

Summary Appraisal Report  
**10,400± SF Industrial Building**  
**2037 & 2039 L Street, Newman, CA 95360**

**Client**

Ms. Carolyn Beach  
Westside Pallet, Inc.  
2138 L Street  
Newman, CA 95360

**Prepared By**

Erik Lundquist, Appraiser  
2657 Heirloom Way  
Roseville, CA 95747

**Date of Report** April 17, 2012



**Assignment Conditions**

<b>Intended Use</b>	Purchase negotiations	<b>Date of Inspection</b>	April 11, 2012
<b>Intended User</b>	Client only	<b>Date of As-Is Value</b>	April 11, 2012
<b>Assignment Objective</b>	Develop an opinion of Market Value (per Federal Register guidelines)	<b>Report Option</b>	Summary Appraisal Report, in accordance with Standards Rule 2-2(b) of USPAP
<b>Interest Valued</b>	Leased fee estate	<b>Approaches Utilized</b>	Sales comparison, income capitalization

**Value Conclusions**

**Market Value As-Is**

**\$285,000**  
**(\$27.40 psf)**

*Value conclusion(s) based on the attached Scope of Work, Assumptions, Hypothetical Conditions, and Appraisal Definitions, as of the date of value stated above.*

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## Scope of Work

In preparing this appraisal, the appraiser did the following:

- Completed this analysis as an 'appraisal assignment', as defined by the Uniform Standards of Professional Appraisal Practice (USPAP).
- Inspected the interior and exterior of the subject property.
- Gathered subject information from city/county websites for assessment data, property taxes, zoning, earthquake zone, and flood zone.
- Gathered subject sales and listing history from MLS, Loopnet, Costar and/or public records.
- Gathered neighborhood and market data from a variety of sources, including personal inspection, brokerage reports, conferences, and market participant interviews.
- Determined the highest and best use of the subject as vacant and as improved.
- Gathered listing, sale and rent data from a variety of sources, including Costar, Loopnet, MLS and/or public records; ensured all listings, sales and rents were confirmed with at least one party to the transaction.
- Analyzed all relevant data and utilized the sales comparison and income capitalization approaches to value. The cost approach was excluded from the analysis, as market participants place little, if any, emphasis on the cost approach when valuing properties not representative of new or proposed construction. The cost approach was not considered necessary to produce credible appraisal results.
- Reconciled the values derived via the sales comparison and income capitalization approaches to arrive at the market value as-is. Since the property is currently 100% occupied, no deductions were required for lease-up costs.

## Extraordinary Assumptions & Hypothetical Conditions

This appraisal is made with the following extraordinary assumptions, which can impact the results of an appraisal:

- A preliminary title report was not provided for this report. As such, it is assumed no negative title issues affect the subject property. If this is not the case, the value conclusion(s) could be impacted.
- The subject and the adjoining property to the north are currently under the same ownership. However, the proposed transfer of the subject would create separate ownerships. The subject's storm drain currently empties into a below-grade tank on the adjoining property. It is assumed a maintenance agreement will be established with the adjoining owner for the storm drain tank, or an alternative storm drain system will be installed prior to close of escrow.

This appraisal is premised based on the following hypothetical conditions, defined by USPAP as 'that which is contrary to what exists, but is supposed for the purpose of the analysis':

- None

## Property Overview

<b>Property Type</b>	Industrial building	<b>Assessor's Parcel Numbers</b>	026-016-051 & -052
<b>Owner of Record</b>	Alejandro Salazar (et al)	<b>Rentable Building Area</b>	10,400± square feet
<b>Census Tract Number</b>	35.00	<b>Office Buildout</b>	660± square feet (6% of rentable area)
<b>Year Built</b>	Unknown (estimated 1960's)	<b>Land Area</b>	2.30± acres total
<b>Exposure Time</b>	6-12 months	<b>Highest and Best Use</b>	Industrial, as improved
<b>Interest Valued</b>	Leased fee	<b>Extent of Inspection</b>	Interior and exterior

The subject property represents a 2.30-acre site improved with a 10,400± square foot metal industrial building, gravel yard area and perimeter fencing. The property is currently leased by Westside Pallet and utilized for building and storing pallets. The improvements were constructed many years ago (estimated to be at least 40 years old), and are in fair condition. Specific items of deferred maintenance include a damaged storm drain and broken drywall in the office area. The subject is located along the west side of L Street, south of Inyo Avenue, in the city of Newman, Stanislaus County, California. Adjacent uses along L Street are primarily industrial in nature. As previously stated, the property appears to be in fair condition, with a remaining economic life of approximately 20-25 years.

According to public records, there have been no transfers of the property within the past three years. However, the tenant is currently negotiating with the owner to purchase the property. As of the date of this report, price and terms had yet to be determined. The tenant currently leases the subject and the identical 10,400± square foot building adjacent and north for \$5,500 per month, gross (\$0.26 psf/month, gross).

## Aerial View



## Site Description

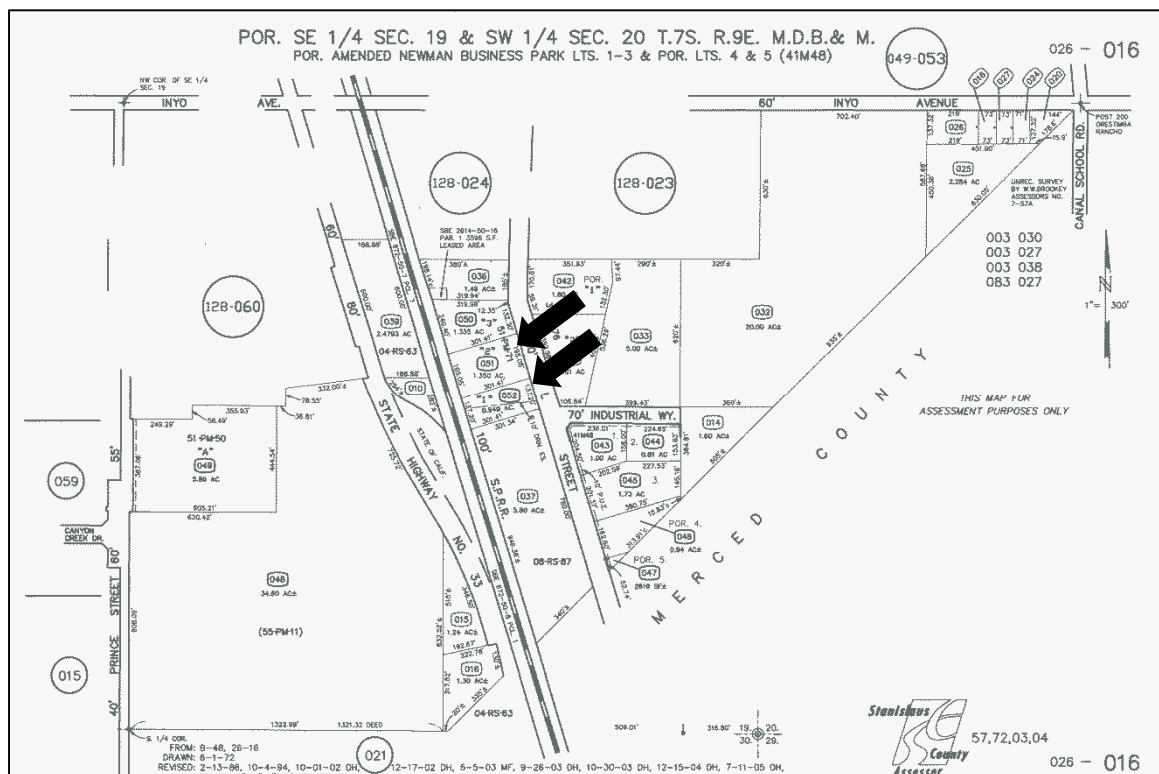
<b>Zoning</b>	I	<b>Zoning Description</b>	Controlled Manufacturing
<b>Frontage/Visibility</b>	Average	<b>Legally Conforming?</b>	Yes
<b>Flood Zone</b>	X500 – outside the 100-yr floodplain (Panel 060388-0945E)	<b>Earthquake Zone</b>	Zone 3 – Moderate Seismic Activity
<b>Shape</b>	Rectangular	<b>Topography</b>	Level
<b>Parking Type</b>	Open, onsite	<b>Parking Spaces</b>	10
<b>Utilities</b>	All public utilities available	<b>Site Coverage Ratio</b>	10%
<b>Offsite Improvements</b>	All installed (curb, gutter, sidewalks, street lights)	<b>Functional Adequacy</b>	No limitations or restrictions observed

According to the city of Newman, the purpose of the Controlled Manufacturing (I) zone is to provide locations and uniform development standards for heavy industrial, warehousing, manufacturing, research and development and other heavy or high impact businesses and uses which cannot be classified as “commercial” or “light industrial.” The current use of the subject represents a legal, conforming use.

No negative attributes with the subject site; visibility and accessibility are both average along the west side of L Street, with access to Highway 33 immediately north via Inyo Avenue. The property is located amongst industrial development. The site includes a fenced and graveled storage area, parking along the street frontage, and concrete aprons at the roll-up doors. All site improvements are in average condition as of the date of inspection.

The parcel map indicates a drainage easement bisecting the southern parcel (APN: 026-016-052). Additional details regarding the easement were not available; however, most similar easements do not allow vertical construction and can only be utilized as parking, yard space, outdoor storage, landscaping, etc. While this easement could present development challenges in the future, it does not have a negative impact on the current use of the parcel (paved yard space). An inspection of the subject property revealed no apparent adverse easements, encroachments or other conditions currently impacting the subject.

### Assessor's Parcel Map



## Improvement Description

<b>Foundation</b>	Concrete slab	<b>Structure</b>	Metal clear span
<b>Exterior Walls</b>	Metal	<b>Roof</b>	Metal
<b>Windows</b>	Aluminum frame with clear glass	<b>HVAC</b>	Roof-mounted unit (office)
<b>Roll-up Doors</b>	(2) 10'x12'; (1) 18'x12'	<b>Warehouse Clear Height</b>	14-16 feet
<b>Floors</b>	Exposed concrete (warehouse) / vinyl tile (office)	<b>Ceilings</b>	Exposed (warehouse) / Finished drywall (office)
<b>Lighting</b>	Drop halide fixtures (warehouse) / Affixed lights (office)	<b>Plumbing</b>	Two unisex restroom in office area
<b>Effective Age</b>	30 years	<b>Remaining Economic Life</b>	25 years

The subject represents average quality metal construction that is in fair condition as of the date of inspection. Specific items of deferred maintenance include a damaged storm drain and broken drywall in the office area. While these items are relatively minor and dollar-for-dollar deductions have not been made in this appraisal, they contribute to the overall fair condition of the property.

The building includes 660± square feet of office space along the eastern (street) elevation with two restrooms and several demised offices. Adjoining the western (rear) elevation of the structure are two metal covered storage areas, totaling 2,200± square feet.

## Property Taxes and Assessment Data

<b>Parcel Number</b>	<b>026-016-051</b>	<b>026-016-052</b>
<b>Assessed Land Value</b>	\$94,499	\$66,403
<b>Assessed Improvement Value</b>	\$110,981	\$0
<b>Total Assessed Value</b>	\$205,480	\$66,403
<b>Taxes</b>	\$2,673.84	\$878.42
<b>Base Tax Rate (2011-2012)</b>	1.1796%	1.1796%
<b>Supplemental Assessments</b>	\$250.20	\$95.20 (Westside Healthcare District)



### Highest & Best Use – As Vacant

<b>Legal Permissibility</b>	Industrial development only, in concert with the Controlled Manufacturing (I) zoning requirements. Likelihood of a zoning change is remote.
<b>Physically Possible</b>	All legally permissible uses are physically possible, as the site is level, has average accessibility, no adverse soil or drainage conditions, and has an adequate size and shape for industrial uses.
<b>Financially Feasible</b>	Industrial uses are currently overbuilt in the subject submarket, with declining rental rates and sale prices. Due to oversupply and construction costs that exceed sale prices, development at this time is not financially feasible.
<b>Maximally Productive</b>	Hold for future industrial development

### Highest & Best Use – As Improved

<b>Alternative Uses</b>	Demolition, expansion, conversion, renovation are not feasible, as the current improvements maximize site utility. While the subject includes some excess land, it is currently paved and utilized for yard storage. This is considered a desirable amenity for industrial properties, and development of the excess land is not considered appropriate. Further, the southern parcel is bisected by a ten-foot wide drainage easement, which limits the parcel's development potential. It is also noted the improvements are in fair condition; however, current rental rates do not support renovation of the space.
<b>Conclusion</b>	The current use is the highest and best use as improved.
<b>Most Probable Buyer</b>	Owner-user, due to single-tenant nature of improvements.

## Regional Overview

Stanislaus County encompasses approximately 1,494 square miles, bordered by Merced County to the south and San Joaquin County to the north. Stanislaus County is one the leading agricultural areas in the Central Valley, and has a population of 514,453 (as of 2010). The topography of the region includes mostly flat land along the valley floor, but also includes rolling hills along the western and eastern boundaries of the county.

The county has been one of the fastest-growing areas in the United States over the past 30 years, with growth of 14% since 2000 and 22% between 1990 and 2000. Most of this growth has occurred in the cities of Modesto and Turlock, with additional growth seen in Ceres, Oakdale, Newman and Riverbank.

Stanislaus County is predominated by agricultural land use characterized with dairies, irrigated field crops and orchards (mostly almonds). Both full and part-time farming units are found in the area as well as semi-rural home sites. Rural residential use is favorable in the area due to the close proximity of Turlock, Ceres and Modesto to most points within the county. These cities are the main population centers of the area that provide off farm employment, health services, and churches, residential housing and shopping complexes. Modesto is the county's largest city, with a population of 201,165 as of 2010. The City of Turlock is the second largest city in Stanislaus County with a population that has grown steadily from 13,992 in 1970 to over 69,000 today, and is home to California State University Stanislaus (CSUS).

For many years Stanislaus County has been one of the leading counties in California in estimated value for farm products. A nine-year record is as follows:

Year	Total	\$ Change	% Change
2009	\$2,310,070,000	(\$163,773,000)	-7.09%
2008	\$2,473,843,000	\$52,193,000	2.11%
2007	\$2,421,650,000	\$273,498,000	11.29%
2006	\$2,148,152,000	\$170,557,000	7.94%
2005	\$1,977,595,000	(\$839,000)	-0.04%
2004	\$1,978,434,000	\$523,502,000	26.46%
2003	\$1,454,932,000	\$86,961,000	5.98%
2002	\$1,367,971,000	\$14,671,000	1.07%
2001	\$1,353,300,000	N/A	N/A

\*Stanislaus County Agricultural Commissioner's Office – 2009 Crop Report

While agriculture provides for the county's financial base, Stanislaus County has a broad range of related and non-related industries. Those sectors which strongly depend on agriculture, such as food processing, wholesale trade, and transportation, have also seen rapid expansion. At the same time, nonagricultural related activities, such as educational institutions, federal defense installations, warehouse/distribution centers, and numerous service industries, have contributed to the county's stability and growth.

Stanislaus County is an integral part of California's and the United States' agricultural base. While unemployment is typically higher than urbanized areas, the county fares better than most other agricultural communities. Several geographical, social and economic advantages have induced businesses and residents to relocate to the region from other parts of the state and nation. Beyond the current downturn, the long-term outlook for the region is good.



## Neighborhood & Market Overview

<b>Region</b>	San Joaquin/Stanislaus	<b>County</b>	Stanislaus
<b>Submarket Unemployment</b>	16.1%	<b>Primary Job Sectors</b>	Agriculture, Services

Newman has an estimated population of 10,224 persons (as of 2010) and has grown at a fairly rapid rate of 4.4% from 2000 through 2010. Much of this growth is due to the city's commuter location for the South Bay Area and much more affordable housing. The area's residential growth has occurred primarily in the northern portion of the city.

As of 2009, Newman's median household income was \$39,460, which was somewhat lower than the state median of \$47,493. According to DataQuick Information Services, the median resale home price in Newman was \$110,000 in the year 2011, which was about 10% lower than the prior year and about 15% lower than the county median of \$130,000. Prices are have stabilized somewhat over the past several months; however, significant bank-owned inventory continues to drive prices lower.

The immediate neighborhood includes mostly industrial properties along L Street, with commercial uses concentrated to the northwest along Highway 33 and Main Street. The subject occupant (Westside Pallet) operates two other warehouse facilities along L Street, and is one of the primary businesses in the city. Downtown Newman is located less than ½ mile northwest of the subject, concentrated within a three-block portion of Main Street. A tour of downtown Newman indicated very little vacancy, with an estimated 90%+ occupancy rate for retail and office properties.

No formal survey information is available for Newman industrial market. Occupancy in the city appears to be high, with only one small building observed for rent (in the northern portion of town). Market participants have stated that overall vacancy in the county has been stabilizing, following a period of significant contraction. Prices are continuing to be driven downward, due mostly to bank-owned inventory and distressed/high vacancy properties entering the market.

Industrial rental rates in the area are lower than more urbanized areas, due to lower demand and a predominantly older building supply. Rents for similar properties in the area typically range from \$0.20 psf/month, gross, for older buildings in fair condition, to \$0.75 psf/month, gross, for newer properties with good visibility. Going forward, the subject is expected to compete favorably with other similarly-sized industrial buildings in the area, given its location near other industrial development and the limited supply in Newman.

Overall, the subject's area is considered average for industrial uses, and is expected to remain relatively stable in the near term. Downward pricing pressure may continue to occur for a short time as more foreclosed properties become available. However, the subject is expected to experience stable occupancy in the long term.

## Subject Photos



Front view of subject



Southern elevation



Covered storage area



Gravel/fenced yard



Interior view of warehouse area



Interior view of warehouse area



## Subject Photos



Interior view of office area



Damaged storm drain



Rear of parcel



Looking south along L Street

## Sales Comparison Approach

In the sales comparison approach, the market value of the subject property is estimated by a comparison to similar properties that have recently sold, are listed for sale, or are under contract. The underlying premise of the sales comparison approach is the market value of a property is directly related to the price of comparable, competitive properties in the marketplace. The following sales are the most recent transactions considered to be reasonably similar to the subject.

### Comparable Sales Summary

	<b>Subject</b>	<b>Sold Comp 1</b>	<b>Sold Comp 2</b>	<b>Sold Comp 3</b>	<b>List Comp 1</b>	<b>List Comp 2</b>
<b>Street Address</b>	2037-2039 L St Newman, CA 95360	2170 Wardrobe Merced, CA 95341	6061 Winton Winton, CA 95388	260-262 Riggs Merced, CA 95340	317 Mercey Springs Los Banos, CA 93635	1495 Ellerd Turlock, CA 95380
<b>Sale Price</b>	--	\$560,000	\$335,000	\$341,250	\$349,900	\$425,000
<b>Rentable Area (SF)</b>	10,400	28,174	10,000	9,000	10,936	12,000
<b>Sale Price psf</b>	--	<b>\$19.88</b>	<b>\$33.50</b>	<b>\$37.92</b>	<b>\$32.00</b>	<b>\$35.42</b>
<b>Sale Date</b>	--	February-12	November-10	October-10	Listing	Listing
<b>Capitalization Rate</b>	--	N/Ap	N/Ap	N/Ap	N/Ap	N/Ap
<b>Transaction Characteristics</b>						
<b>Property Rights</b>	Leased Fee	Fee Simple	Fee Simple	Fee Simple	Leased Fee	Fee Simple
<b>Adjustment</b>						
<b>Financing Terms</b>	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
<b>Adjustment</b>						
<b>Conditions of Sale</b>	Market	REO	REO	REO	Market	Market
<b>Adjustment</b>		10%	10%	10%		
<b>Expenditures After Sale</b>	None	Vacant	Vacant	Vacant	Par Vacant	Market
<b>Adjustment</b>		10%	10%	10%	5%	
<b>Market Conditions</b>	April-12	February-12	November-10	October-10	Listing	Listing
<b>Adjustment</b>			-10%	-10%	-10%	-10%
<b>Physical Characteristics</b>						
<b>Location</b>	Average	Similar	Similar	Similar	Similar	Superior
<b>Adjustment</b>						-10%
<b>Visibility/Accessibility</b>	Average	Similar	Similar	Similar	Similar	Similar
<b>Adjustment</b>						
<b>Rentable Area (SF)</b>	10,400	28,174	10,000	9,000	10,936	12,000
<b>Adjustment</b>		10%				
<b>Office Buildout</b>	6%	13%	10% (est)	4%	10% (est)	5%
<b>Adjustment</b>		-5%				
<b>Quality of Construction</b>	Average	Sl. Superior	Similar	Sl. Superior	Similar	Similar
<b>Adjustment</b>		-5%		-5%		
<b>Effective Age/Condition</b>	30 yrs/Fair	30 yrs/Fair	15 yrs/Average	10 yrs/Average	20 yrs/Average	20 yrs/Average
<b>Adjustment</b>			-25%	-30%	-20%	-20%
<b>Site Coverage Ratio</b>	10%	21%	14%	15%	37%	55%
<b>Adjustment</b>		10%			15%	20%
<b>Additional Considerations</b>	Gravel/Fenced Yard	Similar	Similar	Similar	Similar	Similar
<b>Adjustment</b>						
<b>Net Adjustment</b>		30%	-15%	-25%	-10%	-20%
<b>Adjusted Value (psf)</b>		<b>\$25.84</b>	<b>\$28.48</b>	<b>\$28.44</b>	<b>\$28.80</b>	<b>\$28.33</b>
<b>Similarity to Subject</b>		Average	Average	Average	Average	Average
<b>Value Conclusion (psf)</b>	<b>\$28.00</b>					
<b>Value Conclusion (rd)</b>	<b>\$290,000</b>					

## Sales Comparison Approach



### ***Sold Comp 1***

**2170 Wardrobe Avenue, Merced, CA**

Buyer	Richard & Janette Conas
Seller	Bank of America
Confirmation	Listing broker
Document Number	6040
APN	059-410-028
Sale Date	25/22/2012
Sale Price	\$560,000 (\$19.88 psf)
Year Built	1976

This property was bank-owned at the time of sale, and transferred to an investor. The buyer subsequently began offering the property for lease at \$0.25 psf/month, triple net. The concrete tilt-up structure is located on 3.03± acres, near primarily industrial development. Overall, the comparable is inferior to the subject given its REO status, vacancy and larger size.



### ***Sold Comp 2***

**6061 N Winton Way, Winton, CA**

Buyer	Rojan Partners, LP
Seller	US Bank
Confirmation	Listing broker
Document Number	45636
APN	147-180-035
Sale Date	11/24/2010
Sale Price	\$335,000 (\$33.50 psf)
Year Built	1995

This bank-owned property is located in Winton, a small town north of Atwater and Merced in Merced County. The property includes 1.7± acres, much of which is fenced and paved yard space. The property transferred to an investor. Overall, the property is somewhat superior to the subject (despite its REO status and vacancy) due to its significantly superior effective age and condition.

## Sales Comparison Approach



### ***Sold Comp 3***

**260-262 Riggs Avenue, Merced, CA**

Buyer	ROIG Properties Corporation
Seller	Westamerica Bank
Confirmation	Listing broker
Document Number	39573
APN	059-420-063
Sale Date	10/08/2010
Sale Price	\$341,250 (\$37.92 psf)
Year Built	2000's

This comparable was bank-owned at the time of sale and transferred to an investor. The property was originally designed to accommodate an additional 8,600± square feet of building area; however, it is unknown if the buyers intend to complete the addition. Overall, this comparable is superior to the subject given its much newer effective age and superior market conditions at the time of sale.



### ***List Comp 1***

**1495 Ellerd Drive, Turlock, CA**

Buyer	N/Ap (Listing)
Seller	Lloyd & Nancy Ashman
Confirmation	Listing broker
Document Number	N/Ap (Listing)
APN	050-034-018
Sale Date	Listing
List Price	\$425,000 (\$35.42 psf)
Year Built	1980

Located northeast of the subject in Turlock, this comparable is currently being offered for sale. The property includes a small office area with two restrooms, and three roll-up doors to the warehouse. The parcel also includes a small yard area. Overall, the comparable is superior to the subject due to its location, newer effective age, and superior condition.

## Sales Comparison Approach



### *List Comp 2*

**317 Mercey Springs Road, Los Banos, CA**

**Buyer** N/Ap (Listing)

**Seller** Cara Linn Baumgarte

**Confirmation** Listing broker

**Document Number** N/Ap (Listing)

**APN** 025-133-008

**Sale Date** Listing

**List Price** \$349,900 (\$32.00 psf)

**Year Built** 1980's

Located south of the subject in Los Banos, this comparable is currently being offered for sale for \$32.00 per square foot. The property is occupied by three tenants, with only a small amount of vacant space. Actual net operating income at the time of listing was reported to be \$31,592, yielding an asking capitalization rate of 9.03%. The property is considered superior to the subject due to its listing status, and superior condition.



## Sales Comparison Approach

### Discussion of Adjustments

#### Property Rights Conveyed

The leased fee market value of the subject is estimated in this appraisal (due to the existing lease, which will be cancelled upon close of escrow). To the best of our knowledge, the leased fee properties were leased at or near market rental rates at the time of sale. No adjustments are necessary for property rights conveyed.

#### Financing Terms

The market valuation of the subject property assumes cash or cash equivalent financing. All of the comparable sales were all cash to the seller or cash equivalent transactions. No favorable financing was involved with any of the sales. As a result, none of the comparables is adjusted for financing.

#### Conditions of Sale

The confirming parties stated all of the closed sales represent arm's-length market transactions, with no unusual circumstances or motivations. However, all three closed sales were bank-owned at the time of transfer and were adjusted upward to account for the additional risk associated with REO properties (as-is sale, limited or no contingency period, etc). It is noted that the local industrial market is dominated by bank-owned properties, as the comparables indicate. As such, the adjustment for this factor is relatively small.

#### Expenditures After Sale

Reportedly, all five comparables were completely or partially vacant, and will require additional capital investment to bring the properties to stabilized occupancy (including rent loss, tenant improvements and leasing commissions). Upward adjustments were required for this factor; the adjustments were generally based on six months of rent loss at \$0.30 psf/month, gross, \$3.00 per square foot for tenant improvements, and 5% leasing commissions on a three-year term.

#### Market Conditions

An adjustment for changes in market conditions was analyzed. In recent quarters there has been some decline in industrial property values in the Central Valley region, following a period of strong growth from 2001 through 2006 (as discussed earlier in this report). Sale 1 transferred two months prior to the date of value and did not require a market conditions adjustment. However, Sales 2 and 3 transferred in 2010, and were adjusted downward to reflect the superior market conditions at the time of sale. Further, List Comp 1 and 2 were adjusted downward as most similar properties sell at a discount relative to their asking price.

#### Location

The subject property is considered to possess an average location for an industrial property in comparison to the larger regional area. The subject is located amongst primarily industrial development, but is in a small town with minimal industrial uses. Most of the comparables are considered to have generally similar locations and were not adjusted. However, List Comp 1 is located in Turlock, an area with higher median incomes and superior industrial development. The comparable was adjusted downward.

<b>Accessibility/Visibility</b>	The subject property average accessibility/visibility along L Street in Newman. All of the comparables have generally similar accessibility/visibility near major transportation routes and along secondary roadways.
<b>Rentable Area</b>	Building area differences between properties affect the prices per square foot due to the economies of scale associated with larger buildings. That is, all else being equal, larger buildings tend to sell for less per square foot than smaller buildings. The subject includes 10,400± square feet of rentable area. Only Sale 1 was adjusted upward, as it is over twice the size of the subject.
<b>Office Buildout</b>	The subject has an office buildout ratio of 6% of the total rentable area. Adjustments are estimated by multiplying the difference by an estimate of the buildout cost for interior office space. For this analysis, an average office buildout cost of \$30.00 per square foot will be utilized, with a depreciation rate of 50%. This cost figure is typical for professional office space being built within a cold shell structure. Only Sale 1 differs significantly from the subject, and was adjusted downward 5% for its additional office area.
<b>Quality of Construction</b>	Based on our inspection, the subject's improvements reflect average quality metal construction. Further, the subject building has generally standard amenities, including two small covered storage areas and three roll-up doors. Sales 1 and 3 were adjusted downward to reflect their concrete tilt-up construction.
<b>Effective Age/Condition</b>	The subject has an estimated overall effective age of 30 years and is considered to be in fair condition. As outlined earlier in this report, some deferred maintenance exists, which contributes to the structure's fair condition. An adjustment of approximately 1% per year difference in effective age is applied to the four comparables with varying effective ages compared to the subject. An additional 10% downward adjustment is applied to the comparables for their average overall condition.
<b>Site Coverage Ratio</b>	The subject has a site coverage ratio of 10%, while the comparables have site coverage ratios of 14% to 55%. Low site coverage ratios are considered superior, as they allow for yard space and/or future expansion. Sale 1 and List 1 and 2 were all adjusted upward for their higher site coverage ratios relative to the subject.
<b>Additional Considerations</b>	The subject includes a large fenced and gravel yard. All five comparables include similar yard space and were not adjusted.

### Sales Comparison Conclusion

The market data set involves three closed sales and two current listings of properties considered to be reasonable indicators of value for the subject property. The adjustment grid on the preceding page illustrates the quantitative adjustments applied to the market data in order to equate with the subject. The adjusted value range narrowed in comparison to the unadjusted range, to \$27.83 to \$31.88 per square foot. All of the sales required adjustment; however, they were all located in relatively close proximity to the subject and resulted in a very narrow adjusted range.

Considering the adjusted range of the value set, a unit value of \$28.00 per square foot is considered reasonable for the subject property. This results in a market value estimate via the sales comparison approach of **\$290,000** (\$28.00 psf x 10,400 SF = \$291,200, rounded to \$290,000).

## Income Capitalization Approach

Based on the specifics of the subject property, we will apply the direct capitalization method of the income capitalization approach. Direct capitalization converts an estimate of a single year's net operating income into an indication of value in one direct step. This approach includes four primary components: potential gross income (via contract rent, market rent, or a combination of both), vacancy & collection loss, operating expenses, and an overall capitalization rate.

### Subject Rent Roll

The subject is currently leased, along with the adjoining 10,400± square foot building, for \$5,500 per month, gross (\$0.26 psf/month, gross). However, the tenant is considering purchasing the building and the lease will be cancelled prior to close of escrow if the property is sold. In order to estimate market rent for the subject, a rent survey of similar properties was conducted and summarized below.

### Market Rent Survey

	<u>Subject</u>	<u>Rent Comp 1</u>	<u>Rent Comp 2</u>	<u>Rent Comp 3</u>	<u>Rent Comp 4</u>	<u>List Rent 1</u>
<b>Tenant Name</b>		Undisclosed	Undisclosed	Garcia Concrete	Westfeel	Listing
<b>Street Address</b>	2037&2039 L St Newman, CA 95360	2260 Cooper Merced, CA 95348	610 Railroad Atwater, CA 95301	4100 Commercial Tracy, CA 95304	3120 Commerce Turlock, CA 95380	1850 Grogan Merced, CA 95341
<b>Rentable Area (SF)</b>	10,400	3,250	4,000	13,500	4,800	7,300
<b>Lease Rate (psf/month)</b>	--	<b>\$0.30</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.35</b>	<b>\$0.27</b>
<b>Commencement Date</b>	--	February-12	July-11	February-11	August-10	Listing
<b>Transaction Characteristics</b>						
<b>Lease Type</b>	Gross	Triple Net	Gross	Triple Net	Gross	Triple Net
<i>Adjustment</i>		10%		10%		10%
<b>Financing Terms</b>	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
<i>Adjustment</i>						
<b>Lease Conditions</b>	Market	Market	Market	Market	Market	Market
<i>Adjustment</i>						
<b>Market Conditions</b>	April-12	February-12	July-11	February-11	August-10	Listing
<i>Adjustment</i>				-5%	-5%	-5%
<b>Physical Characteristics</b>						
<b>Location</b>	Average	Similar	Similar	Sl. Superior	Sl. Superior	Similar
<i>Adjustment</i>				-5%	-5%	
<b>Visibility/Accessibility</b>	Average	Similar	Similar	Similar	Similar	Similar
<i>Adjustment</i>						
<b>Rentable Area (SF)</b>	10,400	3,250	4,000	13,500	4,800	7,300
<i>Adjustment</i>		-5%	-5%		-5%	
<b>Office Buildout</b>	6%	10% (est)	5%	19%	5%	7%
<i>Adjustment</i>				-5%		
<b>Overall Quality</b>	Average	Similar	Similar	Similar	Similar	Similar
<i>Adjustment</i>						
<b>Effective Age/Condition</b>	30 yrs/Fair	Sl. Superior	Similar	Superior	Sl. Superior	Similar
<i>Adjustment</i>		-5%		-10%	-5%	
<b>Additional Considerations</b>	Gravel/Paved Yard	None	Similar	Similar	Similar	Similar
<i>Adjustment</i>		5%				
<b>Net Adjustment</b>		5%	-5%	-10%	-20%	5%
<b>Adjusted Rent (psf/month)</b>		<b>\$0.32</b>	<b>\$0.29</b>	<b>\$0.29</b>	<b>\$0.28</b>	<b>\$0.28</b>
<b>Rent Concl. (psf/month)</b>	<b>\$0.30</b>					

## Income Capitalization Approach



### ***Rent Comp 1***

**2260 Cooper Avenue, Merced, CA**

<b>Tenant</b>	Undisclosed
<b>Rentable Area</b>	3,250 SF
<b>Confirmation</b>	Listing broker

This comparable is slightly superior than the subject in terms of condition, but inferior in terms of yard space and lease terms.



### ***Rent Comp 2***

**610 Railroad Avenue, Atwater, CA**

<b>Tenant</b>	Undisclosed
<b>Rentable Area</b>	4,000 SF
<b>Confirmation</b>	Listing broker

This property is located east of the subject in Atwater. The property is of similar quality and condition as the subject, and required only a small downward adjustment for its smaller size.



### ***Rent Comp 3***

**4100 Commercial Drive, Tracy, CA**

<b>Tenant</b>	Garcia Concrete
<b>Rentable Area</b>	13,500 SF
<b>Confirmation</b>	Listing broker

This space is located in a two-tenant building in Tracy. The property is in superior condition and located in a superior area. Overall, the comparable was adjusted downward.

## Income Capitalization Approach



### ***Rent Comp 4***

**3120 Commerce Drive, Turlock, CA**

<b>Tenant</b>	Westfeel
<b>Rentable Area</b>	4,800 SF
<b>Confirmation</b>	Listing broker

Located in Turlock, this single-tenant property is in better condition than the subject, smaller, and leased under better market conditions. Overall, the comparable was adjusted downward.



### ***List Rent 1***

**1850 Grogan Avenue, Merced, CA**

<b>Tenant</b>	Listing
<b>Rentable Area</b>	7,300 SF
<b>Confirmation</b>	Listing broker

This current listing is very similar to the subject, as it is in fair condition with 7% office buildout.

## Income Capitalization Approach

### Potential Gross Income Conclusion

In our analysis of the subject property, we will utilize a gross leasing strategy, consistent with the lease terms for many of our rent comparables as well as the subject. Under a gross leasing strategy the property owner is responsible for all expenses other than suite utilities.

Additional factors considered when adjusting the comparables consist of lease conditions, market conditions, location, visibility/accessibility, building area, office buildout, overall quality, effective age/condition and additional considerations. After analyzing the data, the rental range adjusted to \$0.28 to \$0.32 psf/month, gross. Given the specifics of the subject, a market rent of **\$0.30 psf/month, gross**, appears reasonable. While the subject is currently leased for \$0.26 psf/month, gross, this lease includes the adjoining property. The tenant is also contemplating purchasing the property, which will effectively cancel the lease. As such, we have not considered the subject's lease in our analysis.

### Vacancy & Collection Loss

In keeping with the concept of stabilized occupancy, an allowance for vacancy and collection loss must be considered for reductions in potential income attributable to vacancies, tenant turnover, and nonpayment of rent. No formal vacancy surveys cover the subject's location. However, the subject is relatively well located for industrial use, with most other industrial properties in the area operating at or near stabilized occupancy. The subject has exhibited good occupancy over the near term. The city of Newman appears to have fared reasonably well through the recent economic downturn (relative to other small towns in the Central Valley). After taking into account all market factors, a stabilized vacancy rate of 5% is concluded.

### Operating Expenses

For the purposes of our analysis, we have considered only operating expenses that are paid by the property owner. Under gross leasing, the tenants pay directly for suite utilities, while the owner is responsible for property taxes, insurance, common area expenses/maintenance, and management.

Property taxes are calculated based on the current tax rate and the estimated market value conclusion via the income capitalization approach (since market value assumes the transfer of the property at market pricing). Expense estimates for insurance, common area expenses and maintenance/repairs are based on similar industrial properties in the area as well as data presented by the Institute of Real Estate Management (IREM) for industrial properties in the Sacramento region as of 2011. The minimum and maximum reported expenses for each category, as stated by IREM (on a per square foot, per year basis), are shown below. Subject expense conclusions are found in the Direct Capitalization Summary at the end of this section.

#### Reported IREM Expenses

	Property Taxes	Insurance	Utilities	Maintenance/ Repairs	Property Management	Total
Minimum	\$0.35	\$0.07	\$0.04	\$0.17	\$0.01	\$0.62
Maximum	\$1.53	\$0.23	\$0.58	\$1.08	\$0.17	\$3.59

## Income Capitalization Approach

### Capitalization Rate Derivation

In our derivation of an overall capitalization rate to apply to the estimated net operating income, we surveyed recent transactions of similar industrial properties throughout the area that were leased at or near stabilized occupancy. These sales are summarized below. It is noted that only one of the sales comparables utilized earlier was leased at or near stabilized occupancy upon transfer; as such, we will rely upon secondary market data as well.

### Capitalization Rate Comparables

	<u>Subject</u>	<u>Comp 1</u>	<u>Comp 2</u>	<u>Comp 3</u>	<u>Comp 4</u>
<b>Street Address</b>	2037&2039 L St Newman, CA 95360	1908 Rockefeller Ceres, CA 95307	584 Hi Tech Oakdale, CA 95361	1940-1960 Fremont Stockton, CA 95205	317 Mercey Springs Los Banos, CA 93635
<b>Sale Price</b>	--	\$2,600,000	\$430,000	\$500,000	\$349,900
<b>Rentable Area (SF)</b>	10,400	32,718	10,880	13,200	10,936
<b>Sale Price psf</b>	--	\$79.47	\$39.52	\$37.88	\$32.00
<b>Sale Date</b>	--	Pending	September-11	October-10	Listing
<b>Capitalization Rate</b>	--	<b>8.00%</b>	<b>10.45%</b>	<b>9.00%</b>	<b>9.03%</b>

The above comparables indicate a capitalization rate range of 8.00% to 10.45%. All of the comparables are considered to have relatively similar to slightly superior locations compared to the subject. Further, the overall economic decline throughout the region has led to increasing capitalization rates, particularly for older buildings such as the subject. Very few leased industrial properties have transferred over the past year, as the local investment market is weak. This fact is well illustrated in our survey data, as we were unable to find many leased properties in Stanislaus County that have sold in the past year. Considering the subject characteristics and the aforementioned data, a capitalization rate of 9.00% is concluded for the subject.



## Income Capitalization Approach

### Direct Capitalization Approach Summary

Applying the components discussed on the preceding pages (potential gross income, vacancy & collection loss, operating expenses and overall capitalization rate), the market value conclusion via the income capitalization approach is offered as follows.

<b>Potential Gross Income (PGI)</b>					
Market Rent	\$0.30 psf/month x 10,400 SF x 12 months			\$	37,440
Tenant Reimbursements				\$	-
Total Potential Gross Income				\$	37,440
Total Rentable Area	10,400				
Vacancy & Collection Loss	@ 5%			\$	(1,872)
Effective Gross Income (EGI)				\$	35,568
<b>Operating Expenses</b>					
	<u>\$/SF/Yr.</u>	<u>\$/Yr.</u>	<u>% of EGI</u>		
Property Taxes	\$ 0.32	\$ 3,303	9.3%		
Special Assessments	\$ 0.03	\$ 345	1.0%		
Property Insurance	\$ 0.12	\$ 1,248	3.5%		
Common Area Utilities/Maintenance	\$ 0.40	\$ 4,160	11.7%		
Property Management	<u>\$ 0.10</u>	<u>\$ 1,067</u>	<u>3.0%</u>		
Total Expenses:	\$ 0.97	\$ 10,123	28.5%	\$	(10,123)
Net Operating Income (NOI)				\$	25,445
<b>Direct Capitalization Summary</b>					
NOI	divided by	Capitalization Rate	equals	Value	
\$25,445	÷	9.00%	=	\$282,723	
				<b>\$280,000</b>	<b>(Rd.)</b>

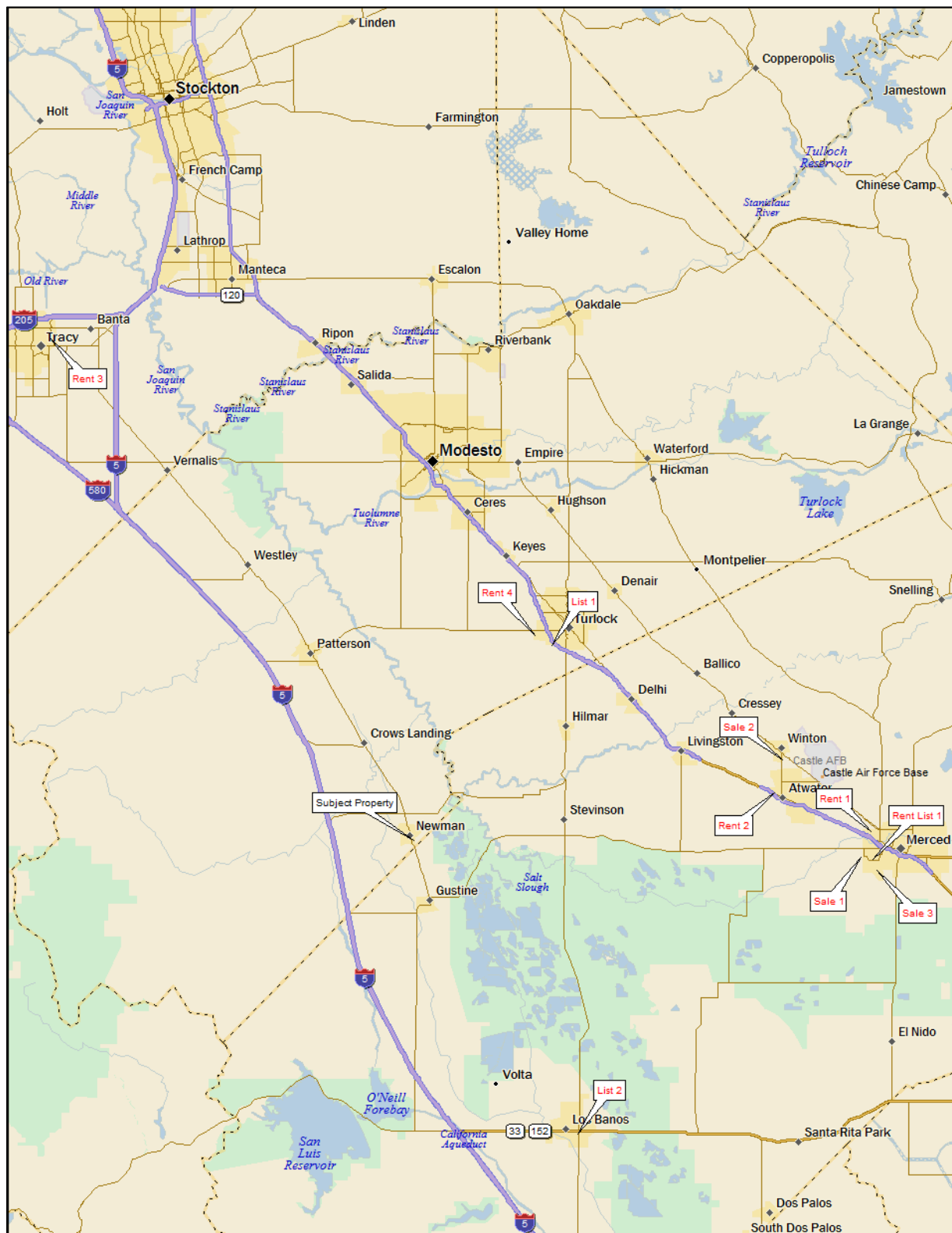
## Market Value Reconciliation & Conclusion

<b>Sales Comparison Approach</b>	<b>\$290,000</b>	<b>Income Capitalization Approach</b>	<b>\$280,000</b>
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In this analysis, the sales comparison and income capitalization approaches were employed in the valuation of the subject property. The value conclusions reached through the approaches were within approximately 4% of one another, providing a very narrow range. The comparable sales were located in reasonably close proximity to the subject; however many were dated and no sales of industrial buildings in Newman were found. The comparable rents were also relatively proximate to the subject; however, very few leased industrial properties have transferred within the past year. Nonetheless, the income approach was well supported via the included data.

It is my opinion both approaches were relevant and reliable in the valuation of the subject property, and both approaches were relied upon equally in the final conclusion. The final market value conclusion of the subject property is **\$285,000**.

## Comparables Map



## Certification Statement

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have not performed any valuation services for the subject property during the three years prior to the date of value noted in this report.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- I certify that my State of California general real estate appraisal license has never been revoked, suspended, cancelled or restricted.
- I have the knowledge and expertise to complete this appraisal assignment and have appraised similar properties in the past.



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Erik B. Lundquist, Appraiser

State Certification No: AG036734 (Expires: March 17, 2013)

## General Assumptions and Limiting Conditions

- No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
- No responsibility is assumed for matters of law or legal interpretation.
- The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- The information and data furnished by others in preparation of this report is believed to be reliable, but no warranty is given for its accuracy.
- It is assumed there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
- It is assumed the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
- It is assumed the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in the appraisal report.
- It is assumed all required licenses, certificates of occupancy, consents, and 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.
- It is assumed the use of the land and improvements is confined within the boundaries or property lines of the property described and there is no encroachment or trespass unless noted in the report.
- The appraiser is not qualified to determine the existence of mold, the cause of mold, the type of mold or whether mold might pose any risk to the property or its inhabitants. Additional inspection by a qualified professional is recommended.
- 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 potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption 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 of this report is urged to retain an expert in this field, if desired.
- The Americans with Disabilities Act (ADA) became effective January 26, 1992. I (we) have not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. Since compliance matches each owner's financial ability with the cost-to cure the property's potential physical characteristics, the real estate appraiser cannot comment on compliance with ADA. A brief summary of the subject's physical aspects is included in this report. It in no way suggests ADA compliance by the current owner. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost-to-cure any deficiencies would be needed for the Department of Justice to determine compliance.
- The appraisal is to be considered in its entirety and use of only a portion thereof will render the appraisal invalid.
- The liability of the appraiser in this work is limited to the amount of compensation for the work performed in this assignment.
- Acceptance and/or use of the appraisal report constitutes acceptance of all assumptions and limiting conditions stated in this report.
- This appraisal report is prepared for the exclusive use of the appraiser's client. No third parties are authorized to rely upon this report without the express consent of the appraiser.

## Glossary of Terms

Definitions are from the following sources: Dictionary of Real Estate Appraisal, 4<sup>th</sup> Edition ('Dictionary'); Urban Land Institute ('ULI'); Appraisal of Real Estate, 13<sup>th</sup> Edition ('13<sup>th</sup> Edition'); Marshall Valuation Service ('MVS').

### Accrued Depreciation

The difference between the reproduction or replacement cost of the improvements on the effective date of the appraisal and the market value of the improvements on the same date. (*Dictionary*)

### Common Area

The total area within the shopping center that is not designed for rental to tenants but that is available for common use by all tenants or groups of tenants, their invitees, and adjacent stores. Parking and its appurtenances, malls, sidewalks, landscaped areas, public toilets, truck and service facilities, and the like are included in the common area. (*ULI*)

### Common Area Charges

Income collected from tenants for operating and maintenance items pertaining to the common areas. (*ULI*)

### Deferred Maintenance

Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in the past. (*Dictionary*)

### Direct Capitalization

The capitalization method used to convert an estimate of a single year's income expectancy or an annual average of several years' income expectancies into an indication of value in one step, either by dividing the income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor. (*Dictionary*)

### Discounted Cash Flow (DCF) Analysis

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis. (*Dictionary*)

### Disposition Value

The most probable price that a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale will occur within a limited future marketing period specified by the client;
2. The actual market conditions currently prevailing are those to which the appraised property interest is subject;
3. The buyer and seller is each acting prudently and knowledgeably;
4. The seller is under compulsion to sell;
5. The buyer is typically motivated;
6. Both parties are acting in what they consider their best interests;
7. An adequate marketing effort will be made in the limited time allowed for the completion of a sale;
8. Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto;
9. 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. (*Dictionary*)

### Effective Date

The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. (*Dictionary*)

### Entrepreneurial Incentive

The amount that an entrepreneur expects or wants to receive as compensation for providing coordination and expertise and assuming the risks associated with the development of a project. Entrepreneurial incentive is an amount anticipated, prior to development, whereas entrepreneurial profit is an amount earned, estimated after completion. (*13th Edition*)

## Glossary of Terms

### Entrepreneurial Profit

A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its market value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development. (*Dictionary*)

### Excess Land; Surplus Land (*Dictionary*)

**Excess Land:** In regard to an improved site, the land not needed to serve or support the existing improvement. In regard to a vacant site or a site considered as though vacant, the land not needed to accommodate the site's primary highest and best use. Such land may be separated from the larger site and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement.

**Surplus Land:** Land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighborhood norms, cannot be sold off separately. Such land may or may not contribute positively to value and may or may not accommodate future expansion of an existing or anticipated improvement.

### Exposure Time

The time a property remains on the market. The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. Exposure time is different for various types of real estate and value ranges and under various market conditions. (*Dictionary*)

### Fee Simple Estate

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. (*Dictionary*)

### Floor Area Ratio (FAR)

The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. (*Dictionary*)

### Gross Building Area (GBA)

The total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls; includes both the superstructure floor area and substructure or basement area. (*Thirteenth Edition*)

### Gross Leasable Area (GLA)

The total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines, and measured from the center of interior partitioning to outside wall surfaces; the standard measure for determining the size of shopping centers where rent is calculated based on the GLA occupied. The area for which tenants pay rent. (*Dictionary*)

### Highest and Best Use

The reasonably probable and legal use of vacant land or an improved property, which 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. (*Dictionary*)



## Glossary of Terms

### Insurable Value

Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost plus allowances for debris removal or demolition less deterioration and noninsurable items. Sometimes cash value or market value, but often entirely a cost concept. (MVS)

### Leased Fee Interest

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease. (Dictionary)

### Leasehold Interest

The interest held by the lessee (the tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions. (Dictionary)

### Liquidation Value

The most probable price that a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale will occur within a severely limited future marketing period specified by the client;
2. The actual market conditions currently prevailing are those to which the appraised property interest is subject;
3. The buyer is acting prudently and knowledgeably;
4. The seller is under extreme compulsion to sell;
5. The buyer is typically motivated;
6. The buyer is acting in what he or she considers his or her best interest;
7. A limited marketing effort and time will be allowed for the completion of a sale;
8. Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto;
9. 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. (Dictionary)

### Market Rent

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the typical lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs). (Thirteenth Edition)

### Market Value

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 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.

(Dictionary; 12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

## Glossary of Terms

### Marketing Time

The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal. Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions. *(Dictionary)*

### Overage Rent

The percentage rent paid over and above the guaranteed minimum rent or base rent; calculated as a percentage of sales in excess of a specified breakeven sales volume. *(Dictionary)*

### Percentage Rent

Rental income received in accordance with the terms of a percentage lease; typically derived from retail store and restaurant tenants and based on a percentage of their retail sales. *(Dictionary)*

### Prospective Value Opinion

A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or those that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written. *(Dictionary)*

### Replacement Cost

The estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout. *(Dictionary)*

### Reproduction Cost

The 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. *(Dictionary)*

### Stabilized Occupancy

Occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy which an income-producing real estate project is expected to achieve under competent management, after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. *(Dictionary)*

### Value As Is

The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning. *(Dictionary)*

### Yield Capitalization

A capitalization method used to convert future benefits to present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that reflects the investment's income pattern, value change, and yield rate. *(Dictionary)*