

XXXX AVENUE
TOWN OF XXXX
XXXX COUNTY, NEW YORK

APPRAISAL REPORT

of

INDUSTRIAL OFFICE BUILDING

OWNER OF RECORD

XXXX

PREPARED FOR

XXXX

DATE OF PREPARATION

February XXXX

DATE OF VALUATION

February 10, XXXX

THURSTON, CASALE & RYAN, LLC
REAL ESTATE APPRAISAL AND CONSULTING

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March 1, XXXX

XXXX
XXXX
XXXX
XXXX

Re: Industrial Office Building
XXXX Avenue
Town of XXXX, XXXX County

Dear XXXX:

To fulfill my responsibility outlined in the Letter of Engagement submitted XXXX, I present this Appraisal Report prepared XXXX. As agreed, the market value of subject's fee simple interest is provided in the attached report, along with the supporting data and analysis that this appraisal format affords. The date of valuation is February 10, XXXX.

The opinions of value reported herein are subject to those General Assumptions and Limiting Conditions on page 2, as well as those Extraordinary Assumptions and Hypothetical Conditions found starting on page 5. The steps taken to research, analyze, and estimate market value are as outlined within my Scope of Work on page 5.

The client and intended user of this report are XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX. It may not be reproduced in all or part, or employed by any other entity, without my written permission.

I inspected the property and prepared this report. Thank you for your confidence in my services. If you have any questions or comments, please call at your convenience.

Respectfully submitted,

THURSTON, CASALE & RYAN, LLC

Todd P. Thurston, MAI
Principal
NYS Certified General Real Estate Appraiser #46-20952

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EXHIBITS (tabs):

- 1 SUBJECT AND NEIGHBORHOOD PHOTOS
- 2 DEED
- 3 COMPARABLE SYNOPSIS

I. 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, are my personal, impartial, unbiased professional analyses, opinions, and conclusions.
- I have no bias or a 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 not performed services, as an appraiser or in any other capacity, regarding the property that is subject of this report within the three-year period immediately preceding acceptance of this assignment.
- 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 the report.
- I have made a personal inspection of the subject of this report.
- No one provided significant real property appraisal assistance to the person(s) signing this certification.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.

Todd P. Thurston, MAI
Principal
NYS Certified General Real Estate Appraiser #46-20952

II. GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is made with the following general assumptions:

1. No responsibility is assumed for the legal description or for matters including title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
5. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the appraiser did not observe the existence of hazardous materials, which may or may not be present on the property. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as: asbestos, urea-formaldehyde foam insulation, and other potential hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.
12. The distribution, if any, of the total valuation in this report between land and site improvements applies under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
13. Possession of this report, or a copy thereof, does not carry with it the right of publication.
14. The appraiser, by reason of this appraisal, is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.
15. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval of the appraiser.
16. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey or analysis of the property to determine whether or not it is in conformity with the various detailed requirements of ADA. It is possible that such a survey/analysis would reveal that the property is not in compliance with one or more requirements of the act. If so, this fact could have a negative impact upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance was not considered in estimating a value for the property.

III. QUALIFICATIONS: TODD P. THURSTON, MAI

<p>EMPLOYMENT HISTORY</p>	<ul style="list-style-type: none"> ◦ 8/03-Current: Principal—Thurston, Casale & Ryan, LLC ◦ 11/01-7/03: President—Thurston Appraisal Company, LLC ◦ 12/93-11/01: Vice President—Pomeroy Appraisal Associates, Inc. ◦ 06/91-12/93: Staff Appraiser—Pomeroy Appraisal Associates, Inc.
<p>EDUCATION AND APPRAISAL RELATED COURSEWORK</p>	<p>Bachelor of Science in Finance: Rochester Institute of Technology (1991) Appraisal Institute (since 2003): 7-hour USPAP Update (03,05,07,09,11,13,15); Case Studies in Valuation of Upstate NY (03,05,07-10,12,14-17), Solving Appraisal Problems in Upstate NY (04), Apartment Appraisal Concepts and Applications (06), Condominiums, Co-Ops, and PUDs (07), Business Practice and Ethics (07, 12), Appraisal of Nursing Facilities (10), Data Verification Methods (10), Appraising Convenience Stores (10), Fundamentals of Separating RP, PP, & IBA (12), Problems in the Valuation of Partial Acquisitions (12), Rates & Ratios: Making Sense of GIMs, OARs, & DCF (14), Analyzing Operating Expenses (14), Subdivision Valuation (16) IRWA: Principles of Real Estate Law (02), Principles of Real Estate Negotiation (02), Easement Valuation (04), Mobile Home Relocation (06) ASFRMA: Yellow Book: Uniform Appraisal Standards for Federal Land Acq. (06)</p>
<p>PROFESSIONAL AFFILIATION</p>	<ul style="list-style-type: none"> ◦ Member of the Appraisal Institute (MAI) ◦ Member of the International Right-of-Way Association (IRWA)
<p>LICENSES</p>	<ul style="list-style-type: none"> ◦ NYS Certified General Appraiser #46-20952 ◦ Consultant Appraiser—NYS Department of Transportation
<p>COURT/TESTIMONY EXPERIENCE</p>	<ul style="list-style-type: none"> ◦ Expert witness in NYS Supreme Court and NYS Court of Claims ◦ Several assessment grievance boards (Hornell, Oswego, Greece)
<p>PROFESSIONAL EXPERIENCE</p>	<ul style="list-style-type: none"> ◦ Experience includes: airports, apartments, automobile dealerships, banks, farms, golf courses, gravel beds, hotels/motels, manufacturing plants, mini-marts, mobile home parks, office buildings, office/warehouses, nursing homes, railroads (active and abandoned), residential dwellings, residential subdivisions, restaurants, shopping centers, utility properties (i.e. gas, electric, telephone), etc. ◦ Extensive eminent domain experience involving projects and claims of the NYS Departments of Transportation and Federal Aviation Administration.
<p>EXPERIENCE HIGHLIGHTS</p>	<ul style="list-style-type: none"> ◦ <u>Frequent Presenter for local chapters of Appraisal Institute and IRWA:</u> Topics have included: "Corridor Valuation", "Extracting Capitalization Rates for Single- and Multi-Family Dwellings", "The Pitfalls of Expensing Capital Items", "The Impact of Access on Visibility & Price", "A Case Study in ATF Valuation", and "Extracting External Obsolescence from Comparable Sales". ◦ <u>Airport Projects (1991-17):</u> Involved in the valuation of airport properties and/or neighboring lands for federally funded projects to determine compensation resulting from full or partial fee acquisitions and avigation easements. List since 2005 includes: Lt. Warren Eaton (05), Massena Int'l (06), Columbia Co. (05,08,12), Floyd Bennett Memorial (09,12,14,16), Orange Co. (09), Elmira-Corning (09,16), Dansville Municipal (11), Finger Lakes (12), and Perry-Warsaw (13,14). Experience also includes appraisals of: Riverside Airport—NYS DOT appropriation (94), Hornell Airport—certiorari (99), Michael Airfield—acquisition (00), Syracuse Suburban Airport—acquisition (00, 01); aircraft hangars at Fulton Co., Hancock Int'l, Clinton Co., Elmira-Corning, Griffiss, and Tompkins Co. Airports ◦ <u>Native American Land Claims:</u> Involved in analysis and valuation of disputed lands between several Iroquois tribes and the State of New York. Played significant role in the research and development of historical land values/trending and calculation of applicable rental damages. Specific land claim areas include: Cuba Lake (99-01), Niagara River Islands (99), and Stockbridge-Munsee (95).

IV. SUMMARY OF IMPORTANT CONCLUSIONS

Location of Property: XXXX Avenue
Town of XXXX, XXXX County

Type of Property: Industrial Office

Site: 29,394± sq.ft. (0.675± Ac.); corner lot with XXXX± f.f. on XXXX Avenue and XXXX ± f.f. on XXXX Street

Building Improvement: Two-story industrial office building (c.19XX) containing 10,683 sq.ft. of gross building area

Tax Map # and Assessment:

Tax Map #	Acreage	ASSESSMENT DATA				EQUALIZATION DATA	
		Land	Improvements	Total	Taxable	Rate	Value
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Highest and Best Use
As Though Vacant: Industrial Office Development
As Improved: Industrial Office Use

Zoning Classification: XXXX District (XX)

Property Rights Appraised: Fee Simple
Value Estimate Requested: Market Value

Date of Value Estimate: February 10, XXXX

Summary of Values:

MARKET VALUE CONCLUSIONS OF APPROACHES TO VALUE	
Site Valuation	\$32,000
Cost Approach	\$417,000
Sales Comparison Approach	\$353,000
Income Capitalization Approach	
Direct Capitalization	\$419,000
Discounted Cash Flow Analysis	Not Utilized

Final Market Value:

**THREE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS
(\$375,000)**

V. IDENTIFICATION OF SUBJECT

***Picture of Subject

The appraised consists of a two-story industrial building on a 0.675± Ac. site. It is constructed of concrete block and steel with a partial cedar clapboard facade. The structure contains 10,683± sq.ft. (78% finished; remainder warehouse) and is approximately XXXX years old.

Additional photographs of subject and neighborhood are within Exhibit 1.

VI. SCOPE OF WORK

In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), I:

- Made personal inspections of the site and interior/exterior of the building improvement;
- Collected and analyzed relevant information from public/municipal sources;
- Researched and verified comparable sales, reproduction cost new data, and rental data;
- Applied all three approaches to value.

VII. INTENDED USE/FUNCTION OF APPRAISAL

The client and intended user of this report is XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX.

VIII. ASSIGNMENT CONDITIONS

Report considers the following:

- This is an Appraisal Report in a format consistent with what was formally known as a Summary Appraisal Report¹. It is prepared in compliance with the reporting requirements set forth in Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice.

IX. EXTRAORDINARY ASSUMPTIONS

Extraordinary assumptions are defined as "(a)n assumption directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. ...Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or

¹ Term was revised in USPAP beginning January 2014

about the integrity of data used in an analysis."² This report is subject to the following extraordinary assumptions:

- Site size is based on a property survey, while building area is sourced from field measurements.
- Property is assumed to be free and clear of environmental contamination or other adverse conditions. To the limited extent of my expertise, no potential issues were observed during my property inspection or interview with owner/representative. However, the client and intended users are urged to seek a qualified expert for certainty.

X. HYPOTHETICAL CONDITIONS

Defined as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. ...Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."³

- No hypothetical conditions are applicable to this valuation.

XI. PROPERTY RIGHTS APPRAISED

Interest appraised is **fee simple estate**, defined as: "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat".⁴

XII. OWNER CONTACT AND PROPERTY INSPECTION

The owner, **XXXX**, was contacted in conjunction with this assignment by telephone. The inspection of the property was set for February 10, **XXXX**, which consisted of a detailed review of the improvements and site. **XXXX** was present during the visit.

XIII. DATE OF VALUE ESTIMATE

Subject is valued as of February 10, **XXXX**.

² The Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2014-15 Edition (Washington DC: Appraisal Standards Board, 2012) U-3.

³ The Appraisal Foundation.

⁴ Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 78.

XIV. DEFINITION OF VALUE

Market value is defined as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1) buyer and seller are typically motivated;
- 2) both parties are well-informed or well-advised, and acting in what they consider their own best interests;
- 3) a reasonable time is allowed for exposure in the open market;
- 4) payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- 5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale⁵.

XV. HISTORY OF THE PROPERTY

Most recent transfer of the property took place in the following deed:

Grantor:	XXXX
Grantee:	XXXX
Deed Date:	May XX, 2000
Recorded:	October XX, 2000
Purchase Price:	XXXX (\$XXXX /sq.ft.)
Book/Page:	XXXX /XXXX
Rights/Restrictions:	No unusual encumbrances noted

A copy of this deed is included in Exhibit 2.

Subject is not actively marketed for sale at this time, and no purchase contracts are reportedly pending.

⁵ Appraisal Institute 123.

XVI. CURRENT OCCUPANCY AND LEASES IN EFFECT

Property is presently occupied by XXXX. A non-arm's lease is in place, subject to the following terms:

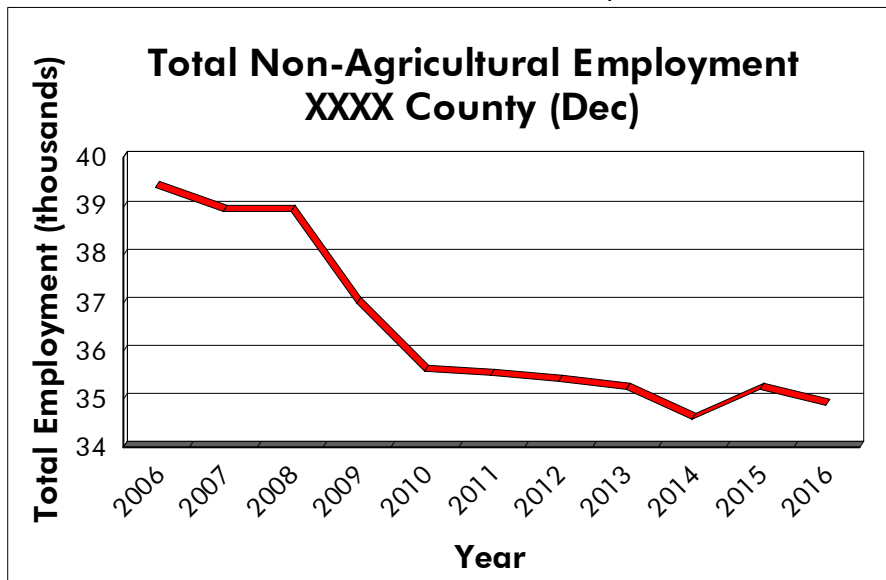
Lease Date	Leased Area	Term (yrs.)	Contract Rent			Tenant Expenses	Renewal Options
			Per Year	Per Month	Per Sq.Ft.		
01/01/01	10,683	XXXX	XXXX	XXXX	XXXX	XXXX	None

No other known lease agreements are in effect.

XVII. REGIONAL AND COUNTY/NEIGHBORHOOD ANALYSIS

***Area map

XXXX New York as a whole has experienced recessionary effects over the last decade,



and the XXXX County area is no exception. Total employment is improving, but remains well below 2008 peaks⁶ (see chart left), while population growth is stagnant⁷ (see following).

Real estate value and rental trends, in general, have been stable in response.

Neighborhood boundaries are loosely defined by XXXX to the north, XXXX to the west, XXXX to the

south, and XXXX to the east.

Immediate area is largely comprised of light industrial uses. Commercial tenancies are also present and typically concentrated at major intersections. Average building ages are 20 to 50 years, with occupancies ranging from 90% to 100%.

	2000 Population	2010 Population	Annual Change
City of XXXX	XXXX	XXXX	XXXX
XXXX County	XXXX	XXXX	XXXX
New York State	18,976,457	19,378,102	0.2%

In conclusion, subject is located in a region struggling to expand economically. Erosion to its employment base and stagnant population growth contribute to a general stabilization in

⁶ www.labor.state.ny.us

⁷ www.census.gov

real estate prices, with negative tendencies in some areas. As recessionary effects linger, no major changes are anticipated.

XVIII. TRENDS IN REAL ESTATE PRICES, RENTS AND MARKETING

Over the last three to five years, real estate prices have generally remained stable. Likewise, rent increases have been flat to slightly increasing, the latter loosely based on the CPI index in the case of gross lease arrangements.

EXPOSURE TIME/MARKETING PERIOD:

Subject's exposure time, defined as "(t)he estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market⁸", is estimated at one year based on available comparable data.

Marketing time is "(a)n opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal"⁹. Based on current market conditions, a marketing period of one year is projected.

⁸ Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 73.

⁹ Appraisal Institute 121.

XIX. ASSESSMENT AND TAXES ANALYSIS

*** Tax Map

Tax Map #	Acreage	ASSESSMENT DATA				EQUALIZATION DATA	
		Land	Improvements	Total	Taxable	Rate	Value
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Real estate taxes for the current year amount to XXXX. No delinquencies are noted.

Subject is slightly over-assessed based on the market value estimate provided herein (\$375,000).

XX. SITE DATA AND ANALYSIS

***Site sketch

Size:	29,394± sq.ft.; 0.675± Ac.
Access:	Road front; curb cuts on both fronting streets
Frontage:	XXXX Avenue: XX± f.f.; XXXX Street: XX± f.f.
Soil Conditions/Drainage:	Appears adequate
Topography:	Mostly level; frontage is at to 1-3' below grade
Shape:	Essentially rectangular
Utilities:	All public
Street Improvements:	Asphalt surface and lighting; no sidewalks or curbing
Water Features:	None
Easements/Encroachments:	None noted
Flood Zone Information:	Outside 100 year flood plain (Zone C: XXXX; Dated X/XX/XXXX)
NYS Wetland Classification:	None
Zoning Designation:	XXXX (XX): permits various office and industrial Uses—subject is conforming
Site Improvements:	Asphalt parking and access, concrete curbing and sidewalks, lawn area, mature plantings

Site Data and Analysis Conclusion:

Site is adequate for industrial office use. Physically, its topography, shape, access, drainage characteristics, etc., are conducive for development. However, it is somewhat undersized, limiting expansion possibilities and accessory usage. This is considered a potential source of functional obsolescence as subject's land-to-building ratio of 2.8:1 is inferior to ideal densities of 4:1. Refer to the Highest and Best Use section for further discussion.

XXI. IMPROVEMENT DATA AND ANALYSIS

***Building sketch

Improvement Type:	Industrial Office
Stories:	One and two-stories; 51% of total area on second floor
Gross Building Area:	10,683 sq.ft. [8,322± sq.ft. (78% finished)]
Basement:	None
Year Construction:	c.19XX; last renovated c.19XX
Actual & Effective Ages:	XX years; XX years effectively
Foundation:	Reinforced concrete
Frame:	Concrete block and steel
Roof:	Flat, built-up composition (original)
Exterior:	Split-faced concrete block and painted cedar clapboard
Windows:	Fixed, aluminum framed, insulated glass (original)
Interior Partitioning:	Office: Metal/wood studs; gypsum board with papered, painted, or vinyl covering; Warehouse: Minimal partitioning; plywood/unpainted gypsum board walls
Ceilings/Lighting:	Office: Standard and textures acoustical tile (suspended) and painted gypsum board; overhead fluorescent and recessed incandescent lighting; Warehouse: taped, unpainted gypsum board with overhead fluorescent lighting
Floor Coverings:	Office: Wall-to-wall carpeting, vinyl sheet, slate; Warehouse: Concrete
HVAC:	Office: Package units (roof mounted; original); Warehouse: Gas-fired space heaters (ceiling mounted)
Plumbing:	Four restrooms with ten fixtures total; <i>Master Plumber</i> 40-gallon electric water Heater
Electrical Service:	400 amp., three phase, four wire
Security/Fire Protection:	Wet sprinkler system throughout
Elevator:	None
Miscellaneous Features:	One 10' x 10' grade level overhead door (insulated steel); one 8' x 8' loading dock (insulated steel) with leveler and bumpers; 9' ceiling heights in warehouse

Improvement Data and Analysis Conclusion:

Building is well suited for industrial office usage. Layout is functional, consisting mainly of perimeter offices and large interior workspaces. Finishes are of average quality and are about midway through their economic life. Second level is somewhat uncharacteristic of this property class, but was necessary due to the limited site area.

Overall condition/appeal of the structure is average.

XXII. HIGHEST AND BEST USE ANALYSIS

SITE AS THOUGH VACANT:

Subject's XXXX zoning allows for a variety of light and heavy industrial uses, as well as office buildings. Industrial office development is therefore legally permitted. Site is capable of accommodating a variety of uses as its slightly sloping topography and rectangular shape are generally conducive to a number of development possibilities. It is somewhat undersized, but industrial office development remains physically possible. Vacancy rates are low and stable within the neighborhood so that industrial office development provides the highest return to the land, and therefore is financially feasible. Since no alternative to industrial office development exists that would result in a higher return to the land, **Industrial Office Development** represents the maximally productive use.

PROPERTY AS IMPROVED:

Improvement's use is legally permitted and conforms to existing bulk requirements. Physically, the improvement is conducive to industrial office usage, which is also financially feasible because of high occupancy rates and the relatively tight supply of suburban office space. Since no alternative uses exist that would result in sufficiently higher rents, **Industrial Office Use** is maximally productive.

XXIII. SITE VALUATION

The following comparables are considered in the valuation of the site as though vacant:

SELECTED COMMERCIAL/INDUSTRIAL SITES WITHIN XXXX COUNTY							
Site #	Street #	Street Name	Town	Sale Date	Sale Price	Size (Ac.)	Price/Ac.
1	XXXX	XXXX	XXXX	XXXX	\$45,000	1.185	\$37,975
2	XXXX	XXXX	XXXX	XXXX	75,000	1.062	70,621
3	XXXX	XXXX	XXXX	XXXX	16,000	0.313	51,118
4	XXXX	XXXX	XXXX	XXXX	75,000	2.256	33,245
5	XXXX	XXXX	XXXX	XXXX	23,100	0.459	50,327

Site Valuation Conclusion:

After adjustment, these sales indicate a unit value range of \$39,894 to \$61,370 per Ac. Few adjustments were applied overall, and each is accorded equal weighting in the final value estimate. Refer to Exhibit 3 for a brief synopsis of each comparable.

Based on available data, it is my opinion that subject's site has a unit value of \$47,000 per Ac., and for 0.675± Ac., a total site allocation of \$31,725 (rounded) **\$32,000**.

XXIV. COST APPROACH

Marshall & Swift's *Commercial Estimator* is utilized as the basis for replacement cost new. Refer to the following:

Detailed Report

Page: 1

Estimate Number: 98

Estimate ID: [REDACTED] Avenue

Section 1

Occupancy	Class	Height	Rank
78% Office Building	Masonry bearing walls	9.00	2.20
22% Storage Warehouse	Masonry bearing walls	9.00	2.20
Total Area	: 10683		
Number of Stories (Section)	: 2		
Perimeter	: 308		

Components	Units/%	Other
Exterior Walls: Concrete Block, Textured Face	100%	
Exterior Walls: Stud Walls-Wood Siding	20%	
HVAC (Heating): Space Heater	22%	Climate
HVAC (Heating): Package Unit	78%	Climate
Sprinklers: Wet Sprinklers	100%	

Cost as of 01/2001

	Units	Cost	Total
Basic Structure			
Base Cost	10,683	40.83	436,187
Exterior Walls			
Concrete Block, Textured Face	10,683	13.17	140,695
Stud Walls-Wood Siding	2,137	9.24	19,746
Heating & Cooling			
Space Heater	2,350	2.51	5,898
Package Unit	8,333	10.22	85,163
Sprinklers			
Wet Sprinklers	10,683	2.30	24,571
Basic Structure Cost	10,683	66.67	712,260
Miscellaneous			
Total Cost	10,683	66.67	712,260

Direct and Indirect Costs:

Marshall & Swift provides for direct costs and includes approximately 10% of the expected 15% to 25% necessary for indirect costs. Thus, an additional allotment of **15%** is provided for the estimation of replacement cost new.

Entrepreneurial Incentive:

This differs from contractor's overhead and profit, which is factored as a direct cost. Entrepreneurial incentive represents an entrepreneur's expected return on the total project including land acquisition, site development, and improvement construction. An additional **5%** is employed to acknowledge the profit motive for the typical entrepreneur.

The Breakdown Method is employed in consideration of the subject's accrued depreciation.

Physical Deterioration:

No major items of deferred maintenance were noted. Thus, physical deterioration is analyzed as incurable, defined as "... a defect caused by physical deterioration that cannot be practically or economically corrected".¹⁰ It is calculated based on the remaining reproduction cost after curable items have been deducted, and is further broken down into long-lived and short-lived items. The former involves building components that have an economic or physical life equal to that of the improvement (e.g. foundation, wall studs, etc.). As implied by name, the latter needs to be replaced at shorter intervals over the building's total physical life (e.g. roof, certain electrical components). Long- and short-lived items are represented in the table right.

Long-Lived			Short-Lived		
Effective Life	Physical Life	%	Effective Life	Physical Life	%
28	75	37.3%	16	20	80.0%

Functional Obsolescence:

No functional obsolescence is applicable.

External Obsolescence:

External forces such as the general state of the economy, extent of over-supply, availability of financing, unemployment, etc. influence whether or not external obsolescence exists and to what degree. Current economic conditions require a provision here (20%).

¹⁰ Appraisal Institute, The Dictionary of Real Estate Appraisal, Fourth Edition (Chicago: Appraisal Institute, 2002) 144.

Site Improvements:

Site improvements include: asphalt parking and access, concrete curbing and sidewalks, lawn area, and mature plantings. Based on observed depreciation/obsolescence, a total enhancement value of **\$26,000** is estimated.

Based on the foregoing, subject's market value by this approach is processed as follows:

BREAKDOWN METHOD

REPLACEMENT COST NEW:

Direct Cost						\$712,260	
Architect Fees		0.0%				0	
Additional Soft Costs		15.0%				<u>106,839</u>	
Sub-Total: Direct & Indirect Costs						\$819,099	
Entrepreneurial Incentive (based on total project costs)		5.0%				<u>43,855</u>	
TOTAL REPLACEMENT COST NEW							\$862,954
ACCRUED DEPRECIATION:							
Physical Deterioration							
Deferred Main.(Curable)						\$0	
Short-Lived Items (Incurable)	16 yrs./	20 Yrs.=	80.0% x	\$215,739 =	172,591		
Long-Lived Items (Incurable)	28 yrs./	75 Yrs.=	37.3% x	\$647,215 =	<u>241,411</u>		
Total Physical Deterioration						\$414,002	
Functional Obsolescence							
Curable			0.0% x	\$448,952 =	\$0		
Incurable			0.0% x	\$448,952 =	<u>0</u>		
Total Functional Obsolescence						0	
External Obsolescence			20.0% x	\$448,952 =	<u>89,790</u>		
TOTAL ACCRUED DEPRECIATION							<u>\$503,792</u>
DEPRECIATED VALUE OF IMPROVEMENT			41.6%				\$359,162
Site Value							32,000
Site Improvement Value							<u>26,000</u>

MARKET VALUE INDICATED BY COST APPROACH

\$417,162
(rounded) \$417,000

Cost Approach Conclusion:

Based on available data, it is my opinion that subject has a market value of **\$417,000** via this approach.

XXV. SALES COMPARISON APPROACH

The following comparables are considered in the valuation of the property as improved:

SELECTED INDUSTRIAL OFFICES WITHIN XXXX COUNTY							
Imp. Sale #	Street #	Street Name	Town	Sale Date	Sale Price	Bldg. Size	Price/Sq.Ft.
1	XXXX	XXXX	XXXX	XXXX	\$260,000	6,000	\$43.33
2	XXXX	XXXX	XXXX	XXXX	205,000	5,820	35.22
3	XXXX	XXXX	XXXX	XXXX	240,000	6,111	39.27
4	XXXX	XXXX	XXXX	XXXX	195,000	5,640	34.57

Sales Comparison Approach Conclusion:

After adjustment, these sales indicate a unit value range of \$21.47 to \$35.17 per sq.ft. Reasonable adjustments were applied overall, with Improved Sales 2 and 4 accorded greatest weighting in the final site value estimate. Refer to Exhibit 3 for a brief synopsis of each comparable.

Based on available data, it is my opinion that subject has a value of \$33.00 per sq.ft., and for 10,683± sq.ft., a total market value of \$352,539 (rounded) **\$353,000**.

XXVI. INCOME CAPITALIZATION APPROACH

The three basic components of this approach (i.e. income, expenses, and capitalization rate) are summarized as follows:

INCOME:

The following comparable rentals were analyzed in order to estimate subject's market rent:

Rental#	Street#	Street Name	Town	Lease Date	Term (Yrs.)	Leased Area	Rent/ Sq.Ft.	Landlord Provisions
1	XXXX	XXXX	XXXX	XXXX	10	20,574	\$7.53	Net
2	XXXX	XXXX	XXXX	XXXX	5	5,640	6.38	Partial Gross (Taxes incl.)
3	XXXX	XXXX	XXXX	XXXX	4	2,702	12.00	Gross

Potential Gross Income Conclusion:

After adjusting these rents for the various physical and structural differences, a market rent, on a net basis, of \$5.58 to \$6.83 is derived. Assigning greatest weight to Rental 2, potential gross income is estimated at \$5.75 per sq.ft. or **\$61,427** for the total property.

EXPENSES:

The necessary expenses to maintain subject's income stream are itemized as follows:

- o Vacancy Loss: A survey of the neighborhood and analysis of this property class indicates vacancies of 0% to 10% are typical. Based on subject's various physical factors, **10%** is considered reasonable for this analysis.
- o Management: Fees for managing single-tenant properties commonly range from 3% to 6% of effective gross income (excludes leasing commissions). The middle of the range is applicable here (**5%**).
- o Structural Repairs/Allowance for Replacements: In net lease arrangements, the landlord is typically responsible for the costs to repair/replace structural items. Based on available survey data and my experience, **\$0.20/sq.ft.** is utilized to stabilize the income stream for such repairs.
- o Miscellaneous: In order to account for the miscellaneous expenses related to ownership, a charge of **1%** of effective gross income is taken.
- o Leasing Commissions: Typical leasing commissions amount to **6%** of total base rent over the initial term (e.g. \$20,000 in annual rent with 3 year term = \$3,600 in leasing

commissions). For the purposes of this report, expense is stabilized on an annual basis (e.g. \$1,200 deducted from NOI).

CAPITALIZATION RATE:

Using various methods, a market based capitalization rate is estimated as follows:

MARKET DERIVED:

<u>Imp. Sale</u>	<u>Rate</u>
4	11.8%

BAND-OF-INVESTMENT:

<u>M/E Ratio</u>	<u>Rate</u>	<u>Derivation</u>
75%	10.41%	7.81%
25%	13.00%	<u>3.25%</u>
		Ro = 11.1%

DEBT COVERAGE RATIO:

<u>DCR</u>	<u>LTV</u>	<u>Rm</u>	<u>Rate</u>
1.3	75%	10.41%	10.2%

SUMMARY/RECONCILED OVERALL RATE 11.0%

INCOME AND EXPENSE STATEMENT/VALUE ESTIMATE:

Based on the foregoing, subject's market value by this approach is processed as:

INCOME:

Base Rent (B.R.)	\$5.75 /sq.ft.=	\$61,427
Total Reimbursables		<u>0</u>
TOTAL POTENTIAL GROSS INCOME		\$61,427
Less Vacancy and Collection Loss	@ 10.0% of PGI	<u>6,143</u>
EFFECTIVE GROSS INCOME		\$55,284

EXPENSES:

Management—Real Estate	@ 5.0% of EGI	\$2,764
Repairs & Maintenance:		
Structural/Allowance for Replacements	@ \$0.20 /sq.ft.=	2,137
Miscellaneous	@ 1.0% of EGI	<u>553</u>
TOTAL OPERATING EXPENSES		\$5,454
NET OPERATING INCOME (before L.C.)		\$49,830
Less Leasing Commissions (L.C.)	@ 6.0% of B.R.	<u>3,686</u>
NET OPERATING INCOME		\$46,144
Capitalization Rate	@ 11.0%	

MARKET VIA BY DIRECT CAPITALIZATION		\$419,491
	(rounded)	\$419,000

Income Capitalization Approach Conclusion:

Based on available data, it is my opinion that subject has a market value of **\$419,000** via this approach.

XXVII. RECONCILIATION OF VALUE INDICATORS

Intended Use/Function of Appraisal:

The client and intended user of this report is XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX.

Summary of Values:

MARKET VALUE CONCLUSIONS OF APPROACHES TO VALUE	
Site Valuation	\$32,000
Cost Approach	\$417,000
Sales Comparison Approach	\$353,000
Income Capitalization Approach	
Direct Capitalization	\$419,000
Discounted Cash Flow Analysis	Not Utilized

Reasonability and Weight Determination:

The sales comparison approach is considered most reliable, as this property type is typically owner-occupied. The cost and income capitalization approaches are utilized in support.

Conclusion:

Subject's total market value, as of February 10, XXXX, is estimated at:

**THREE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS
(\$375,000)**