☐ **IDAPA RULE** ☐ **IDAPA FEE** ☒**BOARD ACTION REQUIRED**
☐ **BOARD POLICY** ☐ **INFO ONLY, NO ACTION REQUIRED**

AGENDA ITEM
Idaho Park and Recreation Quarterly Meeting
February 4, 2025
Boise, ID

AGENDA ITEM: **HEYBURN RECREATIONAL RESIDENCE SITE AND FLOAT HOME LEASE PAYMENT FEES**

ACTION REQUIRED: **Board Action Required**

PRESENTER: **David E. White, North Region Manager**

PRESENTATION

BACKGROUND INFORMATION:

At the October 28, 2024 Board Meeting, staff presented the 2024 Heyburn Recreational Residence Site and Float Home Appraisal for the 143 residence lots and the 23 float homes to the Board for approval as required in the lease. As presented, the appraised values increased – almost doubled – in value from the past appraisal completed in 2019. Due to a delay in receiving the appraisal being completed late, staff made recommendations to the Board allowing for the lessees to appeal the site specific and overall appraisals based on a specific schedule.

The Board took the following actions:

1. Approved the Valbridge, Appraisal Report, Heyburn State Park and the market values stated therein for the recreational residence and float home lease lots, dated September 3, 2024.
2. Postponed the Mid-Term Base Rate Adjustment based on the appraisal, which is to be implemented instead of January 1, 2025, January 1, 2026.
3. Approved Calculation of the January 1, 2025, lease rate by applying the unadjusted CPI for the 12 months preceding the preparation of the annual 2025 billing.
4. Postponed calculation of the January 1, 2026, lease rate at 5% to be determined in the February 4, 2025, Board meeting in Boise.
5. Set deadlines for lessees to present any factual or calculation errors to the Department by December 30, 2024, for Department review and consideration with approved appeals applied to the respective site appraisal.
6. Set deadlines for lessees that disagree with the overall appraisal to provide an independent appraisal of their site as outlined in the lease's Appeal Rights with Respect to Mid-Term Appraisal must be received by March 30, 2025. If a third appraiser review is required as outlined in the appeal process, this must be completed by June 30, 2025. Approved appeal adjustments will then be applied to the respective site appraisal.
7. Approved the development of an Amendment to the Recreational Residence Site Lease and the Standard Float Home Lease that includes all the aforementioned items.

Since the October 28th Board meeting, staff invoiced the lessees for the 2025 leases according to the Board directive in November 2024. The Park was contacted by a couple of lessees about filing a site-specific appeal, asking what needed to be done and what the time frame was, but ultimately the Park did not receive any appeals.

The Board received the attached letter from Mr. John F. Magnuson, the lessees legal counsel for the Heyburn Leaseholder's Association. The Association engaged Lembeck Appraisal and Consulting, Inc. to review the original appraisal. The Lembeck appraisal found: "Given that the appraised value of the leasehold sites, was in fee simple and without regard to any limiting conditions (which do in fact exist), it was concluded that the appraised value was reasonable." Hence, to date, no appeal of the overall appraisal itself has been received.

Mr. Magnuson also states that, ". . . Mr. Lembeck further concluded that the lease rate, as applied to the fee simple fair market value, should be adjusted based upon an alternative capitalization rate that would take into account the limits placed on the leaseholders' use of the leasehold sites."

To recap the public comment regarding the lease rate during the October 28, 2024 Board Meeting, the leaseholders argued each time an appraisal or new lease has been presented for Board approval that the limit of 185 days annual use should result in a lower lease rate.

In 2000, the Leaseholder's Association challenged the lease in court which resulted in the Judge requiring the Department to develop and articulate the rationale for the increase and the 185 day use limit. Based upon this process in 2001, the Board established a 5% of fair market value (FMV) annual rent. The leaseholders did not appeal the decision nor in 2004 when the Board approved the mid-term appraisal.

After the Department completed the 2008 appraisal for the 2010 lease, the economy suffered greatly reducing property values. The Department in conjunction with the leaseholders agreed to reduce the appraisal 25% and the annual rent to 3.75% through 2019. After the leaseholders requested to not increase the rate, the Board approved the 2019 appraisal and implementation of the 2020 leases with the rental rate returning to 5% which considered the limiting conditions and the 185 days of use limit.

The Department assessed what the rental rate should be for encroachments and private exclusive use of the Trail of the Coeur d'Alenes and other state park properties that do not have limiting conditions in establishing an 8% of FMV annual rental rate that the Board approved in 2010.

STAFF RECOMMENDATIONS:

Staff recommends the Board approve the following:

> Calculation of the January 1, 2026, lease rate at the contracted rate of 5% appraised value, and, adjusting this amount by the unadjusted CPI for the 12 months preceding the preparation of the annual 2026 billing.

JOHN F. MAGNUSON
ATTORNEY AT LAW

ADMITTED IN IDAHO

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December 31, 2024

Idaho Department of Parks Board Members
Brian Beckley, IDPR Board Chairman
Charles Roady, IDPR Director
Hugh Cooke, IDPR Director
Jim Keating, IDPR Director
Amy Manning, IDPR Director
Cortney Liddiard, IDPR Director

E-MAIL TRANSMISSION

Re: Heyburn Leaseholders Association's Appeal and Request for Review of Lease Rates

Dear IDPR Board Members:

I write on behalf of the Heyburn Leaseholders Association ("the Association"). By way of background, on September 18, the Association received an email notifying its members of an IDPR Board meeting on Monday, September 23, at 9:00 a.m. at Harriman State Park to consider a newly completed appraisal for purposes of recalculating the lease rates for the Association's members. The Association simultaneously received IDPR staff's recommendation to accept the new appraisal of the leasehold sites.

This information was received two business days before the Board was scheduled to approve the appraisal. The underlying leases contained a deadline for completion of the appraisal of July 1 of 2024, over two months before the appraisal was completed and transmitted on the eve of the Board's September 23 meeting. The timing outlined in the lease was designed to create a fair process for the Association's members to review, evaluate, and discuss the appraisal. I know this to be true because I was involved in the lease negotiations on behalf of the Association.

On September 19, 2024, I wrote to the Board, on behalf of the Association, requesting that the Association be given additional time to engage its own independent professional to opine as to the appraised value of the leasehold sites. We were very appreciative when the Board determined to table any action on the appraisal at its September 23 meeting. The Board then scheduled a special meeting for late October to re-address the issue. During the intervening period of time, the Association engaged Jeff Lembeck, MAI, of Lembeck Appraisal & Consulting, Inc. to review the appraisal provided by IDPR staff on September 18. Given that the appraised value of the leasehold sites, was in fee simple and without regard to any limiting conditions (which do in fact exist), it was concluded that the appraised value was reasonable. However, Mr. Lembeck further concluded that the lease rate, as applied to the fee simple fair market value, should be adjusted based upon an alternative capitalization rate that would take into account the limits placed on the leaseholders' use of the leasehold sites.

For example, while the fee simple fair market value of a leasehold site, without regard to any limiting conditions on use, might be "X," a lower lease rate as a factor of that value should apply given that the leaseholders can't lease the full fee simple right. Limits on the leaseholders' rights include, as you are aware, several unique considerations. The leasehold site is limited to 185 days in any 365 day period and no fencing or other exclusion of the public may be made from the leasehold sites. Thus, a leaseholder is not renting the full fair market value of the site and an appropriate capitalization rate should be applied to the fair market value of the fee simple interest to result in a fair, equitable, and market rate of rent.

During the intervening period of time, the Association has reengaged Mr. Lembeck, who is more than qualified, to render an independent market based evaluation of the appropriate capitalization rate to apply under these circumstances. We enclose for the Board's consideration a copy of Mr. Lembeck's report, which concludes as follows:

- The appraised values as determined by IDPR's appraisal are reasonable based on the hypothetical assumption that the appraiser was to value the fee simple interest of the leasehold sites. However, the appraised value of the sites, in fee simple, does not adequately reflect the statutory restrictions affecting the lease sites. An appropriate discount of 40% to 50% should be applied to account for these limitations.

- IDPR's selective rate of return (5%) is not supported by market data and appears overstated.

- IDPR's reliance on rates used by other governmental agencies raises concerns as those properties may not be subject to the same restrictions applicable to the leasehold sites at Heyburn, such as partial-year occupancy or non-exclusive use.

- A more accurate approach would involve using market-derived capitalization rates from comparable properties in the area. Based on waterfront sales data, a capitalization rate in the range of 2.5% to 3.5% would be more reasonable and better reflective of actual market conditions.

The Association respectfully asks that the Board consider Mr. Lembeck's enclosed report and (1) apply an appropriate discount to the appraised leasehold values (40% to 50%); and (2) calculate the leasehold rates for the coming lease term by utilizing a capitalization rate of 3%, which is the midpoint of the actual market capitalization rates as determined by Mr. Lembeck.

Sincerely,

John F. Magnuson

JFM/krn
Enclosure
cc: Susan Buxton, IDPR Director
David White, IDPR

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CONSULTATION REPORT

166 Ground Lease Sites

Heyburn State Park
Benewah County, Idaho

DATE OF REPORT: Decmeber 29, 2024

BY: Jeffrey D. Lembeck, MAI

LEMBECK APPRAISAL & CONSULTING, INC.
201 W North River Dr, Ste. 305
Spokane, Washington 99201
(509) 326-4130

REPORT NO.: 24.195.1

Decmeber 29, 2024

Heyburn State Park Leaseholders Associations
c/o Michael Fereday
2931 Moser St
Moscow, ID 83843

RE: 186 Ground Lease Sites, Heyburn State Park, Benewah County, Idaho

Dear Mr. Fereday:

At your request, I have reviewed the appraisal prepared for the Idaho Department of Parks and Recreation (IDPR) regarding the valuation of 166 leased sites within Heyburn State Park. Additionally, I have analyzed the published data, methodology, and techniques utilized by the IDPR Board to estimate appropriate lease rates for these sites, with the objective of assessing the reasonableness of their conclusions.

The sites in question comprise a total of 23 float home sites, 55 primary frontage sites, and 88 secondary home sites. I previously conveyed my findings in an Appraisal Review dated October 24, 2024, in which I found that the concluded values of the hypothetical fee simple interest of the lots, as though vacant and unimproved and as though unaffected by the use restrictions, were generally reasonable.

The purpose of this consultation report is to address the reasonableness of the methodology used and the conclusions reached for both of the items listed above, specifically regarding the determination of "a reasonable rate of return based on the fair market value of the lease site."

SCOPE OF ANALYSIS

The scope of my analysis included:

- Review of the appraisal performed by Valbridge Property Advisors, dated September 3, 2024, which arrived at the market value for the subject lots under the hypothetical assumption that they are owned in fee simple and unencumbered by the use restrictions imposed by the IDPR and the leases.
- Examining materials provided by the IDPR Board, including agenda documentation for the prior rent determination meeting, which detailed the methodology and resources used for determining value and rent.
- Reviewing sample leases for the waterfront, upland, and floating home sites.
- Observing the Quarterly Board Meeting discussion concerning the Heyburn Recreation Leases via Zoom on October 28, 2024.

- While I did not inspect the individual properties during this consultation, I am generally familiar with Heyburn State Park and the location of the sites based on numerous prior visits.

OVERVIEW

According to the Valbridge appraisal, the intended use of the report was to:

> **"...establish a fair market value of each lease site as if they were owned in fee title. IDPR will use the fair market value of each site as the basis for determining annual rent, which, by agreement, is fixed as a percentage of fair market value."**

An excerpt from the August 5-7, 2019, Idaho Park and Recreation Board Meeting agenda provides additional context regarding the statutory framework guiding these valuations:

> **"The Board is required by statute to 'make and collect reasonable charges' for the use of state park lands. Idaho Code § 67-4223(7). Within Heyburn State Park specifically, 'lots and blocks may be appraised and an annual rental fixed thereon.' Idaho Code § 67-4201. The rule implementing the statute requires that:**
>
> **Base lease rates are set so as to provide the Department a reasonable return based upon the fair market value of the lease site." (IDAPA 26.01.22.090, "Rule 90")**
>
> **This rule frames two primary questions for the Board:**
>
> **1. What is the fair market value of the lease sites?**
> **2. Given that value, what is a reasonable return?"**

The analysis that follows addresses each of these questions.

MARKET VALUE

According to *The Appraisal of Real Estate*,

> **"Real property includes the interests, benefits, and rights inherent in the ownership of physical real estate. In an appraisal, a particular set of real property interests – not the real estates – is what is valued. Real estate in an of itself has no value. The rights, or interests, in real estate are what have value."1**

In its agenda discussions, the Board acknowledges that the subject's land use rights are restricted, specifically:

- "Use of the site is limited to 185 days in any 365-day period (but the owner's improvements and personal property may occupy the site year-round);
- No fencing or other exclusion of the public from the site (other than lessee-owned improvements) is allowed."

The Board further notes "Establishing the fair market value of public property is difficult because the property is typically held subject to statutory restrictions on its use. If restrictions on use were taken into account, the fair market value of the property would be substantially reduced in comparison to similar private property in the area. To account for this, appraisals conduced in preparation for sale or lease of government property typically include instructions to appraise the property under the hypothetical condition that the property is available for private ownership."

The Board acknowledges that the associated restriction would warrant a "substantially reduced" value. "To account for this" they cite instructions given to the appraisers to value the property under the hypothetical condition of private ownership. However, this approach does not adequately account for the reduced property rights conveyed to lessees, as the hypothetical assumption effectively ignores these restrictions.

While the hypothetical fee simple value (without restrictions) would be a logical starting point, the final rent calculation would necessarily require adjustment in order take these restrictions into account.

Analysis of Restrictions:
Given the seasonal occupancy and non-exclusive use of the sites, the valuation should next be adjusted to incorporate a discount reflecting these limitations. Comparable sales of encumbered properties are rare, but methodologies such as easement valuation and partial-interest analysis provide relevant insights.

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[1] The Appraisal Institute, *The Appraisal of Real Estate*, 15th ed. p. 3. 4.

Easements: The "Easement Valuation Matrix" published in the May/June 2006 issue of Right of Way is a commonly cited measure of the value attributable to an easement versus the interest held by the underlying landowner.[2] This grid is summarized at right.

EASEMENT VALUATION MATRIX

Percentage of Fee	Comments	Potential Types of Easements
90% - 100%	Severe impact on surface use Conveyance of future uses	Overhead electric Flowage easements Railroad ROW Irrigation canals Access roads
75% - 89%	Major impact on surface use Conveyance of future uses	Pipelines Drainage easements Flowage easements
51% - 74%	Some impact on surface use Conveyance of ingress/egress rights	Pipelines Scenic easements
50%	Balanced use by both owner and easement holder	Water or sewer lines Cable line Telecommunications
26% - 49%	Location along a property line, location across non usable land area	Water or sewer line Cable lines
11% - 25%	Subsurface or air rights that have minimal effect on use and utility Location with a setback	Air rights Water or sewer line
0% to 10%	Nominal effect on use and utility	Small subsurface easement

If the subject lots are only occupiable by the lessee 50% of the year, and lessees do not have exclusive use of the site (apparently aside from the interior of leasehold improvements such as cabins or storage buildings), it would be appropriate to discount their value by a rate near 50%, a level under which the comments describe this discount as "balanced use by both owner and easement holder."

Seasonal Recreation Properties

- I have researched the partial interest sale of a golf course home at Priest Lake in which two separate, sales of 1/8 (12.5%) interest in a home at 286 Fairway Drive were sold. These were sold on separate dates in August of 2022 for a price of $90,000 each. Use of the home is restricted to 3 weeks in summer/fall and 3 weeks in winter/spring, with the balance available in between. The 1/8 shares in the 3,316 SF, 4BR/3BA home sold for a price of $27/SF each.

  Four other homes on the same golf course with similar vintage and size sold within 12 months of this, and the median price of these sales was $271/SF. This implies a similar price in terms of percentage of use and ownership (12.5%) versus the percentage of the price per square foot (10.0%) of the fully-owned comparable sales (i.e. - $27/SF for the 1/8 partial ownership versus $271/SF for comparable "full" ownership).

- The Beyond Hope Marina on Lake Pend Oreille has eight-month, seasonal slips available for $2,725 to $5,690 per season, or year round use from $3,475/Yr to $6,440/Yr. The seasonal slips are available 67% of the year, and lease for 78% to 88% (averaging 83%) of the full-year rate.

- The Holiday Shores Marina on Lake Pend Orielle has five-month, seasonal slips available for $1,510/season, and annual rates of $3,024/Yr. The seasonal slips are available for 42% of the year, and the rate is 50% of the full-year rate.

These data points, when graphed, show an almost linear relationship between the number of months used versus the properties that are available year-round.

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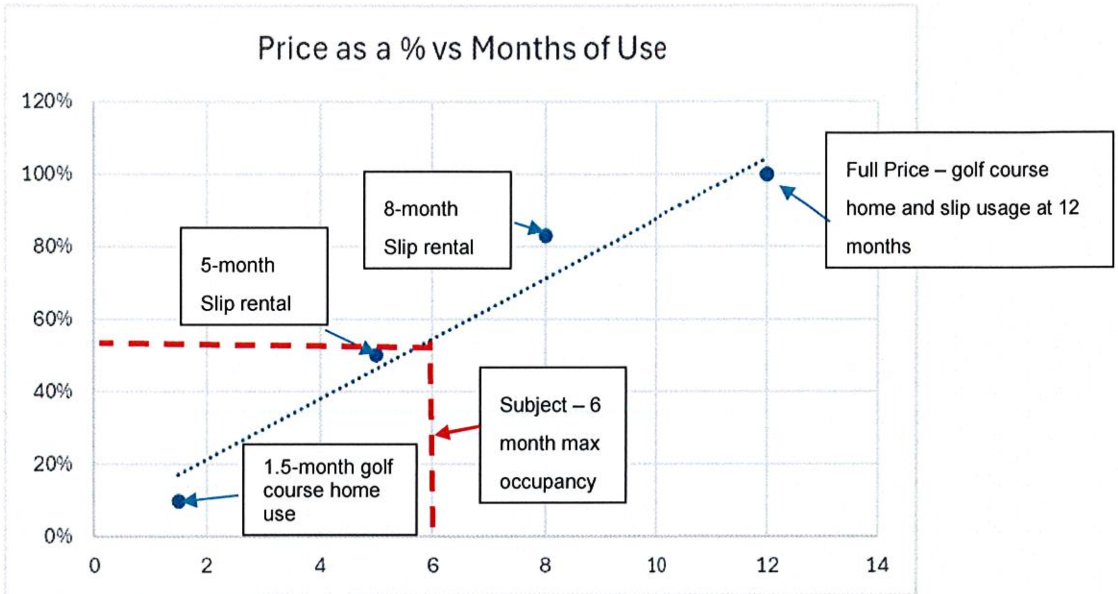
[2] International Right of Way Association, *Right of Way*, May/June 2006, p. 33.



Based on these data points, the appropriate discount for the subject properties is approximately **40% to 50%**, accounting for the six-month occupancy limitation and other restrictions.

The preceding evidence showed that commonly used discounts for partial interests in property are roughly proportionate to the percentage of use. The easement matrix suggests a price near 50% for a property with balanced use after application of the easement, while the transactions involving recreational properties suggest a price near 55%-60% of the "full" price for a property with six months of usage versus the same property with year-round use. Collectively, **the data indicates that a discount to the subject of 40% to 50% would be appropriate for the valuation of the subject properties**, given their limitation of six-month occupancy alone (not considering other limitations on the bundle of rights such as non-exclusive use, inability to alter the property, inability to encumber the property with a mortgage, etc.)

REASONABLE RATE OF RETURN

The Board's approach appears to rely on a standard income-capitalization formula:

I = R × V, where:

- **I** = Income (fair market rent)
- **R** = Rate of return (capitalization rate)
- **V** = Market value

The Valbridge report concludes to a hypothetical market value for the lots as though owned in fee simple and unencumbered by the exclusive use and six-month occupancy restrictions, but does not directly derive the market rent. In this case, the value to be used has been established, and the rate to be applied by the Board (signified by the letter "R") is effectively a land capitalization rate. A capitalization is distinctly different from a yield rate, in that it reflects a single year's income, whereas a yield rate measures the internal rate of return over a specified holding period.

In its Agenda Letter, the Board states that "Rule 90 provides that the Board is to establish a reasonable rate of return based upon the fair market value of the lease site." In its response to a prior consulting report written by appraiser Ed Morse, the Board remarked that, "In adopting Rule 90, the Board did not require that the rent be based on comparable market rents, on discount rates, on cap rates, on market rates of return, or on any of the other fluctuating market indicators discussed in Mr. Morse's consulting report. Rather, the Board chose to require only that the return be "reasonable." This appears to give the board members great latitude in the application of what they consider to be a reasonable rate of return. The Board also commented "So while market rates of return are certainly factors that the Board may consider, the Board is not required to establish a 'market rent' as advocated by Mr. Morse."

However, in its written response to the Morse report, they state the following:

> Moreover, were the Board to adopt Mr. Morse's recommendation that the Board employ market rent by multiplying the market discount rate by the value of the "actual leased property right," the appraised values may be lower, but the rate of return would be substantially higher than 5%. As indicated in Mr. Morses's report, current market rates are as follows:
>
> - Average discount rate: 7.33%
> - Overall cap rate: 6.23%
> - Residual cap rate: 6.58%
> - Prime rate; 5.50%
>
> Likewise, the Idaho State Treasurer annually sets a base interest rate for each fiscal year using the "weekly average yield on United States treasury securities as adjusted to a constant maturity of one (1) year." Idaho Code § 28-22-104. The base rate for FY 2020 is 7.125%.
>
> In short, the 5% rate of return is already substantially discounted from typical market rates of return. While, as Mr. Morse points out, discount and interest rates were two or three percentage points higher at the time the Board established the 5% rate, such fact does not demonstrate that the 5% rate is now unreasonable. Such fact is equally consistent with the proposition that the 5% rate was, if anything, too low at the time of its establishment when compared to then-existing interest rates.

Yield Rates vs Cap Rates: The Board appears to conflate yield rates with cap rates in the discussion illustrated above; for example, they cite an average discount rate of 7.33%, an overall cap rate of 6.23%, a residual cap rate of 6.58%, and a prime rate of 5.50%. Again, a discount rate is a yield rate and is the expected rate of return *over a specified holding period*; because it has a growth rate built into the formula, it typically lies above the simple land cap rate for the same property (all else being equal).

The general formula for a yield rate is:

$$Y = R + A$$

where:

- **Y** = the yield rate
- **R** = Rate of return (capitalization rate)
- **A** = adjustment for the change in expected income and value (commonly a growth rate reflected by CPI or other inflation or growth adjustments)

As such, in a market where the change in value is expected to be positive, a yield rate will always exceed the capitalization rate. Rates of capitalization and yield rates should not be conflated.

Overall Cap Rates versus Residual Cap Rates: The residual cap rate is also traditionally higher than the standard overall rate, because it is applied at the end of the holding period to reflect the rate of return to be *applied in the final year of the holding period* (most commonly applied by real estate appraisers using a ten-year discounted cash flow analysis). This premium is commonly built in to reflect the greater uncertainty at the end of the holding period.

Overall Rates versus Interest Rates: The prime lending rate is also a yield rate based on the return required for a loan over the term of the mortgage, rather than a return on a single year's income. Interest rates are not the equivalent of direct cap rates.

The comparison of rates used by the Board would appear to be developed without differentiating these rates appropriately, and would therefore implicitly overstate the land cap rate.

Use of other Government Agency Rates:
Additionally, the Board references rates used by other agencies, such as the U.S. Forest Service (5%), the Montana Department of Natural Resources (5%), the Idaho Department of Lands (4%), and others, as justification for its conclusion. However, it is unclear whether the properties assessed by these agencies are similarly affected by the key restrictions impacting the subject properties, namely their six-month total annual occupancy limitation, and non-exclusive use.

It is important to note that rates established by government agencies may not always align with standard appraisal practices or market-derived methodologies. For instance, the Uniform Standards of Federal Land Acquisition cautions:

> **"Sales to government entities must therefore be viewed as suspect from the outset... [and] because of the likelihood of such nonmarket motivations, appraisers can consider sales to buyers with the power of eminent domain as evidence of market value only when it is certain that those sales truly represent the market value of the land in question."**

This guidance emphasizes the need to thoroughly assess government-established rates to confirm their relevance to the specific conditions and restrictions of the subject properties. Without this evaluation, any conclusions may lack a true basis for comparing rates among similar properties.

Suggested Alternative Option - Use of Overall Rates Extracted from Market Data

The Board has stated that "...market rates of return are certainly factors that the Board may consider...." In line with this, Lembeck Appraisal & Consulting, Inc. has conducted appraisals of several commercial waterfront properties in North Idaho, during which we researched and identified market rates of return. Although sales of income-producing properties are relatively rare, we have identified six transactions from past assignments that provide land capitalization rates. These market-derived rates of return from our database are summarized below:

OVERALL RATE INDICATIONS AMONG NORTH IDAHO INCOME-PRODUCING WATERFRONT SALES						
No.	1	2	3	4	5	6
Property	Low's Resort & Marina Nordman, ID	Confidential Bonner County, ID	Beauty Bay Marina Coeur d'Alene, ID	Spirit Lake Marina Spirit Lake, ID	Cavanaugh's Resort Coolin, ID	The Lodge at Carlin Bay Harrison, ID
Sale Date	3/13/2023	11/29/2021	6/15/2021	11/3/2020	11/9/2017	11/28/2016
Analysis Price	$2,500,000	$4,228,632	$2,650,000	$1,300,000	$1,900,000	$1,850,000
Gross Revenue	$120,000	$152,000	$96,000	$40,800	$57,600	$60,000
Low End Expense Ratio	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
High End Expense Ratio	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Low End NOI	$30,000	$38,000	$24,000	$10,200	$14,400	$15,000
Upper End NOI	$72,000	$91,200	$57,600	$24,480	$34,560	$36,000
Low End Overall Rate	1.20%	0.90%	0.91%	0.78%	0.76%	0.81%
High End Overall Rate	2.88%	2.16%	2.17%	1.88%	1.82%	1.95%
Overall Rate w/o Expenses	4.80%	3.59%	3.62%	3.14%	3.03%	3.24%

The sales consist of a mix of waterfront properties featuring restaurants, boat slips, RV spaces, or combinations thereof. These properties were primarily purchased for the value of the underlying land, with no immediate plans for redevelopment, as they were actively operating and generating cash flow under their existing uses.

The Board's rationale for its 5% rate of return is conveyed in its statement: "In short, the 5% rate of return is already substantially discounted from typical market rates of return." However, the sales data contradict this assertion. Using "typical" operating expense ratios of 40% to 75% for commercial income-producing waterfront properties, the derived rates of return range from as low as 0.76% per year to 2.88% per year. Even if operating expenses are ignored entirely and the land capitalization rate is based solely on gross revenues, the rates range from only 3.03% to 4.80%, with a median of 3.42%. Like the subject properties, these are waterfront-oriented properties with highly seasonal usage patterns.

The market-derived data strongly suggests that a lower overall rate is appropriate for a seasonal, waterfront property in North Idaho compared to the 5% rate applied by the Board.

CONCLUSIONS

The two primary issues being considered are 1) Market Value and 2) Reasonable Rate of Return.

1. **Market Value:**

   The appraised values are reasonable based on the hypothetical conditions placed on the appraiser, but should only be used as a starting point. They do not adequately reflect the statutory restrictions affecting the lease sites. An appropriate discount of 40% to 50% should be applied to account for these limitations.

2. **Rate of Return:**

   The Board's selected rate of return (5%) is not supported by market data and appears overstated. This seems to result from a confusion between **yield rates** and **capitalization rates (cap rates)**. A yield rate represents the total return over the life of an investment, factoring in growth and future cash flows. On the other hand, a cap rate measures the return based on one year's stabilized income as a percentage of the property's value. For the purposes of determining a rate of return under the IRV formula (Income = Rate × Value), the cap rate is the appropriate measure.

   The Board's reliance on rates used by other government agencies raises concerns, as those properties may not be subject to the same restrictions as the subject properties, such as partial-year occupancy or non-exclusive use. Without fully accounting for these differences or understanding the basis for the rate conclusions used by those agencies, such comparisons may not be reliable.

   A more accurate approach would involve using market-derived **capitalization rates** from comparable properties in the area. Based on waterfront sales data, a cap rate in the range of **2.5% to 3.5%** would be more reasonable and better reflect the return typically expected by market participants for properties with seasonal, water-oriented uses, such as the subject sites.

Sincerely,

J. D. Lembeck

Jeffrey D. Lembeck, MAI

CERTIFICATION

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have not performed any services with regard to the property that is the subject of this appraisal as appraisers or in any other capacity within the past three years other than reviewing the Valbridge Appraisal as part of the source materials being used by the Board.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- The use of the report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have not made a personal inspection of the properties that are the subject of this report.
- No one provided significant real property appraisal assistance to the persons signing this certification.
- As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.

J. D. Lembeck

Jeffrey D. Lembeck, MAI
ID Certified General Real Estate Appraiser
No. CGA -332

PROFESSIONAL QUALIFICATIONS
Jeffrey D. Lembeck, MAI

(jeff@lembeckappraisal.com/509.326.4130 ext. 109)

PROFESSIONAL MEMBERSHIPS AND ASSOCIATIONS

- MAI member, Appraisal Institute, Certificate #10568 (1994 - Present)
- Chair, Washington State Real Estate Appraiser Commission, 2018, 2019
- Commissioner, Washington State Real Estate Appraiser Commission, 2013-2017
- State of Washington Certified General Real Estate Appraiser, No. 27011-1100168
- State of Idaho Certified General Real Estate Appraiser, No. CGA 332
- President, Inland Northwest Chapter of the Appraisal Institute, 2000, 2010
- Appraisal Institute National Admissions Committee, 2004
- Appraisal Institute National Associate Member Guidance Subcommittee, 2004
- Appraisal Institute Leadership Development and Advisory Committee, 1998, 2004
- Vice President, Inland Northwest Chapter of the Appraisal Institute, 1999, 2007
- Board of Directors, Inland Northwest Chapter of the Appraisal Institute, 1997, 1998
- House Committee Chair, Seattle Chapter of the Appraisal Institute, 1995
- Qualified as expert witness in U.S. Bankruptcy, Washington, and Idaho Superior Courts
- Washington State Department of Transportation (WSDOT) Approved Appraiser
- Approved Market Study Provider, Washington State Housing Finance Commission
- Approved Market Study Provider, Idaho Housing and Finance Association
- Approved Market Study Provider, Montana Board of Housing
- Spokane Association of Realtors
- Coeur d'Alene Association of Realtors
- International Right of Way Association

EDUCATION

- Washington State University, Bachelor of Arts, Business Administration (Finance) with minor in Economics, May, 1988
- Completed all educational, examination, and experience requirements for MAI designation, 1994
- Over 1,000 hours of appraisal courses and seminars

BUSINESS EXPERIENCE

- April 1999 - Present: Owner, Lembeck Appraisal & Consulting, Inc.
- October 1995 – April 1999: Staff Appraiser, Auble & Associates, Inc., Spokane, Washington
- March 1993 – October 1995: Manager, Commercial Real Estate Appraisal Division, Washington Mutual Bank, Seattle, Washington
- June 1991 – March 1993: Staff/Review Appraiser, Washington Mutual Bank, Seattle, Washington
- April 1989 – June 1991: Staff Appraiser, Schueler, McKown & Keenan, Inc., Seattle, Washington
- July 1988 – April 1989: Staff Appraiser, Albertini & Morgan, Inc., Bellevue, Washington

SPEAKING ENGAGEMENTS

- Spokane-Kootenai Real Estate Research Committee - Real Estate Market Forum: Spokane-Kootenai Apartment Market Overview, 2023
- Seattle Chapter of the Appraisal Institute – Fall Conference: Eastern Washington Real Estate Markets, 2021

PARTIAL CLIENT LIST

- Bank of America
- Banner Bank
- Boeing Employee's Credit Union
- Chase Bank
- City Bank
- City of Spokane
- Columbia State Bank
- Community First Bank
- Compatible Lands Foundation
- First Interstate Bank
- General Services Administration (GSA)
- GESA Credit Union
- Heritage Bank
- HomeStreet Bank
- Idaho Housing and Finance Association
- Idaho Independent Bank
- Idaho Transportation Department
- Impact Capital
- Inland Northwest Bank
- Key Bank
- Mountain West Bank
- Numerica Credit Union
- RiverBank
- Spokane County
- Spokane Teachers Credit Union
- Spokane Airport Board
- State Bank Northwest
- State of Idaho Department of Transportation
- State of Washington Attorney General's Office
- Thomas Development
- U.S. Bank
- Umpqua Bank
- Union Bank
- Washington Community Reinvestment Association
- Washington State Department of Transportation
- Washington Trust Bank
- Wells Fargo Bank
- Wheatland Bank
- White Water Creek, Inc.
- Zions Bank

STATE OF WASHINGTON

DEPARTMENT OF LICENSING - BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

WASHINGTON STATE DEPARTMENT OF LICENSING

CERTIFIED GENERAL REAL ESTATE APPRAISER
SUPERVISOR

JEFFREY DAN LEMBECK

1100168	**12/06/1991**	**11/17/2025**	
License Number	Issue Date	Expiration Date	Marcus J Glasper, Director

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Real Estate Appraiser Board

JEFFREY LEMBECK
Real Estate Appraiser License
CGA-332

Expires: 17-Nov-2025

Russell Barron
Administrator