$ 9.00	$ 15.00
R&D / Flex	17.00	20.00

Further, KPMG notes that the Subject Property could reasonably command rental rates within the ranges as noted by market participants (and supported by recent transactions as well as current listings),

10.8 Industrial Demand Analysis

In order to estimate the current and future demand for industrial space in the Subject Property's market, KPMG performed a market demand analysis as detailed below:

	Bend, OR - Industrial Market Demand Analysis by Employment Segmentation Method								
	Forecast New Demand	**Current Year End**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 10**	
1	Total employment in Bend-Redmond, OR	92,900	94,294	95,687	97,081	98,474	99,868	106,835	Bureau of Labor Statistics
2	Forecast yearly increase of new employment (all categories) in Bend-Redmond		1,394	1,394	1,394	1,394	1,394	1,394	Oregon Employment Department Economist
3	Percentage employment in: Manufacturing, Mining/Logging/Construction, Trade/Transportation/Utilities	30.7%	30.7%	30.7%	30.7%	30.7%	30.7%	30.7%	Bureau of Labor Statistics
4	Estimated warehouse and wholesale employment	28,520	28,948	29,376	29,804	30,232	30,659	32,798	Calculation: Line 1 x Line 3
5	Current Occupied Square Feet	8,186,995							CoStar - Bend Metro Market
6	Average occupied square feet per employee	287	287	287	287	287	287	287	Current Year : Line 5 / Line 4. Held constant for analysis.
7	Total occupied demand for warehouse and distribution space	8,186,995	8,309,800	8,432,605	8,555,410	8,678,215	8,801,020	9,415,044	Calculation: Line 4 x Line 6
8	Plus demand for normal vacancy @ 5%	430,894	437,358	443,821	450,285	456,748	463,212	495,529	Calculation: (Line 7 / 0.95) - Line 7
9	Total supportable (adjusted) demand (in square feet) in the Bend market	8,617,889	8,747,158	8,876,426	9,005,694	9,134,963	9,264,231	9,910,573	Calculation: Line 7 + Line 8
10	Less current competitive square feet	8,440,201	8,663,185	8,743,185	8,823,185	8,903,185	8,983,185	9,383,185	Survey data: CoStar - Bend Metro Market
11	Bend, OR marginal demand--net (excess) shortage (Based on current supply)	177,688	83,973	133,241	182,509	231,778	281,046	527,388	Calculation: Line 9 - Line 10
12	Less estimated new construction	222,984	80,000	80,000	80,000	80,000	80,000	80,000	CoStar - Bend Metro Market
13	Bend, OR marginal demand--net (excess) shortage (Based on projected supply)	(45,296)	3,973	53,241	102,509	151,778	201,046	447,388	Calculation: Line 11 - Line 12
14	**Subject Property Absorption Low** ***25.00 percent***		**993**	**13,310**	**25,627**	**37,944**	**50,262**	**111,847**	Survey data: discussions with market participants. Calculate Line 11 x 0.25
15	**Subject Property Absorption High** ***40.00 percent***		**1,589**	**21,296**	**41,004**	**60,711**	**80,418**	**178,955**	Survey data: discussions with market participants. Calculate Line 12 x 0.40

[1] Employment growth projections are based on a report published by the Oregon Employment Department Economist which indicated that Central Oregon employment would grow by 15.00% by 2027.
[2] Delivery projections are based on information obtained via CoStar. Delivery projections were not available beyond Year 5, therefore KPMG estimated Year 6-10 deliveries to be consistent with the projected average deliveries in Years 1-5.

Ultimately, KPMG notes that there appears to be a shortage of industrial space based on both the current supply as well as projected future supply. Further, while the current demand shortage will be satisfied by the current pipeline, demand is forecasted to quickly exceed supply in the future based on CoStar projected deliveries. The market demand analysis displayed above is supported by discussions with market participants, who indicate that tight vacancy and limited additions to the supply have created demand for industrial space that exceeds the current supply.

10.9 Conclusion

KPMG notes that the Bend market appears to show the ability to bear significant additional industrial supply. While rent growth is strong due to lack of supply, rents have not yet reached a level that make development financially feasible for those developers looking to introduce supply into the market given high cost of development.

Additionally, it should be noted that the Subject Property's zoning currently prohibits development of industrial space at the site. While there remains an opportunity to amend said zoning to allow for development of industrial space, it is currently not a permissible

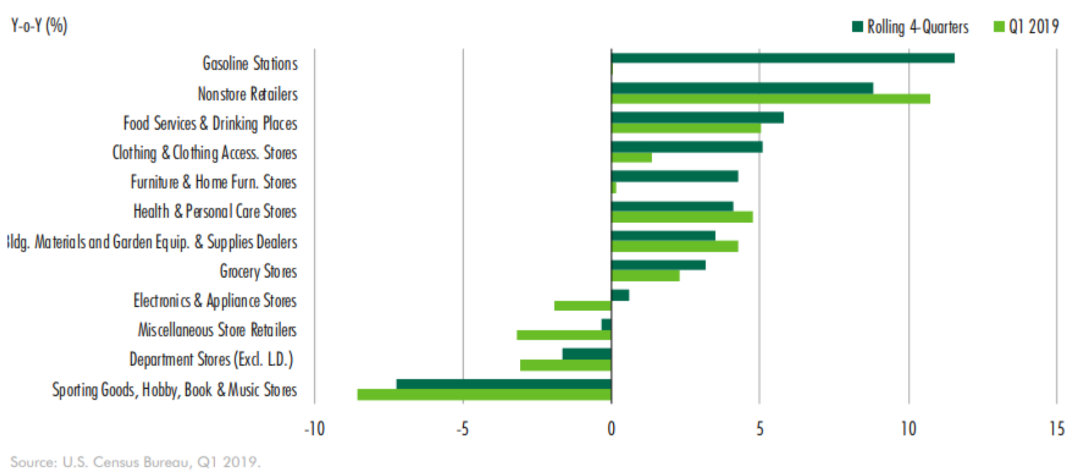
11.0 RETAIL MARKET STUDY

11.1.1 National Retail Market Overview

The following is stated in PwC National Real Estate Investor Survey for the first quarter of 2019 about the future of the retail market,

"The U.S. brick-and-mortar retail sector continues to evolve as e-commerce sales capture a growing share of total U.S. sales. In addition, new supply continues to be delivered as some retailers expand into new locations. Overall, we forecast an increasing portion of this sector to enter the recession stage between 2019 and 2020 before declining by year-end 2022"

Additionally, based on the 2019 First Quarter Retail report published by CBRE, retail sales increased 3.20 percent year over year, driven primarily by growth in the e-commerce and restaurant categories. The findings are displayed in the chart below:



Source: CBRE U.S. Retail Q1 2019 Figures

The decline in sales for traditional retail categories (electronic stores, department stores, and sporting goods stores, etc.) underscores the headwinds facing the power center market as well as traditional brick and mortar retail. The rise in e-commerce continues to have a direct impact on the retail market.

According to the CBRE US Real Estate Retail Market Outlook for 2019, the redevelopment of mall properties will continue. The following is quoted directly from the aforementioned CBRE report:

"The redevelopment of shopping malls will increase in 2019 as owners seek to maintain traffic flow and new levels of supply create opportunities for repositioning assets. Sears' plans to close nearly 200 stores this year will likely trigger a wave of redevelopment activity. While some see this as a tragic dumping of millions of square feet of retail space, many mall owners see it as an opportunity to reposition and re-tenant their properties. Simon Property Group, the largest mall owner in North America, has diversified its tenant base with non-traditional users, including hotels, office space and athletic centers. As the bankruptcy process is long and tedious, it may temporarily drive up availability in the mall category.

Over the long-term, however, a rise in redevelopment and re-tenanting activity among mall owners will occur, especially in Class B and C properties. Expect more replacement of traditional soft goods and department stores with mixed-use development, food & beverage, entertainment, and fitness services."

11.1.2 Overview of Retail Investment Rates

In order to gain a current perspective on investment rates for the Subject Property, we have provided 2019 market surveys that show the overall, discount, and terminal capitalization rates of properties similar to the Subject Property. The following table presents results from three standard and generally accepted investor surveys:

Investment Rates									
Survey	Discount Rate			Overall Capitalization Rate			Terminal Capitalization Rate		
	Low	Avg	High	Low	Avg	High	Low	Avg	High
PwC 1Q19 - National Regional Mall Market	5.00%	7.38%	10.75%	4.00%	6.31%	9.00%	4.25%	6.75%	10.00%
PwC 1Q19 - National Strip Shopping Center Market	5.50%	7.73%	11.00%	4.25%	6.63%	10.00%	4.50%	7.00%	10.00%
PwC 1Q19 - National Power Center Market	6.00%	7.75%	11.00%	5.25%	6.56%	9.00%	5.50%	6.83%	9.00%
RERC 1Q19 - West First Tier Regional Mall	7.80%	8.60%	10.00%	6.00%	6.80%	7.50%	7.00%	7.50%	8.50%
RERC 1Q19 - West First Tier Power Center	7.50%	8.50%	10.00%	6.00%	6.70%	8.00%	6.50%	7.30%	8.00%
RERC 1Q19 - West First Tier Neighborhood / Community	7.50%	8.20%	9.30%	6.00%	6.90%	8.30%	6.50%	7.40%	8.80%
RERC 1Q19 - Portland First Tier Regional Mall	-	8.20%	-	-	6.40%	-	-	6.90%	-
RERC 1Q19 - Portland First Tier Power Center	-	8.30%	-	-	6.30%	-	-	7.00%	-
RERC 1Q19 - Portland First Tier Neighborhood / Community	-	8.30%	-	-	6.40%	-	-	7.00%	-
IRR 2019 - Portland - Community Retail	-	7.75%	-	-	6.25%	-	-	7.25%	-
IRR 2019 - Portland - Neighborhood Retail	-	7.75%	-	-	6.00%	-	-	7.25%	-

The PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for national strip shopping center properties have flattened, decreasing 0 basis points from third quarter 2018 levels and up 27 basis points since 2018, however discount rates are still down 33 basis points since 2014. PwC reports that the average discount rate is 7.73 percent in the first quarter of 2019. Terminal capitalization rates have also flattened, increasing 2 basis points since the third quarter of 2018, with the average terminal capitalization at 7.00 percent. PwC reports that overall capitalization rates have decreased after several years of increases, decreasing 7 basis points from third quarter 2018 but still up 27 basis points since 2018 and 22 basis points since 2016. Ultimately, this trend is expected to continue with growing online shopping and tenant bankruptcies (and subsequent store closures) presenting strong headwinds for the sector.

Additionally, the PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that all investor rates continue to hold steady in the power center sector as discount rates, terminal capitalization rates, and overall capitalization rates moved 0 basis points from third quarter 2018 levels. The changing retail environment, with the rise in online shopping, has put increasing pressure on power center retailers, with PwC reporting an a forecasted value change of a 15.00

percent decline to a 3.00 percent increase over the next 12 months (with an average forecasted value change of a 1.70 percent decline).

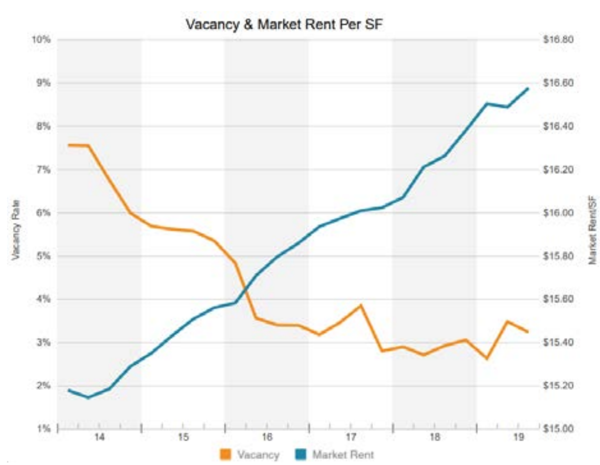
KPMG also held discussions with market participants who indicated that traditional retail development at the Subject Property could reasonably expect capitalization rates of 6.50 to 7.00 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 8.50 to 9.00 percent for discount rates.

Further, market participants noted that there is increased investor appetite for experiential retail development in the market with investors expecting capitalization rates of 6.25 to 6.50 percent as well as discount rates of 8.25 to 8.50 percent.

Ultimately, KPMG notes that retail development at the Subject Property could reasonably expect investor rates within the market participant ranges as noted above (which are supported by the available survey information).

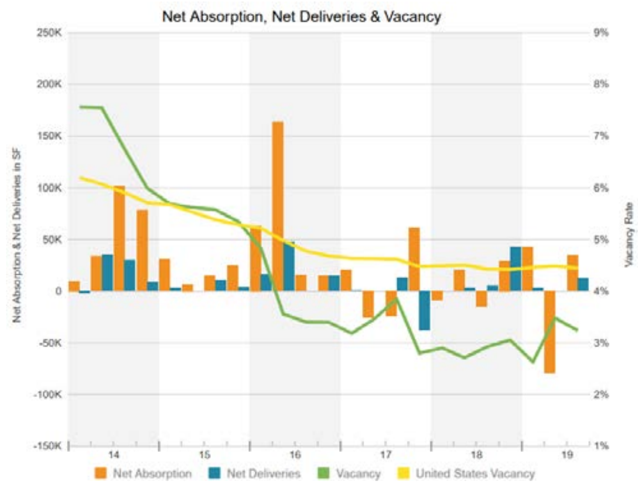
11.2 Local Trends

Retail fundamentals in Bend are mixed. Located in a largely blue-collar region, the city is bolstered by robust tourist activity and its residents' high median income. Vacancy has dramatically tightened over the cycle. While rent growth is fairly low, it remains an improvement on the historical average. A relatively large number of trades occur each year, but sales volume is limited by deals with low price tags. Though developers have been hesitant to build, a significant new project is nearing completion: Neighborhood center Robal Road Village, near the SR-97 and SR-20 junction, consists of six buildings totaling 49,000 square feet. Even with these improvements over historical lows, retail demand remains lackluster in the Bend metropolitan area (the market has seen negative net absorption of 24,400 square feet in the past year).[11]



Source: CoStar's Submarket Second Quarter 2019 Analytics & Insights.

[11] Per CoStar Submarket Second Quarter Analytics and Insights



Source: CoStar's Submarket Second Quarter 2019 Analytics & Insights.

11.3 Current Pipeline / Development in Progress

Developers in Bend are bringing multiple small projects online, including some smaller shopping centers. In the post-recession era, just two projects have exceeded 40,000 square feet. Overall, retail inventory in Bend has increased by just 5.00 percent since 2010. Highway access is prized, and new construction is typically along US-97 and US-20.

The new shopping center, Robal Road Village, is wrapping up development and has exhibited strong preleasing – the project will ultimately total six buildings and about 49,000 square feet. The shopping center cost $10 million to construct. New tenants, which developer First Western Development Services touts as "Amazon-proof," include Ulta Beauty, Black Rock Coffee, and Gentle Dental.

Many new projects add onto existing shopping centers. For example, The Shops at Boyd Acres delivered two pads in 2018 after two earlier buildings came on line in 2014 and 2015. Together, the four buildings total near 17,000 square feet.

A variety of other proposed projects are largely awaiting secured tenants prior to breaking ground, indicating a lack of appetite for spec retail construction in the metro. Additionally, 41,000 square foot Ray's Food Place at Westside Village Marketplace was demolished in the fourth quarter of 2017 to make way for a multifamily project.

11.4 Comparable Rent Transactions

KPMG analyzed the Bend retail submarket in order to find comparable leased properties to those that would hypothetically be constructed at the Subject Property. We then assessed the contract rent levels on an annual per square foot basis to determine a reasonable range which could be commanded by a retail space located at the Subject Property. Please find our findings below:

Class A & B Retail:						
Address	City	State	Space Leased (Sq. Ft.)	Rent per Sq. Ft. (Annual)	Reimbursement Structure	Sign Date
35 Southwest Century Dr.	Bend	OR	2,280	$ 27.00	Triple-Net	6/18/2019
2747 Northwest Crossing Dr.	Bend	OR	2,623	31.20	Triple-Net	3/12/2019
1462 Northeast Cushing Dr.	Bend	OR	1,769	33.00	Triple-Net	1/23/2019
1462 Northeast Cushing Dr.	Bend	OR	1,612	30.00	Triple-Net	1/23/2019
304 Northeast 3rd St.	Bend	OR	3,969	18.00	Triple-Net	11/19/2018
1740 Northwest Pence Ln.	Bend	OR	1,750	18.60	Triple-Net	10/22/2018
631 Northwest Federal St.	Bend	OR	1,125	26.40	Triple-Net	9/28/2017
1500 Northeast Cushing Dr.	Bend	OR	7,000	27.00	Triple-Net	6/2/2017
631 Northwest Federal St.	Bend	OR	2,250	28.80	Triple-Net	6/1/2017
550 Northwest Franklin Ave.	Bend	OR	1,515	20.38	Triple-Net	6/1/2017
1835 Northwest Pence Ln.	Bend	OR	3,056	25.80	Triple-Net	3/21/2017
1465 Southwest Knoll Ave.	Bend	OR	1,127	17.40	Triple-Net	1/26/2017
			Low	$ 17.40		
			Average	25.30		
			High	33.00		

[1] We performed the above search using the following parameters: 1. Leases signed subsequent to 1/1/17, 2. Triple-Net reimbursement structure, 3. Construction subsequent to 2005, 4. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

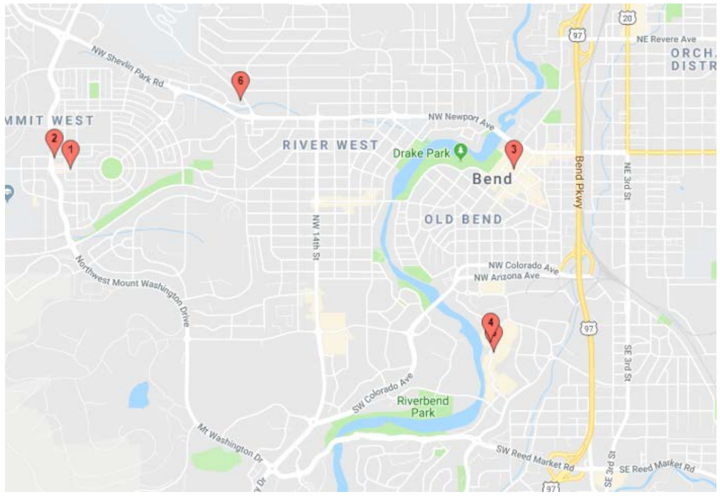
11.5 Competitive Set

In order to better assess the market's ability to bear additional retail space supply, we analyzed similar overall developments in order to develop a competitive set which potential retail space at the Subject Property may compete with in the market. We looked at Class A and Class B developments and narrowed the set based on parameters that a market participant would likely consider (defined below). Please find our findings below:

Competitive Set - Class A & Class B Retail:									
Map ID #	Address	City	State	Year Built	Building Size (Sq. Ft.)	Average Asking Rent	% Occupied	Distance from Subject (Miles)	Reimbursment Structure
1	2747 Northwest Crossing Dr.	Bend	OR	2018	6,151	$ 31.00	100.00%	2.30	Triple-Net
2	900 Northwest Mt. Washington Dr.	Bend	OR	2016	14,487	23.00	67.80%	2.40	Triple-Net
3	919 Northwest Bond St.	Bend	OR	2007	23,700	27.50	100.00%	1.90	Triple-Net
4	375 - 545 Southwest Powerhouse Dr.	Bend	OR	2007	16,129	27.50	100.00%	1.40	Triple-Net
5	380 Southwest Powerhouse Dr.	Bend	OR	2005	28,100	21.00	100.00%	1.30	Triple-Net
6	1740 Northwest Pence Ln.	Bend	OR	2005	8,400	17.50	100.00%	1.90	Triple-Net
				Low	6,151	$ 17.50	67.80%	1.30	
				Average	16,161	24.58	94.63%	1.87	
				High	28,100	31.00	100.00%	2.40	

[1] We performed the above search using the following parameters: 1. Building size in excess of 5,000 square feet, 2. Construction subsequent to 2005, 3. Within a 7.5 mile radius of downtown Bend. Source: CoStar.

Additionally, we performed a mapping analysis to assess the location of the developments within the competitive set relative to the Subject Property. Please find our findings below:



Source: Mapping performed via BatchGeo.

Based on discussions with market participants, and given the Subject Property's location, development of experiential retail (as opposed to traditional retail development – neighborhood centers or regional malls) presents the best opportunity for future development. KPMG identified some additional competitive experiential projects below:

- Box Factory – The Box Factory is located in the Old Mill District and features a blend of innovative primarily locally based businesses. The Box Factory was acquired by Killian Pacific in 2013 and repositioned as an experiential retail center with over 30 different tenants (from coffee shops to cocktail bars). The Box Factory commands rents near the top of the market (current asking rents around $30.00 per square foot net) and has transformed the surrounding area into one of the up and coming neighborhoods in Bend.

- Westside Yard – The Westside Yard is currently under construction and set complete in spring of 2020. The Westside Yard will bring approximately 15,000 square feet of additional retail space to the Bend market and is located less than half a mile northeast of the Subject Property (the development also includes 199 low-rise market rate apartment units). Per discussions with a market participant that is actively leasing the space, the Westside Yard location is likely to be similar to the Box Factory. Westside Yard is likely to feature retail spaces such as a national bank, high-end women's clothing store, and a number of food options. Per discussion with market participants, these types of retail spaces will most likely lease at around $30.00 to $32.00 per square foot (annually) with upwards opportunity to lease for up to $38.00 per square foot (annually) given market demand and in consideration of factors such as the space's visibility.

KPMG also held discussions with market participants who noted that while traditional retail development at the Subject Property could reasonably command between $16.00 to $21.00 per square foot net at the Subject Property, experiential retail (similar to the projects noted above) could reasonably command from $30.00 to $32.00 per square foot net.

Ultimately, given the success of the aforementioned developments, as well as the Subject Property's strong location on the west side of Bend with good surrounding demographics, retail development at the Subject Property could reasonably command rents at the high end of the noted comparable developments and in-line with the asking rents at Box Factory and Westside Yard as noted above.

11.6 Retail Demand Analysis

In order to estimate the current and future demand for retail space in the Subject Property's market, KPMG performed a market demand analysis as detailed below:

Bend, OR - Retail Market Demand Analysis by Ratio Method

Line No.		Current Year	2024 : Best Case *100.00% of Current Ratio*	2024 : Base Case *75.00% of Current Ratio*	2024 : Worst Case *50.00% of Current Ratio*	Source
1	Total population in Market Area	104,796	119,574	119,574	119,574	CoStar - 5 mile radius
2	Total occupied retail space in Bend, OR (SF)	9,037,524	n/a	n/a	n/a	Survey data: CoStar - Bend Metro Market
3	Ratio of square feet occupied retail space per person	86.2	86.2	64.7	43.1	Calculation: Line 2 / Line 1
4	Total demand for occupied retail space in Bend, OR (SF)	9,037,524	10,311,967	7,733,975	5,155,984	Calculation: Line 1 x Line 3
5	Plus frictional vacancy @ 5%	475,659	542,735	407,051	271,368	Calculation: (Line 4/0.95) – Line 4
6	Total supportable (adjusted) citywide retail demand in square feet	9,513,183	10,854,702	8,141,027	5,427,351	Calculation: Line 5 + Line 6
7	Less current competitive square feet	9,355,615	9,379,628	9,379,628	9,379,628	Survey data: CoStar - Bend Metro Market
8	Bend, OR retail marginal demand--net (excess) shortage (Based on current supply)	157,568	1,475,074	(1,238,601)	(3,952,277)	Calculation: Line 6 - Line 7
9	Less estimated new construction	24,013	180,000	180,000	180,000	CoStar - Bend Metro Market
10	Bend, OR retail marginal demand--net (excess) shortage (Based on projected supply)	133,555	1,295,074	(1,418,601)	(4,132,277)	Calculation: Line 8 - Line 9
11	**Subject Property Absorption Low** ***10.00 percent***		**129,507**	**n/a**	**n/a**	Survey data: discussions with market participants. Calculate Line 11 x 0.10
12	**Subject Property Absorption High** ***25.00 percent***		**323,769**	**n/a**	**n/a**	Survey data: discussions with market participants. Calculate Line 12 x 0.25

Ultimately, KPMG notes the retail market appears to be currently near equilibrium based on a frictional vacancy of 5.00 percent as well as the current pipeline, with some limited development opportunity due to the low overall vacancy rate in the Bend market (3.40%).

Considering headwinds associated with e-commerce, KPMG conducted a sensitivity analysis over the current retail ratio to determine whether projected future supply will align with projected demand.

KPMG notes that based on information provided by CoStar, the population within a 5.00 mile radius of the Subject Property is predicted to increase by over 14.00 percent by 2024. Therefore, based on the current ratio of occupied retail space per person in the market area there appears to be sufficient demand for construction of more retail over the next 5 years due primarily to the limited projected product in the pipeline (high barriers to entry associated with construction costs in the market). However, KPMG notes the best-case as noted above assumes the ratio of occupied retail space per person will remain the same over the next 5 years, which does not consider headwinds associated with e-commerce. Therefore, the above projected shortage is potentially overstated.

Further, when considering a base case (75.00 percent of the current ratio) as well as a worst case (50.00 percent of the current ratio), there is projected to be an excess of retail space on the market in 2024. Ultimately, due to the aforementioned factors, as well as uncertainty around future brick and mortar retail demand (as discussed in the national retail analysis in earlier sections of this analysis), retail absorption will be difficult.

11.7 Conclusion

We note that there is relatively lackluster demand for standard big-box retail space in the Bend area in comparison to office space and industrial space. There is hesitancy for supply to meet demand given Bend's unusually high cost to develop, however, this lack of deliveries into the market has not lead to any meaningful rent growth explosion amongst the already existing supply. In looking at the retail submarket for the Bend metropolitan area, rent growth has remained relatively flat over the previous five years, with rent growth ranging between 0.00 to 2.00 percent over such period. With relatively little upward growth potential for the supply already existing in the market, it would appear unlikely that additional supply would be readily met with demand. Additionally, even if there was a minor uptick in demand for standard retail space, demand for other spaces such as office space and industrial space would outweigh such by a significant amount.

We note that despite lukewarm reception for additional standard retail supply in the Bend metropolitan area, there are opportunities for unique retail plays that are able to tap into certain synergies given location on the Subject Property. Per discussion with market participants in the Bend area, there is excellent opportunity for retail that is more geared towards specific niche uses (such as bicycle shops, breweries, restaurants) and needs-based retail for the student body (print shop, juice shop, etc.) rather than traditional retail development. Additionally, retail space located at the Subject Property would likely be well-trafficked given that west Bend is more desirable from a residential perspective. Given such, this creates a competitive environment which leads to a higher concentration of available disposable income in west Bend, a key driver of retail success.

12.0 HOTEL MARKET STUDY

12.1 Macro Market Trends

U.S. hotel occupancy levels continued to grow during the first quarter of 2019. According to STR, U.S. hotels achieved an average occupancy level of 61.80 percent during the first three months of the year, the highest first quarter occupancy level posted since 1988. The rise in occupancy was prompted by a healthy 2.40 percent increase in demand that surpassed the 2.00 percent net increase in supply. Lodging demand has increased during the first quarter every year since the 2009 recession. Unfortunately, ADR gains were disappointing relative to the strength in demand. The 1.1 percent gain in ADR during the first quarter was less than the 1.50 percent growth rate forecast by CBRE in March of 2019.Based on the first quarter performance, CBRE has adjusted its RevPAR forecast for 2019. Occupancy for the year is now projected to increase slightly, the 10th consecutive annual rise in this important metric. On the other hand, the outlook for laggard ADR growth is expected to remain throughout the year. CBRE is now estimating an ADR gain of just 1.90 percent during 2019. The net result is a 2.00 percent annual increase in RevPAR. It will be a challenge to increase occupancy again in 2020 and beyond. The combination of increasing supply and tempering economic growth is expected to result in diminished levels of demand growth over the next two years. Accordingly, CBRE is forecasting declines in occupancy in both 2020 and 2021. It is important to note; however, that the national occupancy level will remain at least 200 basis points above the STR 62.50 percent long-run average. ADR growth is forecast to reach 2.60 percent in 2020, with a deceleration to 1.20 percent in 2021.

12.1.1 National Overview

Data for the Lodging Market Analysis appears in the Hotel Horizons published by CBRE ("CBRE") and the Hospitality Directions US updated January 2019 and published by PwC Hospitality & Leisure ("PwC"). The following is quoted directly from the CBRE report for March to May 2019:

"Economic growth remained strong in Q4 2018. Total nonfarm payroll employment increased by an average of 223,000 jobs per month in Q4, according to the Bureau of Labor Statistics. This is greater than the previous quarter's average of 208,000. The unemployment rate held steady compared to the previous quarter, remaining at 3.80 percent. On the other hand, median weekly wages increased in Q4, although the 1.50 percent increase is somewhat muted in comparison with unemployment.

In Q4 the Federal Reserve raised its target interest rate 25 basis points for the fourth time in 2018, to between 2.25-2.50 percent. The stated motivations were the strengthening labor market and economic activity. Inflation, as measured by the change in CPI, moderated slightly to 2.20 percent. This is very close to the Federal Reserve's stated goal of 2 percent inflation. In anticipation of the market reaction to the consistent pace of rate increases, CBRE-EA lowered its forecast for 2019 inflation to 1.90 percent, down from 2.20 percent."

For 2019 CBRE projects real GDP will grow at 2.40 percent. Additionally, CBRE notes the rate of job creation has slowed as the number of available workers fell and the economy operated at near-peak capacity. CBRE forecasts annual job creation to be 1.9 million in 2019, down from 2.6 million in 2018. CBRE also notes that wages should continue to rise with a tightening labor market, and projects real personal income to increase by 2.5 percent in 2019, up from 2.0 percent in 2018. Ultimately, CBRE notes that although significant risk from political uncertainty continues, the economic fundamentals remain solid.

12.1.2 National Lodging Overview

Data for the Lodging Market Analysis appears in the Hotel Horizons published by CBRE ("CBRE") and the Hospitality Directions US updated January 2019 and published by PwC Hospitality & Leisure ("PwC"). The following is quoted directly from the CBRE report for March to May 2019:

"Occupancy levels for the U.S. lodging industry continued to grow through 2018. For the year, the national occupancy was 66.20 percent according to STR, the fourth consecutive record high since 1988. In fact, the national occupancy levels for the first, second, and fourth quarters of 2018 were record highs for those respective quarters. In 2018, the ADR for U.S. hotels increased by 2.40 percent. While disappointing given the record occupancy level, the 2.40 percent growth rate was greater than the 2.20 percent rate posted in 2017 and reversed a three year trend of decelerating ADR change.

Given the high occupancy levels achieved throughout 2018, it will be a challenge to increase occupancy once again in 2019 and beyond. The combination of increasing supply, tempering economic growth, and consumer uncertainty is projected to result in a slowdown in the pace of demand growth over the next three years. Accordingly, CBRE Hotels Americas Research is forecasting declines in occupancy through 2021. It is important to note; however, that the national occupancy level will remain at least 200 basis points above the STR 62.50 percent long-run average.

ADR growth is forecast to exceed 2.60 percent in 2019 and 2020, with a deceleration to 1.30 percent in 2021. Using RevPAR as the barometer, the greatest gains will be achieved in the Luxury and Economy segments through 2020. During the dip in 2021, slow employment growth will have the greatest negative impact on the lower-priced segments."

12.1.3 Historic Trends

According to the Hotel Horizons 2019 Report, average occupancy within the U.S. Lodging market increased from 65.90 percent in 2017 to 66.20 percent in 2018. Average Daily Rate ("ADR") increased 2.40 percent to $126.76 in 2017 from $129.82 in 2018. RevPAR increased 2.90 percent to $83.51 in 2017 from $85.94 in 2018. The following chart illustrates historical trends and future forecasts for the National Lodging market.

Occupancy, ADR, and RevPAR Trends : 2014 to 2023									
Year	Occupancy	Δ Occupancy	ADR	Δ ADR	RevPAR	Δ RevPAR	Δ Supply	Δ Demand	Actual or Forecast
2014	64.4%	3.4%	$115.18	2.9%	$74.13	8.2%	0.6%	4.0%	Actual
2015	65.4%	1.5%	$120.40	4.5%	$78.68	6.1%	0.9%	2.5%	Actual
2016	65.4%	0.1%	$124.04	3.0%	$81.13	3.1%	1.4%	1.5%	Actual
2017	65.9%	0.7%	$126.76	2.2%	$83.51	4.9%	1.7%	2.5%	Actual
2018	66.2%	0.5%	$129.82	2.4%	$85.94	2.9%	2.0%	2.5%	Actual
2019	66.2%	-0.1%	$133.14	2.6%	$88.08	2.5%	1.9%	1.9%	Forecast
2020	65.8%	-0.6%	$136.62	2.6%	$89.87	2.0%	1.8%	1.2%	Forecast
2021	64.6%	-1.9%	$138.36	1.3%	$89.32	-0.6%	1.8%	-0.1%	Forecast
2022	65.1%	0.8%	$139.14	0.6%	$90.55	1.4%	1.7%	2.5%	Forecast
2023	65.6%	0.8%	$142.12	2.1%	$93.26	3.0%	1.5%	2.4%	Forecast

Source : CBRE Hotels America Research, STR Inc., Q4 2018

12.1.4 ADR

2018 saw an increase in ADR of 2.40 percent, with 2019 forecasted to grow at a higher rate of 2.60 percent. Compared to the previous ADR changes, the increase in 2018's ADR levels represents a reversal in a three year trend of declining ADR.

12.1.5 Occupancy

According to CBRE, occupancy is expected to decrease by 0.1 percent in 2019. Further, given the record occupancy levels achieved in 2018, CBRE projects it will be difficult to increase occupancy in 2019.

12.1.6 RevPAR

According to CBRE, 2018 saw an increase in RevPAR of 2.90 percent in 2018 due primarily to the reversal of the three year trend of declining ADR. CBRE projects RevPAR will increase by 2.50 percent and 2.00 percent in 2019 and 2020 due to continued increase in demand. However, RevPAR is expected to decelerate in 2021 due to increased supply and a drop in demand due to forecasted economic headwinds.

12.1.7 Operating Expenses

The following section includes the market ranges for hospitality departmental income and expenses. We have referenced the Host Report, published by STR.

The following charts compare revenue and expense ratios published by the STR 2019 HOST Report for National Hotels and Resorts.

Hotel Operating Statement - Ratio to Sales							
	Total U.S.	**Chain-Affiliated**	**Pacific**	**Small Metro/Town**	**Upscale Class**	**Upper Midscale Class**	**Midscale/ Economy Class**
Occupancy	74.77%	75.00%	80.07%	67.85%	75.78%	74.54%	71.99%
Average Size	206	206	235	120	163	133	119
ADR	$178.67	$175.84	$222.81	$144.10	$150.24	$133.87	$78.29
Revenue							
Rooms	69.4%	70.3%	68.4%	70.3%	86.4%	92.1%	96.8%
Food	14.4%	14.1%	13.9%	13.8%	6.5%	2.4%	0.9%
Beverage	4.6%	4.4%	4.8%	4.6%	2.0%	0.8%	0.3%
Other F&B	4.8%	4.9%	4.3%	3.4%	1.5%	0.5%	0.1%
Other Operated Departments	3.8%	3.5%	5.0%	5.6%	1.9%	1.7%	1.2%
Miscellaneous Income	3.0%	2.8%	3.6%	2.4%	1.7%	2.6%	0.6%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Departmental Expenses							
Rooms	26.2%	25.8%	26.1%	24.8%	24.5%	28.3%	21.9%
Food & Beverage	71.6%	71.1%	78.3%	74.3%	76.4%	90.5%	76.0%
Other Operated Departments	75.2%	77.2%	74.6%	80.5%	53.3%	54.3%	33.7%
Total Departmental Expenses	38.1%	37.5%	39.6%	38.1%	29.8%	30.3%	22.7%
Total Departmental Profit	61.9%	62.5%	60.4%	61.9%	70.2%	69.7%	77.3%
Undistributed Operating Expenses							
Administrative & General	7.8%	7.7%	7.5%	8.5%	8.4%	8.1%	9.7%
Information & Telecommunications Systems	1.4%	1.4%	1.3%	1.4%	1.1%	1.3%	1.1%
Marketing	6.5%	6.6%	6.1%	5.9%	6.3%	5.4%	4.7%
Franchise Fees	2.0%	2.2%	1.4%	3.6%	4.1%	5.7%	3.0%
Utility Costs	3.1%	3.1%	2.8%	3.5%	3.4%	3.6%	4.9%
Property Operations & Maintenance	4.2%	4.2%	4.0%	5.0%	4.1%	4.6%	5.8%
Total Undistributed Operating Expenses	25.0%	25.1%	23.1%	27.8%	27.4%	28.7%	29.1%
Gross Operating Profit	36.8%	37.4%	37.3%	34.0%	42.8%	41.0%	48.2%
Management Fees	3.4%	3.5%	3.3%	3.3%	3.6%	3.4%	1.9%
Income Before Fixed Charges	33.5%	33.9%	34.0%	30.7%	39.2%	37.6%	46.2%
Taxes	3.6%	3.7%	2.6%	2.5%	4.4%	5.0%	5.0%
Insurance	1.0%	0.9%	1.0%	1.1%	0.9%	1.0%	1.4%
EBITDA	28.9%	29.3%	30.4%	27.1%	33.9%	31.6%	39.8%
Reserve for Replacement	2.3%	2.4%	2.3%	1.9%	2.3%	1.8%	0.4%

Source: HOST Almanac 2019

The Subject Property is located in the Pacific region, which achieves an average ADR occupancy levels above the national average. KPMG further notes that based on information provided by the HOST Almanac 2019 (HOST), the gross operating profit for the Pacific region increased 2.60 percent in 2018. Additionally, HOST noted that expense growth continues to outpace revenue growth, driven primarily by an increase in labor costs of 4.00 percent over 2018. Overall, assuming a competent operator, the Subject Property could reasonably obtain the expense ratios as noted above in the HOST Almanac for 2019.

12.1.8 Overview of Hotel Investment Rates

In order to gain a current perspective on investment rates for the Subject Property, we have provided 2019 market surveys that show the overall, discount, and terminal capitalization rates of properties similar to the Subject Property. The following table presents results from three standard and generally accepted investor surveys:

Investment Rates									
Survey	Discount Rate			Overall Capitalization Rate			Terminal Capitalization Rate		
	Low	Avg	High	Low	Avg	High	Low	Avg	High
PwC 1Q19 - National Full Service	8.00%	9.70%	11.00%	6.00%	7.43%	9.00%	7.00%	8.25%	10.00%
PwC 1Q19 - National Limited-Service Midscale & Eco.	8.50%	10.80%	14.00%	7.50%	9.05%	11.00%	7.75%	9.53%	12.00%
PwC 1Q19 - National Select-Service	8.00%	10.10%	12.00%	7.00%	8.31%	10.00%	7.00%	8.45%	10.00%
RERC 1Q19 - West First Tier Hotel	8.00%	9.20%	10.00%	6.00%	7.40%	8.50%	6.80%	8.00%	8.50%
RERC 1Q19 - Portland First Tier Hotel	-	9.90%	-	-	7.50%	-	-	8.00%	-
IRR 2019 - Portland - Lodging - Full Service	-	8.75%	-	-	7.00%	-	-	8.00%	-
IRR 2019 - Portland - Lodging - Limited Service	-	9.75%	-	-	8.00%	-	-	9.00%	-

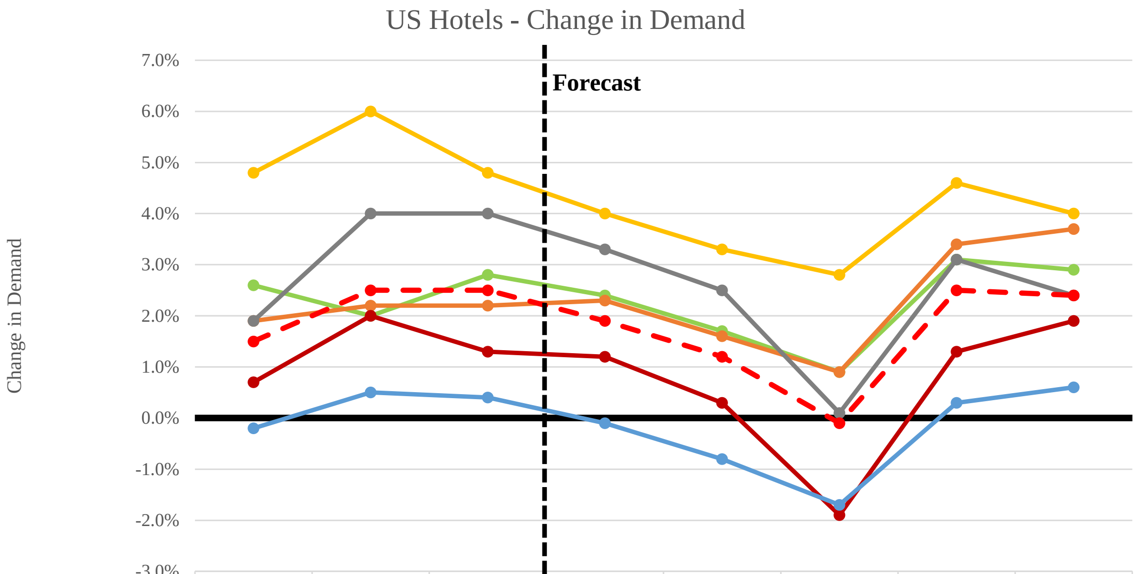
The PwC Real Estate Investor Survey as of the first quarter of 2019 indicates that average discount rates for full-service properties continued to compress, decreasing 50 basis points from third quarter 2018 levels and 101 basis points since 2014. PwC reports that the average discount rate is 9.70 percent in the first quarter of 2019. Terminal capitalization rates have declined 30 basis points since the third quarter of 2018, with the average terminal capitalization at 7.43 percent.

KPMG also held discussions with market participants who indicated that hotel development at the Subject Property could reasonably expect capitalization rates of 7.00 to 7.50 percent. KPMG further notes that market participants indicated that investors expect a 200 basis point spread between capitalization and discount rates in the market, which implies a range of 9.00 to 9.50 percent for discount rates.

From the surveyed data as well as discussions with market participants, new office development at the Subject Property would expect a capitalization rates between 7.00 and 7.50 percent and discount rates between 9.00 and 9.50 percent.

12.1.9 Overview of Hotel Demand Forecasts

The following chart illustrates historical trends and future forecasts for demand in the National Lodging market based on the CBRE report:



	2016	2017	2018	2019	2020	2021	2022	2023
Lux	2.6%	2.0%	2.8%	2.4%	1.7%	0.9%	3.1%	2.9%
Upp Upsc	1.9%	2.2%	2.2%	2.3%	1.6%	0.9%	3.4%	3.7%
Upsc	4.8%	6.0%	4.8%	4.0%	3.3%	2.8%	4.6%	4.0%
Upp Midsc	1.9%	4.0%	4.0%	3.3%	2.5%	0.1%	3.1%	2.4%
Midsc	0.7%	2.0%	1.3%	1.2%	0.3%	-1.9%	1.3%	1.9%
Eco	-0.2%	0.5%	0.4%	-0.1%	-0.8%	-1.7%	0.3%	0.6%
US - All Hotels	1.5%	2.5%	2.5%	1.9%	1.2%	-0.1%	2.5%	2.4%

12.1.10 National Lodging Market Conclusion

Continued growth in supply and future economic uncertainty, have decelerated growth projections in the hospitality sector. Despite forecasted headwinds, projected occupancy remains well above the STR 62.50 percent long-run average and ADR is projected to see moderate increases in 2019 and 2020. The table in the Historic Trends section of this report summarizes the 2019 to 2023 projections in Occupancy, ADR, RevPAR, Supply, and Demand figures as published by CBRE.

The following is stated in PwC National Real Estate Investor Survey for the first quarter of 2019 about the future of the hotel industry,

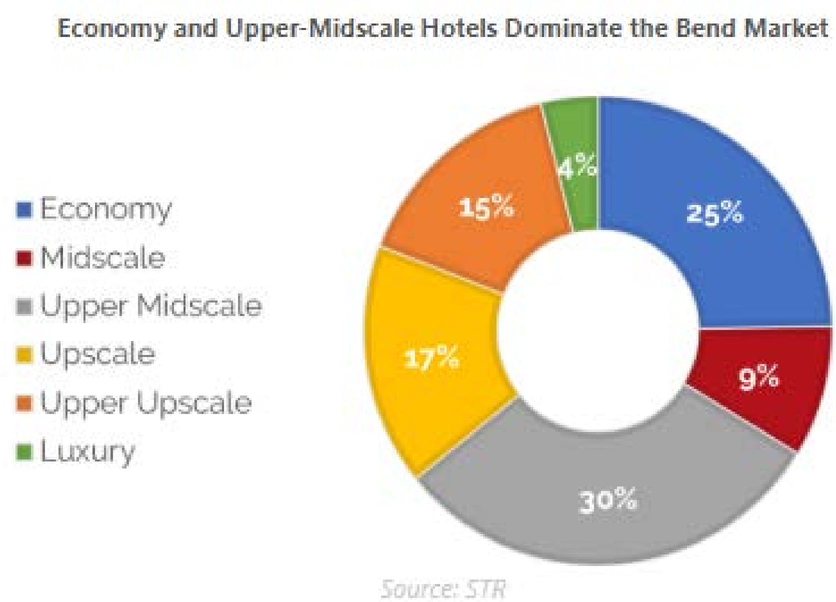
"Fourth quarter U.S. lodging fundamentals came in just below expectations. Year-over-year RevPAR growth of 2.4 percent was driven by an average daily rate (ADR) increase of 2.00 percent. Despite expectations otherwise, occupancy increased marginally (0.4 percent), surprising many with continued growth at this stage in the cycle. Growth in occupancy was supported by strong demand increases in the contract segment, while transient and group demand declined modestly on a year-over-year basis. Despite concerns about the impact of the trade tensions with China and rising construction/labor costs, the U.S. lodging industry ended 2018 on solid footing with occupancy reaching levels not seen since 1981.

Looking ahead to 2019 our U.S. lodging outlook remains stable, driven by steady economic fundamentals, including a continued increase in consumer spending; increasing, albeit decelerating business investment; and relatively strong consumer confidence. Lodging supply is expected to increase at a rate close to its long-term average; however, tightening financing conditions and further increasing costs for labor and construction may create a drag on supply growth. Overall, RevPAR in 2019 is expected to increase at a decelerating pace, driven exclusively by growth in ADR.

Counterbalances to this outlook that bear watching include continued trade tensions and effects from tariff-rate implementation, political uncertainty amid partisanship, and increasing interest rates."

12.2 Local Trends

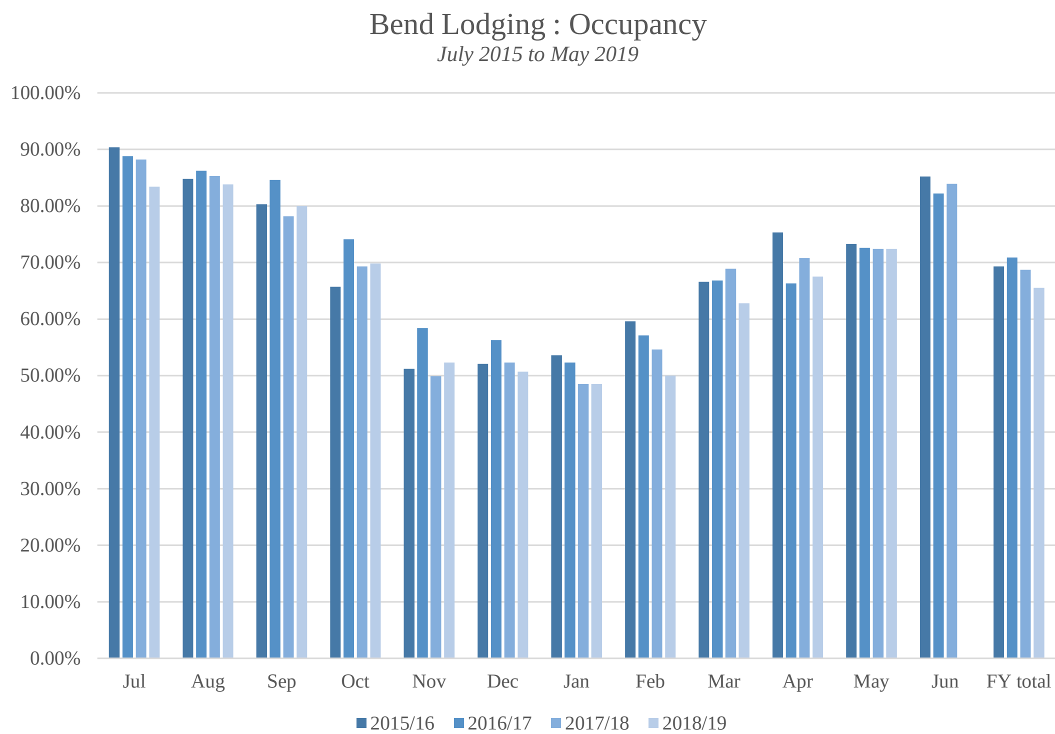
The Bend market is replete with economy and upper-midscale, limited-service hotels, while the greater area offers a variety of resort and vacation rental options. The market is underserved by select-service and full-service hotels that include additional amenities, such as food and beverage. Existing guestroom supply in Bend consist of the following chain-scale percentages: 4.00 percent Luxury, 15.00 percent Upper Upscale, 17.00 percent Upscale, 30.00 percent Upper Midscale, 9.00 percent Midscale, and 25.00 percent Economy.



Since 2010, eight hotels totaling over 600 guestrooms (encompassing a variety of product classes) have opened in the market, and another two hotels are currently under construction and slated to open in 2019. Two other hotels are proposed for development; however, the necessary entitlements have yet to be secured. The above table illustrates new and proposed hotel supply in the Bend market.

12.2.1 Local Occupancy

The following chart represents the Bend Citywide occupancy based on Smith Travel Research (STR) data and obtained via the Bend Oregon Visitor Bureau for Hotels, Lodging, and Restaurants:



Additionally, the data from the chart above is displayed below:

Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY total
2015/16	90.40%	84.80%	80.30%	65.70%	51.20%	52.10%	53.60%	59.60%	66.60%	75.30%	73.30%	85.20%	**69.30%**
2016/17	88.80%	86.20%	84.60%	74.10%	58.40%	56.30%	52.30%	57.10%	66.80%	66.30%	72.60%	82.20%	**70.90%**
2017/18	88.20%	85.30%	78.20%	69.30%	49.90%	52.30%	48.50%	54.60%	68.90%	70.80%	72.40%	83.90%	**68.70%**
2018/19	83.40%	83.80%	80.00%	69.80%	52.30%	50.70%	48.50%	50.00%	62.80%	67.50%	72.40%	nav	**65.50%**

Further, while occupancy has dropped for fiscal year 2018 / 2019, it does not include the performance for June which is historically one of the top performing months for Bend. As displayed above, hotel occupancy in Bend is influenced by the seasons, with summer months typically substantially outperforming winter months. The biggest drop in occupancy year over year was during the month of July. The following is quoted directly from an article in The Bulletin, a local newspaper, on the July hotel performance[12]:

"Fewer visitors came to Bend in July, but spent more on rooms, compared with the year before, signaling what some hotel operators say is a plateau of the travel and tourism market.

12 Source: "Bend hotel occupancy rates drop in peak season; New hotels and smoky skies contribute to July numbers", September 11, 2018, https://www.bendbulletin.com/business/6504629-151/bend-hotel-occupancy-rates-drop-in-peak-tourist

Hoteliers are not completely unhappy with July's results. They're not ready to say July's 5.4 percent decline in occupancy is a trend, rather a reflection of new hotels opening, more accommodation options and possibly some fallout from last summer's smoky skies, said Kevney Dugan, Visit Bend's president and CEO.

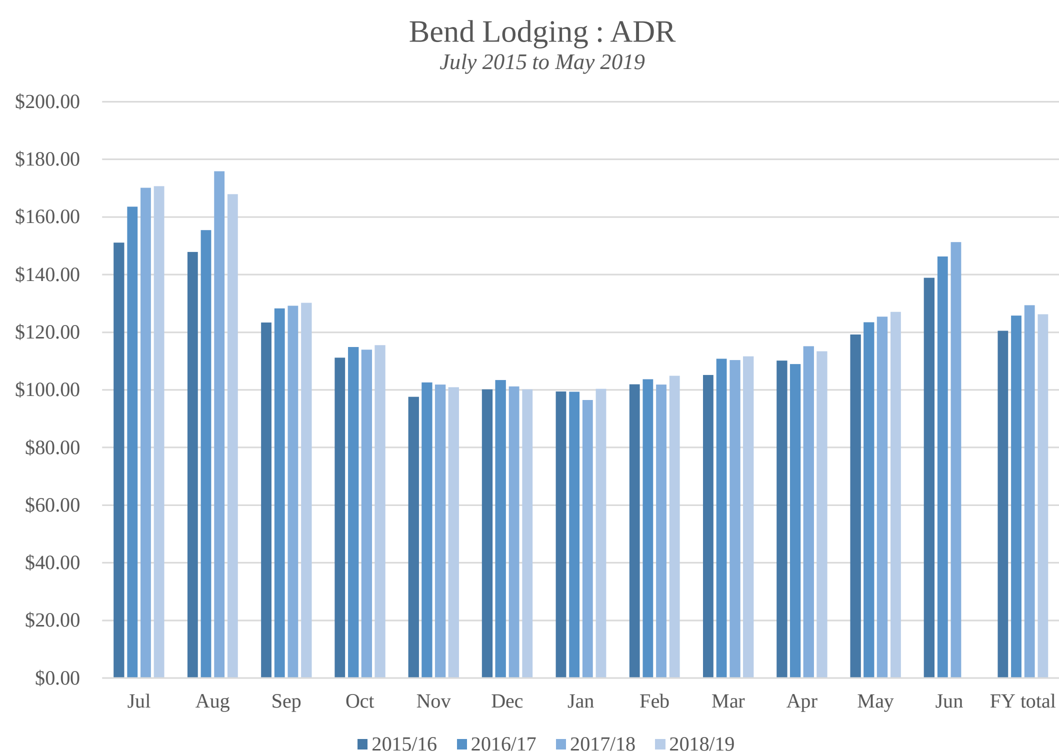
"The increase in supply means we have more availability and that can affect the occupancy," Dugan said. "It's not a shock to me that we're seeing this. It doesn't cause any alarm."

Even though hotel occupancy numbers were down in July, the height of Bend's summer tourism, occupancy rates were north of 80 percent, according to data provided by STR, a global hospitality analytics firm. What's more, in July the average daily room rate rose by a few cents to $170.69 a night compared to $170.15 last year, according to data provided by STR."

At the time of the article publication, July 2018 occupancy was the latest data available. As evidenced above, occupancy recovered in the following months, and even reported year over year gains several months during fiscal year 2018 / 2019. Additionally, when comparing occupancy from June 2017 / May 2018 to June 2018 / May 2019, the drop in occupancy is less substantial (68.23 percent to 66.96 percent) and is primarily attributed to increases to the room supply over the prior fiscal year.

12.2.2 Local ADR

The following chart represents the Bend Citywide average daily rate (ADR) based on Smith Travel Research (STR) data and obtained via the Bend Oregon Visitor Bureau for Hotels, Lodging, and Restaurants:



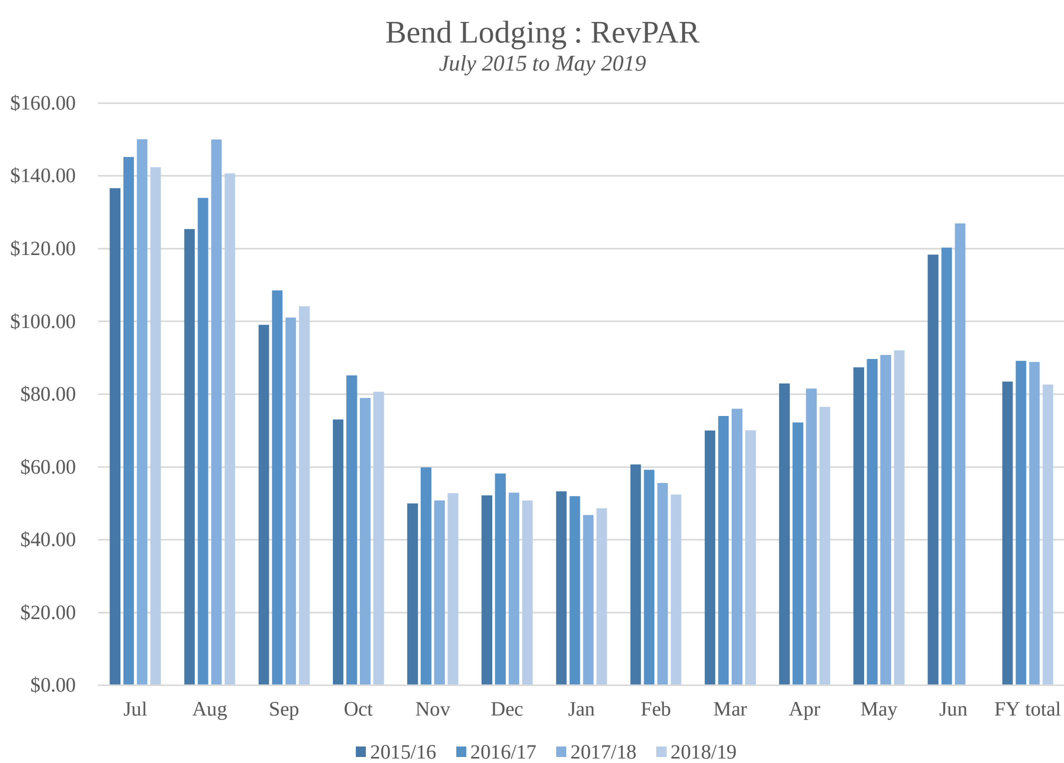
Additionally, the data from the chart above is displayed below:

Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY total
2015/16	$151.10	$147.86	$123.41	$111.16	$97.57	$100.19	$99.44	$101.90	$105.15	$110.17	$119.19	$138.92	**$120.50**
2016/17	$163.54	$155.43	$128.30	$114.92	$102.54	$103.39	$99.38	$103.70	$110.77	$108.96	$123.50	$146.29	**$125.81**
2017/18	$170.15	$175.86	$129.24	$113.94	$101.84	$101.18	$96.47	$101.88	$110.34	$115.16	$125.42	$151.29	**$129.37**
2018/19	$170.69	$167.87	$130.20	$115.54	$100.95	$100.21	$100.33	$104.85	$111.60	$113.41	$127.09		**$126.25**

Further, while ADR has dropped for fiscal year 2018 / 2019, it does not include the performance for June which is historically one of the top performing months for Bend. As displayed above, ADR in Bend is influenced by the seasons, with summer months typically substantially outperforming winter months. ADR in recent months has actually outperformed prior year, with seven of eleven months achieving ADR's greater than prior year and the remaining months in line with prior year performance. As noted in Section 11.2.1 above, while increases to supply put some downwards pressure on occupancy while the supply was absorbed into the market, ADR still experienced increases year over year.

12.2.3 Local RevPAR

The following chart represents the Bend Citywide revenue per available room (RevPAR) based on Smith Travel Research (STR) data and obtained via the Bend Oregon Visitor Bureau for Hotels, Lodging, and Restaurants:



Additionally, the data from the chart above is displayed below:

Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY total
2015/16	$136.59	$125.39	$99.10	$73.03	$49.96	$52.20	$53.30	$60.73	$70.03	$82.96	$87.37	$118.36	**$83.51**
2016/17	$145.22	$133.98	$108.54	$85.16	$59.88	$58.21	$51.98	$59.21	$73.99	$72.24	$89.66	$120.25	**$89.20**
2017/18	$150.07	$150.01	$101.07	$78.96	$50.82	$52.92	$46.79	$55.63	$76.02	$81.53	$90.80	$126.93	**$88.88**
2018/19	$142.36	$140.68	$104.16	$80.65	$52.80	$50.81	$48.66	$52.43	$70.08	$76.55	$92.01		**$82.69**

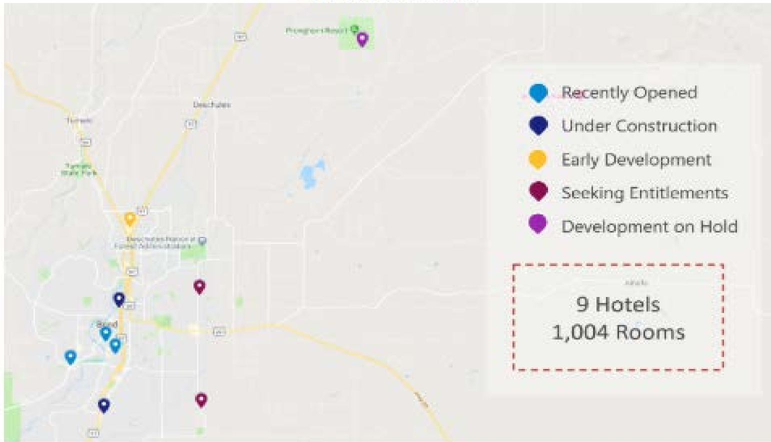
Further, similar to ADR and occupancy as noted above, while RevPAR has dropped for fiscal year 2018 / 2019, it does not include the performance for June which is historically one of the top performing months for Bend. As noted above, both ADR and occupancy (and therein RevPAR) in Bend are influenced by the seasons, with summer months typically substantially outperforming winter months. While RevPAR dropped in July 2018 and August 2018 relative to prior year performance, this was due primarily to a decrease in occupancy associated with increases to supply.

12.3 Current Pipeline / Development in Progress

The following is quoted directly from the HVS Market Pulse on Bend Oregon published January 2019:

"Despite the ongoing influx of new supply, hotel performance metrics remain healthy during the peak travel season. According to STR, the market achieved occupancy levels at or above 80.00 percent from June through September 2018. During that period, average rates were above $150 from June through August, and averaged approximately $130 in September. July was the only month to experience a decline both in occupancy and demand in the 2018 summer season, largely attributed to local wildfires, which greatly affected travel to the region, as well as the opening of the Best Western Premier. Following the effects of wildfires and entrance of new supply, the City of Bend reported significant growth in transient room tax collections in both September and October. While hoteliers are cautious about the entrance of new supply in the market, the ongoing growth of Bend and Deschutes County should bode well for the lodging industry".

Market New Supply



Source: STR, HVS

12.4 Hotel Demand Analysis

In order to estimate the current and future demand for hotel in the Subject Property's market, KPMG performed a market demand analysis based on several future premises as detailed below:

Base Case – National Demand Growth

KPMG first performed the market demand analysis under the premise that future demand would increase in line with the national demand projections (per the PKF Hotel Horizons Report 4Q18) based on the pro-rata share of each of the market segmentations in the Bend, Oregon market (PKF breaks out future demand projections for each market segment). The findings are as detailed below:

	Actual			Projected											
	May-17	May-18	May-19	May-20	May-21	May-22	May-23	May-24	May-25	May-26	May-27	May-28	May-29	May-30	May-31
Room Supply															
[1] Additions to Supply	-	300	-	227	238	-	-	-	-	-	-	-	-	-	-
Removal from Competitive Set	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
[2] Supply Equilibrium	-	-	-	-	-	4	90	85	74	75	77	78	80	81	83
Average Daily Room Supply	2,735	3,035	3,035	3,262	3,500	3,504	3,593	3,679	3,752	3,827	3,904	3,982	4,062	4,143	4,226
Days	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*
Annual Room Supply	998,275	1,107,775	1,107,775	1,193,892	1,277,500	1,278,823	1,311,529	1,346,394	1,369,570	1,396,962	1,424,901	1,457,381	1,482,467	1,512,116	1,542,358
Room Demand															
[3] Demand Growth		*7.3%*	*-1.9%*	2.3%	1.5%	0.1%	2.6%	2.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Additions to Demand		141	(39)	47	31	2	54	52	44	45	46	47	48	49	50
Average Daily Room Demand	1,930	2,071	2,032	2,079	2,110	2,112	2,166	2,218	2,262	2,307	2,353	2,400	2,448	2,497	2,547
Annual Room Demand	704,402	755,882	741,784	760,887	770,115	770,912	790,628	811,646	825,617	842,129	858,972	878,552	893,675	911,548	929,779
[4] Market Occupancy	70.6%	68.2%	67.0%	63.7%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%	60.3%

Notes:

[1] Based on our understanding of the market, Bend will increase to 3,500 hotel rooms by 2021. *Source : https://www.bendbulletin.com/business/6906218-151/hotel-developers-plan-600-new-rooms-for-bend*

[2] KPMG estimates that supply and demand will reach equilibrium in 2022 upon completion of current approved hotels in the development pipeline.

[3] Demand growth derived from occupancy rates sourced from historical trends and by the PKF Hotel Horizons 4Q 2018 for the US lodging segment based on the pro-rata share of each of the market segmentations in Bend, Oregon as obtained via the HVS MarketPulse Survey for Bend.

[4] Market occupancy is based on the Bend Citywide STR Report as of May 2019. KPMG adjusted fiscal year occupancy to reflect a June to May year, as May 2019 was the latest information available. *Source : https://www.visitbend.com/wp-content/uploads/2019/06/June-2019-Visit-Bend-Occupancy-web.pdf*

Base Case 2 – Current Pipeline Absorbed by Demand Growth

Next, KPMG performed the market demand analysis under the premise that the current pipeline would be absorbed by future increases in demand, and that the current market occupancy (67.00 percent) would remain constant. The findings are as detailed below:

	Actual			**Projected**											
	May-17	May-18	May-19	May-20	May-21	May-22	May-23	May-24	May-25	May-26	May-27	May-28	May-29	May-30	May-31
Room Supply															
[1] Additions to Supply	-	300	-	227	238	-	-	-	-	-	-	-	-	-	-
Removal from Competitive Set	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
[2] Supply Equilibrium	-	-	-	-	-	70	71	73	74	76	77	79	80	82	84
Average Daily Room Supply	2,735	3,035	3,035	3,262	3,500	3,570	3,641	3,714	3,789	3,864	3,942	4,020	4,101	4,183	4,266
Days	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*
Annual Room Supply	998,275	1,107,775	1,107,775	1,193,892	1,277,500	1,303,050	1,329,111	1,359,407	1,382,807	1,410,463	1,438,672	1,471,466	1,496,795	1,526,731	1,557,265
Room Demand															
[3] Demand Growth		*7.3%*	*-1.9%*	7.5%	7.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Additions to Demand		141	(39)	152	159	47	48	49	50	51	52	53	54	55	56
Average Daily Room Demand	1,930	2,071	2,032	2,184	2,344	2,391	2,438	2,487	2,537	2,588	2,639	2,692	2,746	2,801	2,857
Annual Room Demand	704,402	755,882	741,784	799,450	855,435	872,544	889,995	910,282	925,950	944,469	963,359	985,318	1,002,278	1,022,324	1,042,770
[4] Market Occupancy	70.6%	68.2%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%

Notes:

[1] Based on our understanding of the market, Bend will increase to 3,500 hotel rooms by 2021. *Source : https://www.bendbulletin.com/business/6906218-151/hotel-developers-plan-600-new-rooms-for-bend*

[2] KPMG estimates that supply and demand will reach equilibrium in 2022 upon completion of current approved hotels in the development pipeline.

[3] Demand growth for Years 1 and 2 was determined based on the necessary increase in demand in order to maintain current market occupancy based on the pipeline. Demand growth thereafter was ssumed to stabilize at 2.00 percent.

[4] Market occupancy is based on the Bend Citywide STR Report as of May 2019. KPMG adjusted fiscal year occupancy to reflect a June to May year, as May 2019 was the latest information available. *Source : https://www.visitbend.com/wp-content/uploads/2019/06/June-2019-Visit-Bend-Occupancy-web.pdf*

Best Case – High Future Demand Growth

Next, KPMG performed the market demand analysis under the premise that market occupancy would return to previous highs seen in 2017 (approximately 70.00 percent). The findings are as detailed below:

	Actual			Projected											
	May-17	May-18	May-19	May-20	May-21	May-22	May-23	May-24	May-25	May-26	May-27	May-28	May-29	May-30	May-31
Room Supply															
[1] Additions to Supply	-	300	-	227	238	-	-	-	-	-	-	-	-	-	-
Removal from Competitive Set	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
[2] Supply Equilibrium	-	-	-	-	-	175	110	114	78	80	81	83	84	86	88
Average Daily Room Supply	2,735	3,035	3,035	3,262	3,500	3,675	3,785	3,899	3,977	4,056	4,137	4,220	4,305	4,391	4,479
Days	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*
Annual Room Supply	998,275	1,107,775	1,107,775	1,193,892	1,277,500	1,341,375	1,381,616	1,426,964	1,451,526	1,480,557	1,510,168	1,544,591	1,571,178	1,602,602	1,634,654
Room Demand															
[3] Demand Growth		*7.3%*	*-1.9%*	10.0%	10.0%	5.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Additions to Demand		141	(39)	203	224	123	77	80	55	56	57	58	59	60	62
Average Daily Room Demand	1,930	2,071	2,032	2,236	2,459	2,582	2,659	2,739	2,794	2,850	2,907	2,965	3,024	3,085	3,147
Annual Room Demand	704,402	755,882	741,784	818,198	897,559	942,437	970,710	1,002,571	1,019,828	1,040,225	1,061,029	1,085,215	1,103,895	1,125,973	1,148,492
[4] Market Occupancy	70.6%	68.2%	67.0%	68.5%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%	70.3%

Notes:

[1] Based on our understanding of the market, Bend will increase to 3,500 hotel rooms by 2021. *Source : https://www.bendbulletin.com/business/6906218-151/hotel-developers-plan-600-new-rooms-for-bend*

[2] KPMG estimates that supply and demand will reach equilibrium in 2022 upon completion of current approved hotels in the development pipeline.

[3] Demand growth was projected based on the scenario that market occupancy would reach 2017 levels.

[4] Market occupancy is based on the Bend Citywide STR Report as of May 2019. KPMG adjusted fiscal year occupancy to reflect a June to May year, as May 2019 was the latest information available. *Source : https://www.visitbend.com/wp-content/uploads/2019/06/June-2019-Visit-Bend-Occupancy-web.pdf*

Worst Case – Limited Future Demand Growth

Finally, KPMG performed the market demand analysis under the premise that future demand growth would be limited (50.00 percent of national projections). The findings are as detailed below:

	Actual			Projected											
	May-17	May-18	May-19	May-20	May-21	May-22	May-23	May-24	May-25	May-26	May-27	May-28	May-29	May-30	May-31
Room Supply															
[1] Additions to Supply	-	300	-	227	238	-	-	-	-	-	-	-	-	-	-
Removal from Competitive Set	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
[2] Supply Equilibrium	-	-	-	-	-	2	45	42	36	36	37	37	37	38	38
Average Daily Room Supply	2,735	3,035	3,035	3,262	3,500	3,502	3,547	3,589	3,625	3,661	3,698	3,734	3,772	3,810	3,848
Days	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*	*366*	*365*	*365*	*365*
Annual Room Supply	998,275	1,107,775	1,107,775	1,193,892	1,277,500	1,278,162	1,294,506	1,313,486	1,322,996	1,336,226	1,349,588	1,366,819	1,376,715	1,390,482	1,404,387
Room Demand															
[3] Demand Growth		*7.3%*	*-1.9%*	1.1%	0.7%	0.1%	1.3%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Additions to Demand		141	(39)	23	15	1	26	25	21	21	22	22	22	22	23
Average Daily Room Demand	1,930	2,071	2,032	2,056	2,071	2,072	2,098	2,123	2,145	2,166	2,188	2,210	2,232	2,254	2,277
Annual Room Demand	704,402	755,882	741,784	752,352	755,886	756,278	765,948	777,179	782,806	790,634	798,540	808,735	814,591	822,737	830,964
[4] Market Occupancy	70.6%	68.2%	67.0%	63.0%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%

Notes:

[1] Based on our understanding of the market, Bend will increase to 3,500 hotel rooms by 2021. *Source : https://www.bendbulletin.com/business/6906218-151/hotel-developers-plan-600-new-rooms-for-bend*

[2] KPMG estimates that supply and demand will reach equilibrium in 2022 upon completion of current approved hotels in the development pipeline.

[3] Demand growth for the worst case was projected based on limited future growth (50.00 percent of national projections), and a stabilized occupancy near the national average.

[4] Market occupancy is based on the Bend Citywide STR Report as of May 2019. KPMG adjusted fiscal year occupancy to reflect a June to May year, as May 2019 was the latest information available. *Source : https://www.visitbend.com/wp-content/uploads/2019/06/June-2019-Visit-Bend-Occupancy-web.pdf*

Hotel Demand Conclusion

KPMG notes the findings under the various premises are detailed below. KPMG notes the required additions to supply as noted below exclude the current pipeline.

Case	Premise	Stabilized Occ.	Req. Additions to Supply *(excl. pipeline)*			
			Year 3	*Year 5*	*Year 10*	*Year 12*
Best Case	High Future Demand Growth	70.3%	175	399	805	979
Base Case 2	Current Pipeline Absorbed by Demand Growth	67.0%	70	214	601	766
Base Case	**National Demand Growth**	**60.3%**	**4**	**179**	**562**	**726**
Worst Case	Limited Future Demand Growth	59.2%	2	89	272	348

Ultimately, KPMG notes that there is some opportunity for the development of additional hotel rooms. While the Bend market occupancy has historically been above the national average (66.20 percent per Section 11.1.3 as noted above), recent market conditions have caused the occupancy to begin to slip over the last couple of years (fires, additions to supply, increased competition from alternate accommodations, etc.). However, despite these conditions, the above analysis indicates that the Bend market will require additional supply in the coming years in order to satisfy market demand.

12.5 Conclusion

Ultimately, KPMG notes that despite upcoming additions to the supply, the Bend market appears to have the ability to bear additional hotel space. Additionally, based on the CBRE report, the forecasted growth rates for demand in both the Upscale and Upper Upscale markets are expected to lead all market segments over the next five years (Section 11.1.9 for additional discussion). The Bend market is currently only comprised of 32.00 percent of hotels in these market segments (Section 11.2 for additional discussion), therefore there appears to be greater opportunity to develop hotels in this growing market segment as opposed to the more saturated upper midscale and economy market segments (which are currently 55.00 percent of the Bend market inventory).

13.0 ATHLETIC CENTER STUDY

13.1 Competitive Set

In order to better assess the market's ability to bear additional athletic center supply, we analyzed similar overall developments in order to develop a competitive set which athletic center space at the Subject Property may compete with in the market.

Competitive Set - Athletic Center

Comp. ID	Property	Address	City	State	Sq. Ft.
1	Athletic Club of Bend	1125 NE Watt Wy.	Bend	OR	115,000
2	Juniper Swim and Fitness Center	1460 NE 27th St.	Bend	OR	76,000
3	Planet Fitness	725 NE Greenwood Ave.	Bend	OR	40,000

Low	40,000
Average	77,000
High	115,000

13.2 Athletic Center Demand Analysis

In order to estimate the current and future demand for athletic center space in the Subject Property's market, KPMG performed a market demand analysis as detailed below
:

Bend, OR - Athletic Center Demand Analysis by Ratio Method					
Line No.		Current Year	+ 5 Years	+ 10 Years	Source
1	Total population in Bend Metro	196,485	214,355	238,994	Survey data: CoStar - Bend Metro Market
2	U.S. national gym enrollment (%)	20.00%	20.00%	20.00%	Market data: CBS News
3	Total enrolled population in Bend Metro	39,297	42,871	47,799	Calculation: Line 1 x Line 3
4	Square foot per member	12.50	12.50	12.50	Market data: Heartline Fitness Systems
5	Projected athletic center demand in Bend Metro (sq. ft.)	491,213	535,887	597,486	Calculation: Line 3 x Line 4
6	Current athletic center supply in Bend Metro (sq. ft.)	231,000	267,000	267,000	Footnote 1
7	Bend Metro athletic center demand (sq. ft.) -- (excess) shortage (Based on projected supply)	260,213	268,887	330,486	Calculation: Line 5 - Line 6
8	Less: Additional supply under construction	36,000	0	0	Footnote 2
9	Bend Metro athletic center demand (sq. ft.) --net (excess) shortage (Based on projected supply)	224,213	268,887	330,486	Calculation: Line 7 - Line 8
10	**Subject Property Absorption Low** ***25.00 percent***		**67,222**	**82,621**	Survey data: discussions with market participants. Calculate Line 10 x 0.25
11	**Subject Property Absorption High** ***50.00 percent***		**134,443**	**165,243**	Survey data: discussions with market participants. Calculate Line 11 x 0.50

Footnotes:

[1] We consider comparable supply to be athletic center spaces in excess of 25,000 square feet. Per such a parameter, the Bend Metro area's supply is such:

Location	**Sq. Ft.**
Planet Fitness	40,000
Athletic Club of Bend	115,000
Juniper Swim and Fitness Center	76,000
Total	**231,000**

[2] We note that per discussion with Colleen McNally, Marketing Manager at Bend Park & Recreation, Larkspur Recreational Center will add an additional 36,000 square feet of athletic facility space in the next two years.

Ultimately, KPMG notes the athletic center market appears to be currently undersupplied based on a gym enrollment percentage of 20.00 percent as well as the current pipeline.

We note that there are only two large-space athletic facilities located in the Bend metro area, the Athletic Club of Bend and Juniper Swim and Fitness Center. Both of these facilities offer additional space beyond traditional indoor fitness such as full-sized swimming pools and fitness class space. Additionally, a Planet Fitness was recently added to the market through renovation of a former grocery store. This added an additional 40,000 square feet of indoor fitness space to the Bend Metro area. Further, there is an additional 36,000 square feet of indoor fitness space currently in the market's pipeline which will become active within the next two years.

13.3 Conclusion

Ultimately, KPMG notes that despite upcoming additions to the supply, the Bend market appears to have the ability to bear additional athletic center space. Regardless of the demand, it should be noted that the Athletic Club of Bend, a competitor to a potential athletic center located at the Subject Property, is located approximately half a mile south of the Subject Property. Despite the desirability of the west Bend location given its attractiveness as a residential location, an athletic center located at the Subject Property would face immediate competition within less than a half mile.

14.0 CONFERENCE CENTER STUDY

14.1 Regional Context

A community's demographic and experiential characteristics are among the important factors considered in determining the desirability of a location for hosting large scale events.

The Bend market's proximity to recreational and outdoor amenities (golf, skiing, hiking, water sports), central location within the heart of the state, and access to an airport with direct flights to eight major cities represents a diverse array of positive attributes for non-local visitors and events. However, the frequency and flight volume will impact the levels of potential connectivity for non-local visitors.

The Bend market is served by direct, non-seasonal flights to eight major metropolitan areas.

For local visitors, the major connection point will be through U.S. Route 20, the major east-west connector for the Bend Market. Its condition, especially during inclement weather should be a consideration.

Organizations and associations in the western United States that cycle through location venues on a periodic basis represent an opportunity for considering the potential market that an OSU-Cascade conference center might for events. In addition, given the unique academic-adjacent selling point that an OSU-Cascades conference center would represent for research-oriented professional groups, it is worth noting that six of the Pac-12's research universities are within a direct connection to the market.

14.2 Characteristics and Trends

The success and financial viability of a conference facility will be shaped in part by national trends for large events. In recent years, the diversity of uses and variety in the proximate area is important for larger facilities. According to a 2016 report by *Convention Sports and Leisure* "The facility itself is only one piece of a larger puzzle that event planners, exhibitors, attendees, and spectators tend to consider when selecting sites and/or deciding whether to attend/participate in an event, more and more communities have been focusing on ways to strengthen the appeal of the proximate area surrounding the event facility itself."[13]

[13] Feasibility Study for Potential Convention Center Development, (Lane County), 2016

Regional locations, such as Bend, also face a highly competitive environment for national and regional events.[14] As such, the notion of using the conference center as the centerpiece of the pedestrian-oriented "bow" contemplated by the Long Range Development plan would likely benefit from accentuating the planning of a vibrant ground level experience throughout the Innovation District, in addition to a rigorous assessment of the competitive landscape in order to determine the potential scope, sizing and desirability of moving forward.

14.3 Comparative Facilities

While the Bend market includes an 8,000 person capacity outdoor amphitheater, the largest indoor venues (highlighted below) are located at the Riverhouse Convention Center and the Deschutes County Fair and Expo Center. The Riverhouse venue includes 30,000 square feet of event space in a resort setting four miles from the campus and can accommodate a maximum of 1,000 persons at tables and 1,700 people in a theatre style setting. The Deschutes County Fair and Expo Center is a larger regional serving setting 30 minutes from the campus that is typically used for concerts, fairs and tradeshows. The balance of conference event facilities in the Bend area include 150-300 person capacity spaces at local hotels and restaurants plus smaller, unique venues including local theatres, classrooms and small resorts geared towards small retreats, team building or trainings. In addition, existing classroom and meeting space on the existing OSU-Cascades campus is regularly sought out for group gatherings - with little to no marketing for that purpose.

Representative List of Bend-market event Spaces

Space	Description
Central Oregon Collective	100-person community center
Deschutes Public Library	80-person meeting room with additional private rooms
Pine Forest Grange	100-person assembly hall with 300 square foot main room
Riverhouse Convention Center	1000 to 1,700 person capacity meeting and banquet rooms
Mount Bachelor Village Event Center	300-person capacity event space with outdoor patios
Central Oregon Community College	240-person seated event space, 130-person auditorium plus classrooms, conference rooms
Hollinshead Barn	110-person capacity amidst pastureland
1001 Event Space	112-person standing room only space
Deschutes County Fair and Expo Center	Three Sisters Conference Center, 34,000 square feet First Interstate Bank Center, 279,000 square feet Arena
The Environmental Center	25-80 person convocation rooms
Tower Theatre	450-person theatre
Aspen Hall	150 person event space
Deschutes Brewery Mountain Room	100 to 150-person event space
Rose Bareis Community Campus	50 person community room
Bend Senior Center	3,500 square foot space

[14] The Realities of Convention Centers as Economic Development Strategy, Brookings Institution, https://www.brookings.edu/wp-content/uploads/2016/06/20050117_conventioncenters.pdf

From a regional standpoint, only the Riverhouse stands out as a local Bend venue, but a universe of at least 15 additional venues[15] would be likely comparators.

Facility	Market	Contiguous Space	Sellable Space	Hotel beds at site
Oregon Convention Center	Portland, OR	255,000	368,700	0
Spokane Convention Center	Spokane, WA	100,200	169,200	375
Greater Tacoma Convention & Trade	Tacoma, WA	49,500	75,300	482
Doubletree Lloyd Center	Portland, OR	18,200	71,700	477
Sheraton Seattle Hotel	Seattle, WA	18,300	57,000	1,236
Meydenbauer Center	Bellevue, WA	36,000	49,400	0
The Westin Seattle	Seattle, WA	18,000	46,600	891
Portland Marriott Downtown Waterfront	Portland, OR	15,500	37,800	503
Hilton Portland & Executive Tower	Portland, OR	10,900	37,400	782
The River House on the Deschutes	Bend, OR	16,600	36,400	220
Boise Centre	Boise, ID	24,400	33,300	250
Vancouver Conference Center	Vancouver,	14,100	30,400	226
LaSells Stewart Center	Corvallis, OR	10,500	28,900	153
Salem Convention Center	Salem, OR	11,400	24,300	121
Skamania Lodge	Stevenson,	6,900	21,700	254
Seaside Civic and Convention Center	Seaside, OR	10,500	21,000	0
Average (1)		**36,600**	**66,400**	**460**
Average without Oregon Convention Center		**17,800**	**39,400**	

14.1 Summary

Through research and discussion with market participants, it has been suggested there would be interest in an additional professional-oriented venue in the Bend area that would act as a supplement to existing inventory – especially if affiliated with or adjacent to the University. Notwithstanding that perspective, a key consideration factor will be gauging the ideal level of operational self-sufficiency such a facility would demonstrate. In some communities, conference center space is used as a loss-leader for attached hotel bed revenue. In light of the aforementioned factors and the University's non-economic interests in providing a venue to anchor the larger Innovation District program, development and refinement of a competitive conference center program should be considered as a potential break-even amenity.

[15] Feasibility Study for Potential Convention Center Development, (Lane County), 2016

15.0 SENIOR LIVING FACILITY STUDY

15.1 National Senior Living Market

The following is from the CBRE Senior Housing Market Insight – 2018 Year in Review Report:

"The baby boomers (post-World War II babies) began turning 65 in 2011 and by 2029, the remainder will also reach age 65 and account for more than 20 percent of the total United States population. By 2050, the 65-plus age group is estimated to exceed 88.0 million, nearly double its current population (50.8 million). Additionally, by 2056, the 65-plus age group is estimated to be larger than the under age 18 population. The projected growth in this age group will present many challenges to policy makers and programs by having a significant impact on families, businesses, healthcare providers and, most notably, the demand for Senior Housing.[16]

One of the primary drivers in trends for the aging population is mortality rates. Survivorship rates have shown consistent improvement for many decades. In the United States in 1972, the average life expectancy of a 65-year-old was 15.2 years. By 2017, this metric increased by 5.2 years to approximately 20.4 years. Additionally, it is estimated that about one out of every four 65-year-olds will live to be 90 years old, with one of every 10 expected to live past 95 years of age.[17] According to NCHS Data Brief No. 328, life expectancy at birth for the United States population reached a record high of 78.8 years in 2012, with the age-adjusted death rate for the United States having decreased 1.0% between 2013 and 2014 to a record low of 725 per 100,000 standard population. Since then, life expectancies have diminished slightly to 78.6 years for both men and women and age-adjusted death rates increased slightly to 731 per 100,000 standard population. The ten leading causes of death in 2017 remained the same as 2016.[18]

Driving this increased life expectancy, and consequentially average population age, is the advancement in public health strategy and medical treatment. Life expectancy in the United States has increased by approximately 30 years over the past century, primarily due to the reduction of acute illness threats. However, an unforeseen consequence of longer life expectancy has been the increased prevalence of heart disease, cancer and other chronic diseases as the leading causes of death. As Americans age during the next several decades, the elderly population will require a larger number of formally trained, professional caregivers as a direct effect of these chronic diseases, which often affect independence and mobility.[13]

Moreover, the problems facing the United States aging population can be witnessed as a global phenomenon. Fifty countries had a higher proportion of people aged 65-plus than the United

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[16] Centers for Disease Control and Prevention. The State of Aging and Health in America 2013. Atlanta, GA: Centers for Disease Control and Prevention, US Dept of Health and Human Services; 2013

[17] Social Security Administration, Retirement & Survivors Benefits: Life Expectancy Calculator, 2019. https://ssa.gov/OACT/population/longevity.html (accessed March 5, 2019)

[18] Murphy SL, Xu JQ, Kochanek KD, Arias E. Mortality in the United States, 2017. NCHS Data Brief, no 328. Hyattsville, MD: National Center for Health Statistics. 2018.

States in 2010. This number is expected to increase to approximately 98 countries by 2050.[19]

15.2 Bend Senior Living Market

KPMG notes that based on information provided by CoStar, the Bend metro population over the age of 55 years is expected to increase by approximately 19.90% over the next five years (exceeding metro wide population growth projections of 14.70% percent over the same time threshold). Additionally, KPMG notes that a senior living facility located on campus would be able to benefit from certain synergies with the University (in particular the Human Development and Family Sciences program), as there would be potential for students to gain hands-on experience working with local seniors. A senior housing operator would also be able to benefit from access to an educated labor pool as well as the good location of the Subject Property, allowing the facility to command rates near the top of the market.

15.3 Competitive Set

In order to better assess the market's ability to bear additional senior living facility supply, we analyzed similar overall developments in order to develop a competitive set which senior living facility space at the Subject Property may compete with in the market. We looked at independent living facilities and narrowed the set based on parameters that a market participant would likely consider (defined below). Please find our findings below:

Competitive Set - Senior Living Facility - Independent Living: Studio

Comp. ID	Property	Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	Distance from Subject (Miles)
1	The Alexander	1125 NE Watt Wy.	Bend	OR	2020	75	552	$ 2,175	5.50
2	Stone Lodge	1460 NE 27th St.	Bend	OR	1999	30	350	2,241	5.00
					Low	30	350	$ 2,175	5.00
					Average	53	451	2,208	5.25
					High	75	552	2,241	5.50

Competitive Set - Senior Living Facility - Independent Living: 1 Bedroom

Map ID #		Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	Distance from Subject (Miles)
1	The Alexander	1125 NE Watt Wy.	Bend	OR	2020	31	882	$ 1,597	5.50
2	Stone Lodge	1460 NE 27th St.	Bend	OR	1999	68	545	2,984	5.00
					Low	31	545	$ 1,597	5.00
					Average	50	714	2,291	5.25
					High	68	882	2,984	5.50

Competitive Set - Senior Living Facility - Independent Living: 2 Bedroom

Map ID #		Address	City	State	Year Built	Units	Average Unit Size	Total Rent ($) / Unit	Distance from Subject (Miles)
1	The Alexander	1125 NE Watt Wy.	Bend	OR	2020	30	1,225	$ 3,860	5.50
2	Stone Lodge	1460 NE 27th St.	Bend	OR	1999	16	950	4,341	5.00
					Low	16	950	$ 3,860	5.00
					Average	23	1,088	4,101	5.25
					High	30	1,225	4,341	5.50

[19] U.S. Census Bureau, P23-212, 65+ in the United States: 2010, U.S. Government Printing Office, Washington, D.C., 2014, (June 2014).

15.4 Senior Living Facility Demand Analysis

In order to estimate the current and future demand for senior living space in the Subject Property's market, KPMG performed a market demand analysis as detailed below:

Bend, OR - Senior Living Facility Demand Analysis by Ratio Method					
Line No.		**Current Year**	**+ 5 Years**	**+ 10 Years**	**Source**
1	Total population in Bend Metro	196,485	214,355	238,994	Survey data: CoStar - Bend Metro Market
2	Total senior population in Bend Metro (%)	16.00%	16.00%	16.00%	U.S. Census
3	Total senior population in Bend Metro	31,438	34,297	38,239	Calculation: Line 1 x Line 3
4	Average % of U.S. Seniors in senior living facilities	5.00%	5.00%	5.00%	U.S. Census
5	Projected senior living facility demand in Bend Metro (beds)	1,572	1,715	1,912	Calculation: Line 3 x Line 4
6	Current senior living facility supply in Bend Metro (beds)	584	966	966	Footnote 1
7	Bend Metro senior living facility demand (beds) -- (excess) shortage (Based on projected supply)	988	749	946	Calculation: Line 5 - Line 6
8	Less: Additional supply under construction	382	0	0	Footnotes 2, 3 & 4
9	Bend Metro senior living facility demand (beds) -- net (excess) shortage (Based on projected supply)	606	749	946	Calculation: Line 7 - Line 8
10	**Subject Property Absorption Low** ***30.00 percent***		**225**	**284**	Survey data: discussions with market participants. Calculate Line 10 x 0.30
11	**Subject Property Absorption High** ***50.00 percent***		**374**	**473**	Survey data: discussions with market participants. Calculate Line 11 x 0.50

[1] We consider comparable supply to be senior living facilities with a bed count greater than 10. Per such a parameter, the Bend Metro area's supply is such:

Location	**Beds**
Bend Villa Assisted Care	70
High Desert Assisted Living	75
Awbrey House	54
Touchmark	45
Clare Bridge of Bend	59
Summit Assisted	88
Fox Hollow	76
Ashley Manor	15
Aspen Ridge	60
Alzheimer Care at Aspen Ridge	42
Total	**584**

[2] We note that per The Bend Bulletin, the construction of the Juniper Springs living community will add an additional 96 beds to the Bend Metro area.

[3] We note that per The Bend Bulletin, the construction of the The Alexander living community will add an additional 136 beds to the Bend Metro area.

[4] We note that per CoStar, the construction of the Trinity Lutheran living community will add an additional 150 beds to the Bend Metro area.

Ultimately, KPMG notes the senior living facility market appears to be currently undersupplied based on a senior living facility population rate of 5.00 percent as well as the current pipeline.

We note that there are a number of 40 – 100 bed senior living facility locations in the Bend Metro area. Additionally, we note a steady introduction of additional supply into the market. There are currently a total of 382 additional beds under construction that are expected to come online in the next two years. Despite this supply increase, there still appears to be demand in excess of supply in the market. Per discussion with market participants and senior living facility operators within the market, waitlists are common and consistently growing at a number of the already existing facilities.

Ultimately, KPMG notes that despite upcoming additions to the supply, the Bend market appears to have the ability to bear additional senior living facility space.

15.5 Conclusion

Ultimately, senior living facility demand will continue to grow at a macro level as the U.S. continues to see significant growth in the 65+ population group. Per the Administration on Aging's 2017 Profile of Older Americans Report, people over the age of 65 represented 15.20 percent of the U.S. population in 2016 but are expected to represent 21.70 percent of the population by 2040. Additionally, the population of people over the age of 85 is expected to double from 6.40 million in 2016 to 14.60 million in 2040. As this population grows, demand will increase significantly even if senior living facility enrollment remains consistent at 5.00 percent. Further, population growth for individuals over 55 is expected to outpace all other demographics in the Bend Metro market over the next 5 years.

Ultimately, KPMG notes that despite upcoming additions to the supply, due to projected increases in the local senior population as well as the aforementioned macro level trends, the Bend market appears to have the ability to bear additional senior living facility space.

Appendix

A: National Economic Review

B: Sample Innovation District Models

APPENDIX A:

MERCER CAPITAL –
NATIONAL ECONOMIC REVIEW FOR FOURTH QUARTER 2018

16.0 GENERAL ECONOMIC OVERVIEW

Gross Domestic Product

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis (the "BEA"), Real Gross Domestic Product ("GDP"), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 3.2% during the first quarter of 2019. GDP growth in the first quarter of 2019 was up from growth of 2.2% in the fourth quarter of 2018 and represents the nineteenth straight quarter of growth. The 3.2% GDP growth is the highest first quarter growth rate in four years and is above levels seen during much of the expansion in the U.S. economy since 2009, which has been closer to 2%. Annualized GDP growth of 3.2% during the first quarter of 2019 compares favorably to economists' projections of 2.3% and 1.5% (*Bloomberg* Survey and *Wall Street Journal* Survey, respectively). Annualized GDP growth in the third and fourth quarters of 2018 measured 3.4% and 2.2%, respectively. The following table summarizes the change in individual components of GDP during the first quarter of 2019.

Real Gross Domestic Product

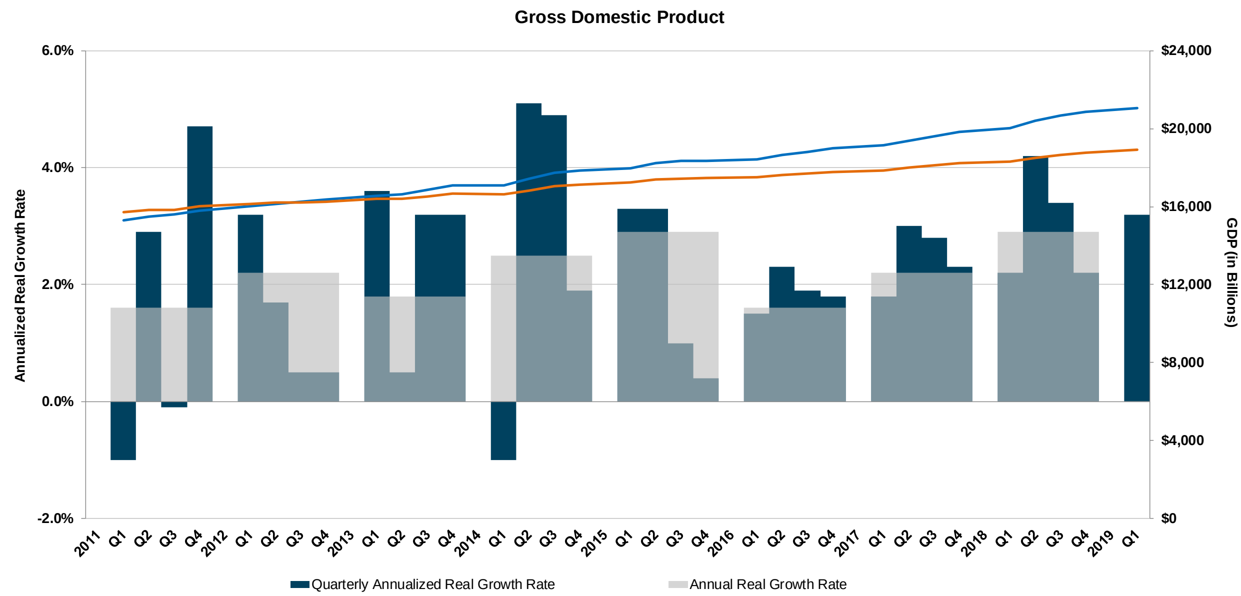
Quarterly Change: First Quarter 2019

Increase Attributable to Gains in:	Unchanged	Increase Offset by Decreases in:
Personal Consumption Expenditures	None	Residential Fixed Investment
Private Inventory Investment		
Exports		
State and Local Government Spending		
Nonresidential Fixed Investment		
Imports (Decreased, subtracted from the national income and product accounts)		

GDP grew 2.9% during 2018, compared to growth of 1.6% in 2016 and 2.2% in 2017.

Exports increased 3.7% in the first quarter of 2019, compared to a decrease of 4.9% in the third quarter of 2018 and an increase of 1.8% in the fourth quarter. Durable goods expenditures fell at an annualized rate of 5.3% over the quarter, following increases of 3.7% and 3.6% in the third and fourth quarters of 2018, respectively.

Economists expect GDP growth to continue in future quarters, albeit at decelerating rates. A survey of economists conducted by *The Wall Street Journal* reflects an average GDP forecast of 2.5% annualized growth in the second quarter of 2019, followed by 2.2% annualized growth in the third quarter of 2019.



Source: Bureau of Economic Analysis

Economic Indicators

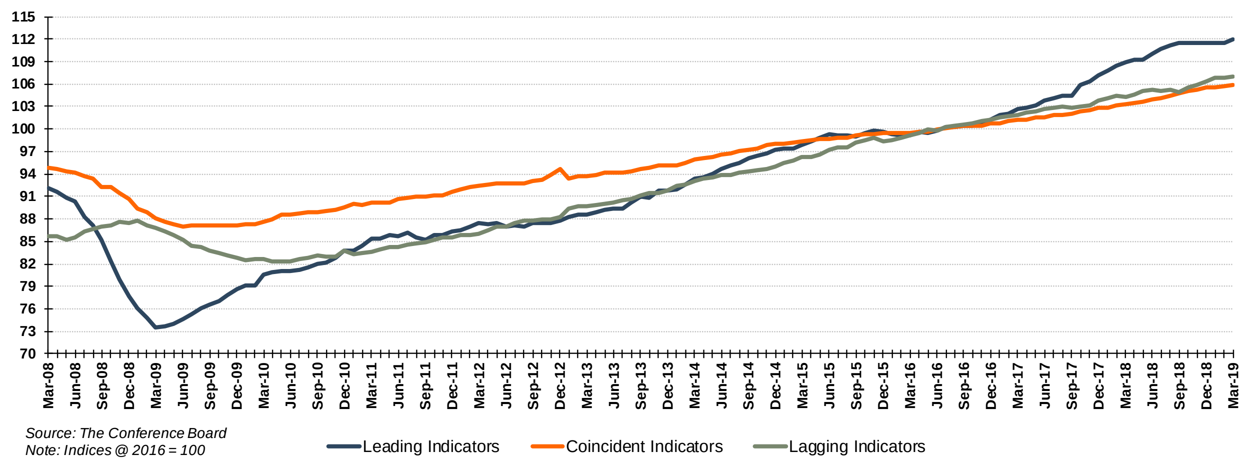
The Conference Board ("TCB") reported that the Leading Economic Index ("LEI"), the government's primary forecasting gauge, increased in March 2019. Over the six month period ended March 2019, the LEI increased 0.4%, which is slower than the 1.5% growth observed over six months ended December 2018. The following table summarizes changes during the first quarter to the economic indices tracked by TCB.

Conference Board Economic Indicators

	January 2019	February 2019	March 2019	Six Months Ending December 2018	Six Months Ending March 2019
Leading Economic Index	0.0%	0.1%	0.4%	1.5%	0.4%
Coincident Economic Index	0.0%	0.1%	0.1%	1.3%	1.0%
Lagging Economic Index	0.6%	0.0%	0.1%	1.2%	2.0%

Traditionally, the LEI is thought to gauge economic activity six to nine months in advance. Consecutive moves in the same direction are thought to be indicative of the general direction of the economy.

Trends in Leading, Coincident, and Lagging Economic Indicators



Overall, TCB economists predict economic growth to decelerate over the course of 2019. According to Ataman Ozyildirim, who serves as the Director of Business Cycles and Growth Research at TCB, "The US LEI picked up in March with labor markets, consumers' outlook, and financial conditions making the largest contributions." He added, "Despite the relatively large gain in March, the trend in the US LEI continues to moderate, suggesting that growth in the US economy is likely to decelerate toward its long term potential of about 2 percent by year end." Eight of the LEI's ten leading economic indicators increased during March 2019, no indicators decreased, and two were unchanged. The following table shows the changes among the indicators sorted by the greatest contributors to the monthly change.

Leading Economic Indicators

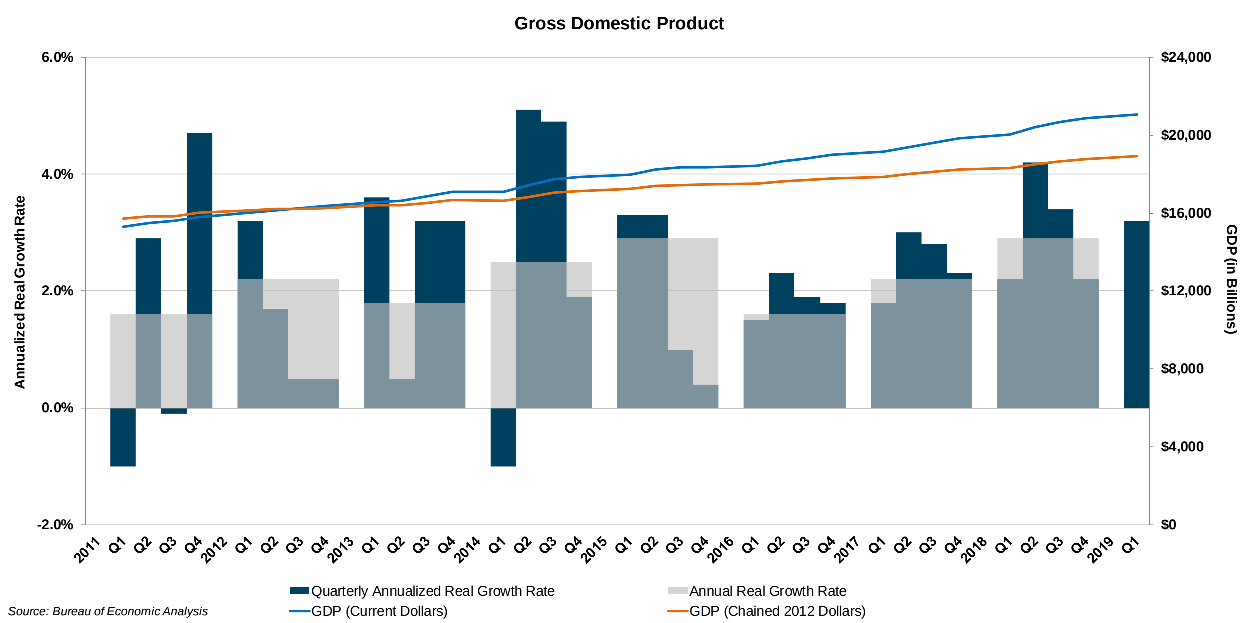
Monthly Change - March 2019

Increased	Unchanged	Decreased
Average Weekly Initial Claims for Unemployment Insurance (Inverted)	Average Weekly Manufacturing Hours	None
Average Consumer Expectations for Business Conditions	Building Permits	
Leading Credit Index™ (Inverted)		
Stock Prices		
ISM® New Orders Index		
Interest Rate Spread		
Manufacturers' New Orders for Nondefense Capital Goods Excluding Aircraft		
Manufacturers' New Orders for Consumer Goods and Materials		

Historical Business Cycles and Fiscal Policy Overview

In September 2010, the Business Cycle Dating Committee of the National Bureau of Economic Research ("NBER") determined that the Great Recession, which began in December 2007, had ended by June 2009. The following table provides perspective concerning NBER business cycles dating from the Great Depression to the present. (The contraction period measures from the peak to the trough. The expansion period measures from the previous trough to the peak.) March 2019 marked 117 months (nine years and nine months) of expansion since the June 2009 trough. No economic expansion in U.S. history has lasted longer than ten years. In May of 2018, the current expansion surpassed the 106 month expansion of the 1960s to become the second-longest running expansion in U.S. history.

NBER Business Cycle Reference Dates (1929 - June 2009)			
Month & Year of Economic		Duration in Months of	
Peak	Trough	Contraction	Prior Expansion
August 1929	March 1933	43	21
May 1937	June 1938	13	50
February 1945	October 1945	8	80
November 1948	October 1949	11	37
July 1953	May 1954	10	45
August 1957	April 1958	8	39
April 1960	February 1961	10	24
December 1969	November 1970	11	106
November 1973	March 1975	16	36
January 1980	July 1980	6	58
July 1981	November 1982	16	12
July 1990	March 1991	8	92
March 2001	November 2001	8	120
December 2007	June 2009	18	73



In December 2017, President Trump signed into law an extensive tax-code overhaul, known as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA has different implications for households and corporations. Some of the key implications of the bill include the corporate tax rate being reduced from 35% to 21%, corporations paying a one-time 15.5% tax on profits accrued abroad while international income earned in future periods will not be subject to U.S. taxes, and the top individual tax rate being reduced to 37% from 39.6%.

The Congressional Budget Office (the "CBO") announced a $693 billion budget deficit for the first fiscal half of 2019 (period ended March 2019). This deficit was $94 billion more than the deficit in the first fiscal half of 2018. According to CBO estimates, revenues in March 2019 were approximately $9 billion more than those in the same month last year. According to the CBO's projections in its Budget and Economic Outlook, GDP is expected to grow by 2.3% in 2019, down from actual growth of 2.9% in 2018, as excess demand in the economy will put upward pressure on prices, wages and interest rates over the next few years, and the positive effects of the recent tax legislation on business investment are expected to wane. The long term outlook for GDP growth (from 2024-2029) indicates growth of approximately 1.8% per year.

In the aforementioned Budget and Economic Outlook as published by the CBO, the committee concedes that its current set of projections is somewhat capricious given the present uncertainty surrounding the international trade situation in the U.S. Fulfilling a campaign promise, President Trump formally withdrew from the Trans-Pacific Partnership (the "TPP") in January 2017. While the U.S. maintains trade treaties with several countries that were involved with the TPP, further deals are likely needed to boost exports to the region. The U.S. and Mexico announced a new, bilateral trade agreement in August 2018. Trade delegations from the U.S. and Canada also came to an agreement in late September 2018 that would bring Canada into the new trade agreement between the U.S. and Mexico.

The ongoing trade dispute between the U.S. and China continued throughout the fourth quarter of 2018, although the two sides were able to reach an agreement that would postpone a proposed $200 billion of U.S. tariffs on Chinese goods. The truce eased tension in global markets after months of escalating conflict and posturing, but both sides' differing interpretations of the next steps in the wake of the truce began to emerge almost immediately after the announcement, signaling the possibility of more difficult negotiations to come. The two sides agreed to "endeavor" to conclude the talks within 90 days. In the event that negotiations fall through, the White House stated that the tariffs on $200 billion of Chinese goods would increase to 25% from the current 10%. At year-end 2018, talks were expected to carry into 2019, with both sides pushing for resolution by the March 1 deadline, at which point the U.S. would begin to enforce the aforementioned increased tariffs on Chinese imports.

The U.S. and China resumed trade talks in early January, and the two sides made progress on several issues, including the additional Chinese purchase of U.S. goods and services and the opening of China's markets to further American capital investment. However, trade officials on both sides warned that, while some progress was made, further discussions were still needed to resolve the dispute. Among issues of contention at the early January round of talks were the reduction of Chinese subsidies to domestic firms and protection of intellectual property. Further, these talks were not conducted between top U.S. and Chinese trade officials, but rather served as a primer for a new round of talks between top U.S. Trade Representative Robert Lighthizer and Chinese Vice Premier Liu He. Following two days of high-level talks between the two sides, which included Mr. Lighthizer and Mr. Liu, President Trump met with Mr. Liu in the Oval Office on January 31, 2019. At this meeting, Mr. Liu delivered a package of modest concessions, which included additional purchases of U.S. agricultural and energy products. Still, this offer did not persuade President Trump to extend the March 1 deadline at which point the U.S. would enforce the 25% tariffs on Chinese goods.

On February 24, President Trump announced that he would delay the implementation of the increased tariffs, which were set to be in place by March 1. The President cited "substantial progress" on the issues of intellectual property and technology transfer as the reason for the delayed implementation. By early March, it appeared that the U.S. and China were nearing a deal that would reduce the tariffs imposed on one another and ease Chinese restriction of American products. As part of the deal, China pledged to lower tariffs and remove other restrictions on U.S. farm, chemical, auto, and other products, encourage capital investment from the U.S. and other countries by removing foreign ownership limitations in certain industries, and increase purchases of American goods. Despite this progress, negotiations once again slowed a week later, as Chinese officials were resistant to the idea of holding a presidential summit without a deal finalized. Chinese officials, who envisioned the summit to be an official ceremonial signing rather than a final negotiating session, were made wary by the fact President Trump at the last minute had walked away from a planned summit with North Korean leader Kim Jong Un in Vietnam a week earlier. In contrast to the view of the Chinese, U.S. trade officials signaled a desire to have some negotiating leeway in any upcoming summit between President Trump and President Xi Jinping. One key negotiating point that had yet to be settled was the nature of the enforcement mechanism with which any treaty could be upheld.

On March 19, U.S. and Chinese officials announced a new round of high-level talks set to take place in Washington and Beijing, with a goal of closing a deal by late April. In addition to the implementation of an enforcement mechanism, the pace at which tariffs imposed on one another would be rolled back was expected to become a key point of negotiation. Ahead of these talks, President Trump announced that the U.S. expected to keep tariffs on Chinese goods in place for a "substantial period of time". Mr. Lighthizer and Treasury Secretary Steven Mnuchin traveled to Beijing on March 28 to take part in the negotiations, which were chiefly aimed at curbing China's onerous cybersecurity laws, in turn allowing U.S. providers of cloud services to connect their data centers in China to their global networks. Negotiations were still ongoing at the end of the first quarter, as the White House stated on March 29 that both sides "continued to make progress during candid and constructive discussions on the negotiations and important next steps."

At the beginning of the first quarter, the U.S. was in the middle of a lengthy government shutdown. The shutdown was brought to a close on January 25, 2019 and lasted thirty-five days, making it the longest government shutdown in U.S. history. President Trump signed a spending bill providing financial relief for federal workers who had been furloughed since late December. The bill did not, however, include new funding for a border wall on the U.S.-Mexico border, setting up ongoing disputes between President Trump and members of Congress regarding border security and immigration policy. The reopening of the federal government allowed the economy to begin operating normally again. Among the most important functions that had been put on hold by the shutdown were the Internal Revenue Service's ability to issue tax refunds and other government actions relating to small business loans, initial public offerings, and infrastructure projects.

CONSUMER SPENDING AND INFLATION

Inflation

According to the Bureau of Labor Statistics ("BLS"), the Consumer Price Index ("CPI") increased 0.4% in March 2019 (on a seasonally adjusted basis), after remaining unchanged in January and increasing 0.2% in February. The unadjusted CPI stood at 254.2 (CPI-U all urban consumers, 1982-1984 = 100), an increase of 1.9% over the previous twelve months. The Core CPI, which excludes food and energy prices, increased 0.1% in March, and Core CPI increased 1.9% on an unadjusted basis over the previous twelve months.

The Producer Price Index ("PPI") is generally recognized as predictive of near-term consumer inflation. The PPI for total final demand (seasonally adjusted) increased 0.6% in March 2019, following a decrease of 0.1% in January and an increase of 0.1% in February. The PPI for final demand excluding food, energy, and trade was unchanged in March following an increase of 0.1% in February. On an unadjusted basis, the twelve-month change in the total final demand PPI was an increase of 2.2% through March 2019. The increase in PPI was above projections made by economists surveyed by *Reuters*.

Oil and Gasoline

In the first quarter of 2019, oil prices surged 32% as a result of OPEC production cuts. U.S. crude futures closed the quarter at $60.14 per barrel, while Brent crude, the global benchmark, closed the quarter trading at $68.39 per barrel. This rally follows a quarter in which oil prices fell to their lowest levels in eighteen months on December 24, 2018. In late December 2018, OPEC member countries agreed to significantly cut production in an effort to rebalance oversupplied global markets. The price effects of these cuts were felt at widespread levels in the first quarter of 2019. In its monthly oil market report, OPEC reported that its crude output fell by 797,000 barrels per day in January, with most of the decline in production occurring in Saudi Arabia (350,000 barrels per day), along with the United Arab Emirates and Kuwait. Russia, while not an official member of OPEC, also agreed to cut its oil production in the first quarter of 2019. However, Russian supply fell by only 90,000 barrels per day in January, as opposed to the previously agreed upon 230,000 barrels per day.

OPEC continued its production cuts through February, as the bulk of the cartel's February production cuts came from Venezuela. Venezuela saw production fall by nearly 142,000 barrels per day in in February in the midst of an ongoing political and economic crisis, as well as heavy U.S. oil sanctions. Still, the total OPEC decline in barrels per day was far less in February than the decline observed in January (221,000 barrels per day compared to 797,000 barrels per day). The cuts continued into March, as OPEC reported that output fell by 534,000 barrels per day in March, including cuts of 324,000 barrels per day from Saudi Arabia alone. Venezuelan production was decimated in March, falling to 732,000 barrels per day amidst continued political turmoil and economic calamity under socialist dictator Nicolás Maduro. Venezuela produced as many as 2.4 million barrels per day as recently as 2015. The supply effects as a result of the aforementioned production cuts propelled oil prices to their best first quarter since 2002.

Exploration and production activities in the U.S. have recovered significantly from their low in May 2016. However, the Baker Hughes North American (U.S.) total oil rig count decreased by 7% during the first quarter of 2019. The total rig count was up 1.3% over the last twelve months. For comparison, total rig count increased 12% during the third quarter of 2018 and 3% during the fourth quarter of 2018. Brent crude oil, which is the global benchmark for oil prices, traded at an average of $63 per barrel in the first quarter, a decrease of $4 per barrel from first quarter 2018 levels. The U.S. Energy Information Administration ("EIA") expects crude prices to fall in 2019 and average $65 per barrel in 2019 and $62 per barrel in 2020. EIA also estimates that U.S. crude oil production averaged 12.1 million barrels per day in March 2019, which is up 0.3 million barrels per day from February levels. Further, EIA estimates that U.S. crude oil production in 2019 will average 12.4 million barrels per day, with production rising in 2020 to 13.1 million barrels per day.

Retail Sales and Personal Consumption

According to the Census Bureau of the U.S. Department of Commerce, the advance estimates of U.S. retail and food service sales (adjusted for seasonal, holiday, and trading-day differences) for March 2019 increased 1.6% from the previous month and increased 3.6% relative to March 2018.[20] Core retail and food service sales (which exclude motor vehicles & parts) increased 1.2% relative to the previous month and increased 3.6% relative to March 2018. In the first quarter of 2019, retail and food service sales increased 0.2% relative to the fourth quarter of 2018 and were 3.1% above the level observed in the first quarter of 2018.

Personal consumption spending represents approximately 70% of total economic activity and is a primary component of overall economic growth. Real personal consumption spending increased 1.2% in the first quarter of 2019, following increases of 3.5% and 2.5% in the third quarter and fourth quarter of 2018, respectively. According to the BEA, durable goods purchases decreased 5.3% in the first quarter of 2019, following an increase of 3.7% in the third quarter of 2018 and an increase of 3.6% in the fourth quarter.

BUSINESS AND MANUFACTURING PRODUCTIVITY

According to the BLS, seasonally adjusted nonfarm business productivity (as measured by the hourly output of all persons) increased at an annual rate of 3.6% in the first quarter of 2019. The productivity increase in the first quarter follows an increase of 1.3% in the fourth quarter of 2018. Productivity increased 2.4% relative to the first quarter of 2018. The following table summarizes the changes in individual components of productivity during the first quarter of 2019.

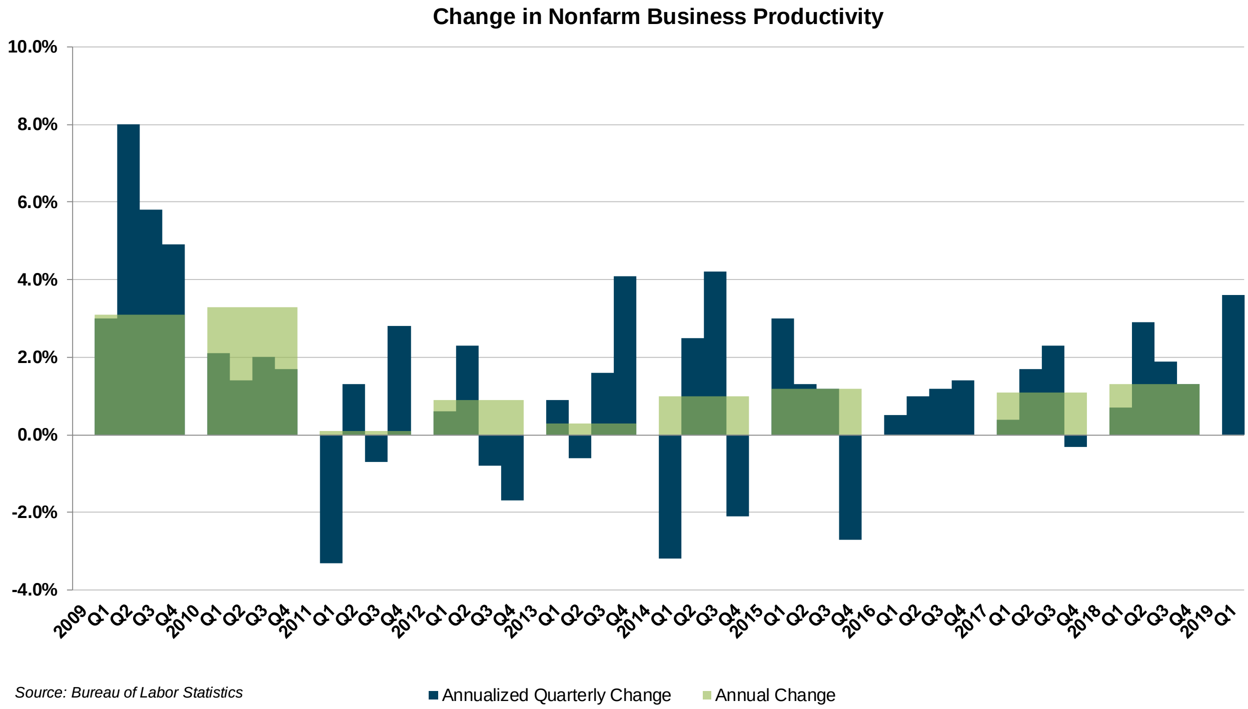
Nonfarm Business Labor Productivity

Quarterly Change: First Quarter 2019

Increase Attributable to Gains in:	Unchanged	Increase Offset by Decreases in:
Output	None	Unit Labor Costs
Hourly Compensation		
Real Hourly Compensation		
Hours Worked		

Business sector productivity (inclusive of farming activity) increased 3.7% in the first quarter of 2019, while manufacturing productivity increased 1.7% during the quarter.

[20] The Census Bureau revised monthly sales estimates to reflect new samples, seasonal factors, and the results of the 2017 Annual Retail Trade Survey. Current results may not reconcile directly to earlier editions of the *National Economic Review.*



Source: Bureau of Labor Statistics

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

According to the Federal Reserve, seasonally adjusted industrial production decreased 0.1% in March 2019, following an increase of 0.1% in February and a decrease of 0.3% in January. Overall industrial production during the first quarter decreased at an annualized rate of 0.3%. For reference, industrial production increased 5.2% and 4.0% in the third and fourth quarter of 2018, respectively. During the first quarter of 2019, manufacturing output decreased at an annualized rate of 1.1%, following increases of 3.6% and 1.7% in the third and fourth quarters of 2018, respectively. After increasing at an annualized rate of 11.8% in the fourth quarter, mining output continued its pattern of growth, increasing at a rate of 5.0% in the first quarter of 2019.

Seasonally adjusted capacity utilization was 78.8% in March 2019, after measures of 79.1% and 79.0% in January and February, respectively. Capacity utilization for the first quarter overall measured 79.0%, down from 79.1% and 79.5% in the third quarter and fourth quarters of 2018, respectively.

THE FINANCIAL MARKETS

After a tumultuous fourth quarter of 2018, equity markets in the U.S. rebounded in the first quarter of 2019, as the Dow Jones Industrial Average, S&P 500, and the NASDAQ all posted gains in excess of 10% over the course of the quarter. This rally comes after a fourth quarter in which these three major indices each posted losses in excess of 10%. The gains seen in U.S. equity markets during the first quarter were widespread, as each of the eleven sectors of the S&P 500 ended the quarter higher than where it began for the first time since 2014.

Several factors contributed to the rally seen in the first quarter. First, central banks both domestic and abroad signaled a willingness to slow down the interest rate increases that characterized much of 2018 in terms of monetary policy. Investors reacted favorably to these announcements as potential remedies to slowing global economic growth. While a deal was not completed in the first three months of 2019, continued progress between the U.S. and China on trade negotiations also helped fuel the rally, as investors' expectations for a deal to be put in place improved over the course of the quarter. Finally, the gains seen in the first quarter can be attributed to the year-end selloff at the conclusion of 2018, which was more magnified than those of recent years. Still, much of the improved performance seen in U.S. equity markets in the first quarter occurred in the first two months of the quarter, as the S&P 500 posted only a 1.8% gain in March.

The following provides a brief summary of each index's performance over the first quarter of 2019:

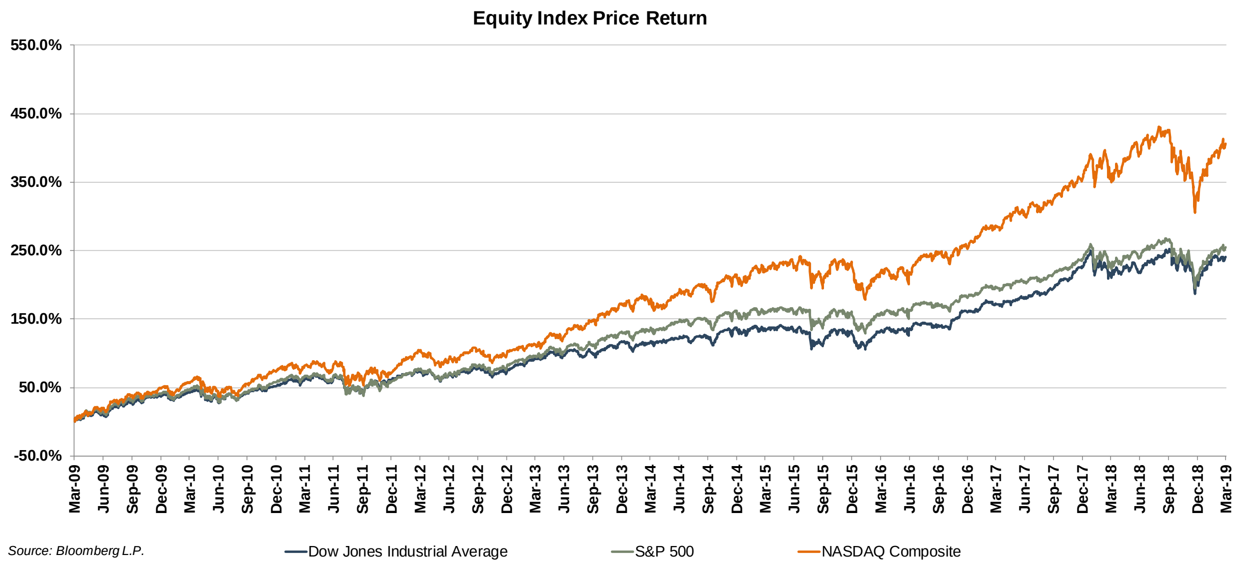
» The Dow Jones Industrial Average ended the first quarter of 2019 at 25,929. This represents an 11.2% increase for the quarter, following a decrease of 11.8% in the fourth quarter and a gain of 9.0% in the third quarter of 2018. The Dow was down 5.6% over the entirety of 2018 after being up 25.1% during 2017.

» The S&P 500 Index gained 7.2% in the third quarter of 2018 before falling by 14% in the fourth quarter. This trend would reverse itself in the first quarter of 2019, as the S&P increased 13.1% to 2,834 at quarter-end, up from 2,507 at year-end 2018. The S&P posted a loss of 6% in 2018 after posting a gain of 19% during 2017.

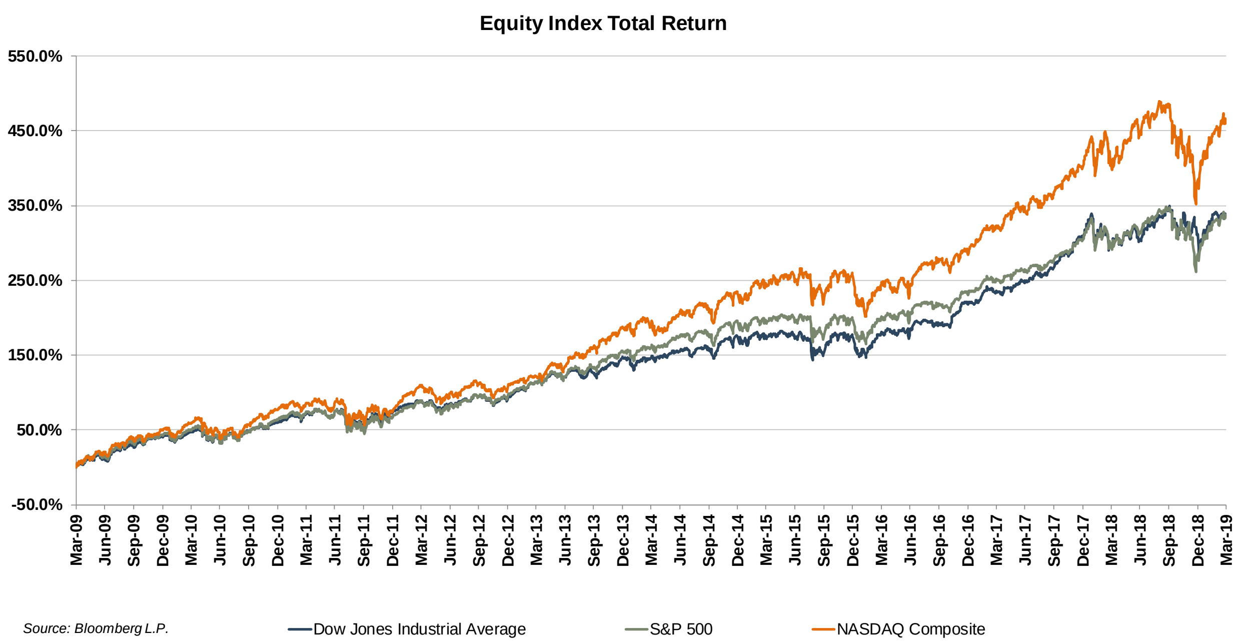
» The NASDAQ Composite Index increased 16.5% during the first quarter to close at 7,729, following a gain of 7.1% and a loss of 17.5% in the third and fourth quarters of 2018, respectively. During 2018, the NASDAQ fell 3.9% and rose 28.2% in 2017.

» The broad market Wilshire 5000 Index closed the first quarter at 29,267, a gain of 13.7% over the fourth quarter, which followed a gain of 6.6% in the third quarter and a loss of 14.9% in the fourth quarter. The Wilshire 5000 index was up 18.6% during 2017 and down 7.4% in 2018.

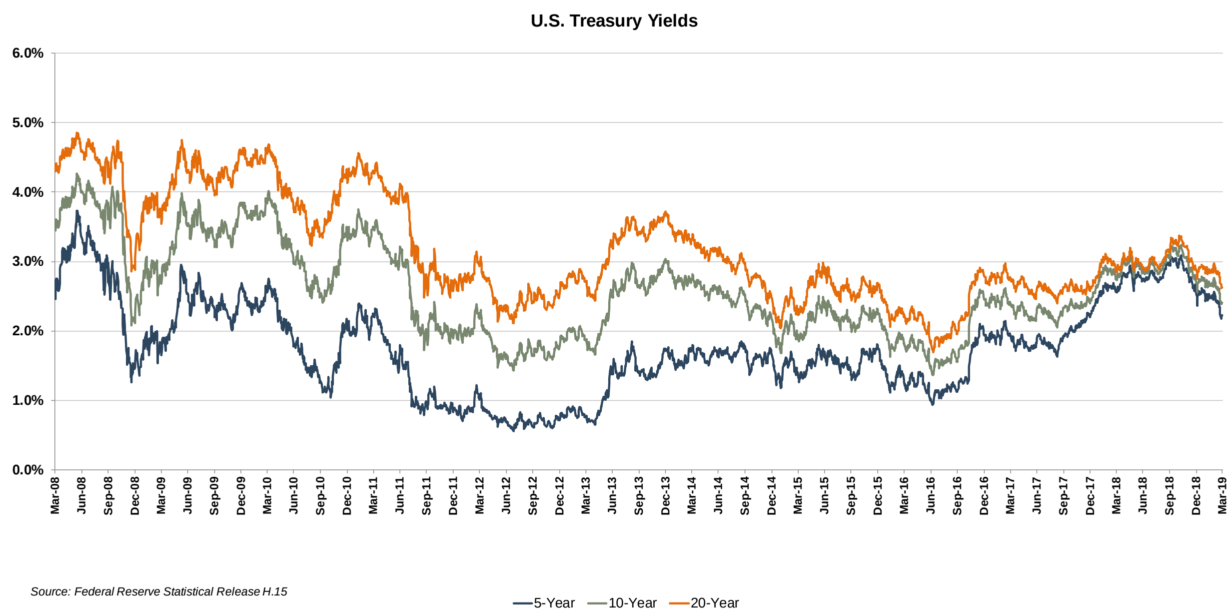
The following chart shows the relative price performance of the Dow Jones Industrial Average, S&P 500, and NASDAQ Composite Indices.



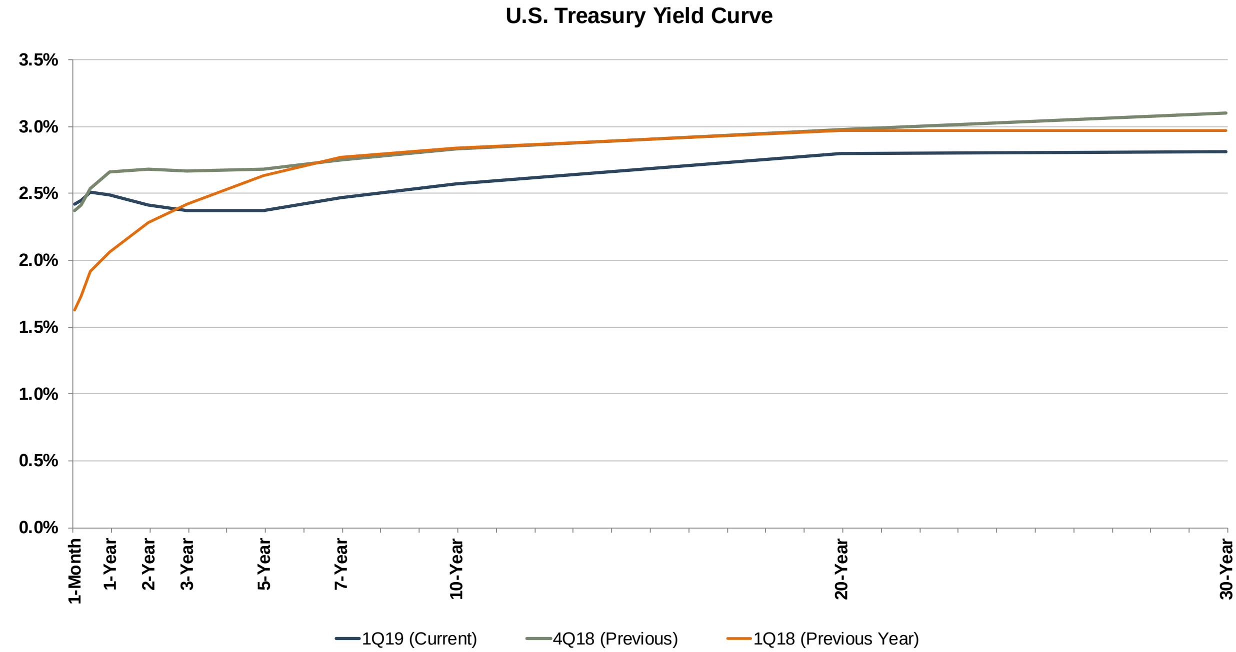
The following chart shows the relative total return performance (which includes reinvested dividends) of the Dow Jones Industrial Average, S&P 500, and NASDAQ Composite Indices.



Treasury yields, with the exception of the three month yield, fell during the first quarter of 2019. Bond prices are negatively correlated with their respective yields. The key event influencing the decrease in bond yields over the quarter was the Fed's March announcement stating that another rate increase in 2019 was unlikely. The yield on the 10-year Treasury tumbled to its lowest level in over a year in trading sessions after the announcement. Bond prices can shift abruptly due to investor reactions to major variances in reported economic data versus market expectations (e.g., expected inflation, growth, monetary policy, and other Federal Reserve actions). The spread between 2-year and 10-year Treasury note yields increased by a single basis point over the quarter, as the decreases in the notes' yields were virtually the same over the quarter. Still, at the end of the first quarter of 2018, the spread between the two yields was 56 basis points. The spread gradually became narrower at the end of both the second and third quarters of 2018. By year-end 2018, the spread was 15 basis points, suggesting a continuously flattening yield curve over the course of the year. The spread at the end of the first quarter of 2019 was virtually unchanged at 16 points. Investors generally view the slope of the yield curve as an indicator of the direction of the economy. Steeper sloped yield curves imply greater future economic growth.



Economists surveyed by *The Wall Street Journal* anticipate yields to continue to fall in the short-term, but rise in upcoming years.

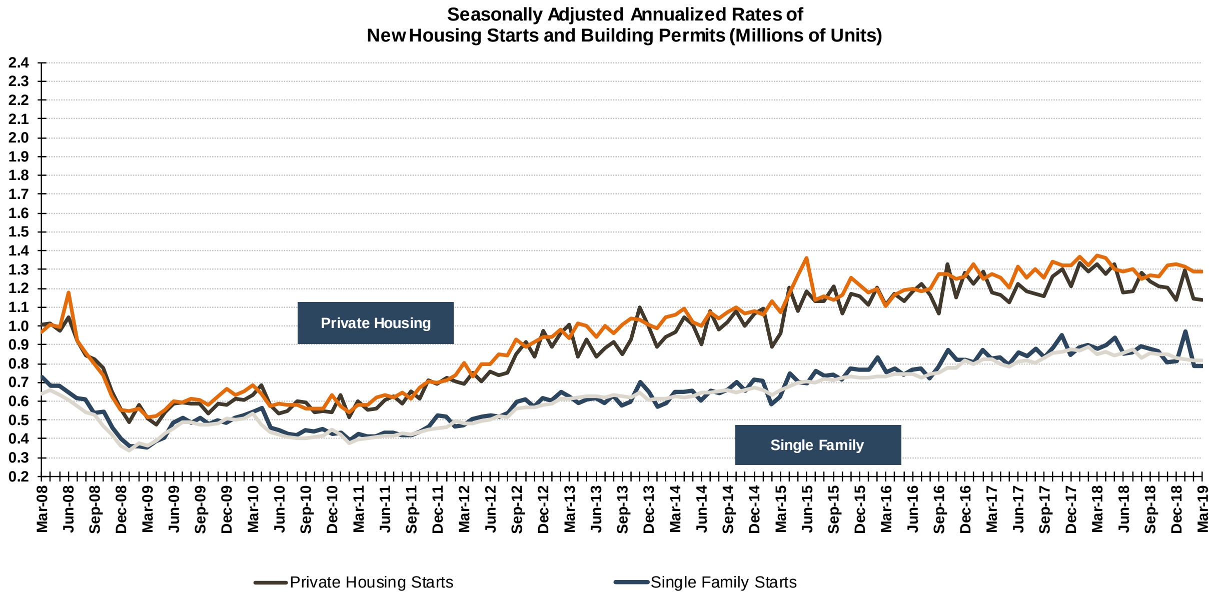


Source: Federal Reserve Statistical Release H.15
Note: Figures shown are the average yield for the last month of the quarter.

HOUSING MARKET

Home building activity has traditionally been a primary driver of overall economic activity because new home construction stimulates a broad range of industrial, commercial, and consumer spending and investment. According to the U.S. Census Bureau, new privately owned housing starts were at a seasonally adjusted annualized rate of 1,139,000 units in March 2019, 0.3% below the revised February rate of 1,142,000 units and 14.2% below the March 2018 rate.[21] The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) was 1,269,000 units in March 2019, 1.7% below the revised February rate of 1,291,000 units and 7.8% below the March 2018 rate.

21 The Census Bureau revised both seasonally adjusted and unadjusted estimate of building permits and starts. The revised data covers January 2012 through the current release. The Census Bureau intends to revise data on an annual basis in future years.



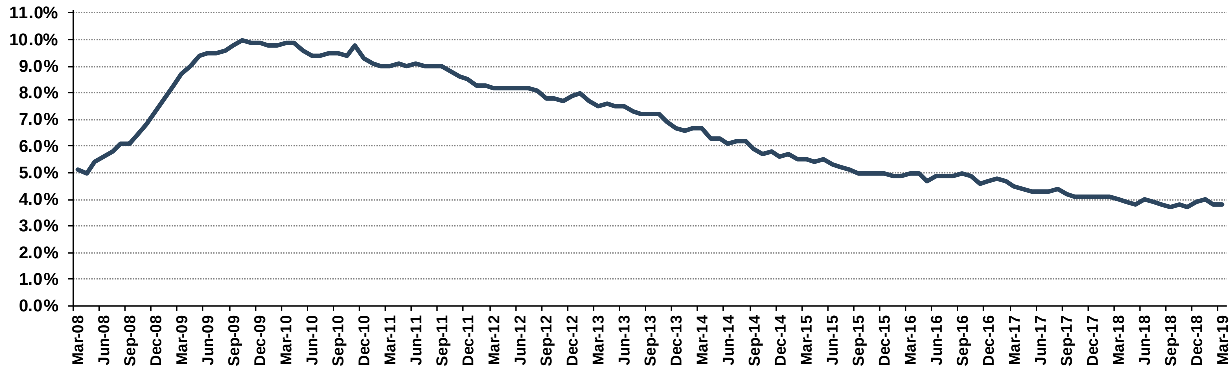
Source: U.S. Census Bureau
Note: Permits at a given date are generally a leading indicator of future starts. Beginning with January 2004, building permit data reflects the change to the 20,000 place series.

According to the National Association of Realtors ("NAR"), existing-home sales (at a seasonally adjusted annual rate) totaled 5.21 million in March 2019, down from 4.9% from February and 5.4% below the March 2018 level. First-time home buyers purchased 33% of existing homes. Housing inventory stood at 1.68 million existing homes, representing 3.9 months of supply at the current sales pace, up slightly from 3.6 months in March 2018. Properties stayed on the market an average of 36 days in March 2019, down from 44 days in February but up from 30 days in March 2018. The national median existing single-family home price, $261,100, increased 3.8% relative to March 2018. Distressed sales, which include foreclosures and short sales, accounted for approximately 3% of sales in March 2019, down from 4% in both February 2019 and March 2018.

UNEMPLOYMENT AND PAYROLL JOBS

According to the BLS, the unemployment rate (U-3) was 3.8% in March 2019, which is down from 4.0% in January 2019 and unchanged from February 2019. The unemployment rate still remains very low by historical standards. Economists surveyed by *The Wall Street Journal* anticipate unemployment rates of 3.7% in June and December 2019, as well as June 2020. The underemployment rate (U-6, seasonally adjusted), which includes workers who are involuntarily working part-time positions, remained unchanged from February at 7.3%, down from 8.1% in January.

Civilian Unemployment Rate



Source: Bureau of Labor Statistics

In March 2019, the labor force participation rate stood at 63.0% (relative to mid- to high- 60s prior to the recession), consistent with levels seen throughout most of 2018. The number of nonfarm payroll jobs increased by 196,000 in March 2019 and averaged 180,000 jobs per month in the first quarter of 2019, compared to 223,000 per month in 2018. Population growth alone adds approximately 111,080 individuals to the workforce per month. Economists surveyed by *The Wall Street Journal* anticipate nonfarm payroll gains of approximately 153,000 jobs per month over the next year.

MONETARY POLICY AND INTEREST RATES

In December 2015, the Federal Open Market Committee ("FOMC") increased the target range for the federal funds rate for the first time since the start of the Great Recession. The FOMC increased the range again in December 2016 and March 2017. In June 2017, the FOMC increased the target federal funds rate to a range of 1.0% to 1.25%, based on employment gains, inflation rates, household spending, and business investment. The FOMC elected to maintain this range at their September 2017 meeting, but voted to increase the range to 1.25% to 1.50% during the December 2017 meeting.

During the first quarter of 2018, Jay Powell was named Chairman of the Federal Reserve, replacing Janet Yellen. After increasing the target rate twice during the first quarter of 2018, ultimately ending March 2018 at a range of 1.50% to 1.75%, Federal Reserve officials voted unanimously in June 2018 to raise the target rate again to a range of 1.75% to 2.00%. Fed officials voted unanimously again in September and December to raise rates, ending 2018 at a benchmark range of 2.25% to 2.50%, the eighth and ninth such rate increases since December 2015. Despite pressure and rhetoric from President Trump aimed at keeping the target rate stagnant, the December rate raise was the fourth such rate increase of 2018.

In the first quarter of 2019, the FOMC elected to leave the target range for the federal funds rate unchanged at 2.25% to 2.50% after meetings in both January and March. In a statement following the March 20, 2019 meeting, the FOMC cited slowing growth in economic activity, declining inflation, and a low unemployment rate as reasons for leaving the target rate unchanged. The Committee also stated that it "continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes" of its decision to leave the benchmark rate unchanged. Further, the Committee noted that it "will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes", which investors interpreted as a signal that the Committee did not plan to raise rates in the near future. Projections released in the wake of the March announcement underscored this expectation, as eleven of seventeen Fed officials who play a substantial role in interest rate policy did not believe the Fed would need to raise rates again in 2019, up from two in the December survey.

Chairman Powell echoed this sentiment in his remarks following the meeting. The following was excerpted from Chairman Powell's March 20th press conference:

We continue to expect that the American economy will grow at a solid pace in 2019, although likely slower than the very strong pace of 2018. We believe that our current policy stance is appropriate.

Since last year, however, we have noted some developments at home and around the world that bear close attention. Given the overall favorable conditions in our economy, my colleagues and I will be patient in assessing what, if any, changes in the stance of policy may be needed.

The federal funds rate is now in the broad range of estimates of neutral—the rate that tends neither to stimulate nor to restrain the economy. As I noted, my colleagues and I think that this setting is well suited to the current outlook and believe that we should be patient in assessing the need for any change in the stance of policy. "Patient" means that we see no need to rush to judgment. It may be some time before the outlook for jobs and inflation calls clearly for a change in policy.

SUMMARY AND OUTLOOK

The Great Recession reached its official end in mid-2009. The subsequent period of expansion was initially characterized by slow gains. A period of stronger and more consistent growth followed, and various measures are beginning to indicate that the economy is entering the latter stages of the current expansion. After a period of relative dormancy, inflation accelerated in 2018, as the costs of goods increased amidst global trade concerns; the unadjusted CPI increased 1.9% in 2018 as evidence of the inflationary environment observed in 2018. Core CPI also increased 1.9% in the twelve months preceding March 31, 2019.

After experiencing a tumultuous fourth quarter, U.S. equity markets rebounded in the first quarter of 2019, with major indices posting gains in excess of 10%. Factors fueling this rally included progress in the trade negotiations between the U.S. and China and the Fed and other central banks' decisions to slow the pace of interest rate increases in 2019.

The unemployment rate has remained stable for several months in the range of 3.7%-4.0%, continually nearing all-time lows. Labor force participation remains low, but was observed at levels seen consistently throughout 2018 during the first quarter of 2019.

Economic growth is expected to remain positive, albeit at a decelerating rate from the level observed in the first quarter of 2019. GDP growth expectations from private economists surveyed by *The Wall Street Journal* are on the order of 2.5% and 2.2% for the second and third quarters of 2019, respectively, and 2.1% for all of 2019. This estimated growth of 2.1% for 2019 compares to actual annual GDP growth of 1.6%, 2.2%, and 2.9% in 2016, 2017, and 2018, respectively. The Federal Reserve does not plan to increase rates in 2019, signaling potential economic headwinds in 2019 as compared to the favorable economic environment which produced four such rate increases in 2018.

CONSUMER SPENDING AND INFLATION

According to the Bureau of Labor Statistics ("BLS"), the Consumer Price Index ("CPI") increased 0.4% in March 2019 (on a seasonally adjusted basis), after remaining unchanged in January and increasing 0.2% in February. The unadjusted CPI stood at 254.2(CPI-U all urban consumers, 1982-1984 = 100), an increase of 1.9% over the previous twelve months. The Core CPI, which excludes food and energy prices, increased 0.1% in March, and Core CPI increased 1.9% on an unadjusted basis over the previous twelve months The Producer Price Index ("PPI") is generally recognized as predictive of near-term consumer inflation.

The PPI for total final demand (seasonally adjusted) increased 0.6% in March 2019, following a decrease of 0.1% in January and an increase of 0.1% in February. The PPI for final demand excluding food, energy, and trade was unchanged in March following an increase of 0.1% in February. On an unadjusted basis, the twelve-month change in the total final demand PPI was an increase of 2.2% through March 2019.

Exploration and production activities in the U.S. have recovered significantly from their low in May 2016. However, the Baker Hughes North American (U.S.) total oil rig count decreased by 7% during the first quarter of 2019. The total rig count was up 1.3% over the last twelve months. For comparison, total rig count increased 12% during the third quarter of 2018 and 3% during the fourth quarter of 2018. Brent crude oil, which is the global benchmark for oil prices, traded at an average of $63 per barrel in the first quarter, a decrease of $4 per barrel from first quarter 2018 levels. The U.S. Energy Information Administration ("EIA") expects crude prices to fall in 2019 and average $65 per barrel in 2019 and $62 per barrel in 2020. EIA also estimates that U.S. crude oil production averaged 12.1 million barrels per day in March 2019, which is up 0.3 million barrels per day from February levels. Further, EIA estimates that U.S. crude oil production in 2019 will average 12.4 million barrels per day, with production rising in 2020 to 13.1 million barrels per day.

According to the Census Bureau of the U.S. Department of Commerce, the advance estimates of U.S. retail and food service sales (adjusted for seasonal, holiday, and trading-day differences) for March 2019 increased 1.6% from the previous month and increased 3.6% relative to March 2018.[22] Core retail and food service sales (which exclude motor vehicles & parts) increased 1.2% relative to the previous month and increased 3.6% relative to March 2018. In the first quarter of 2019, retail and food service sales increased 0.2% relative to the fourth quarter of 2018 and were 3.1% above the level observed in the first quarter of 2018.

[22] The Census Bureau revised monthly sales estimates to reflect new samples, seasonal factors, and the results of the 2017 Annual Retail Trade Survey. Current results may not reconcile directly to earlier editions of the *National Economic Review.*

BUSINESS AND MANUFACTURING PRODUCTIVITY

According to the BLS, seasonally adjusted nonfarm business productivity (as measured by the hourly output of all persons) increased at an annual rate of 3.6% in the first quarter of 2019. The productivity increase in the first quarter follows an increase of 1.3% in the fourth quarter of 2018. Productivity increased 2.4% relative to the first quarter of 2018.

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

According to the Federal Reserve, seasonally adjusted industrial production decreased 0.1% in March 2019, following an increase of 0.1% in February and a decrease of 0.3% in January. Overall industrial production during the first quarter decreased at an annualized rate of 0.3%. For reference, industrial production increased 5.2% and 4.0% in the third and fourth quarter of 2018, respectively. During the first quarter of 2019, manufacturing output decreased at an annualized rate of 1.1%, following increases of 3.6% and 1.7% in the third and fourth quarters of 2018, respectively. After increasing at an annualized rate of 11.8% in the fourth quarter, mining output continued its pattern of growth, increasing at a rate of 5.0% in the first quarter of 2019.

Seasonally adjusted capacity utilization was 78.8% in March 2019, after measures of 79.1% and 79.0% in January and February, respectively. Capacity utilization for the first quarter overall measured 79.0%, down from 79.1% and 79.5% in the third quarter and fourth quarters of 2018, respectively.

THE FINANCIAL MARKETS

After a tumultuous fourth quarter of 2018, equity markets in the U.S. rebounded in the first quarter of 2019, as the Dow Jones Industrial Average, S&P 500, and the NASDAQ all posted gains in excess of 10% over the course of the quarter. The following provides a brief summary of each index's performance over the first quarter of 2019:

» The Dow Jones Industrial Average ended the first quarter of 2019 at 25,929. This represents an 11.2% increase for the quarter, following a decrease of 11.8% in the fourth quarter and a gain of 9.0% in the third quarter of 2018. The Dow was down 5.6% over the entirety of 2018 after being up 25.1% during 2017.

» The S&P 500 Index gained 7.2% in the third quarter of 2018 before falling by 14% in the fourth quarter. This trend would reverse itself in the first quarter of 2019, as the S&P increased 13.1% to 2,834 at quarter-end, up from 2,507 at year-end 2018. The S&P posted a loss of 6% in 2018 after posting a gain of 19% during 2017.

- » The NASDAQ Composite Index increased 16.5% during the first quarter to close at 7,729, following a gain of 7.1% and a loss of 17.5% in the third and fourth quarters of 2018, respectively. During 2018, the NASDAQ fell 3.9% and rose 28.2% in 2017.
- » The broad market Wilshire 5000 Index closed the first quarter at 29,267, a gain of 13.7% over the fourth quarter, which followed a gain of 6.6% in the third quarter and a loss of 14.9% in the fourth quarter. The Wilshire 5000 index was up 18.6% during 2017 and down 7.4% in 2018.

HOUSING MARKET

Home building activity has traditionally been a primary driver of overall economic activity because new home construction stimulates a broad range of industrial, commercial, and consumer spending and investment. According to the U.S. Census Bureau, new privately owned housing starts were at a seasonally adjusted annualized rate of 1,139,000 units in March 2019, 0.3% below the revised February rate of 1,142,000 units and 14.2% below the March 2018 rate.[23] The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) 1,269,000 units in March 2019, 1.7% below the revised February rate of 1,291,000 units and 7.8% below the March 2019 rate.

According to the National Association of Realtors ("NAR"), existing-home sales (at a seasonally adjusted annual rate) totaled 5.21 million in March 2019, which is down from 4.9% from February and 5.4% below the March 2018 level. First-time home buyers purchased 33% of existing homes. Housing inventory stood at 1.68 million existing homes, representing 3.9 months of supply at the current sales pace, which is up slightly from 3.6 months in March 2018. Properties stayed on the market an average of 36 days in March 2019, down from 44 days in February but up from 30 days in March 2018. The national median existing single-family home price, $261,100, increased 3.8% relative to March 2018. Distressed sales, which include foreclosures and short sales, accounted for approximately 3% of sales in March 2019, down from 4% in both February 2019 and March 2018.

[23] The Census Bureau revised both seasonally adjusted and unadjusted estimate of building permits and starts. The revised data covers January 2012 through the current release. The Census Bureau intends to revise data on an annual basis in future years.

UNEMPLOYMENT AND PAYROLL JOBS

According to the BLS, the unemployment rate (U-3) was 3.8% in March 2019, which is down from 4.0% in January 2019 and unchanged from February 2019. The unemployment rate still remains very low by historical standards. Economists surveyed by *The Wall Street Journal* anticipate unemployment rates of 3.7% in June and December 2019, as well as June 2020. The underemployment rate (U-6, seasonally adjusted), which includes workers who are involuntarily working part-time positions, remained unchanged from February at 7.3%, down from 8.1% in January.

MONETARY POLICY AND INTEREST RATES

In the first quarter of 2019, the FOMC elected to leave the target range for the federal funds rate unchanged at 2.25% to 2.50% after meetings in both January and March. In a statement following the March 20, 2019 meeting, the FOMC cited slowing growth in economic activity, declining inflation, and a low unemployment rate as reasons for leaving the target rate unchanged. The committee also stated that it "continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes" of its decision to leave the benchmark rate unchanged. Further, the Committee noted that it "will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes", which investors interpreted as a signal that the Committee did not plan to raise rates in the near future. Projections released in the wake of the March announcement underscored this expectation, as eleven of seventeen Fed officials who play a substantial role in interest rate policy did not believe the Fed would need to raise rates again in 2019, up from two in the December survey.

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ECONOMIC INDICATORS AND INVESTMENT TRENDS
MONTHLY AND QUARTERLY DATA

		Second Quarter 2018			Third Quarter 2018			Fourth Quarter 2018			First Quarter 2019		
Major Economic Variables:	**Notes**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**
GDP [Billions of Current Dollars, SAAR]	(1)	**	**	$20,411.9	**	**	$20,658.2	**	**	$20,891.4	**	**	$21,062.7
GDP [Billions of Chained (2012) Dollars, SAAR]	(1)	**	**	$18,511.6	**	**	$18,665.0	**	**	$18,765.3	**	**	$18,912.3
Real GDP [Annualized Quarterly Growth %]	(1)	**	**	4.2%	**	**	3.5%	**	**	2.6%	**	**	3.2%
Consumer Price Index [NSA, 1982-84=100]	(2)	250.5	251.6	252.0	252.0	252.1	252.4	252.9	252.0	251.2	251.7	252.8	254.2
Monthly Inflation Rate [% Chg. in CPI, NSA]	(2)	0.4%	0.4%	0.2%	0.0%	0.1%	0.1%	0.2%	-0.3%	-0.3%	0.2%	0.4%	0.6%
Civilian Unemployment Rate [Seasonally Adjusted]	(2)	3.9%	3.8%	4.0%	3.9%	3.9%	3.7%	3.8%	3.7%	3.9%	4.0%	3.8%	3.8%
Civilian Labor Force [000s, Seasonally Adjusted]	(2)	161,527	161,539	162,140	162,245	161,776	161,926	162,694	162,821	163,240	163,229	163,184	162,960
Private Housing Starts [Annual Unit Rate (000s)]	(3)	1,276	1,329	1,177	1,184	1,268	1,201	1,209	1,214	1,078	1,298	1,142	1,139
Leading Economic Indicators [2016 = 100]	(4)	109.3	109.3	109.8	110.4	110.9	111.5	111.4	111.4	111.5	111.4	111.5	111.9
Coincidental Economic Indicators [2016 = 100]	(4)	103.5	103.6	103.9	104.3	104.7	104.8	105.0	105.2	105.6	105.6	105.7	105.8
Lagging Economic Indicators [2016 = 100]	(4)	104.6	105.1	105.4	104.8	105.0	104.9	105.5	105.9	106.3	106.9	106.9	107.0

SAAR = Seasonally Adjusted Annualized Rate / NSA = not seasonally adjusted / na = not available at the time of this review / ** Gross Domestic Product is reported on a quarterly basis only

		Second Quarter 2018			Third Quarter 2018			Fourth Quarter 2018			First Quarter 2019		
Stock Market Trends:	**Notes**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**
Dow Jones Industrial Avg.	(5)	24,163.15	24,415.84	24,271.41	25,415.19	25,964.82	26,458.31	25,115.76	25,538.46	23,327.46	24,999.67	25,916.00	25,928.68
Dow Jones Industrial Average P/E	(6)	18.64	18.83	18.51	18.34	18.72	19.07	17.00	17.27	14.92	15.97	16.52	16.52
Dow Jones Industrial Average P/B	(6)	3.85	3.89	3.84	4.01	4.10	4.18	3.90	3.97	3.55	3.80	3.96	3.96
Dow Jones Industrial Avg. Dividend Yield	(6)	2.21%	2.21%	2.23%	2.13%	2.12%	2.09%	2.21%	2.21%	2.43%	2.28%	2.23%	2.24%
S&P 500 Composite Index	(5)	2,648.05	2,705.27	2,718.37	2,816.29	2,901.52	2,913.98	2,711.74	2,760.17	2,506.85	2,704.10	2,784.49	2,834.40
S&P 500 Composite Index P/E	(6)	19.56	19.89	19.90	19.64	20.15	20.25	17.82	18.09	16.48	17.81	18.34	18.67
S&P 500 Composite Index P/B	(6)	3.21	3.28	3.28	3.39	3.50	3.51	3.22	3.28	2.96	3.20	3.29	3.36
S&P 500 Composite Index Dividend Yield	(6)	1.96%	1.92%	1.93%	1.84%	1.80%	1.80%	1.95%	1.93%	2.15%	2.00%	1.97%	1.94%
NASDAQ Composite Index	(5)	7,066.27	7,442.12	7,510.30	7,671.79	8,109.54	8,046.35	7,305.90	7,330.54	6,635.28	7,281.74	7,532.53	7,729.32
Wilshire 5000	(5)	27,520.59	28,218.46	28,393.75	29,295.75	30,274.61	30,258.64	27,980.94	28,448.87	25,749.72	27,992.41	28,902.93	29,267.10

(1) Dept. of Commerce, Bureau of Economic Analysis
(2) Bureau of Labor Statistics ("BLS")
(3) Single and Multi-Family Private Units, U.S. Census Bureau.
(4) The Conference Board
(5) Bloomberg L.P.
(6) Bloomberg L.P. - These measures are periodically recalculated by Bloomberg, so figures shown may not reconcile exactly to previous or subsequent editions of the *National Economic Review*

ECONOMIC INDICATORS AND INVESTMENT TRENDS

MONTHLY DATA

		Second Quarter 2018			Third Quarter 2018			Fourth Quarter 2018			First Quarter 2019		
Treasury Yields:	**Notes**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**
Three Month	(1)	1.79%	1.90%	1.94%	1.99%	2.07%	2.17%	2.29%	2.37%	2.41%	2.42%	2.44%	2.45%
Six Month	(1)	1.98%	2.07%	2.11%	2.17%	2.24%	2.34%	2.46%	2.52%	2.54%	2.51%	2.50%	2.51%
One Year	(1)	2.15%	2.27%	2.33%	2.39%	2.45%	2.56%	2.65%	2.70%	2.66%	2.58%	2.55%	2.49%
Two Year	(1)	2.38%	2.51%	2.53%	2.61%	2.64%	2.77%	2.86%	2.86%	2.68%	2.54%	2.50%	2.41%
Three Year	(1)	2.52%	2.66%	2.65%	2.70%	2.71%	2.84%	2.94%	2.91%	2.67%	2.52%	2.48%	2.37%
Five Year	(1)	2.70%	2.82%	2.78%	2.78%	2.77%	2.89%	3.00%	2.95%	2.68%	2.54%	2.49%	2.37%
Seven Year	(1)	2.82%	2.93%	2.87%	2.85%	2.84%	2.96%	3.09%	3.04%	2.75%	2.61%	2.57%	2.47%
Ten Year	(1)	2.87%	2.98%	2.91%	2.89%	2.89%	3.00%	3.15%	3.12%	2.83%	2.71%	2.68%	2.57%
Twenty Year	(1)	2.96%	3.05%	2.98%	2.94%	2.97%	3.08%	3.27%	3.27%	2.98%	2.89%	2.87%	2.80%
Other Interest Rates:													
Federal Funds Rate	(1)	1.69%	1.70%	1.82%	1.91%	1.91%	1.95%	2.19%	2.20%	2.27%	2.40%	2.40%	2.41%
Discount Window Primary Credit	(1)	2.25%	2.25%	2.39%	2.50%	2.50%	2.53%	2.75%	2.75%	2.85%	3.00%	3.00%	3.00%
Bank Prime Rate	(1)	4.75%	4.75%	4.89%	5.00%	5.00%	5.03%	5.25%	5.25%	5.35%	5.50%	5.50%	5.50%
Other Bond Yields													
Corporate Bonds - Aaa [Moody's Seasoned]	(3)	3.85%	3.99%	3.96%	3.87%	3.88%	3.98%	4.14%	4.22%	4.02%	3.93%	3.79%	3.77%
Corporate Bonds - Baa [Moody's Seasoned]	(3)	4.67%	4.83%	4.83%	4.79%	4.77%	4.88%	5.07%	5.22%	5.13%	5.12%	4.95%	4.84%
Bond Buyer Index-20 Bond Municipals	(4)	3.97%	3.78%	3.87%	3.90%	3.96%	4.18%	4.30%	4.22%	4.10%	4.22%	4.19%	3.79%

Notes:

(1) Federal Reserve Data Download Program - Average monthly rates
(2) Previously provided through the Federal Reserve Statistical Release H.15 - Average monthly rates, now discontinued
(3) Bloomberg L.P. - Information for average of month
(4) Bloomberg L.P. - Information for the last Thursday of the month that is a trading day

ECONOMIC INDICATORS AND INVESTMENT TRENDS
ANNUAL DATA

Major Economic Variables:		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP [Billions of Current Dollars, SAAR]	(2)	$14,718.6	$14,418.7	$14,964.4	$15,517.9	$16,155.3	$16,691.5	$17,521.7	$18,219.3	$18,707.2	$19,485.4	$20,494.1
GDP [Billions of Chained (2012) Dollars]	(2)	$15,604.7	$15,208.8	$15,598.8	$15,840.7	$16,197.0	$16,495.4	$16,899.8	$17,386.7	$17,659.2	$18,050.7	$18,566.4
Real GDP [Annual % Change]	(2)	-0.3%	-2.8%	2.5%	1.6%	2.2%	1.7%	2.5%	2.9%	1.6%	2.2%	2.9%
Annual Inflation Rate [Annual % Chg. in CPI, NSA]	(2)	0.1%	2.7%	1.5%	3.0%	1.7%	1.5%	0.8%	0.7%	2.1%	2.1%	1.9%
Civilian Unemployment Rate [Approx. Avg. Annual]	(3)	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%
Civilian Labor Force [000s] [Approx. Avg. Annual]	(3)	154,322	154,189	153,885	153,624	154,974	155,398	155,920	157,140	159,197	160,314	162,070
Housing Starts, Annual Unit Rate [000s]	(2)	906	554	587	609	781	925	1,003	1,112	1,174	1,203	1,247
Leading Economic Indicators [2016 = 100]*	(3)	87.8	75.7	81.3	85.4	87.3	89.8	94.8	98.8	100.0	104.1	111.3
Coincidental Economic Indicators [2016 = 100]*	(3)	93.5	87.6	88.5	90.7	92.9	94.3	96.7	98.8	100.0	101.8	105.6
Lagging Economic Indicators [2016 = 100]*	(3)	86.2	85.1	82.7	84.4	87.1	90.5	93.8	97.2	100.0	102.6	106.4

Stock Market Trends:		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dow Jones Industrial Avg. [Year-End Close]	(1)	8,776.4	10,428.1	11,577.5	12,217.6	13,104.1	16,576.7	17,823.1	17,425.0	19,762.6	24,719.2	23,327.5
Dow Jones Industrial Approx. Avg. P/E *	(1)	16.04	16.10	13.47	12.62	12.79	15.70	16.05	15.97	18.79	20.65	14.92
Dow Jones Ind. Approx. Avg. Div. Yield *	(2)	3.60%	2.64%	2.48%	2.60%	2.65%	2.08%	2.18%	2.55%	2.42%	2.11%	2.43%
S&P 500 Composite Index [Year-End Close]	(1)	903.25	1,115.10	1,257.64	1,257.61	1,426.19	1,848.36	2,058.90	2,043.94	2,238.83	2,673.61	2,506.85
S&P 500 Comp. Index Approx. Avg. P/E *	(1)	16.73	18.92	15.41	13.94	14.39	17.41	18.37	18.78	21.08	22.32	16.48
S&P 500 Comp. Index Approx. Avg. Div. Yield *	(2)	3.15%	2.12%	1.88%	2.12%	2.24%	1.89%	1.95%	2.15%	2.09%	1.89%	2.15%
NASDAQ Comp. Index [Year-End Close]	(1)	1,577.03	2,269.15	2,652.87	2,605.15	3,019.51	4,176.59	4,736.05	5,007.41	5,383.12	6,903.39	6,635.28
Wilshire 5000 [Year-End Close]	(1)	9,087.17	11,561.70	13,360.13	13,189.93	14,995.11	19,706.03	21,669.86	21,167.86	23,416.82	27,775.57	25,749.72

*See Quarterly Exhibits for Additional Source Information

(1) December of each respective year
(2) Annual number of each respective year
(3) Average of monthly (or quarterly, as provided by source) data

ECONOMIC INDICATORS AND INVESTMENT TRENDS
ANNUAL DATA

Treasury Yields:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Three Month	0.03%	0.05%	0.14%	0.01%	0.07%	0.07%	0.03%	0.23%	0.51%	1.34%	2.41%
Six Month	0.26%	0.17%	0.19%	0.05%	0.12%	0.10%	0.11%	0.50%	0.64%	1.50%	2.54%
One Year	0.49%	0.37%	0.29%	0.12%	0.16%	0.13%	0.21%	0.65%	0.87%	1.70%	2.66%
Two Year	0.82%	0.87%	0.62%	0.26%	0.26%	0.34%	0.64%	0.98%	1.20%	1.84%	2.68%
Three Year	1.07%	1.38%	0.99%	0.39%	0.35%	0.69%	1.06%	1.28%	1.49%	1.96%	2.67%
Five Year	1.52%	2.34%	1.93%	0.89%	0.70%	1.58%	1.64%	1.70%	1.96%	2.18%	2.68%
Seven Year	1.89%	3.07%	2.66%	1.43%	1.13%	2.29%	1.98%	2.04%	2.29%	2.32%	2.75%
Ten Year	2.42%	3.59%	3.29%	1.98%	1.72%	2.90%	2.21%	2.24%	2.49%	2.40%	2.83%
Twenty Year	3.18%	4.40%	4.17%	2.67%	2.47%	3.63%	2.55%	2.61%	2.84%	2.60%	2.98%
Thirty Year	2.87%	4.49%	4.42%	2.98%	2.88%	3.89%	2.83%	2.97%	3.11%	2.77%	3.10%
Other Interest Rates:											
Federal Funds Rate	0.16%	0.12%	0.18%	0.07%	0.16%	0.09%	0.12%	0.24%	0.54%	1.30%	2.27%
Discount Rate	0.86%	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%	0.87%	1.14%	1.90%	2.85%
Tax Free Rate [State and Local Bonds]	5.56%	4.21%	4.92%	3.95%	3.48%	4.73%	3.70%	3.57%	nm	nm	nm
Bank Prime Rate	3.61%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.37%	3.64%	4.40%	5.35%
Other Bond Yields											
Corporate Bonds - Aaa [Moody's Seasoned]	5.05%	5.26%	5.01%	3.93%	3.65%	4.62%	3.79%	3.97%	4.06%	3.51%	4.02%
Corporate Bonds - Baa [Moody's Seasoned]	8.43%	6.37%	6.10%	5.25%	4.63%	5.38%	4.74%	5.46%	4.83%	4.22%	5.14%
Bond Buyer Index-20 Bond Municipals	5.33%	4.25%	4.95%	3.88%	3.58%	4.73%	3.65%	3.57%	3.78%	3.44%	4.10%

Sources: The Federal Reserve / See Notes on Quarterly Rate Exhibit / Rates Represent December Averages for Each Year Shown.
Bloomberg L.P. - Bonds, See Quarterly Rate Exhibit

APPENDIX B

Innovation District Sample Models
Presentation to the OSU-Cascades Innovation District Committee

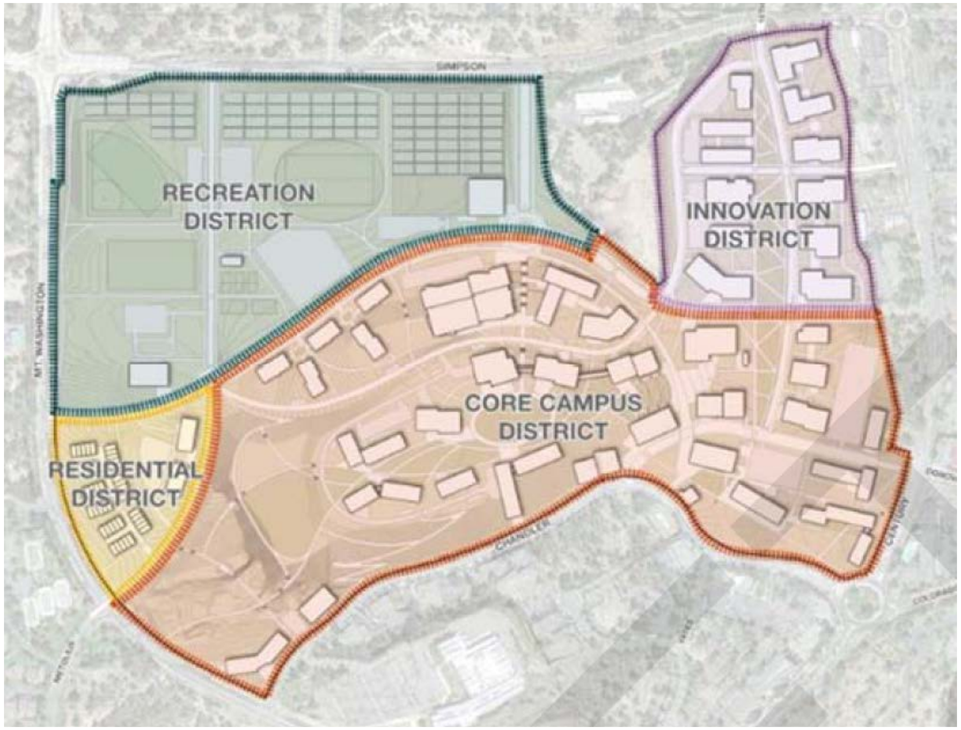
Oregon State University-Cascades Innovation District

Steering Committee Meeting
October 21, 2019

Background

Campus Context

Long Range Development Plan



Current Campus
10 acres
4 buildings
1,200 students, 126 staff

Full Build Out Campus
128 acres
1.7 million gross square feet
5,000 students, 720 staff

Planned Investments

Site Remediation
$40 million
campus wide
remaining

Infrastructure
$50.4 million
campus wide
remaining

Capital Investment Assets

- Academic/Research
- Student Life
- Student Housing
- Innovation District

Innovation District Vision and Goals

Scope

- Innovation District
  - Innovation/Research Space
  - Middle Market Housing
  - Row Housing
- Envisioned as phased development

Innovation District Goals

Integration of academic programs with industry

Facilitate research and student internship partnerships with private sector

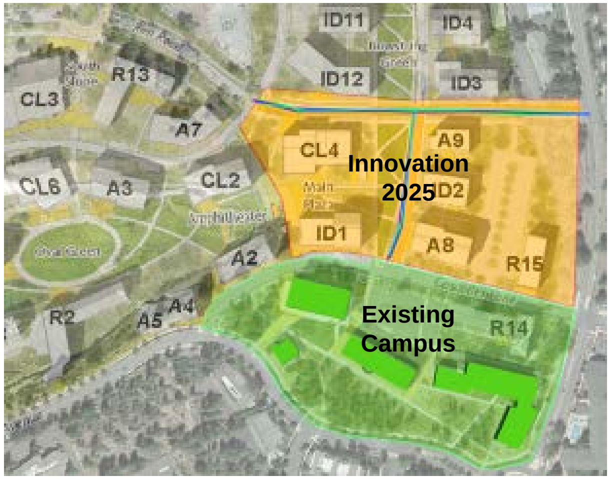
On-campus natural laboratory

Physical environment for private sector industry activity

Market Study Conclusions

- **Study**
  - Evaluation of asset types
  - Guidance based on market conditions
- **Bend Real Estate Market**
  Poised for growth
- **Noteworthy Asset Types**
  - Class A Office
  - Experiential Retail
  - Upper Midscale Hotel
  - “Industrial”
  - Potential Opportunity in For Sale Housing

Sample Scenarios: “Innovation 2025”



An initial phase of development adjacent to the existing campus that matches institutional needs with market bearing asset types

Scenario levers include:

- Program Mix
- Construction and Design Cost
- Operating Costs

Base Case Scenario

Scenario 1

Scenario 2

Scenario 3

Base Case Scenario: $55 million gap

Base Case Scenario

270,500 GSF

- Innovation District does not include student housing or a conference center
- Land previously allocated for student housing is assumed to be used as multi-family housing
- Land previously allocated for conference center is left undeveloped

Proposed Facility	Details
Class A Office Space	60,000 SF
Class B/C Office Space	26,000 SF
Creative Office Space	10,500 SF
Medical Office Space	17,000 SF
Experiential Retail	57,000 SF
Industrial Flex R&D	10,000 SF
Multi-family Housing	90,000 SF
Student Housing	0 SF
Conference Center	0 SF
TOTAL	**270,500 SF**

Assumptions	
Soft Costs (as % of Hard)	35%
Construction Inflation	5.00%
Operating Expense (as % of Revenue)	38.38%
Reserve Fund Assumption	1.00%
Debt Service Coverage Ratio	1.10x
Cost of Debt	4.99%
Results	
Total Development Costs	$136,792,000
Total Net Operating Income	$191,670,000
Total Bonding Capacity	$81,017,000
Funding Gap	**$55,775,000**

Scenario 1: Community Support through tax abatement shrinks gap by $7 million

Scenario 1

270,500 GSF

- Innovation District Program mix is identical to the Base Case
- In this scenario, Operating Expenses are reduced 15% to account for the potential reduction in real estate taxes

Proposed Facility	Details
Class A Office Space	60,000 SF
Class B/C Office Space	26,000 SF
Creative Office Space	10,500 SF
Medical Office Space	17,000 SF
Experiential Retail	57,000 SF
Industrial Flex R&D	10,000 SF
Multi-family Housing	90,000 SF
Student Housing	0 SF
Conference Center	0 SF
TOTAL	**270,500 SF**

Assumptions	
Soft Costs (as % of Hard)	35%
Construction Inflation	5.00%
Operating Expense (as % of Revenue)	33.99%
Reserve Fund Assumption	1.00%
Debt Service Coverage Ratio	1.10x
Cost of Debt	4.99%
Results	
Total Development Costs	$136,792,000
Total Net Operating Income	$208,204,000
Total Bonding Capacity	$88,015,000
Funding Gap	**$48,777,000**

Scenario 2: Strong Community Support paired with financing costs reduces gap to $29 million

Scenario 2

270,500 GSF

- Composition of Innovation District is identical to the Base Case
- Operating Expenses retains the 15% tax reduction and debt is assumed to be obtained at 3.50%

Proposed Facility	Details
Class A Office Space	60,000 SF
Class B/C Office Space	26,000 SF
Creative Office Space	10,500 SF
Medical Office Space	17,000 SF
Experiential Retail	57,000 SF
Industrial Flex R&D	10,000 SF
Multi-family Housing	90,000 SF
Student Housing	0 SF
Conference Center	0 SF
TOTAL	**270,500 SF**

Assumptions	
Soft Costs (as % of Hard)	35%
Construction Inflation	5.00%
Operating Expense (as % of Revenue)	33.99%
Reserve Fund Assumption	1.00%
Debt Service Coverage Ratio	1.10x
Cost of Debt	3.50%
Results	
Total Development Costs	$136,792,000
Total Net Operating Income	$208,204,000
Total Bonding Capacity	$106,842,000
Funding Gap	**$29,950,000**

Scenario 3: Community Support paired with lower operating and design costs breaks even

Scenario 3

270,500 GSF

- Financing acquired at lower rate
- Construction inflation remains at 1.00%
- Operating expenditures reduced by 20%
- Soft costs reduced

Proposed Facility	Details
Class A Office Space	60,000 SF
Class B/C Office Space	26,000 SF
Creative Office Space	10,500 SF
Medical Office Space	17,000 SF
Experiential Retail	57,000 SF
Industrial Flex R&D	10,000 SF
Multi-family Housing	90,000 SF
Student Housing	0 SF
Conference Center	0 SF
TOTAL	**270,500 SF**

Assumptions	
Soft Costs (as % of Hard)	25%
Construction Inflation	1.00%
Operating Expense (as % of Revenue)	32.53%
Reserve Fund Assumption	1.00%
Debt Service Coverage Ratio	1.10x
Cost of Debt	2.89%
Results	
Total Development Costs	$121,111,000
Total Net Operating Income	$215,824,000
Total Bonding Capacity	$121,111,000
Funding Gap	**$ 0**

Implementation Options Roadmap

Affordability Analysis → Options Analysis → Implementation

What does University want to develop on the land?

- Match economics to institutional goals
- Consider addition to capital plan

How does the University want to allocate enterprise commercial risk?

- Determination of self-supporting risk

How does OSU-C want to structure lifecycle cost risk between a developer and OSU-C?

- Development tactical decision-making

How do we structure underlying commercial agreement?

- Ground lease, Concession, Partial lease/Availability Payment
- Determined based on what the University is willing to give up

How do we procure a developer?

- Structure a competition to drive down competition of university payments that would include infrastructure and remediation costs
- Model would help gauge estimated costs.
- Market Sounding
  - Gauge market interest in participating in a procurement process related to the project
  - Understand views on the optimal procurement, commercial, and financial structure(s);

Continue refinement of Financial Analysis

Level 1 Analysis

Indicative analysis to assess development scenarios for screening/capital plan purposes.

Sample inputs include:

- Basic development assumptions
- Development price per square foot/unit
- High-level financing assumptions
- Ongoing operating costs per square foot/unit, and capitalization rates for terminal value calculations (as applicable).

Level 1 analysis may also include rent costs per square foot depending on the use type. Level 1 outputs would include annualized cash flows, total development costs, terminal value calculations, and sources and uses.

Level 2 Analysis

Granular comparison of development scenarios for use during RFQ and RFP stage.

Sample inputs include:

- Detailed development assumptions including program cost information at a unit level and a spend curve,
- Detailed financing costs and commercial structuring assumptions, operating costs at a unit level, and capitalization rates for terminal value calculations (as applicable).

Level 2 analysis may also include rent at a unit level depending on the use type and contemplate potential ancillary revenues and alternative commercial structures and would include gross quarterly and annual cash flows, comparative NPV figures, investor IRR, and sources and uses.

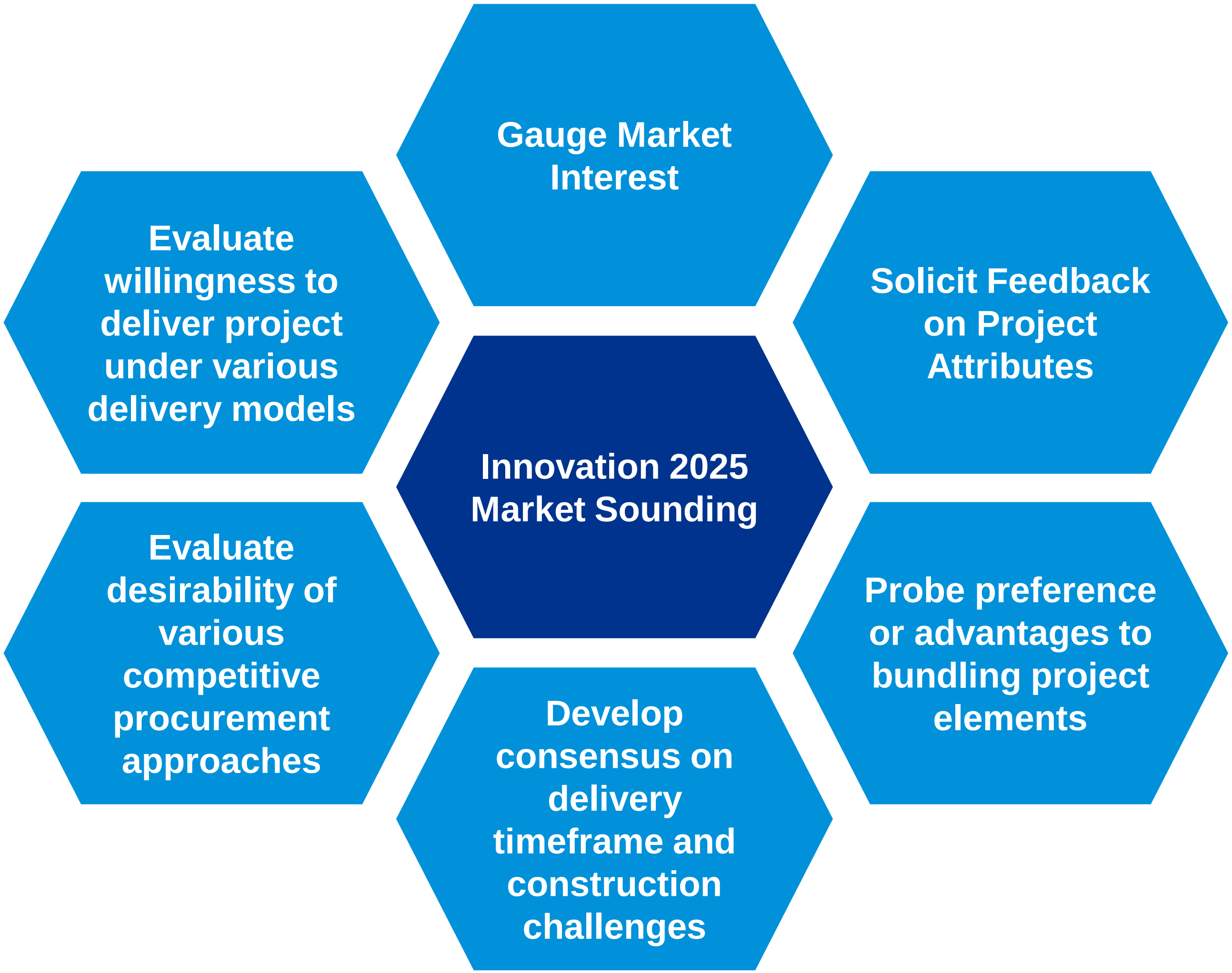
Level 3 Analysis

Quarterly analysis used to assess and compare cash flow and full accounting impact of development scenarios

Sample inputs include:

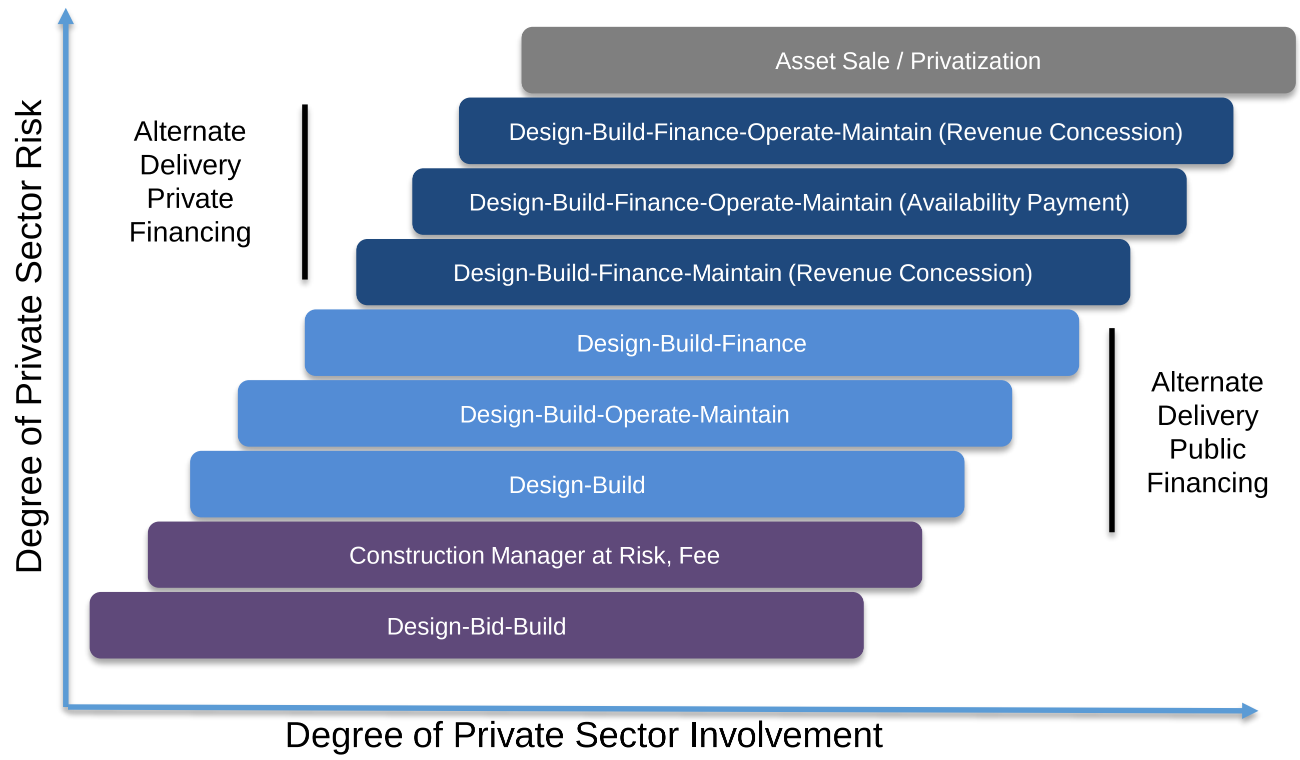
- Full cash flow waterfall.
- Detailed development assumptions including program cost information at a unit level and a spend curve, detailed financing costs and commercial structuring assumptions, operating costs at a unit level, and capitalization rates for terminal value calculations (as applicable)
- Level 3 will also incorporate full deal assumptions from preferred bidder(s).

Next Steps


Gauge Market Interest
Evaluate willingness to deliver project under various delivery models
Solicit Feedback on Project Attributes
Innovation 2025 Market Sounding
Evaluate desirability of various competitive procurement approaches
Probe preference or advantages to bundling project elements
Develop consensus on delivery timeframe and construction challenges

Slide Appendix

Potential Procurement Models



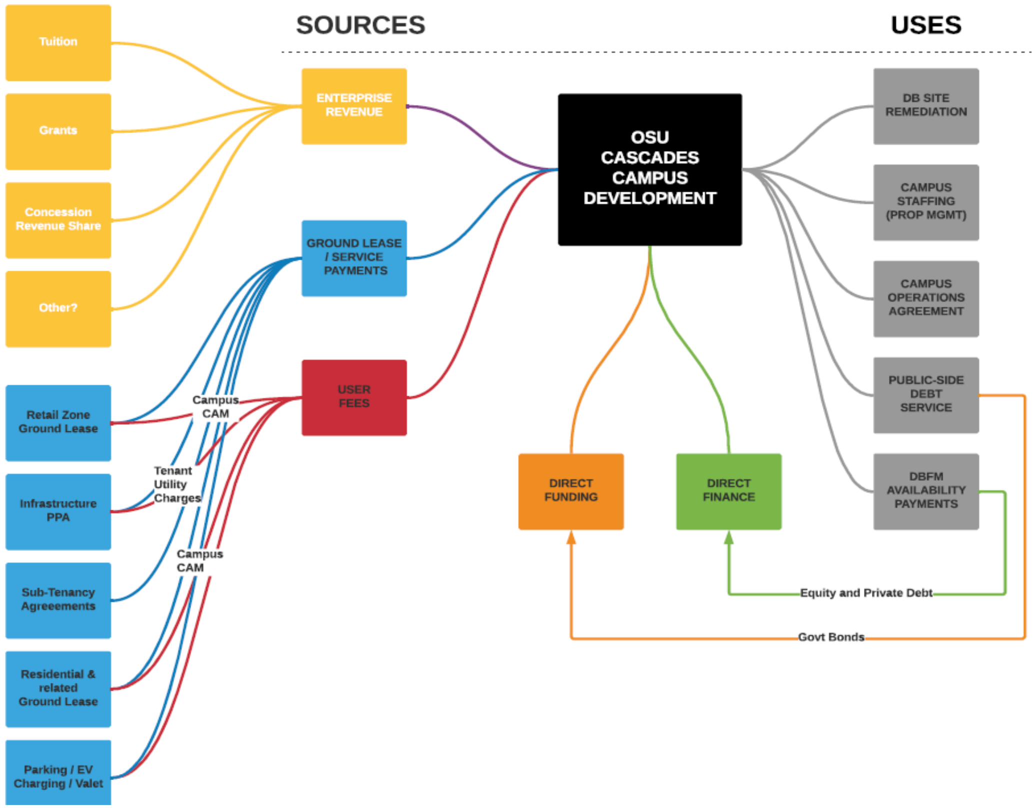
Refine OSU-C's considerations of interest for potential delivery options

	Credit Capacity: Rating Agencies	Balance Sheet Treatment	Demand Risk	Maintenance Risk	Excess Cash Flow
Design-Bid-Build	Direct credit obligation	On Balance Sheet	OSU-C	OSU-C	100% during project
Availability Payment Concession	Indirect credit obligation	On Balance Sheet	OSU-C	Developer	Portion during project
Hybrid Availability Payment Concession	Indirect credit obligation	On Balance Sheet	OSU-C & Developer	Developer	Portion during project
Revenue Concession	Off Credit	On Balance Sheet	Developer	Developer	Portion during project
Developer Ground Lease	Off Credit	Off balance Sheet	Developer	Developer	None**

Results of Analysis can be used to test options for market sounding

Affordability Analysis
Compare long term operation and maintenance costs to envisioned revenue stream

Next Step:
Options Analysis



- Compare Traditional Delivery Approach to Alternative Approaches
  - e.g: Self-Finance
    - Design Build
    - OSU-C responsible for O+M
  - e.g: Availability Payment
    - DBFOM
    - OSU-C makes "performance-based" payments
    - Contractor responsible for O+M

Isolating a model suited to OSU-C should be an iterative process

Key Success Factors Going Forward

Establish key value drivers

- Memorialize how Innovation 2025 will foster the mission and vision of OSU-C

Assemble the campus' development and advisory team

- **Technical:** Establish a clear program and technical specifications (i.e. the "must haves"), performance requirements (i.e. how the facilities must function), and cost estimates
- **Financial:** Establish the commercial terms, risk profile, and financial structuring
- **Legal:** Determine and Establish the legal framework/authority and drafting of the project agreement

Develop the procurement process for Innovation 2025

- A deliberative process for the consideration and inclusion of modifications to the baseline structure, including the authority for timely decision making
- Minimum qualification criteria for potential counterparties
- Evaluation criteria by which OSU-C will select the short-list and/or preferred counterparties
- Submittal requirements against which the evaluation criteria will be applied

Commit to a transparent process

- Clarity about the governance process and timelines, and establish clear lines of accountability
- Establish clear affordability thresholds for the capital investment and overall lifecycle costs of the project

Develop the process for long-term project governance

- Lay foundation for active management and monitoring of contractual compliance kpmg.com/socialmedia