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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SYRACUSE, NY 13209
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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
Principal
NYS Certified General Appraiser #46-20952

TABLE OF CONTENTS

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
NYS Certified General Real Estate Appraiser #46-20952

II. GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is made with the following general assumptions and limiting conditions:

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 existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. 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

EMPLOYMENT HISTORY	° 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.
EDUCATION AND APPRAISAL RELATED COURSEWORK	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)
PROFESSIONAL AFFILIATION	° Member of the Appraisal Institute (MAI) ° Member of the International Right-of-Way Association (IRWA)
LICENSES	° NYS Certified General Appraiser #46-20952 ° Consultant Appraiser—NYS Department of Transportation
COURT/TESTIMONY EXPERIENCE	° Expert witness in NYS Supreme Court and NYS Court of Claims ° Several assessment grievance boards (Hornell, Oswego, Greece)
PROFESSIONAL EXPERIENCE	° 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.
EXPERIENCE HIGHLIGHTS	° ***Frequent Presenter for local chapters of Appraisal Institute and IRWA:*** 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". ° ***Airport Projects (1991-17):*** 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—NYSDOT 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 ° **Native American Land Claims**: 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 153± f.f. on XXXX and 188± f.f. on XXXX

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

Tax Map # and Assessment:

Tax Map #	2001 ASSESSMENTS				
	Land	Improvements	Total	Taxable	Eq. Value
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

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

Zoning Classification: XXXX District (XX)

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

Date of Inspection: February 10, XXXX
Date of Value Estimate: February 10, XXXX

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
Yield Capitalization	Not Utilized

Final Market Value:

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

V. IDENTIFICATION OF PROPERTY

***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 was built c.19XX.

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 are 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 Self-Contained Appraisal Report[1]. 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.

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[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 sale"[5].

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, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 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 ANALYSIS

***Insert Area Map

Regional and County Defined:

Subject is located in the Town of XXXX, just outside the City of XXXX, the largest metropolitan area in XXXX New York. These municipalities, in addition to the Towns of XXXX, XXXX, and XXXX, include approximately 84% of the office and industrial base within XXXX County. For this reason, emphasis will be placed on these five areas in my evaluation of the County and Region.

In accordance with my analysis of the factors that influence the region and county, this section will be broken down into four main categories—Economic, Governmental, Social, and Environmental. Refer to each for further discussion.

ECONOMIC

Office/Industrial Value Levels:

Statistics in the table to the right are based on inventory data maintained by LANDATA[6] for select property classes and areas through 2000 (through July). Price trends since 1995 are inconclusive, as modest increases in Median Sale Prices are more than offset by declines on a Median/Sq.Ft. basis.

ANNUAL PRICE CHANGES FOR SELECT PROPERTY CLASSES					
Year	Number Of Sales	Median Sale Price	Median Price/Sq.Ft.	Median Size	Median Year Built
1995	73	170,000	24.20	6,725	1968
1996	100	119,321	16.86	6,930	1965
1997	93	150,000	22.12	7,240	1964
1998	106	147,500	19.54	9,767	1965
1999	126	172,500	19.89	8,000	1960
2000	33	185,000	21.24	10,000	1969
Compound Annual Change					
(1995-1999)	14.6%	0.4%	-4.8%		
Average Annual Change					
(1995-1999)	15.7%	2.8%	-2.3%		

Sales activity has been reasonably strong since 1996, mirroring an improvement in rental rates (see Neighborhood Analysis).

[6] LANDATA Information Services, Inc.—Rush, NY

Building Permit Data:

BUILDING PERMITS FOR SELECTED TYPES & AREAS[7]				
Year	Town of XXXX		XXXX County	
	Total	1-Fam.	Total	1-Fam.
1995	6	6	743	664
1996	17	17	957	654
1997	15	15	663	633
1998	100	28	872	764
1999	60	34	1,051	949
*2000	40	14	1,127	982
Compound Annual Change				
(1995-00)	46.1%	18.5%	8.7%	8.1%
Average Annual Change				
(1995-00)	174.6%	69.9%	12.5%	8.1%

* Annualized based on data from Jan.-Nov.

Non-residential building permits are not consistently maintained by the County and were not available for this analysis. However, residential statistics were and are useful in characterizing the relative health of an economy.

As shown, building permits Countywide have improved dramatically over the last five years. The period of the mid-1990s was affected by the closure/downsizing of several large manufacturers (i.e. General Motors, General Electric) and the resulting population decline (see Social section). This in turn led to an oversupply of housing units, negatively impacting the residential real estate market from both a new construction and resale standpoint.

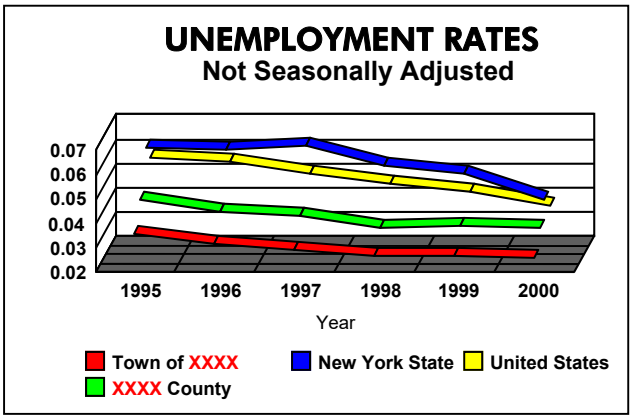
Major Employers:

Although employment has been stable over the last four to five years, the XXXX area experienced the departure/downsizing of several large employers (i.e. General Electric, General Electric, and Fay's). This created a good deal of oversupply of office and industrial space, which has only recently been absorbed.

TOP TWELVE EMPLOYERS IN 2000[8]	
Employer	2000
SUNY Upstate Medical	4,851
Carrier Corporation	4,180
Syracuse University	3,898
New Venture Gear	3,508
St Joseph's Hospital	3,300
Niagara Mohawk	2,750
Wegman's	2,104
Crouse Hospital	2,018
Lockheed Martin~	2,000
The Penn Traffic Company	1,925
United Parcel Service	1,592
Bell Atlantic	1,250
Total Employed	**35,376**

[7] Source: XXXX County Planning Department
[8] Business Record and XXXX Chamber of Commerce

Unemployment Rates:



For all four areas surveyed, unemployment rates[9] have been on a steady downward trend since 1995. Both XXXX County (green) and Town of XXXX (red) statistics are below Federal and State levels.

Although low unemployment is widely believed to be desirable, it does have its shortfalls. Labor shortages and upward pressure on wages has reportedly hurt the expansion possibilities of local employers.

Employment Breakdown:

As shown in this table, the largest employment sector is the service industry (81% of workforce). This is not unlike many other XXXX New York communities, but the long term effects of a service-based economy is not conducive to the expansion of the existing industrial base.

EMPLOYMENT BY INDUSTRY— XXXX MSA[10] (XXXX Counties)

	OCT 2000	% of Workforce	OCT 1999	Change 1999-00	OCT 1991	Change 1991-00
Manufacturing	51.2	14.1%	51.0	0.4%	52.9	-3.2%
Durable Goods	35.6	9.8%	35.6	9.8%	35.0	1.7%
Nondurable Goods	15.6	4.3%	15.4	4.2%	17.9	-12.8%
Construction & Mining	16.7	4.6%	15.3	9.2%	15.8	5.7%
Transportation & Public Util.	21.5	5.9%	21.1	1.9%	20.5	4.9%
Wholesale & Retail Trade	81.6	22.5%	79.4	2.8%	79.1	3.2%
Finance, Ins., & R.E.	18.5	5.1%	18.2	1.6%	20.8	-11.1%
Services	111.1	30.6%	107.5	3.3%	87.8	26.5%
Government	62.2	17.1%	61.7	0.8%	59.2	5.1%
Total Workforce	**362.8**		**354.2**	**2.4%**	**336.2**	**7.9%**

Number Employed:

Concurrent with significant declines in unemployment, the number employed has actually increased 2.4% in the last 12 months (+8,600 jobs), and 7.3% over the last decade (+26,600 jobs). These gains have both taken place despite population declines of 14,500± people with the XXXX MSA since 1991.

It seems paradoxical that total employment is expanding in the midst of a population decline (see Social section). This explains why unemployment rates in the County are about half of the so called "natural unemployment rate" of 6%.

[9] www.labor.state.ny.us
[10] www.labor.state.ny.us

GOVERNMENTAL

Comparative Tax Rates[11]:

Equalized real estate tax rates have been very stable in all five study areas. For most of the last six years, the City of XXXX has been the most expensive municipality, but after consistent annual reductions, XXXX now has that distinction. XXXX is third, while XXXX and XXXX are at the bottom of the range.

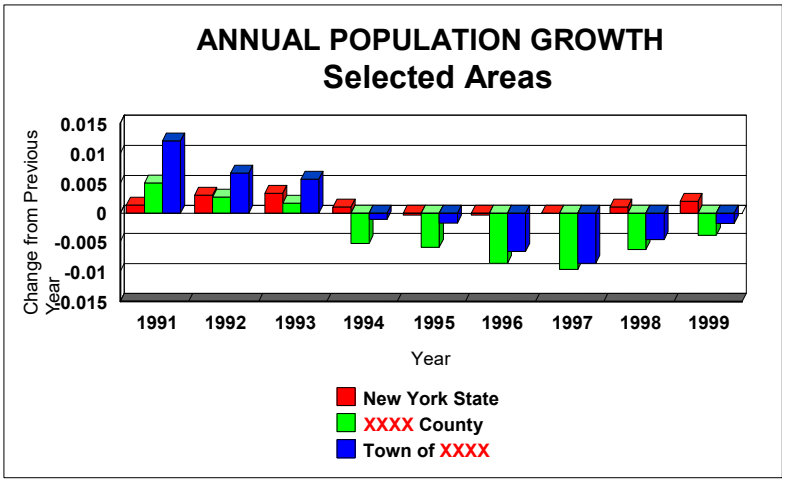
EQUALIZED TAX RATES FOR SELECT AREAS							
	1996	1997	1998	1999	2000	2001	Annual Change
XXXX	$32.79	$32.62	$34.18	$33.15	$33.51	$31.33	-0.9%
XXXX	26.28	26.63	26.72	27.52	27.45	26.97	0.5%
XXXX	28.25	27.57	30.24	29.46	27.92	27.14	-0.8%
XXXX	30.94	33.06	32.13	32.60	31.87	31.55	0.4%
XXXX	28.59	29.57	28.94	29.84	29.80	28.67	0.1%

Miscellaneous Services:

Police and fire protection are within close proximity and considered adequate. Primary and secondary educational systems are highly rated relative to other areas of the State.

SOCIAL

Population Densities[12]:



While population growth has barely been positive in the State over the last decade (+0.1%), XXXX County and XXXX have fared worse (-0.3% and 0.0%, respectively). Since its peak in 1993, nearly 18,000 fewer people live within the County, the majority of which (80%) once resided in the City of XXXX and the four townships surveyed. The loss/downsizing of several large employers combined with favorable employment opportunities in the South and Midwest, have negatively affected population trends and the potential for growth within the region.

[11] Source: NYS Office of Real Property Services
[12] Source: US Bureau of the Census (raw data only)—graph generated by appraiser

Housing Statistics:

Although these statistics are related to the single-family residential market, a direct correlation exists between these and non-residential price trends. This is because the same factors that enhance the residential market (i.e. stable/improving employment base, favorable interest rates, good local/regional economy, etc.) positively affect commercial and industrial property classes. This direct relationship is also true with negative factors such as: higher interest rates and inflation, employment erosion, etc.

ONE-FAMILY RESIDENTIAL SALE STATISTICS MULTIPLE LISTING SERVICE				
	Town of XXXX		XXXX County	
	Sales	Avg. Price	Sales	Avg. Price
1995	XXXX	XXXX	3,746	97,600
1996	XXXX	XXXX	3,791	98,500
1997	XXXX	XXXX	3,541	100,000
1998	XXXX	XXXX	4,193	100,700
1999	XXXX	XXXX	4,624	104,800
2000	XXXX	XXXX	4,611	104,900
Compound Change:				
(1995-00)	**5.1%**	**-0.9%**	**4.2%**	**1.5%**

In the areas surveyed, prices have generally remained stable to slightly decreasing since 1995. However, one sign that appreciation is likely in the near term is the improvement in the number of transfers. As listing inventories diminish, supply and demand factors should result in higher single-family prices.

ENVIRONMENTAL

Land Areas:

LAND AREAS FOR RELEVANT MUNICIPALITIES[13]		
	Sq. Miles	Acreage
XXXX County	XXXX	XXXX
XXXX MSA	XXXX	XXXX
XXXX	XXXX	XXXX

Climate:

SUMMARY STATISTICS FOR CLIMATE IN XXXX COUNTY[14]					
Mean Temperatures				Average Snowfall	Average Rainfall
January	April	July	September		
24°F	46°F	71°F	62°F	112"	36"

Geography:

Geologically[15], XXXX County is characterized by rolling hills and flat plains. Altitudes range from 364' to 681' with an average elevation of 410'.

[13] XXXX Chamber of Commerce, Community Guide to XXXX 2000/2001, 2000, 52.
[14] XXXX Chamber of Commerce, 2.
[15] XXXX Chamber of Commerce, XXXX, New York Fact Sheet, 2000.

Major Arteries/Transportation:

XXXX County is located at the intersection of two major New York State interstates—I-XX (east-to-west) and I-XX (north-to-south). Other major thoroughfares include: Interstate Route XX; NYS Routes XX, XX, XX and XX; and US Route XX. North-to-south routes consist of NYS Routes XX, XX, and XX, and US Route XX.

XXXX International Airport provides both freight and passenger air travel, while CSX (freight) and Amtrak (passenger) support rail service.

Conclusion:

As shown by the data in this section, the XXXX area has: a good geographic location, excellent infrastructure, a diverse employment base, low unemployment, and a stable tax base. The loss of several large manufacturers with ensuing population declines, and a shift in the employment base created an oversupply of space across the entire real estate sector, negatively affecting appreciation rates and rent levels until 1996-97. The period that followed was a stabilization of sorts, as the population and local economy retrenched to prepare for growth, or at least the prospects of which. Perhaps optimistically, I believe that is where the real estate market is at present, on the cusp of slow, stable growth.

XVIII. NEIGHBORHOOD ANALYSIS

Neighborhood Map—Overview:

***Insert Street Atlas map

Neighborhood Map—Aerial View:

***Insert Aerial Map

Neighborhood Boundaries Defined:

***Insert Neighborhood Tax Map

As shown by the tax map (left), neighborhood is bounded by XXXX Avenue to the west, residential land uses to the south, XXXX to the east, and the CSX railroad corridor to the north. Other industrial neighborhoods exist to the north and west, but their underlying character is sufficiently different so that they are not complementary (i.e. auto repair, trailer park, different life cycle, etc,).

History:

Neighborhood was mostly developed in the mid-1950s to early-1960s for light manufacturing and industrial distribution purposes. For all intents and purposes, underlying land uses are still consistent with what they were originally intended. However, highly accessible rail service, the primary reason for the neighborhood's being, is no longer a priority among the various businesses.

The siding that traverses the center of the district (see aerial map) is no longer functional, but given the shift to trucking, this is not considered a detriment to value/marketability.

Location and Accessibility:

Relative to other industrial areas, subject's location off XXXX Avenue is not considered prime. Interstate access is not highly convenient and peripheral uses include incompatible uses such as: an aging residential neighborhood, cemetery, and trailer park.

The main access route is XXXX Avenue, a two- to four-lane thoroughfare that connects the neighborhood with Interstates 81 and 90 (via XXXX Street) to the south and the XXXX (via XXXX) to the north.

Zoning District and Intent:

***Insert Zoning Map

Entire neighborhood, including subject, is zoned XXXX District (XX). As described in the ordinance, "(t)he intent of this district is to provide areas, near or adjacent to highways designed to handle large volumes, for industrial heavy commercial and other use which are not generally compatible with uses permitted in other districts or which are not otherwise permitted in this chapter."[16] Permitted uses range from offices to heavy manufacturing. Exclusive of certain bulk requirements, it appears that the neighborhood conforms to this district. Relevant zoning sections are included in Exhibit 3.

RELATIVE SUPPLY FOR INDUSTRIAL CLASS 5,000 TO 19,999 SQ.FT.[17]	
Year	**Vacancy Indicator**
1995	Moderate Shortage
1996	Moderate Shortage
1997	Substantial Shortage
1998	Substantial Shortage
1999	Substantial Shortage

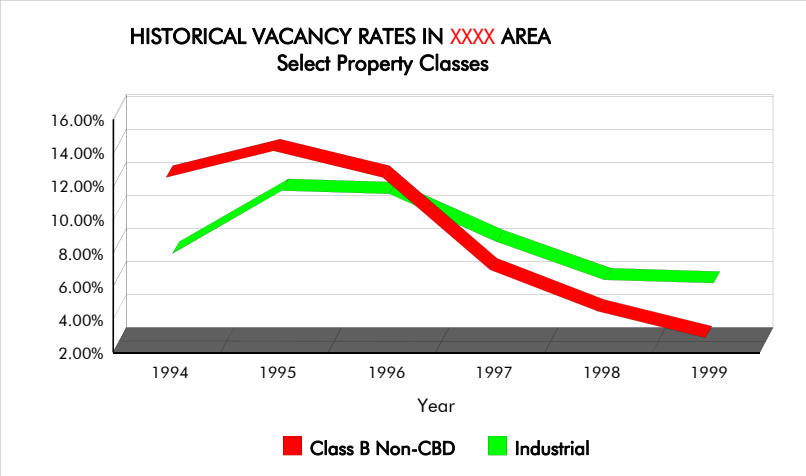
Ownership/Sale History:

Owner	Ownership Date	Sale Price
XXXX	02/02/84	N/A
XXXX	09/26/50	N/A
XXXX	09/26/50	N/A
XXXX	10/11/55	N/A
XXXX	09/01/74	N/A
XXXX	04/01/86	N/A
XXXX	09/01/74	N/A
XXXX	08/10/89	N/A
XXXX	07/16/87	N/A
XXXX	**5/ XXX/00**	XXXX
XXXX	06/08/90	N/A
XXXX	05/17/96	$0
XXXX	10/01/99	XXXX
Average Ownership		**21 years**

The neighborhood is highly stable with only three transfers within the last five years (one non-arm's length). Low turnover contributes to a stable and predictable tenancy, but complicates analysis of market vacancies, value trends, etc. Consequently, market surveys conducted by SIOR (see below) and my own observations provide support for vacancy assumptions in the valuation sections.

[16] Town of XXXX, Zoning from the XXXX (XXXX County: Town of XXXX) XXXX.
[17] Society of Industrial and Office Realtors.

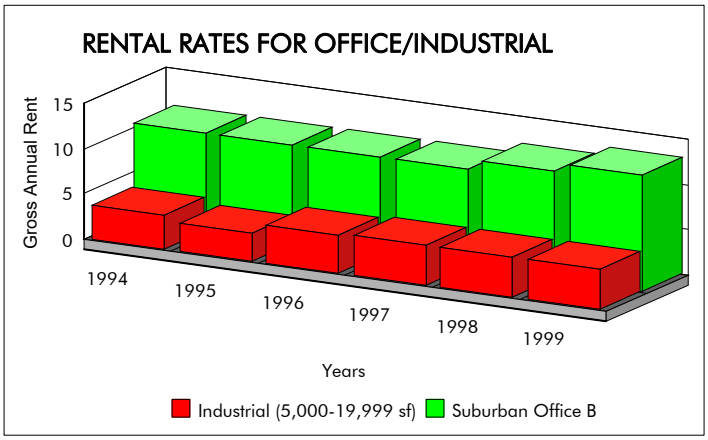
Office/Industrial Vacancy Levels—Overall Market[18]:



The drop in vacancy rates has been a precipitous one for Class B Office Non-CBD. Even at such low vacancies and the general acknowledgement of undersupply (see following table), little new construction has resulted. Tighter financing requirements instituted after the last construction boom is considered primarily responsible.

In the last two years, a number of build-to-suit projects have taken place, with more expected in the coming years. However, it does not appear to be at levels that could result in higher overall vacancies or cause downward pressure on rents.

Office/Industrial Rent Levels—Overall Market[19]:



As shown (left), market rents (on a gross basis) for suburban office and industrial space have been stable to increasing since 1996. Despite perceived shortages, demand has only been sufficient in the last three years to positively effect rents. This undoubtedly contributed to the lack of new construction over the last five years.

Occupancy Rates and History—Neighborhood:

A current survey of the neighborhood indicates that all properties are mostly owner occupied, excepting a land lease involving the largest tenant, XXXX. Aside from a change in ownership of XXXX, neighborhood tenancy has not changed.

[18] Society of Industrial and Office Realtors, Comparative Statistics of Industrial and Office Real Estate Markets (New York: Landauer Real Estate Counselors) 1995-2000, various pages.

[19] Society of Industrial and Office Realtors, Comparative Statistics of Industrial and Office Real Estate Markets (New York: Landauer Real Estate Counselors) 1995-2000, various pages.

Age and Condition of Improvements:

The average age of building improvements approaches 40 years. Some structures are showing their age, exhibiting various minor items of deferred maintenance (i.e. exterior pointing/painting needed), but all defects are curable within market parameters.

Life Cycle:

The four stages of a neighborhood's life cycle are: Growth, Stability, Decline, and Revitalization. Given the long-term occupancy and extremely low vacancies discussed in this section, subject's neighborhood is classified as stable. No changes are anticipated in the near term.

Neighborhood Density:

Ideal land-to-building ratios for industrial properties are 4:1. The neighborhood as a whole falls short of this standard, averaging 3:1. Since this ratio is indicative of the expansion possibilities, available parking, exterior storage, etc., this could potentially affect value.

Financing Sources and Current Rates:

The following lender survey was conducted for current mortgage terms and rates:

RATE/TERM SURVEY AMONG ACTIVE FINANCIAL INSTITUTIONS—FEBRUARY XXXX					
Lender	**Max. LTV**	**Interest Rate**	**Term (yrs.)**	**Target DCR**	**Notes**
BSB Bank & Trust	75%	8.5% fixed	20-25	1.20-1.25	5 Yr. Call
M&T	80%	5 Yr.Treas. + 2.75%-3.25%	15-20	1.20	5 Yr. Call
HSBC	75%	Prime + 1%-2%	15	1.20	5 Yr. Call
Key Bank	80%	5 Yr.Treas. + 2.5%-3.5%	20	1.20-1.25	5 Yr. Call
Solvay Bank	75%	5 Yr.Treas. + 2.75%-3.25%	15-20	1.20	5 Yr. Call

CURRENT INTEREST RATES[20]	
Federal Funds	5.54%
Bank Prime	9.00%
3-Yr. Treasuries	4.57%
5-Yr. Treasuries	4.66%
10-Yr. Treasuries	4.93%
30-Yr. Treasuries	5.41%
Moody's Aaa	7.08%
Moody's Baa	7.92%
State & Local Bonds	5.09%
Conventional Mortgages	7.07%

Survey indicates interests rates ranging from 7.16% to 11.00% for fixed rate mortgage terms. However, interest rates below 8.00% were unexpected and probably not representative of actual offerings to prospective applicants.

[20] www.federalreserve.gov

Availability of Utilities:

Given the age and type of neighborhood (i.e. industrial), public utilities are assumed to be of sufficient capacity and availability.

Conclusion:

The construction and utility of neighborhood properties are very typical of its 1960s vintage. Light manufacturing and warehouse/distribution uses resulted from its location on a major rail line, which is now defunct. This is not considered as a detriment, however, given the shift to trucking as the primary form of distribution.

Although the neighborhood is somewhat removed from Interstates XX, XX, and XX, it has been very stable with little vacancy or change in tenancy. Land-to-building ratios are less than ideal, but the improvements and the long-term occupancy does not appear to be negatively affected.

Overall, the neighborhood's stability is expected to continue, with little change in use or tenancy expected.

XIX. TRENDS IN REAL ESTATE PRICES, RENTS AND MARKETING

Ideally, sales and lease data employed in a market value estimate would be very recent, ideally within six months of the date of appraisal. However, this market is of insufficient size to generate the amount of information required in this time frame. Consequently, in order to identify and quantify trends when comparables are older, multiple sources are referenced that are either directly or indirectly tied to real estate. Refer to the following:

Sale & Resale of Comparable Properties:

Insufficient sale/resale data was available to extract meaningful trends.

Aggregate Trends of Comparable Properties:

As shown in the Regional and County Analysis, median price changes ranged from –4.8% to +2.8% since 1995. In general, these statistics indicate stabilization in prices over the last three to four years.

Sales activity has improved dramatically since 1996, signaling that price appreciation may not be far away.

New York State Equalization Rates[21]:

NYS EQUALIZATION RATES (1995-2000)			
Year	Rate	Equalized Dollar	Change
1995	XXXX	1.012	4.5%
1996	XXXX	1.026	1.3%
1997	XXXX	1.000	-2.5%
1998	XXXX	1.000	0.0%
1999	XXXX	1.023	2.3%
2000	XXXX	1.039	1.6%
Compond Annual Change			**0.5%**

The function of an equalization rate is to adjust municipal assessments to full value. They are computed by the New York State Office of Real Property Services and can be utilized to measure changes in aggregate real estate prices. However, caution is advised in the strict interpretation of the data's conclusions because: 1) the formula used in the development of rates is not exclusively based on transfers (i.e. also weights the largest assessed values within the municipality); and 2) a lag exists in their reporting process so that the indicated rate for 2000, for example, is derived from sales and assessments from 1998 or 1999.

MLS Statistics—Residential:

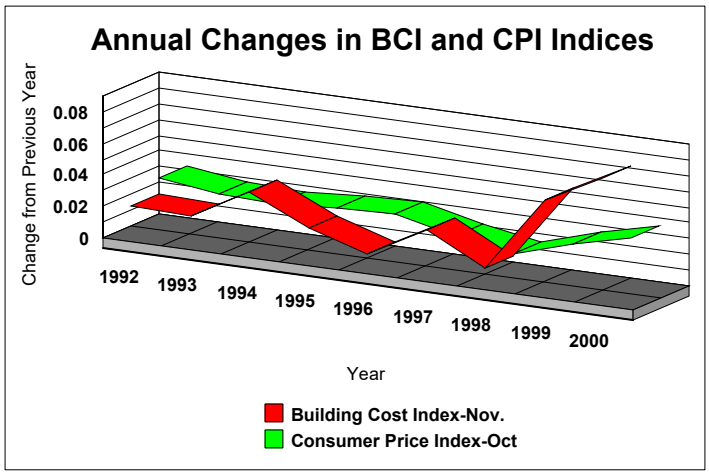
Single-family sale statistics for the Town of XXXX and XXXX County, were included on page 13 in the Regional and County Analysis section. Based on this information, residential prices ***declined*** 0.9% annually in the Town of XXXX, while the County only managed a slight increase of 1.5% since 1995.

[21] www.orps.state.ny.us

Although there is little solace with annual appreciation rates less than consumer prices, sales activity has improved considerably, and is at, or near, decade highs.

Indirect Indicators:

Trend statistics based on construction costs and consumer prices are indirectly involved and only peripherally relevant in identifying trends in real estate. The graph (right) depicts annual changes in the Building Cost Index[22], published by Marshall & Swift (Class C), and the Consumer Price Index[23] (all urban areas; base year 1980-82). Over the last decade and five-year periods, the former yields annual compound trends of 2.7% and 3.1%, while the latter amounts to 2.7% and 2.4%.



Conclusion:

	Trends for last 5 years
Sale/Resale Data	Insufficient Data
Aggregate Trends—Office/Industrial	Stable
NYS Equalization Rates	Stable
MLS Statistics	Stable to Slightly Decreasing
Building Cost Index	Slightly Increasing
Consumer Prices	Slightly Increasing

The five available data sources revealed a mixed picture. Aggregate Office/Industrial trends are the most relevant in estimating price changes, with equalization rates and MLS statistics only as a secondary guide. Based on this information, no change in price is applicable between 1997 and 2001.

As far as rentals are concerned, I also reconcile at no change between 1997 and 2001 (on a net basis). A survey in the Neighborhood Analysis does show an increase over the last several years, but the analysis was based on gross rents. Annual increases ranging from 2% to 5% are typical with gross leases, but this essentially covers expense escalations and is not attributable to the base rent.

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

[22] Marshall & Swift, L.P., Marshall Valuation Service, (Los Angeles: Marshall & Swift, 1994-2001) Sect. 99 Pg. 4.

[23] http://146.142.4.24/cgi-bin/surveymost

estimate based on an analysis of past events assuming a competitive and open market[24]", 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"[25]. Based on current market conditions, a marketing period of one year is projected.

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

[25] Appraisal Institute 121.

XX. ASSESSMENT AND TAXES ANALYSIS

***Insert Tax Map

Dates of Interest:

TOWN OF XXXX—2001 ASSESSMENT ROLL DATES	
Fiscal Year Dates	1/1/2001-12/31/2001
Valuation Date	1/1/2001
Taxable Status Date	3/1/2001
Tentative Roll Date	5/1/2001
Grievance Day	5/22/2001
Final Roll Date	7/1/2001

Tax Map Identification, Current Assessment, and Equalized Value:

Tax Map #	2001 ASSESSMENTS				
	Land	Improvements	Total	Taxable	Eq. Value
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Real Estate Tax Liability:

Year	Town & County	Years	N. Syracuse School	Totals
2001	XXXX	2000-01	XXXX	XXXX

Conclusion:

Subject is slightly over-assessed based on my market value estimate, but certainly within the range indicated by the valuation approaches utilized. However, based on a purchase price of XXXX in XXXX 2000, the owner has the right to request an assessment reduction.

XXI. SITE DATA AND ANALYSIS

***Insert Site/Building Sketch

Size:	0.6748± Ac.; 29,394± sq.ft.
Access:	Curb cuts along both frontages; reasonably sized for two-way traffic
Frontage:	XXXX; 152,81 f.f. XXXX Street: 187.95 f.f.
Soil Conditions/Drainage:	Adequate
Topography:	Mostly level with slight grade change along XXXX Street; site is 0' to 3' below grade
Shape:	Essentially rectangular; not detrimental from a valuation standpoint
Utilities:	
Public Water	Yes; sufficient capacity
Natural Gas	Yes; sufficient capacity
Sanitary Sewers	Yes; sufficient capacity
Storm Sewers	Yes; sufficient capacity and location
Electricity	Yes; sufficient capacity
Street Improvements:	Tarvia surface, lighting; no sidewalks or curbing
Easements/Encroachments:	Easements, covenants, and restrictions of record; no unusual items noted
Flood Zone Classification:	

***Insert Flood Map

FEMA Panel #	XXXX
Effective Date:	XXXX
Zone	C; outside 100-year flood plain; flood insurance not required
Wetland Classification:	Not designated by either State or Federal Agencies
Zoning Designation:	

*** Insert Zoning Map

Uses Permitted	**Offices**, research and testing centers, data processing centers, light manufacturing and processing, **warehousing**

	facilities, wholesale distribution centers, utility facilities, municipal, state and federal airports, daycare centers, lumber/building supply companies, construction companies, truck terminals, bulk storage (with some exceptions), heavy manufacturing
Uses By Special Permit	Transition parking areas, outdoor theaters, utility service facilities, cemeteries, animal hospitals and kennels, sanitary landfills, junkyards, automotive graveyards, crematories, slaughterhouses, rendering plants, automotive repairs and service (indoors), motor vehicle body repair services facilities; "all uses not specifically identified as permitted or prohibited uses herein"[26]
Minimum Lot Area	20,000 sq.ft.; existing is 29,394± sq.ft.
Minimum Lot Width	100'; existing is 150'
Maximum Lot Coverage	50%; existing is 18%
Minimum Front Yard Setback	50'; existing is 57'-73'
Minimum Side Yard Setback	20' on each side; existing is 21' to 46'
Minimum Rear Yard Setback	20'; existing is 65'-73'
Maximum Building Height	45'; existing is 22'
On-Site Parking Requirement	1 space for every 200 sq.ft. of office area or 42 total; existing is 37 spaces
Site Improvements:	Asphalt parking and access, concrete curbing and sidewalk, lawn area, mature plantings

Site Data and Analysis Conclusion:

Appraised site is adequate for industrial office use. Physically, its topography, shape, access, etc., are conducive for development, as evidenced by its current use. However, it is somewhat undersized, limiting expansion possibilities and accessory usage. It 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 on this topic.

[26] Town of XXXX, Zoning from the XXXX (XXXX County: Town of XXXX) XXXX.

XXII. IMPROVEMENT DATA AND ANALYSIS

??? Insert 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. (per XXXX Architects, P.C.)
Office Allocation	8,322 sq.ft.; 78%
Warehouse Allocation	2,361 sq.ft.; 22%
Basement:	None
Year Constructed:	19XX; last renovated 19XX
Actual & Effective Ages:	XX years; XX years effectively[27]
Foundation:	Reinforced concrete
Frame:	Split-faced concrete block and steel
Roof:	Flat; built-up composition (original)
Exterior:	Concrete block and painted cedar clapboard facia
Windows:	Fixed; aluminum framed; insulated glass (original)
Interior Partitioning:	
Finished Areas	Metal/wood studs; gypsum board; papered, painted, vinyl covering
Warehouse/Storage	Minimal partitioning; plywood/unfinished gypsum covering
Ceilings/Lighting:	
Finished Areas	Standard and textured acoustical tile (suspended) and painted gypsum board; overhead fluorescent and recessed incandescent lighting
Warehouse/Storage	Taped, unpainted gypsum board with overhead fluorescent lighting
Floor Coverings:	
Common Areas	Wall-to-wall carpeting; vinyl sheet; slate
Offices	Wall-to-wall carpeting
Bathroom Facilities	Ceramic tile

[27] Weighted average of long- and short-lived building components

Warehouse/Storage	Concrete
HVAC:	
Finished Areas	Two gas-fired *Carrier* roof mounted package units (installed 19XX and 19XX); supplemental electric baseboard
Warehouse/Storage	Two gas-fired Carrier space heaters with 80 btu/hr. capacity; ceiling mounted
Plumbing:	
Bathroom Fixtures	Ten fixtures included within four restrooms (two on each level)
Water Heater	*Master Plumber* 40-gallon electric water heater
Electrical Service:	400 amp. three-phase, four wire
Security/Fire Protection:	Wet sprinkler system throughout
Elevator:	None (Town non-compliance)
Warehouse Features:	
Grade Level Overhead Doors	One; 10′ x 10′; non-electric; insulated steel door
Dockage	One; 8′ x 8′; insulated steel door; non-electric; includes leveler and bumpers
Ceiling Heights	9′ (12 course; 8″ block)

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 three quarters through their economic life. Second level is somewhat uncharacteristic of this property class, but was necessary due to the limited site area.

As discussed in the Site Data and Analysis, the improvement is not in complete compliance with existing parking requirements (i.e. 5 fewer parking spaces than what is required) and the lack of an elevator (required in new construction). This results primarily from its site size, which does not permit for either parking lot or building expansion. I am inclined to believe this results in functional obsolescence—refer to the Cost Approach for further discussion.

XXIII. HIGHEST AND BEST USE ANALYSIS

Definition:

> "The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity." [28]

Introduction:

A highest and best use analysis examines the optimum use of the site as vacant, and then, if improved, whether the existing structure is ideal given the four criteria outlined above. Determination of what constitutes the "optimum land use" or "ideal structure" is based largely on the preceding sections to draw a conclusion. Current zoning and present site characteristics, discussed in the Site Data and Analysis, identify what uses are legally permitted and physically possible. Market forces, described in the Regional and County Analysis and Neighborhood Analysis, impact what property uses are financially feasible and most profitable. Once this information is studied, and a highest and best use determined, the subsequent sections are based on conclusions reached here to estimate value.

A basic premise of highest and best use is that the site (as though vacant) and the property as improved, require separate analysis. One reason for this is that the two use conclusions may differ from one another. If this is the case, then the value of the site (less demolition) at its highest and best use is compared to the property as improved. If the former exceeds the value of the latter, the highest and best use of the total property is for demolition of the existing improvements and eventual redevelopment.

Site As Though Vacant:

Highest and best use of land or a site as though vacant assumes "…that the parcel of land is vacant or can be made vacant by demolishing any improvements"[29] Although subject is presently improved, it is necessary to evaluate the highest and best use of the land for valuation purposes.

The four criteria that must be met to analyze highest and best use are:

Legally Permissible: Subject's XXXX zoning allows for a variety of light and heavy industrial uses, as well as office buildings. No private restrictions of any kind were noted, nor were any substantive encumbrances besides those related to utilities. Industrial office development is legally permitted. Single- and multi-family residential, agricultural, and high

[28] Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 93.

[29] Appraisal Institute.

intensive commercial uses are expressly prohibited, and cannot be considered in the highest and best use of the land as though vacant.

Physically Possible: Site is capable of accommodating a variety of uses. Its size, slightly sloping topography, and rectangular shape are generally conducive to a number of development possibilities. However, light and heavy manufacturing and most distribution and warehousing uses require a larger land area, and therefore cannot be considered. But, industrial office development is physically possible.

Financially Feasible: As discussed in the Neighborhood Analysis, vacancy rates are at or near their decade lows. This was due, in part, to limited new construction, which remains at relatively low levels. With upward pressure on rents and limited supply, industrial office development provides the highest return to the land, and therefore is financially feasible.

Maximally Productive: Likewise, industrial office development represents the most maximally productive use as no other prospective use exists that would result in a higher value.

Conclusion: Site has met all four criteria for a highest and best use for ***Industrial Office Development***.

Property As Improved:

The same criteria used to determine the highest and best use of the site as though vacant are applicable here:

Legally Permissible: Improvement is legally permitted and conforms to most existing bulk requirements. Its on-site parking ratio is slightly below Town requirements and the lack of an elevator is also contrary to code, but these will only be problematic if the structure was substantially altered or destroyed by fire. Thus, subject is a non-conforming, but pre-existing use with no Town actions pending.

Physically Possible: Physically, the improvement is conducive to industrial office usage. No physical deficiencies or superadequacies are present.

Financially Feasible: As described under Site As Though Vacant, industrial office usage is financially feasible because of high occupancy rates and the relatively tight supply of suburban office space. Consequently, industrial office use is financially feasible.

Maximally Productive: The past performance of the subject operating at its designed use for XX years implies a low amount of risk. Furthermore, there are no alternative uses that would command sufficiently higher rents.

Conclusion: Based on the foregoing data and analysis, the subject's highest and best use as improved is as an ***Industrial Office***.

XXIV. SITE VALUATION

Introduction:

Six procedures exist in the valuation of a site. They are[30]:

1) **Sales Comparison Approach** is the most common technique utilized in the valuation of land and is most relevant when comparable site sales are available.
2) **Allocation** is useful to estimate site values when comparables are not readily available. A ratio of land to total property value is extracted from market data or surveys. The ratio is then applied to improved property sales to estimate a site value.
3) **Extraction** is similar to allocation, but the land value is estimated based on the difference between sale price and the depreciated value of the improvements.
4) **Land Residual** is a technique where the value of the site can be calculated if the following can be estimated or extracted from market data: building value, property income, and building and land capitalization rates.
5) **Ground Rent Capitalization** involves determining a market rent for the site (based on comparable data), deducting applicable real estate expenses, and capitalizing the resulting net income into value.
6) **Subdivision Development Analysis** is used when the highest and best use of the parcel is for moderate to high intensity development and comparable lot sales and subdivision costs are available.

In the appraisal of this property, the sales comparison approach is considered the primary valuation technique given its broad usage by market participants.

SALES COMPARISON APPROACH:

Procedure:

Proper application of this approach requires a multi-step process, outlined as follows[31]:

1. Detailed research of the market for sales, listings, and/or pending transfers that are physically similar to the subject.
2. Verification of the data to ensure factual accuracy and arm's length conclusions.
3. Selection of relevant units of comparison utilized by market participants.
4. Analysis of differences between the comparables and subject, adjusting for significant discrepancies supported by the data or market experience.
5. Reconciliation of the approach by concluding to a value or range of values.

[30] Appraisal Institute, The Appraisal of Real Estate, Fourteenth Edition (Chicago: Appraisal Institute, 2013) 365.

[31] Appraisal Institute 364.

SITE VALUATION: SALES COMPARISON APPROACH											
	SUBJECT	SITE SALE 1		SITE SALE 2		SITE SALE 3		SITE SALE 4		SITE SALE 5	
Total Sale Price		$45,000		$75,000		$16,000		$75,000		$23,100	
Sale Price per Acre		$37,975		$70,621		$51,118		$33,245		$50,327	
RIGHTS CONVEYED	Fee Simple	Similar		Similar		Similar		Similar		Similar	
Adjusted Sale Price per Acre		$37,975		$70,621		$51,118		$33,245		$50,327	
FINANCING TERMS	Cash or Equivalent	Similar		Similar		Similar		Similar		Similar	
Adjusted Sale Price per Acre		$37,975		$70,621		$51,118		$33,245		$50,327	
CONDITIONS OF SALE	Arm's Length	Similar		Premium Price	-21%	Similar		Similar		Similar	
Adjusted Sale Price per Acre		$37,975		$55,791		$51,118		$33,245		$50,327	
IMPENDING EXPENDITURES/IMPROVEMENTS	None	Similar		Similar		C.L. Fencing	-5%	Similar		Similar	
Adjusted Sale Price per Acre		$37,975		$55,791		$48,562		$33,245		$50,327	
SALE DATE; PRICE TRENDS	2/10/XX	XXXX		XXXX		XXXX		XXXX		XXXX	
Adjusted Sale Price per Acre		**$37,975**		**$55,791**		**$48,562**		**$33,245**		**$50,327**	
PHYSICAL CHARACTERISTICS											
Location	XXXX	XXXX		XXXX		XXXX		XXXX		XXXX	
Site Size (Acre)	0.675	1.185	10%	1.062	10%	0.313	-10%	2.256	20%	0.459	-5%
Access	Road Front	Similar		Similar		Similar		Similar		Similar	
Soil Conditions/Drainage	Adequate	Similar		Similar		Similar		Similar		Similar	
Topography	Generally Level	Similar		Similar		Lvl to Sloping		Similar		Similar	
Shape	Ess. Rectangular	Sl. Irregular		Rectangular		Rectangular		Sl. Irregular		Rectangular	
Utilities Available	All Public	Similar		Similar		Similar		Similar		Similar	
Zoning	Industrial	Similar		Similar		Similar		Similar		Similar	
Amenities	Typical	Typical		Typical		Typical		Typical		Typical	
PHYSICAL CHARACTERISTICS—NET ADJUSTMENT		**10%**		**10%**		**-10%**		**20%**		**-5%**	
PHYSICAL CHARACTERISTICS—ABSOLUTE ADJUSTMENT		**10%**		**10%**		**10%**		**20%**		**5%**	
RECONCILED SALE PRICE PER ACRE		**$41,773**		**$61,370**		**$43,706**		**$39,894**		**$47,811**	

Central Tendencies:	
Mean	$46,911
Median	$43,706
Spread (Lowest to Highest)	
Before Adjustment	112%
After Adjustment	54%

Unit of Comparison:

Application of the sales comparison approach requires selection of a unit value for comparative purposes. The one chosen should be most reflective of market expectations, and ideally, show the tightest range before adjustment. Office/industrial land as a class is not typically motivated by traffic counts, extent of frontage, maximum development units, etc. Size is the primary consideration, and thus dollars per acre or sq.ft. are the units of comparison most often employed in the marketplace. Based on the size of the subject and many of the comparables, the former is utilized as the basis for adjustment.

Selected comparables are included on the following page. Refer to Exhibit 4 for individual comparable data sheets.

Explanation of Adjustments:

Rights Conveyed: All five sites were transferred under fee simple considerations. No adjustments are applied.

Financing Terms: All comparables were sold with some type of market-based financing, typically through banks. No adjustments are applied as a result.

Conditions of Sale: Site Sale 2 required a –21% adjustment to account for a premium price. While such significant adjustment would ordinarily disqualify this transfer, two pieces of data were available. First, this comparable sold ten months earlier under arm's length conditions. Secondly, my verification source confirmed that a premium was paid because of his adjoining ownership, and when reminded of the earlier sale, indicated that he considered it as market. By applying a –21% adjustment, this sale is consistent with the price paid in May 1998.

Impending Expenditures/Improvements: Site Sale 3 was improved with perimeter chain-link fencing at time of sale. Based on the enhancement value of this improvement (see Exhibit 4) a –5% adjustment is applied.

Sale Date; Price Trends: Based on my analysis within Trends In Real Estate Prices, Rents and Marketing, no adjustments for appreciation/depreciation are justified.

Location: It is true that proximity to Interstates, neighborhood character, tax liability, etc. differ slightly between subject and some of the sales. However, differences in price are not sufficiently discernable to warrant adjustment.

Site Size (Ac.): Due to the law of diminishing returns, the price per unit increases as parcels get smaller. Given this inverse relationship, +10% to +20% adjustments are made to Site Sales 1, 2, and 4 (larger), while –5% to –10% is applicable to the smaller Site Sales 3 and 5.

Access: Subject and comparables are reasonably similar under this category, for no adjustment.

Soil Conditions/Drainage: Subject and comparables are reasonably similar under this category, for no adjustment.

Topography: Subject and comparables are reasonably similar under this category, for no adjustment.

Shape: Subject and comparables are reasonably similar under this category, for no adjustment.

Utilities Available: Subject and comparables are reasonably similar under this category, for no adjustment.

Zoning: Subject and comparables are reasonably similar under this category, for no adjustment.

Amenities: Subject and comparables are reasonably similar under this category, for no adjustment.

Site Valuation Conclusion:

A lack of new construction with this property class has severely limited comparable data, especially within highly developed neighborhoods. Expansion of my research parameters by location and date of sale afforded a sufficient quantity and quality of data, albeit with a bit more variation than typical. However, I consider the comparables to adequately bracket subject's unit value.

After a review of the data and the facts contained herein, it is my opinion that the market value for subject's site is **$47,000 per acre** and for 0.675± Ac., a final value of $31,725 (rounded) **$32,000** is derived.

XXV. COST APPROACH

Definition:

> "A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value."[32]

Applicability:

Although the subject was constructed almost three decades ago, the basic elements of this approach—developing cost new and analyzing/applying depreciation/obsolescence—are reasonably derived. This approach is utilized as a result.

Replacement Cost vs. Reproduction Cost:

Replacement cost is defined as "(t)he estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout."[33] Conversely, **reproduction cost** is "(t)he estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, superadequacies, and obsolescence of the subject building."[34]

Although a legitimate debate exists whether the basis for cost new should be replacement or reproduction, the point is considered moot for this analysis. The source of my cost data is the Marshall & Swift Computer Cost Service which most closely corresponds to replacement cost. Refer to the following page for the M&S cost printout.

Direct and Indirect Costs:

Direct (hard) costs are defined as "expenditures for the labor and materials used in the construction of improvements"[35]. These include: building permits, materials, products and equipment, labor and labor used in construction, security during construction, contractor's shack and temporary fencing, material storage facilities, power line installation and utility costs, contractor's profit and overhead, and performance bonds.

The Marshall & Swift Estimate provides for these costs.

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[32] Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 47.

[33] Appraisal Institute 168.

[34] Appraisal Institute 169.

[35] Appraisal Institute, The Appraisal of Real Estate, Fourteenth Edition (Chicago: Appraisal Institute, 2013) 571.

[redacted] **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

Indirect (soft) costs are "expenditures or allowances that are necessary for construction, but are not typically part of the construction contract"[36]. They may include: architectural and engineering fees, surveys, appraisal and consulting fees, liability insurance, property taxes, administrative costs, professional fees, interest, start-up and carrying costs, etc. Based on various sources including contractor interviews, etc., indirect costs can range up to 30% of direct costs.

The Marshall & Swift estimate includes architect's fees (6±% of direct costs) as well as "(n)ormal interest on only the actual building funds during period of construction and processing period or service charge is included."[37] It is not stated directly what this component contributes on a percentage of total cost basis, but in Section 85 (page 5) of the Marshall Valuation Service manual, construction interest and fees are 3.9% (4% rounded) for a 180,000 sq.ft. office building with an 18-month construction period.

[36] Appraisal Institute, The Appraisal of Real Estate, Fourteenth Edition (Chicago: Appraisal Institute, 2013) 571.

[37] Marshall & Swift, L.P., Marshall Valuation Service, (Los Angeles: Marshall & Swift, 2001) Sect. 1 Pg. 3.

Thus, I consider the Marshall & Swift Estimate to include approximately 10% of the necessary indirect costs. An additional allotment of **15%** will be taken to cover those soft costs not provided above.

Entrepreneurial Incentive:

Entrepreneurial incentive is defined as "a market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk".[38] This differs from contractor's overhead and profit, which is actually a direct cost. This component represents an entrepreneur's expected return on the total project including land acquisition, site development, and improvement construction.

Entrepreneurial incentive of 15% to 20% is often discussed in various publications and informal interviews with developers and contractors. However, market observations and depreciation/obsolescence analysis conducted by this firm indicate that this range is overstated and in certain cases non-existent. However, it is my opinion that an investor is entitled to the prospects of a return, even though the current market may result in something less. Consequently, **5%** is employed to at least acknowledge a profit motive of the typical entrepreneur.

Accrued Depreciation—Breakdown Method:

Accrued depreciation is made up of physical deterioration, as well as, functional and external obsolescence. They are further described as follows:

Physical deterioration: This component of accrued depreciation is broken down into curable and incurable physical deterioration. The former is "(a) form of physical deterioration that can be practically and economically corrected as of the date of appraisal".[39] It is measured as the cost of restoring a completely depreciated item to new or reasonably new condition. This is commonly referred to as a cost-to-cure and is feasible if the cost to correct the problem is offset by an equal or greater increase in value.

Based on a visual inspection, no items of deferred maintenance are present. It is true that the HVAC, floor coverings, and roof are approaching the end of their physical life, but all remain functional. Consequently, their effect on value will be analyzed as incurable, discussed in greater detail as follows.

Incurable physical deterioration is defined as "a form of physical deterioration that cannot be practically or economically corrected as of the date of appraisal".[40] 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, insulation, wall

[38] Appraisal Institute, The Appraisal of Real Estate, Fourteenth Edition (Chicago: Appraisal Institute, 2013) 360.

[39] Appraisal Institute, Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 50.

[40] Appraisal Institute 100.

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, floor coverings, certain electrical/plumbing components, HVAC).

In Section 97 of the Marshall Valuation Service manual, Marshall & Swift has outlined "Life Expectancy Guidelines" related to typical building lives. For a good quality, Class C office building, they identify 55 years[41]. The specifics of what constitutes a "typical building life" are lacking in their discussion, but the presumption is that the 55 years represents the denominator of an economic age/life calculation. It is important to distinguish between this and total physical life, which excludes all forms of obsolescence and reflects the time period when the component simply wears out.

Observations within the neighborhood and available comparable data indicate that industrial offices of similar construction achieve a physical life of between 70 and 80 years. Therefore, 75 years is considerable reasonable, and since the subject is XX years old, **long-lived depreciation** amounts to **37.3%**.

According to Section 97, Page 12 of the Marshall Valuation Service manual, life expectancies of short-lived building components include 4 to 10 years for carpet and pad, 5 to 20 years for package HVAC systems, 18 to 25 years for commercial wiring, 10 to 20 years for built-up composition roofing, etc. Many of these spreads are substantial, so anticipated physical life is hardly definitive. In the case of the subject, the roof is XX years old, as is one of its package units. Although still shedding water and operable, by most standards, these ages are exceptional and probably not reflective of something constructed/manufactured today. In consideration of these factors, twenty years is employed as the average measure of short-lived physical life. Accordingly, given the extensive age of most of subject's short-lived items, 16 years is reasonable, indicating **80.0% short-lived depreciation**.

Functional obsolescence: This form of accrued depreciation is defined as "the impairment of functional capacity of a property according to market tastes and standards".[42] Impairments are either classified as deficiencies—items that should be present within the structure, but are not (e.g. no elevator in five story building), or superadequacies—excesses in materials or design that are not justified in the market (e.g. gold plated bathroom fixtures). As in the case of physical deterioration, functional obsolescence is categorized as either curable or incurable. Ultimately the classification of an existing (or absent) building component/system as one or the other depends on whether the cost-to-cure meets the test of reasonableness.

Functional obsolescence, as it relates to subject, comes from three potential sources—two-story construction, non-compliance with Town of XXXX Building Code, and an inferior land-to-building ratio.

- Two-Story Construction: Subject is atypical of an industrial office building in that it features a second story. Although the lack of an elevator results in Town non-

[41] Marshall & Swift, L.P., Marshall Valuation Service, (Los Angeles: Marshall & Swift, 1999) Sect. 97 Pg. 8.
[42] Appraisal Institute 85.

compliance, the intent of this discussion is to simply analyze what effect, if any, a second level contributes to functional obsolescence.

Ordinarily, comparable data would provide the ideal source to expose a potential superadequacy. However, none of the comparables researched in detail include a second floor. This was also true of the rentals.

Based on a lack a evidence, **two-story construction does not result in functional obsolescence**.

- Non-Compliance with Town of XXXX Code: According to XXXX, Building Inspector for the Town of XXXX, all newly constructed two-story office buildings require an elevator. The code provision is not retroactive to pre-existing structures, but in the event of substantial renovation, the Town reserves the right to enforce the statute. While this could present a problem if sufficient site area was available to permit an addition, no conceivable scenarios exist (outside of reconstruction due to fire) that would require compliance. Thus, **it is not considered a source of functional obsolescence**.

- Land-To-Building Ratio: As mentioned throughout this report, subject's land-to-building ratio is inferior. At 2.8:1, the site does not provide for any other accessory uses or expansion possibilities. The sale comparables are all generally double the subject's ratio or higher, so they cannot be used as the basis for potential adjustment.

  After further analysis, once again, the second level is the culprit. Using only the first floor square footage, a land-to-building ratio of 5.6:1 is derived. Since the site provides for sufficient parking (albeit less than zoning requires) and green space, the potential existence of incurable functional obsolescence depends solely on the loss of building value due to an inability of expansion. Since the subject already represents the ideal improvement, as discussed in the Highest and Best Use section, **no functional obsolescence is applicable**.

External Obsolescence: The final potential source of accrued depreciation, external obsolescence, is defined as "...a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant".[43] 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.

From statistics included in the Regional and County Analysis and Neighborhood Analysis, few environmental concerns were noted—employment is stable and improving, financing rates are reasonable, vacancies are low, etc. I noted a limited amount of new construction within the office and industrial property classes, but this offers some stability, preventing the kind of over-supply Syracuse experienced in the late 1980s.

[43] Appraisal Institute, Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 73.

Although these positive influences would imply low external obsolescence, this is simply not the case. An external obsolescence extraction analysis recently conducted by this firm indicated 45% was applicable to structures less than 20 years old and 13% to those in excess of 30 years old.

Based on this information, **20% external obsolescence** is considered reasonable.

Site Improvements:

As indicated in the Site Analysis section, subject's site improvements consist of: tarvia parking and access, lawn and landscaping, and concrete curbing and sidewalk. Using the Marshall Valuation Manual and an economic age/life approach, subject's site improvements are estimated as follows:

SITE IMPROVEMENTS VALUATION								
Site Improvement	Units	Unit Cost	Multiplier	RCN	Age	Life	Accrued Depreciation	Depreciated Value
Tarvia Parking	21,268	$ 1.40	1.00	$29,688	5	11	45%	$16,328
Lawn & Landscaping	2,500	4.39	1.00	10,965	12	20	60%	4,386
Concrete Curbing	400	28.87	1.00	11,548	12	21	57%	4,966
Concrete Sidewalk	400	1.90	1.00	758	8	16	50%	379
Depreciated Value of Site Improvements (R)								**$26,000**

Cost Approach Spreadsheet:

Based on the information contained within this section, subject's market value is processed as follows:

BREAKDOWN METHOD

REPLACEMENT COST NEW:					
Direct Cost			$712,260		
Architect Fees		0.0%	0		
Additional Soft Costs		15.0%	106,839		
Sub-Total: Direct & Indirect Costs			$819,099		
Entrepreneurial Incentive (based on total project costs)		5.0%	43,855		
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)	XX yrs./ 75 Yrs.=	37.3% x $647,215 =	241,411		
Total Physical Deterioration				$414,002	
Functional Obsolescence					
Curable		0.0% x $448,952 =	$0		
Incurable		0.0% x $448,952 =	0		
Total Functional Obsolescence				0	
External Obsolescence		20.0% x $448,952 =		89,790	
TOTAL ACCRUED DEPRECIATION					$503,792
DEPRECIATED VALUE OF IMPROVEMENT		41.6%			$359,162
Site Value					32,000
Site Improvement Value					26,000
MARKET VALUE INDICATED BY COST APPROACH					**$417,162**
				(rounded)	**$417,000**

Cost Approach Conclusion:

The breakdown method indicated a market value of **$417,000**. Although well supported, it is considered a secondary guide to value due to subject's extended age.

XXVI. SALES COMPARISON APPROACH

Definition:

> "The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison."[44]

Applicability:

The subject's property class is typically owner-occupied and single-tenanted, bolstering the use and emphasis on the sales comparison approach. It is employed in this analysis as a result.

Procedure:

The same procedure outlined in the Site Valuation is applicable to the property as improved.

Collection and Verification of Data:

More than twenty-five transfers were initially researched and then inspected for potential compatibility with subject. The best 10 to 15 were then researched in more detail, by reviewing deeds, mortgages, RP-5217s, and various databases (i.e. "Real-info" and "LANDATA"). After a process of primary verification with buyer, seller, and/or attorney, four sales met the necessary criteria for inclusion in this report. While the levels of comparability vary, the sale data sufficiently brackets subject's ultimate value and are a good representation of the XXXX industrial office market.

Refer to Exhibit 4 for individual sale data sheets on the comparables employed.

[44] Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 175.

TOTAL PROPERTY VALUATION: SALES COMPARISON APPROACH									
	SUBJECT	IMP. SALE 1		IMP. SALE 2		IMP. SALE 3		IMP. SALE 4	
Total Sale Price		$260,000		$205,000		$240,000		$195,000	
Sale Price per Sq.Ft.		$43.33		$35.22		$39.27		$34.57	
RIGHTS CONVEYED	Fee Simple	Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		$43.33		$35.22		$39.27		$34.57	
FINANCING TERMS	Cash or Equivalent	Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		$43.33		$35.22		$39.27		$34.57	
CONDITIONS OF SALE	Arm's Length	Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		$43.33		$35.22		$39.27		$34.57	
IMPENDING EXPENDITURES	None	Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		$43.33		$35.22		$39.27		$34.57	
SALE DATE; PRICE TRENDS	2/10/XX	XXXX		XXXX		XXXX		XXXX	
Adjusted Sale Price per Sq.Ft.		**$43.33**		**$35.22**		**$39.27**		**$34.57**	
PHYSICAL CHARACTERISTICS									
Location	XXXX	XXXX		XXXX		XXXX		XXXX	
L&SI Allocation per Sq.Ft.	$5.43	$15.33	-$9.90	$7.90	-$2.50	$9.98	-$4.60	$8.87	-$3.40
Land-To-Building Ratio	2.8:1	11.4:1		4.7:1		6.2:1		4.5:1	
Building Size (sq.ft.)	10,683	6,000	-$1.50	5,820	-$1.60	6,111	-$1.60	5,640	-$1.50
Construction Type	Masonry	Similar		Similar		Wood		Similar	
Primary Exterior Type	Split Face/Cedar	Split Face/CB		Split Face/CB		Cedar		Split Face	
Year Built; Effective Age (years)	1973; 25	1965; 30		1991; 8		1989; 10		1990; 9	
Office Finish	78%	42%	$1.40	50%	$1.40	50%	$1.50	66%	$1.30
Basement	None	None		None		None		None	
Sprinkler System	Yes; 100%	None	$0.60	None	$0.50	None	$0.60	None	$0.50
Loading Docks	1	0		0		0		0	
Grade Level Overhead Doors	1	1		2		0		1	
Accessory Building Improvements	None	None		None		None		None	
PHYSICAL CHARACTERISTICS—NET ADJUSTMENT		**($9.40)**	**-22%**	**($2.20)**	**-6%**	**($4.10)**	**-10%**	**($3.10)**	**-9%**
PHYSICAL CHARACTERISTICS—ABSOLUTE ADJUSTMENT		**$13.40**	**31%**	**$6.00**	**17%**	**$8.30**	**21%**	**$6.70**	**19%**
RECONCILED SALE PRICE PER SQ.FT.		**$33.93**		**$33.02**		**$35.17**		**$31.47**	

Central Tendencies:	
Mean	$33.40
Median	$33.48
Spread (Lowest to Highest)	
Before Adjustment	25%
After Adjustment	12%

Units of Comparison:

As indicated in the Site Valuation section, a unit value or values must be selected that adequately represent what typical investors use in the marketplace. A number of units of comparison exist in the analysis of an office building, but none is more widely employed than **dollars per sq.ft.** (including land). It is utilized as the basis of comparison and value as a result.

Explanation of Adjustments:

	Building Allocation	
	Total Price	Price/Sq.Ft.
Imp. Sale 1	$168,000	$28.00
Imp. Sale 2	159,000	27.32
Imp. Sale 3	179,000	29.29
Imp. Sale 4	145,000	25.71

Percentage adjustments for categories such as Building Size, Office Finish, Sprinkler System, etc. are based on allocated building prices indicated on individual sale data sheets. A summary is included in the table to the right. Furthermore, adjustments are rounded to the nearest $0.10 per sq.ft. to convey reasonableness.

Rights Conveyed: All four comparables were transferred under fee simple considerations. No adjustments are applied.

Financing Terms: All comparables were sold with some type of market-based financing, typically through banks. No adjustments are applied as a result.

Conditions of Sale: All comparables were sold under arm's length conditions, for no adjustment.

Impending Expenditures: Three of the four sales were renovated after time of sale. Since expenditures were consistent with basic updating/reconfiguration, however, no adjustments are applied

Sale Date; Price Trends: Based on my analysis within Trends In Real Estate Prices And Rents, no adjustments for appreciation/depreciation are justified.

Location: It is true that proximity to Interstates, neighborhood character, tax liability, etc. differ slightly between subject and some of the sales. However, differences in price are not sufficiently compelling to warrant adjustment.

L&SI Allocation Per Sq.Ft.: One of the dangers in a grid analysis is that adjustments are often applied to the total sale price, which includes a provision for land. To protect against this, sale prices of the comparables between land, site improvements, and building have been allocated. This permits greater understanding of the value contributions of a sale's individual components, and provides clarity to the adjustment process.

The purpose of this category is simply to make adjustments on the contributory value of land and site improvements calculated on a dollar per sq.ft. basis. The end result is that it removes excess or supplements the land and site improvement values of the comparables, and

insures that the Reconciled Sale Price Per Sq.Ft. line includes subject's exact land and site improvement value. Adjustments are applied accordingly.

Land-To-Building Ratio: This category relates strictly to the enhancement of excess (or inadequate) land area to the building. Subject's ratio of 2.8:1 is hardly ideal, but it is not certain that an adjustment is warranted. Within the Cost Approach section under the functional obsolescence discussion, I concluded that subject's land-to-building ratio, albeit inferior, was not inadequate. Without more compelling market evidence, no adjustments are appropriate.

Building Size: Based on the inverse relationship between size and unit price, adjustments for size are warranted. However, the comparables are not sufficiently sized (or priced) to permit a matched paired analysis. Alternatively, size vs. cost relationships were established using *Commercial Estimator 7*. Essentially, subject's basic attributes were entered into the program with a replacement cost derived. Then, changing only square footage, cost new was established for each comparable. It is unlikely that market participants utilize a similar method in determining purchase prices, but it is realistic to conclude that the relationships between cost and value (and income) are not widely different.

BUILDING SIZE VS. RCN ADJUSTMENT				
	Total Size (Sq.Ft.)	RCN/ Sq.Ft.	Adjustment (%)	Adjustment ($)
Subject	**10,683**	**$66.68**		
Imp. Sale 1	6,000	70.52	-5.45%	($1.50)
Imp. Sale 2	5,820	70.70	-5.69%	($1.60)
Imp. Sale 3	6,111	70.42	-5.31%	($1.60)
Imp. Sale 4	5,640	70.90	-5.95%	($1.50)

Construction Type: Subject's masonry construction is similar to all comparables, excepting Improved Sale 3. Although wood framing is less expensive (95% of the cost of split faced block; 98% of common block), the resulting positive adjustment would actually widen the adjustment range. Based on this, the market does not recognize wood as an inferior construction type and no adjustment is applied.

Primary Exterior Type: Again, my initial assumption that a cedar exterior is inferior is debunked by my findings outlined above. No adjustment is made as result.

Year Built; Effective Age: Quite commonly, an appraiser describes a building as having an "average" or "good" condition. Such categorizations are highly subjective and become misused unless they are tied to some type of quantifiable measure such as physical deterioration percentages or effective age. The latter is chosen, derived by a weighted average of selected building components and their physical ages. In theory, adjustments to each of the sales would be based on the simple difference in effective ages, multiplied by an annual physical deterioration factor. The right most column of the table (right) results from the preceding math calculation using an annual physical deterioration factor of 2%. While such a detailed analysis looks impressive, it is not supported by the market data.

	Effective Age	Physical Deterioration			Annual Phys. Deter.	Implied Adjustment
		Short-Lived	Long-Lived	Overall		
Imp. Sale 1	30	70.00%	40.00%	47.50%	1.58%	10.00%
Imp. Sale 2	8	40.00%	10.67%	18.00%	2.25%	-34.00%
Imp. Sale 3	10	50.00%	13.33%	22.50%	2.25%	-30.00%
Imp. Sale 4	9	45.00%	12.00%	20.25%	2.25%	-32.00%
				Mean	**2.05%**	
				Median	**2.25%**	

For example, the four comparables indicate a spread (without adjusting for "condition") of $31.07 to $34.67 per sq.ft. (12% spread). After applying the adjustments derived above, the range becomes $22.87 to $36.33 per sq.ft. (59% spread). Furthermore, Improved Sale 2, at 30 years old and $33.53/sq.ft., sold at an adjusted price that is higher than the three other comparables. No matter how intrinsic a "condition" adjustment is for buildings with substantially different ages, it is not justified by this comparable data. None is applied as a result.

Office Finish: Subject's office ratio at 78% is superior to all four comparables. Because of the higher costs associated with office finishes, adjusting for dramatically different ratios are justified. According to the Marshall Valuation Manual, office finishes cost $15 to $20 per sq.ft. and for Improved Sale 1, for example, with 36% less office space (2,160 sq.ft.), approximately $32,000 to $43,000 would have to be spent to equate it to subject.

However, adjustments for the level of office finish are not simply a function of cost, but rather enhancement. For certain tenants, an office ratio of 60% might reflect a superadequacy and result in a detriment. That is not my position here, but clearly the data shows a de-emphasis on this category. Improved Sales 2 and 4, for example, are in the same office park and similar in nearly every way except level of finish. Although the former has less office space (50% vs. 66%) it sold for slightly more per sq.ft. ($35.22 vs. $34.57)

As a result, only 5% adjustments are applied to the comparables. This translates to $1.30 to $1.50 per sq.ft. to each.

Basement: Subject and none of the comparables include a basement, resulting in no adjustments.

Sprinkler System: According to various cost statistics, a sprinkler system contributes approximately 3% to cost new. Because of cost reductions to fire insurance, the added expense is sometimes justified. According to the building owner, he does realize a fire insurance reduction, but at savings of less than the 3%. This appears realistic because if the discount equaled or even exceeded cost, logically all four comparables would be sprinklered. As a result, 2% adjustments are applied to each.

Loading Docks: Subject includes a single loading dock that accesses its warehouse area. Curiously, all of the comparables (except one) feature one or more grade level doors, but no docks. Either the loading dock represents a superadequacy, as it is atypical of the market, or this property class requires only one or the other to satisfy the limited distribution/receiving utility needed to conduct business. I tend to favor the latter, as subject's loading dock is used often and is hardly a detriment. However, the market evidence is clear that it does not represent a necessity, resulting in my conclusion that no adjustments are required.

Grade Level Doors: As discussed above, subject and all but one of the comparables include at least one grade level door. Improved Sale 3 is the exception, which actually features a double door set-up instead. But since the adjusted price does not appear to reflect a discount for the absence of a grade level door, no adjustment is warranted.

Accessory Building Improvements: The subject and none of the comparables include accessory buildings, requiring no adjustment.

Sales Comparison Approach—Conclusion:

As in the case of the Site Valuation, my research was expanded beyond typical parameters to include the northern suburbs. It does not diminish the quality of the analysis, however, as the subject's higher office ratio required such consideration. The tight range after adjustment (12% spread) further bolsters the strength of the value estimate by this approach.

Improved Sales 2 and 4 ($33.02 to $31.47 per sq.ft.) required the least absolute adjustment and are allocated greatest weight. Remaining sales are utilized in support.

Based on the above, a unit value of $33.00 per sq.ft. is estimated, and for 10,683 sq.ft., a market value, as of the date of appraisal, of $352,539 (rounded) **$353,000**.

Additional Considerations:

Although not included in the grid, consideration is also given to subject's recent sale in XXXX 2000. To prevent bias in my value conclusion, it is simply mentioned here, but it is worth noting that the XXXX purchase price shows a high correlation with XXXX. It reiterates my opinion that this sale was arm's length.

XXVII. INCOME CAPITALIZATION APPROACH

Definition:

> "A set of procedures through which an appraiser derives a value indication for an income producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate."[45]

Introduction:

Essentially this approach involves the estimation of potential income, deduction of necessary operating expenses, and capitalization of the result into value by an applicable rate.

There are two main methods to estimate value—direct capitalization and yield capitalization. The distinction between the two is as follows:

> **Direct Capitalization:** Direct capitalization is defined as: "(a) method used to convert an estimate of a single year's income expectancy into an indication of value…"[46] Direct capitalization is simplistic in its application because the assumptions and inputs that provide the foundation of the analysis are relatively easy to determine. Capitalization rates or income multipliers are often available from market data, as are typical financing terms.
>
> **Yield Capitalization:** Yield capitalization is "...used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment's income pattern, holding period, value change, and yield rate.[47] Also known as discounted cash flow analysis, this approach requires additional analysis due to an extended holding period, projection of future trends, explicit accounting of the reversion, etc. Inputs such as equity yield rates, discount rates, length of holding period, etc. are frequently difficult to measure, especially for those property classes where this approach is not typically employed.

Applicability:

Subject is owner-occupied, as is typical of this property class. Comparable rentals are available, however, and in sufficient supply to facilitate the use of this approach. The **direct capitalization method** is employed as a result.

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[45] Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 99.

[46] Appraisal Institute 58.

[47] Appraisal Institute 211.

DIRECT CAPITALIZATION ANALYSIS: MARKET RENT ESTIMATE							
	SUBJECT	RENTAL 1		RENTAL 2		RENTAL 3	
Rent per Sq.Ft.		$7.53		$6.38		$12.00	
SERVICES PROVIDED							
Real Estate Taxes	No	No		Yes	-$1.00	Yes	-$1.14
Insurance	No	No		No		Yes	-$0.15
Repairs & Maintenance	Structural Only	Similar		Similar		All R&M	-$0.78
Janitorial	No	No		No		CA only	-$0.40
Utilities	No	No		No		Yes	-$1.60
Other	No	No		No		No	
Adjusted Rent per Sq.Ft.		$7.53		$5.38		$7.93	
LEASE DATE; RENTAL TRENDS	2/10/XX	XXXX		XXXX		XXXX	
Adjusted Rent per Sq.Ft.		**$7.53**		**$5.38**		**$7.93**	
OTHER ADJUSTMENTS							
Lease Term (years)	5	10		5		4	
Work Letter; Build-Out	None	None		None		None	
Rent Concessions	None	None		None		None	
Adjusted Rent per Sq.Ft.		**$7.53**		**$5.38**		**$7.93**	
PHYSICAL CHARACTERISTICS							
Location	XXXX	XXXX		XXXX		XXXX	
Land-To-Building Ratio	2.8:1	6.5:1		4.5:1		5.2:1	
Leased Area (sq.ft.)	10,683	20,574	$0.30	5,640	-$0.30	2,702	-$0.90
Construction Type	Masonry	Masonry		Masonry		Masonry	
Year Built	1973	1991		1968		1985	
Office Finish	78%	30% (100%)	-$1.00	66%	$0.50	100%	-$1.00
Overall Utility	Industrial Office	Hi-Tech		Industrial Office		Industrial Office	
Loading Docks/OH doors	1/1	1/0		0/1		1/0	
PHYSICAL CHARACTERISTICS—NET ADJUSTMENT		**($0.70)**	**-9%**	**$0.20**	**4%**	**($1.90)**	**-24%**
PHYSICAL CHARACTERISTICS—ABSOLUTE ADJUSTMENT		**$1.30**	**17%**	**$0.80**	**15%**	**$1.90**	**24%**
INDICATED RENT PER SQ.FT.		**$6.83**		**$5.58**		**$6.03**	

Central Tendencies:	
Mean	$6.15
Median	$6.03
Spread (Lowest to Highest)	
Before Adjustment	88%
After Adjustment	22%

The combination of single-tenancy and the non-investment grade nature of this property class disqualify yield capitalization from consideration. This approach is processed as follows:

INCOME

Potential gross income (PGI) is "(t)he total income attributable to real property at full occupancy before vacancy and operating expenses are deducted".[48] It includes all forms of income, such as electricity reimbursements (office), food & beverage (hotel), common area maintenance (retail), etc. Effective gross income (EGI) is "(t)he anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses…"[49] The final step before capitalization is to estimate net operating income (NOI) which is "(t)he actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted…".[50]

Each form of income is discussed on the following pages.

Potential Gross Income—Comparative Analysis:

As discussed in the Current Occupancy and Leases In Effect, subject is presently leased on an absolute net basis for $XXXX/sq.ft. However, the agreement is not arm's length and cannot be used in the determination of market rent.

Instead, potential gross income is estimated based on three market rentals (data sheets in Exhibit 4). They are analyzed and adjusted as follows:

Services Provided: This property type is often leased on a net basis, but Rental 3 consists of a gross lease where landlord is responsible for all occupancy costs. Based on the expense figures included on the comparable data sheet (Exhibit 4), adjustments are applied to reflect a net lease arrangement.

Lease Date; Rental Trends: The rentals range from annual escalators to fixed five-year terms. The distinction, however, depends on the landlord's exposure to expenses—gross leases include annual escalators to prevent income erosion, while buildings with net leases are fixed for longer periods. The underlying base rent between 1997 and 2001 has not changed, resulting in no adjustment.

Lease Term: Subject and rentals are reasonable similar, for no adjustment.

Work Letter/Build-Out: Subject is valued "as is". Leases for the comparables included no alterations and are considered similar. No adjustments are made.

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[48] Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition (Chicago: Appraisal Institute, 2010) 148.

[49] Appraisal Institute 64.

[50] Appraisal Institute 134.

Rent Concessions: No rent concessions were applicable to any of the lease agreements, for no adjustment.

Location: As in the case of the sales comparison approach, adjustments for location were not justified by the data. This was also true of the rental comparables, requiring no adjustment.

Land-to-Building Ratio: Likewise, the impact of subject's inferior land-to-building ratio is considered throughout this report. However, insufficient evidence exists to warrant adjustment.

Leased Area: I have analyzed Leased Area in the same manner as comparable sales—on a unit cost basis. As in the case of the sales comparison approach, I have been careful not to apply the cost derived adjustment to the land allocation. An Improvement Factor was extracted from the sales and then applied to rent. The result is then adjusted by the size/cost differential to estimate the appropriate allowance.

BUILDING SIZE VS. RCN ADJUSTMENT					
	Total Size (Sq.Ft.)	RCN/ Sq.Ft.	Adjustment (%)	Improvement Factor	Adjustment ($)
Subject	**10,683**	**$66.68**			
Rental 1	20,574	63.41	5.16%	85%	$0.30
Rental 2	5,640	70.90	-5.95%	85%	($0.30)
Rental 3	2,702	77.77	-14.26%	85%	($0.90)

Construction Type: All three rentals are of masonry construction, resulting in no adjustment.

Year Built: Despite major differences in age, the sales comparison approach showed no enhancement for newer buildings. No support exists to conclude differently in this analysis, for no adjustment.

Office Finish: Clearly a relationship exists between extent of finish, utility, and condition versus rent. Although such discrepancies were not highly measurable in the sales comparison approach, tenants are not owner occupants and are more sensitive to physical factors that enhance or detract from rent.

In order to reconcile the differences in extent of finish, I have developed a simple ratio that assigns a rental component to both office and warehouse. Based on an analysis conducted by this firm, $6.60 and $2.30 are utilized, respectively. The following ratios are computed:

	Comparative Ratio	Implied Adjustment
Subject	**$5.65**	
Rental 1	$6.60	($1.00)
Rental 2	$5.14	$0.50
Rental 3	$6.60	($1.00)

Despite the fact that Rental 1 is comprised of only 30% office, the remainder is hi-tech with package heating/cooling and value levels comparable to good quality suburban office (property was under contract to sell in 1999 for $58.32/sq.ft.). It is treated similar to Rental 3 as a result.

Adjustments are applied accordingly, and include the effect of office finish and utility.

Overall Utility: As discussed, the effect of utility was adjusted for in the previous category.

Loading Docks/Overhead Doors: As shown in the sales comparison approach, the type or number of docks/grade level overhead doors was not a factor, only that the structure has sufficient receiving/distribution capacity. No adjustment is warranted.

Potential Gross Income—Conclusion:

With the exception of Rental 2, none of the comparables are highly similar. The variation in services also complicated the analysis as Rental 3 consisted of a gross lease, requiring a 33% adjustment for expenses. This comparable is utilized in support as a result.

Based on the above, a net rental of $5.75 per sq.ft. is estimated, and for 10,683 sq.ft., a potential gross income of **$61,427**.

No other forms of income are applicable, including the reimbursement of operating expenses.

Effective Gross Income—Vacancy & Collection Loss Analysis:

Although the income analysis assumes single-tenancy at full occupancy, it is necessary to adjust for the prospects of vacancy in a stabilized expense stream. Data shown in the Neighborhood Analysis, and observations within subject's immediate area that current vacancy levels for industrial office space are low, ranging from 0% to 10%. The high end of the range implies four to six weeks of vacancy during the fiscal year. Considering the additional potential for collection losses, **10%** is considered reasonable for this analysis.

Therefore, effective gross income represents 90% of its potential, or **$55,284** per annum.

EXPENSES

The next step in this valuation approach is to calculate operating expenses. As stated, properties such as the subject are typically leased on a net basis except for structural maintenance. For the purposes of constructing an income and expense statement, however, other expenses must be analyzed and deducted, including management (real estate), miscellaneous, and leasing commissions.

Management—Real Estate: Although the subject is essentially owner-operated, an expense for management must be accounted for. Such a provision covers the cost of a manager to budget income and expenses, accounting, major maintenance scheduling, etc.

According to publications such as BOMA[51], 5% to 6% of effective gross income is typical. This range is consistent with my experience, and **5%** is considered reasonable overall.

Structural Maintenance: In a net lease arrangement, the tenant is commonly responsible for minor maintenance items as well as those costs attributable to the grounds (i.e. landscaping and snow plowing). What is not typically included is the maintenance and repair of the roof, HVAC, and major interior and exterior items. Even though there may be certain years where no structural repairs are necessary, an "allowance for replacements" is generally recognized to stabilize the expense when it is required.

Based on various publications as well as my own experience, $0.15 to $0.25 per sq.ft. is sufficient to cover this cost. An allowance of **$0.20** per sq.ft. is utilized for this analysis.

Miscellaneous: In order to cover unforeseen expenses related to occupancy (or vacancy), a miscellaneous expense of **1%** of EGI is applied.

Leasing Commissions: Providing for leasing commissions in the expense stream is prudent, given the considerable cost associated with this item. For a property of subject's size and type, 6% of gross rent for the entire lease term is typically due and payable at the beginning of the lease term. I have chosen to pro rate this expense on an annual basis, but as a separate line item because it is based on PGI not EGI. Regardless of whether the tenant remains for all of the specified term, the owner is responsible for the entire commission.

As a result, **6%** of potential gross income is deducted to establish net income.

Expense Conclusion:

As subject is analyzed on a net basis, operating costs such as management (real estate), structural maintenance, miscellaneous, and leasing commissions are deducted from effective gross income. Other expenses such as real estate taxes, insurance, interior/grounds maintenance, utilities, etc. are the responsibility of a prospective tenant.

CAPITALIZATION RATE

As discussed at the beginning of this section, in order to equate net income to value, a capitalization rate is applied. A number of different methods exist to estimate an appropriate rate including: market extraction, band-of-investment, debt coverage formula, and market surveys. Others such as gross income multipliers and residual techniques are not applicable in this analysis. Relevant methods are individually discussed as follows:

[51] Building Owners and Managers Association

Capitalization Rate Analysis:

Market Extraction: Improved Sale 4 (and Rental 2) sold in lieu of a rental agreement. Although the lease was never executed, it can be utilized to estimate a capitalization rate, and when combined with mortgage information, derive equity dividend rates and a debt coverage ratio.

CAPITALIZATION COMPONENT ANALYSIS OF SELECTED COMPARABLES			
	Elements	Imp. Sale 4	Rental 1*
A	Sale Price	$195,000	$1,200,000
B	Potential Gross Income	$36,000	$155,000
C	Effective Gross Income (B x 95%)	$34,200	$147,250
	Management (C x 5%)	$1,710	$7,363
	Operating Expenses (see data sheets)	7,050	4,938
	Miscellaneous (C x 1%)	342	1,473
	Leasing Commissions (B x 6%)	2,160	9,300
D	Total Operating Expenses	$11,262	$23,073
E	Net Income (C – D)	$22,938	$124,177
F	**Overall Rate (E/A)**	**11.8%**	**10.3%**
G	Annual Debt Service	$21,270	$88,679
H	Income to Equity (E - G)	$1,668	$35,498
I	**Equity Dividend Rate (H/[A x (1-LTV)])**	**11.1%**	**14.8%**
J	**Debt Coverage Ratio (E/G)**	**1.08**	**1.40**

* Lease negotiated at sale

Likewise, Rental 1 was to be conveyed with a new lease. Although the agreement was signed with the necessary financing in place, the transfer never took place. However, the combination of lease terms, the resulting sale price, and lender requirements are useful in extracting an overall capitalization rate, equity dividend rate, and debt coverage ratio.

Market extraction yields a capitalization rate range of 10.3% to 11.8%. This method is considered highly reliable in estimating an overall rate and is weighted accordingly.

Band-of-Investment: This technique is useful in establishing capitalization rates as it considers both debt and equity requirements. Assumptions in regard to the former are based on a lender survey shown in the Neighborhood Analysis, while market derived equity capitalization rates (shown above), with support from surveys conducted by the American Council of Life Insurers shown later in the section, support the latter.

Current financing terms are an 8.5% interest rate over 20 years (computed monthly) with a 75% loan-to-value. This information is utilized to calculate a mortgage constant (i.e. mortgage capitalization rate) of 0.1041.

An equity dividend rate reflects investor requirements regarding an annual return on equity. Acceptance of an equity dividend rate by an investor takes into account his perception of additional anticipated future benefits, i.e. increase in value, debt reduction,

INVESTMENT GRADE INDUSTRIAL PROPERTIES LESS THAN $2,000,000								
Period	# of Loans	Interest Rate	DCR	LTV Ratio	OAR	Mortgage Constant	Amort. (yrs.)	Implied EDR
2000 3Q	44	8.64%	1.39	67.10%	10.10%	0.1110	17.50	8.1%

increase in income, etc.

The equity dividend rate derived from market data ranges from 11.1% to 14.8%. This compares to a life insurance survey of investment grade properties in the 3rd Quarter of 2000 that shows 8.1% (table previous).

Since the subject is not considered an investment grade property in both locational and utility terms, the market derived equity dividends are most reliable. Reconciling in the middle of the range results in a rate of 13%.

A capitalization rate by band of investment is therefore estimated as follows:

OVERALL CAPITALIZATION RATE BY BAND-OF-INVESTMENT		
Mortgage/Equity Ratio	**Rate**	**Derivation**
75%	10.41%	7.81%
25%	13.00%	3.25%
Overall Capitalization Rate		11.06%
(say)		11.10%

Debt Coverage Formula: As an additional guide, the debt coverage formula will be utilized, which is based on Ro = DCR x M x Rm. The DCR or debt coverage ratio was extracted from comparable sales (1.08 to 1.40) and lender surveys (1.20 to 1.25), with 1.30 considered reasonable. M is the ratio of the mortgage or loan to value (LTV), which is 75%. The last component necessary is Rm, which is the mortgage capitalization rate of 10.41%.

As indicated by the formula, an overall capitalization rate is therefore estimated based on 1.30 x 75% x 10.41% yielding 10.15% (say) 10.2%.

Market Surveys: Although only a secondary method, surveys by PriceWaterhouseCoopers (i.e. Korpacz Real Estate Investment Survey), Real Estate Research Corporation (i.e. Real Estate Report) and American Council of Life Insurers (i.e. Commercial Mortgage Commitments) are available to bracket a reasonable range of capitalization rates for investment/non-investment grade properties from a

SURVEY CAPITALIZATION RATES					
		Institutional		Non-Institutional	
Property Type	**Source**	**OAR Range**	**OAR Avg.**	**OAR Range**	**OAR Avg.**
National Industrial	Korpacz (4Q 2000)	7.5%-10.0%	9.0%	8.8%-12.0%	9.9%
Suburban Office	Korpacz (4Q 2000)	8.0%-10.5%	9.2%	9.5-13.0%	10.8%
Industrial	20-Life (3Q 2000)	N/A	9.0%	N/A	N/A
Office Building	20-Life (3Q 2000)	N/A	9.6%	N/A	N/A
Suburban Office	RERC (3Q 2000)	8.0%-9.0%	8.6%	9.5%-12.5%	10.4%
Industrial R&D	RERC (3Q 2000)	8.5-12.0%	9.4%	10.0-12.5%	10.6%

national perspective. Overall capitalization rates for non-investment grade office/industrial properties are 9.9% to 10.8%, which is reasonably consistent with my findings of the other three methods.

Capitalization Rate Analysis—Conclusion:

Overall capitalization rates are summarized in the table below. Greatest emphasis is given to market extraction and to a lesser degree band-of-investment. Therefore, an overall capitalization rate of **11.0%** is estimated.

Market Extraction	10.3%-11.8%
Band-of-Investment	11.1%
Debt Coverage Formula	10.2%
Market Survey	9.9%-10.8%

INCOME AND EXPENSE STATEMENT

Based on the preceding data, an income and expense statement is shown below. It is presented for valuation purposes and differs from one that would be applicable for standard accounting practices, since it excludes items such as depreciation and mortgage interest. Subject's market value, as processed by this approach, is as follows:

INCOME:				
Base Rent (B.R.)	$5.75 /sq.ft.=			$61,427
Total Reimburseables				0
TOTAL POTENTIAL GROSS INCOME				$61,427
Less Vacancy and Collection Loss	@ 10.0% of PGI			6,143
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	553		
TOTAL OPERATING EXPENSES		$5,454		
NET OPERATING INCOME (before L.C.)				$49,830
Less Leasing Commissions (L.C.)	@ 6.0% of B.R.			3,686
NET OPERATING INCOME				$46,144
Capitalization Rate	@ 11.0%			
MARKET VIA BY DIRECT CAPITALIZATION				**$419,491**
			(rounded)	**$419,000**

Income Capitalization Approach—Conclusion: Using the direct capitalization method, a market value of **$419,000** was derived. It is considered a good method of estimating value as this property class is sometimes purchased based on income potential.

XXVIII. RECONCILIATION OF VALUE INDICATORS

Intended Use/Function of Appraisal:

The client and intended user of this report are 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
Yield Capitalization	Not Utilized

Reasonability and Weight Determination:

Site Valuation: Using the sales comparison approach, five site sales were compared to the subject on a sale price per acre unit basis. Before adjustment, the sales indicated a price range of $33,245 to $70,621 per acre (112% spread). After adjustment, the range is $37,975 to $55,791 per acre (47% spread). I ultimately estimated a market value of $47,000 per acre.

I was perhaps conservative in my value estimate by offering weighting to the two lowest sales after adjustment. The poor industrial/office land market outside of XXXX and XXXX Office Parks requires consideration of all recent site sales, including those at the low end of the range. Ultimately, the data utilized provides a reliable value estimate.

Cost Approach: Primary disadvantage in using this method is proper allocation of depreciation. The necessary assumptions were believed measurable, and this approach was employed in a value determination.

The breakdown method, using replacement cost new, analyzes the depreciation components on individual basis. Physical deterioration was entirely incurable based on my observations and owner/tenant interviews. Functional obsolescence was determined not to be present based on available market evidence. The improved comparables demonstrated the existence of external obsolescence, with 20% extracted from the market. A market value by this approach of $417,000 was estimated.

In the final weighting, however, the cost approach is not considered a good indicator of value. Depreciation was highly measurable, but the subject's improvement is nearly XX years old. Few, if any, prospective buyers would conduct the detailed analysis that is necessary to apply this approach properly, and thus it can only be used as a secondary guide to value.

Sales Comparison Approach: Four comparable sales were available for comparison on a sale price per sq.ft. basis. Before adjustment, the sales indicated a price range of $34.57 to $43.33 per sq.ft. (25% spread). After adjustment, the value range is $31.47 to $35.17 per sq.ft. (12% spread). Greatest weight was placed on Improved Sales 2 and 4, and I reconciled at $33.00 per sq.ft. or $353,000.

The sales comparison approach is typically a strong indicator of value for owner occupied properties. Such is the case here and the consistency of the value range supports my emphasis on its value conclusion.

Income Capitalization Approach: The direct capitalization method of this approach was utilized. Since this property type does not lend itself to yield capitalization, it was not employed.

First, potential gross income was estimated based on three market rentals of varying comparability. A net unit rent of $5.75 per sq.ft. was derived, with an annual rental of $61,427. Effective gross income amounted to $55,284 after applying vacancy and credit losses of 10%.

Second, the various expenses necessary for this property were accounted for, including management (real estate), structural maintenance, miscellaneous, and leasing commissions. Lastly, a direct capitalization rate was derived from four different sources: market extraction, band-of-investment, debt coverage ratio, and market surveys. The first two were given greatest weight and an overall rate of 11.0% was estimated.

Ultimately, direct capitalization indicated a market value of $419,000. Overall, this approach is given secondary weighting, as it is most relevant for multi-tenant, income producing properties.

Conclusion: As discussed, the sales comparison approach is considered most reliable, with the cost and income capitalization approaches used in support. Subject's market value, as of February 10, XXXX, is estimated as:

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