

APPRAISAL REPORT

Office Building
760 Lake Elmo Dr.
Billings, Montana

APPRAISAL FOR: City of Billings
c/o Jessica Fust, Building & Facilities Manager
P.O. Box 1178
Billings, MT 59103

APPRAISAL BY: Matt Bender
2320 3rd Avenue North
Billings, MT 59101
(406) 670-6841

EFFECTIVE DATE: Oct. 10, 2022

DATE OF REPORT: Oct. 27, 2022

Matt Bender

Certified General Real Estate Appraiser and Consultant
2320 3rd Avenue North
Billings, MT 59101
(406) 670-6841

Oct. 27, 2022

City of Billings
c/o Jessica Fust, Building & Facilities Manager
P.O. Box 1178
Billings, MT 59103

RE: Office Building
760 Lake Elmo Dr.
Billings, Montana

Dear Ms. Fust:

As previously agreed to and appropriate for this appraisal, I hereby furnish you with an Appraisal Report on the above-referenced property located in Billings, Montana.

The purpose of this appraisal is to determine the fair market value of the property. The intended use will be to aid or support decisions related to purchasing the property. The property right appraised is the leased fee interest. The value(s) reported in the Reconciliation and Certification of Value sections are subject to the Assumptions and Limiting Conditions contained in this report. The reader's attention is specifically directed to the Exceptional Assumptions and Limiting Conditions on page 14 of this report.

The narrative report that follows sets forth my value conclusions along with the identification of the property and summary discussions of pertinent facts about the area, the subject property, comparable data, the results of the investigation and analysis undertaken, and the reasoning that form the basis of my opinion.

This report was prepared for and my professional fee billed to the client, the City of Billings. The intended user is the City of Billings only. **This report may not be distributed to or relied upon by other unintended users, persons or entities. Parties who receive a copy of this report as a consequence of disclosure requirements applicable to the appraiser's client do not become intended users of the report unless they are specifically identified by the appraiser at the time of the assignment. Any entity/person receiving a copy of this appraisal report from the client does not, as a consequence, become a party to the appraiser-client relationship. The appraiser is not obligated to discuss any aspect of this report with unintended users, entities or third parties nor is he responsible or liable for any unauthorized use of this report. Any use of this report other than the intended use stated in this report nullifies and voids the analysis and value estimate(s) provided herein.**

The report is in compliance with the needs of the client, the City of Billings, and conforms to the Uniform Standards of Professional Appraisal Practice (USPAP).

I trust you will find the information contained in this report useful for your needs. In the event you have any questions, please do not hesitate to contact the appraiser.

CONCLUDED MARKET VALUE = \$575,000



Matt Bender
Certified General Real Estate Appraiser
State Of Montana License No. REA-RAG-LIC-9279

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INTRODUCTION



**Office Building
760 Lake Elmo Dr.
Billings, Montana**

SUMMARY OF SALIENT FACTS AND IMPORTANT CONCLUSIONS

Owner of Record: Vanderloos Properties
P.O. Box 30918
Billings, MT 59116-0918

Property Address: 760 Lake Elmo Dr.
Billings, MT

Legal Description: Lot 1, less .21 AC for road & less 5,371 SF of Lot 1 W of Ramp Road, Block 1, Smoky Subdivision, City of Billings, Yellowstone County, State of Montana

Area Economic Conclusions: General commercial, retail, service, restaurant, medical/professional office, financial institutions, storage, surface parking, convenience stores, single/multi-family residential structures, and vacant land dispersed throughout the area.

Type of Property: Office Building

Highest & Best Use: As Vacant – General commercial, retail, service, or office use
As Improved – The current use as an office building

2021 Taxes: A21239 – \$5,746.27

Zoning: Neighborhood Office (NO)

Site Size: 23,052 SF

Building Improvements:

Building Square Foot Summary		
Identification	Size in SF	% of Gross Building Area
Office Space	2,618 SF±	68%
Garage/Storage	1,258 SF±	32%
	3,876 SF±	100%

Observation Date: 10/10/2022

Effective Date: 10/10/2022

Value Indications

Land Value	\$230,500
Cost Approach:	NA
Income Capitalization Approach	
Direct Capitalization:	\$541,400 to \$618,700
Sales Comparison Approach	
Direct Comparison:	\$579,300

TYPE OF APPRAISAL REPORT

Appraisal Report	Restricted Report
X	

Appraisal Report – A written report that is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the USPAP standards for an Appraisal Report. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated within this report. The appraiser is not responsible for the unauthorized use of the report.

COMPETENCY STATEMENT

I, Matt Bender, have the education, knowledge, and experience to competently complete an appraisal of the subject property. Refer to the appraiser’s qualifications in the Addenda.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to provide a supportable opinion of the market value estimate of the subject property as of the effective date of the appraisal.

INTENDED USE/USER OF THE APPRAISAL

This appraisal will be used by the City of Billings to aid or support decisions related to purchasing the property. **This report may not be distributed to or relied upon by other unintended users, persons or entities. Parties who receive a copy of this report as a consequence of disclosure requirements applicable to the appraiser’s client do not become intended users of the report unless they are specifically identified by the appraiser at the time of the assignment. Any entity/person receiving a copy of this appraisal report from the client does not, as a consequence, become a party to the appraiser-client relationship. The appraiser is not obligated to discuss any aspect of this report with any unintended users, entities or third parties which are not stated as an intended user in this report nor is he responsible or liable for any unauthorized use of the report. Any use of this report other than the intended use stated in this report nullifies and voids the analysis and value estimate(s) provided herein.**

This appraisal was requested by Jessica Fust, representing the City of Billings. The report complies with the needs of the client, the City of Billings, and conforms to the Uniform Standards of Professional Appraisal Practice (USPAP).

SCOPE OF THE APPRAISAL

I discussed the assignment with the client and observed the site on 10/10/2022. In addition, I referenced Yellowstone County CAMA data.

I examined the subject's marketing area to determine the existing and proposed inventory as well as demand for and marketability of the subject property. Based on the location of the subject property, surrounding land use/trends, and structural improvements, the highest and best use of the property as vacant land and as improved was determined.

I searched the local market for recent land sales in the community in addition to utilizing land sales from my database. The land sales were selected based on location and size; they were not selected on the sales price. I analyzed the land sale data and determined a land value.

The Cost Approach is a good indicator of the value when the improvements are new or relatively new, represent the highest and best use of the land, or where there are few sales or limited lease data available. The subject property was developed in 1978 and has been renovated. The Cost Approach would require estimating the effective age of the improvements in order to determine the amount of depreciation to apply to the reconstruction cost new. There are adequate but limited sales and income/expense data available with which to determine a value indication by the Income Capitalization and Sales Comparison Approaches. Additionally, commercial real estate brokers report buyers and sellers in the market rarely consider the Cost Approach when it comes to older properties. Therefore, a value opinion by the Cost Approach has not been included in this report.

The subject property is leased but the tenant is preparing to vacate. A rent survey was conducted to determine a market rental rate. A vacancy rate and landlord expense responsibilities were determined and deducted from the potential gross income the property could generate resulting in the net operating income. A cap rate range was determined from building sales. The subject's net operating income was capitalized and a value range for the subject property by the Income Capitalization Approach was reported.

I searched the local market for sales of similar properties in the community and utilized sales from my database. Six sales were identified and analyzed with respect to the subject property. I did not personally inspect all these sales but interviewed market participants to verify the details about the sales. The sales were adjusted for quality of construction, condition, on-site parking, and size. A value estimate by the Sales Comparison Approach was reported.

The values indicated by the Income Capitalization and Sales Comparison Approaches were reconciled and a value opinion of the subject property was reported.

DEFINITION OF MARKET VALUE¹

"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 are the consummation of a sale as of a specific date and the passing of title from seller to buyer under conditions whereby:

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

PROPERTY RIGHTS APPRAISED

The property right appraised is the leased fee interest.

NON-REALTY ITEMS

No other personal property items, e.g., furniture, fixtures and equipment (FF&E), or other non-realty items have been included in the value estimates provided herein.

¹ Federal Register, Rules and Regulations, Volume 55, No. 165, page 34696.

ASSUMPTIONS AND LIMITING CONDITIONS

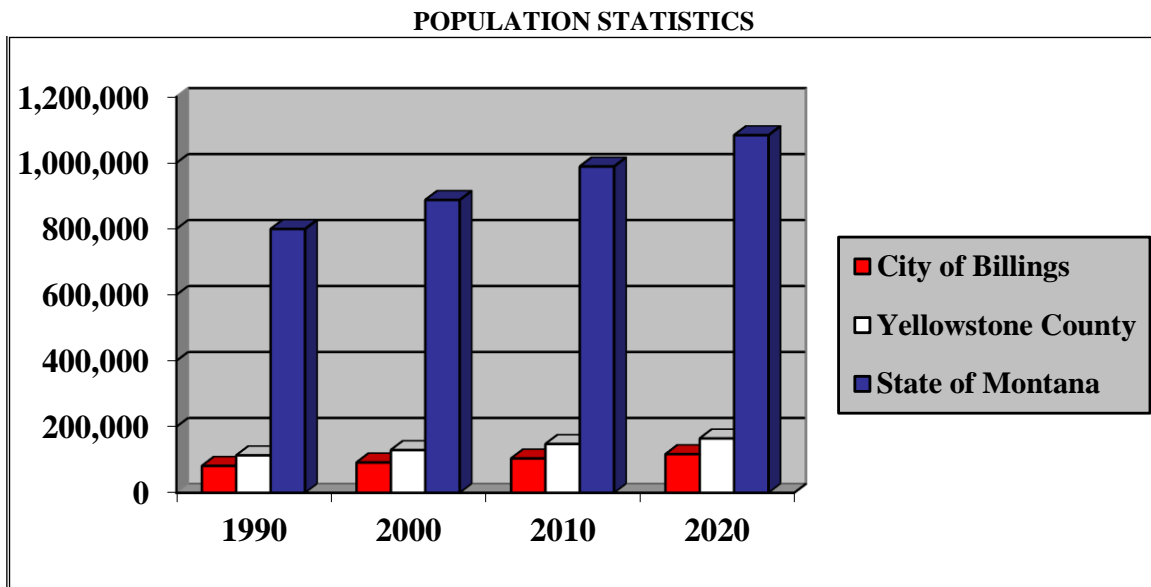
1. The effective date of value to which the opinions expressed in this report apply is set forth in the certification. The appraiser assumes no responsibility for economic or physical factors occurring at some later date that may affect the opinions stated herein.
2. No opinion is intended to be expressed for legal matters that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.
3. No opinion as to title is rendered. Data on ownership and the legal descriptions were obtained from sources generally considered reliable. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions except those specifically discussed in the report. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.
4. An engineering survey has not been conducted by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable.
5. The maps, plats, and exhibits included herein are for illustration only and used as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.
6. No opinion is expressed as to the value of subsurface oil, gas, or mineral rights and that the property is not subject to surface entry for the exploration or removal of such materials except as expressly stated.
7. Testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal unless such arrangements are made a reasonable time in advance and at an additional fee.
8. A title report was not made available to the appraiser. The appraiser assumes no responsibility for such items of record not disclosed in a title report or by his normal investigation in the appraisal process.
9. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
10. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless a nonconformity has been stated, defined, and considered in this report.
11. It is assumed that all required licenses, certificates of occupancy, or other legislative or administrative authority from any local, state or national governmental, or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.

12. It is assumed that the utilization of the land and improvements are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. Unless otherwise stated in this report, the existence of hazardous material that 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 material on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as toxic waste, asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The value estimate 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 any such conditions or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
14. On January 26, 1992, the Americans with Disabilities Act (ADA) became effective. I have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible noncompliance with the requirements of the ADA in estimating the value of the property.
15. The appraiser **is not** a property inspector, general contractor, structural engineer, environmental specialist, plumber, electrician, roofer, pest control specialist, etc. A physical inventory of the subject property is required as part of the appraisal process in order to a) adequately describe the real estate in the appraisal report, b) develop an opinion of the highest and best use, and c) make meaningful comparisons in the valuation of the property, but it does not constitute an expert inspection of the property. In addition, the appraiser does not have professional expertise regarding deed restrictions, FEMA and zoning classifications. Zoning classification data is obtained from the City/County Planning and FEMA data is based on FEMA maps when available. The property inventory and appraisal do not guarantee that the property is free of defects including code violations. In order to fully and adequately determine the condition of the subject property, the client and/or parties involved with the property are encouraged to consult specialists in their respective fields of expertise. The appraiser makes no warranties, either expressed or implied.
16. The liability of Matt Bender is limited to the client and to the fee collected. **This report may not be distributed to or relied upon by other unintended users, persons or entities. Parties who receive a copy of this report as a consequence of disclosure requirements applicable to the appraiser's client do not become intended users of the report unless they are specifically identified by the appraiser at the time of the assignment. Any entity/person receiving a copy of this appraisal report from the client does not, as a consequence, become a party to the appraiser-client relationship. The appraiser is not obligated to discuss any aspect of this report with any unintended users, entities or third parties nor is he responsible or liable for any unauthorized use of this report. Any use of this report other than the intended use stated in this report nullifies and voids the analysis and value opinion(s) provided herein.** The appraiser assumes no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property, physically, financially, economically or legally.

17. This appraisal report contains "trade secrets and commercial or financial information" which is privileged and confidential and exempt from disclosure under 5 U.S.C. 552 (b) (4). Disclosure of the contents of this report is governed by the Bylaws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report shall be used for any purposes by anyone but the client specified in the report, nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser. Notify Matt Bender of any request to reproduce this appraisal in whole or in part.

EXCEPTIONAL ASSUMPTIONS AND LIMITING CONDITIONS

1. The State of Montana is a "nondisclosure" state and as such, sale prices of real estate are not publicly recorded, therefore, few centralized sources of sale prices for real estate transactions exist. In addition, no one associated with a real estate sale transaction is obligated to release or verify information. The client is hereby notified that it is possible there may be sales of comparable properties of which I have no knowledge and have not analyzed herein. The information presented herein has been gathered from sources deemed reliable and every effort has been made to insure its accuracy.
2. A Phase I Environmental report was not made available to the appraiser. The analysis and value(s) reported herein are null and void should such an environmental report disclose the presence of hazardous substances on or within the subject site. The client is urged to retain an expert in this field if desired.
3. The City of Billings agrees to indemnify and hold harmless, Matt Bender, Real Estate Appraiser and Consultant and employees from any and all claims for loss and liabilities of any nature whatsoever arising out of or related to this contract, the appraisal report, or use of this report for any other use by any unintended user.
4. As of the effective date of this report, the global outbreak of a "novel coronavirus" known as COVID-19 was officially declared a pandemic by the World Health Organization (WHO). The reader is cautioned, and reminded that the conclusions presented in this appraisal report apply only as of the effective date(s) indicated. The appraiser makes no representation as to the effect on the subject property of any unforeseen event, subsequent to the effective date of the appraisal.



According to the U.S. Census Bureau, the 2020 population of Billings was 117,116, Yellowstone County was 164,731, and Montana was 1,084,225. Billings’ population increased by 12.4% from 2010 to 2020, Yellowstone County’s increased by 11.3%, and Montana's population increased by 9.6% over the same time.

Economic Forces

Billings is Montana’s largest trade and service center and enjoys a diversified business economy for manufacturing, wholesale distribution, retailing, governmental agencies, medical, oil, gas, and coal industries, and agricultural-related businesses. In addition, Billings has a modern regional shopping center located in the western portion of the community. Its department stores and specialty shops attract customers from all parts of the trade area.

Agriculture, tourism, and recreation also play a major role in the city’s and area’s economy.

While no one industry is believed to play a decisive role in the future of the city, the Billings economy has historically received a positive impact from the development of oil, gas, and coal reserves in eastern Montana, northeastern Wyoming, and western North Dakota. In addition, Billings has received economic benefits from the mining activity at the Stillwater Mine located approximately 100 miles southwest of the community.

The City of Billings has two general hospitals, the Billings Clinic and St. Vincent Hospital, which serve a large population in Montana and northern Wyoming.

Billings has numerous commercial banks, savings banks, and credit unions. There are public and private lower educational institutions that include parochial, elementary, middle, and high schools with two four-year colleges and several vocational and trade schools that offer a wide variety of vocational and technical training.

The major employers in the Billings area according to the Census and Economic Information Center, Montana Department of Commerce are the Federal Government, the Billings Clinic, Billings School District #2, St. Vincent Hospital and Health Center, State of Montana, City of Billings, Better Business Systems, Yellowstone County, Wells Fargo Bank, and Edwards Jet Center.

Since 1995 the unemployment rate for Yellowstone County has consistently averaged about one percentage point below the state average and has remained well below the national average since at least 1989. The unemployment rate for August 2022 for the nation was reported to be 3.7%, 2.6% for Montana, and 2.5% for Yellowstone County.

Governmental Forces

Billings has a council-manager form of government comprised of the mayor, ten council members, and a city manager. The City of Billings Police and Fire departments provide security and fire protection services. All utility services and public transportation are available.

There is a city/county planning department that governs new commercial and residential building developments.

Environmental Factors

The geography of Billings is a mix of plains and mountains. The city is situated 3,126 feet above sea level.

The climate is semi-arid with low year-round humidity with moderate annual precipitation and temperatures.

Trends

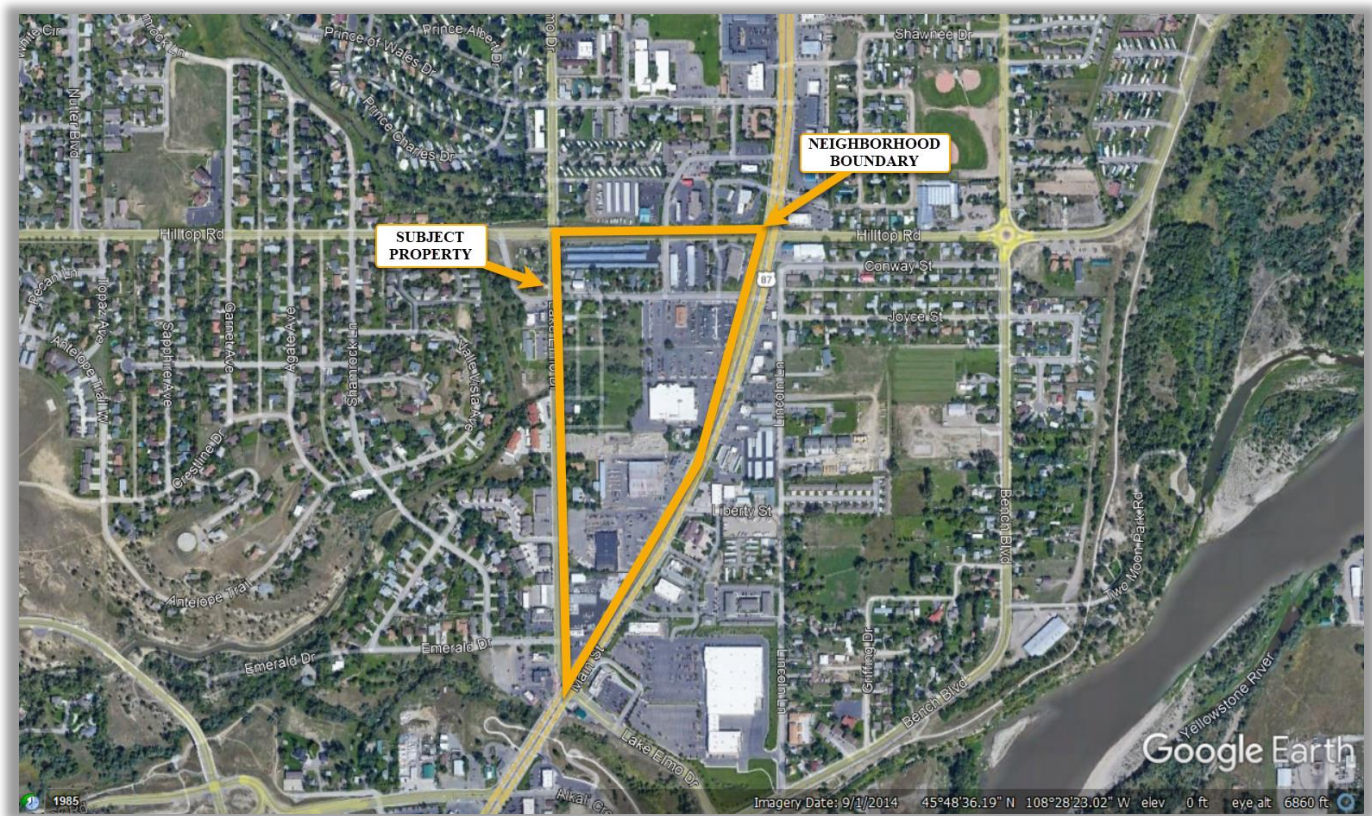
The general retail market in the central business district is not as strong as in previous years. The trend has been towards specialty retail establishments. There are several street-level retail rental suites in the “prime” downtown area that are available for lease. There has been an increase in development activity with respect to renovation of existing facilities into mixed-use apartment, retail, and/or office buildings as evidenced by the renovation of the Babcock Building located at the southwest corner of North Broadway and 2nd Avenue North and the renovation of the Northern Hotel located at the southeast corner of North Broadway and 1st Avenue North. The most recent developments in the area include the renovation of the old Federal Courthouse (Stillwater Building) between 3rd and 4th Avenues North on North 26th Street and the Alberta Bair Theater. A new parking garage across North 26th Street from the Stillwater Building has been completed. The Lou Talbert Building at North Broadway and 2nd Avenue North and the Kate Fratt Elementary Building between 2nd and 3rd Avenues North along the east side of North 32nd Avenue have undergone complete renovations. The Billings Clinic is in the process of expanding its facility at the southwest corner of 10th Avenue North and North 27th Street. The Montana National Bank Building at the northeast corner of North Broadway and 2nd Avenue North has undergone a complete renovation.

There has been sporadic commercial and residential development in the Billings Heights, Lockwood, and west/southwest Billings areas. There continues to be strong retail development along King Avenue West in the Montana Sapphire Subdivision and around

the Shiloh Road/I-90 Interchange in addition to an increase in new commercial development activity taking place in the TransTech Subdivision north of the Shiloh Road/I-90 Interchange.

The multi-family market has experienced very high demand with vacancy rates reported to be in the range from 0% to 5%. Landlords and leasing agents report that apartment rental rates are increasing with low vacancy and several new apartment facilities being developed.

NEIGHBORHOOD MAP



NEIGHBORHOOD DATA/TRENDS

The boundaries of the subject neighborhood are considered to be Main Street on the east, Lake Elmo Drive on the west, and Hilltop Road on the north. The subject property is located near the northwest corner of the designated neighborhood and approximately three miles northeast of the central business core of the downtown area.

Access to the neighborhood is provided from Hilltop Road from the east and west and Main Street and Lake Elmo Drive from the north and south. In addition, there are numerous east/west and north/south collector streets that provide access to the neighborhood. The Lockwood/I-90 Interchange is located approximately 2.6 miles to the southeast.

The subject property is inside the Billings City limits. Utilities include water, public sewer, natural gas, electricity, and telephone services. The utilities appear adequate to serve the needs of the various residential and commercial properties in the neighborhood.

Police and fire protection and public transportation are available.

Typical occupancies include general commercial, retail, service, restaurant, medical/professional office, financial institutions storage, surface parking, convenience stores, single/multi-family residential structures, and vacant land dispersed throughout the area. The commercial and residential structures reflect a wide mix of ages and designs.

Trends

My investigation of the subject neighborhood indicates that it appears to be in a redevelopment stage. Several older properties along Main Street have been razed and redeveloped with new commercial properties. The most recent commercial developments along Main Street include a fast food restaurant, a gas station/convenience store/casino, an automotive express lube center, a credit union, and a casino/liquor store.

The number of vacant sites available for development along Main Street is limited.

There continues to be sporadic single-family and multi-family residential development taking place in the various commercial/residential neighborhoods in the Billings Heights.

In conclusion, as the city expands/grows, the subject neighborhood as a whole is expected to continue as a general commercial, retail, service, and medical/professional office area.

PROPERTY DATA

TAX AND ASSESSMENT DATA

The Yellowstone County Assessor’s records for the subject property are illustrated in the table below. The taxes do not include any furniture, fixtures, and equipment (FF&E).

AD VALOREM TAX INFORMATION		
Code/Classification	Market Value	2021 Taxes
A21239		
Land Value	\$58,011	
Building Value	\$311,089	\$5,746.27
Total Value	\$369,100	

Special Assessments

The appraiser has no actual knowledge nor has received any notice of any special assessments levied or about to be levied against all or any part of the subject property.

ZONING

The subject property is situated in the Neighborhood Office (NO) zoning district.

On-site Parking

The subject property is being utilized as an office building. On-site parking requirements for an office building require one parking space per 350 SF of GBA. Based on a GBA of 3,876 SF, 12 on-site parking spaces would be required. On the effective date of this report, there were 14 on-site parking spaces observed on the property. Parking does not appear to be a concern.

SUBJECT PICTURES



The south and east elevations of the subject property looking to the northwest
Taken by Matt Bender



The west and south elevations of the subject property looking to the northeast
Taken by Matt Bender



The north and west elevations of the subject property looking to the southeast
Taken by Matt Bender



The east and north elevations of the subject property looking to the southwest
Taken by Matt Bender



Looking to the west along the northern property boundary from near the northeast corner of the subject property
Taken by Matt Bender



Looking to the south along the west side of Lake Elmo Drive from near the northeast corner of the subject property
Taken by Matt Bender



Looking to the north along the west side of Lake Elmo Drive from near the southeast corner of the subject property
Taken by Matt Bender



Looking to the west along the north side of Hanson Lane near the southeast corner of the subject property
Taken by Matt Bender



Looking to the east along the north side of Hansen Lane from near the southwest corner of the subject property
Taken by Matt Bender



Looking to the south along the east side of Hansen Lane from near the northwest corner of the subject property
Taken by Matt Bender



Looking to the west along the northern boundary from near the northwest corner of the subject property
Taken by Matt Bender



Office space
Taken by Matt Bender



Conference area
Taken by Matt Bender



Individual office space (typical)
Taken by Matt Bender



Individual office space (typical)
Taken by Matt Bender



Breakroom
Taken by Matt Bender



Restroom
Taken by Matt Bender



Restroom
Taken by Matt Bender



Garage/storage space
Taken by Matt Bender

SITE MAP



The subject site is highlighted in purple.

The subject site is an irregularly shaped corner site with a gross area of 23,052 SF. The parcel has frontage along the west side of Lake Elmo Drive and the north and east sides of Hansen Lane. The northerly boundary abuts private property.

The subject site has curb/gutter/sidewalk along Lake Elmo Drive and curb/gutter but no sidewalk along Hansen Lane.

Vehicular access to the property is from curb cuts on Lake Elmo Drive.

The site slopes from west to east but the site of the building and parking lot has been leveled and is at grade with the adjacent roads and properties.

Public sanitary sewer and water, natural gas, electricity, and phone service are available.

According to FIRM Map No. 30111C1290E, the site is not situated within a designated flood zone. Yellowstone County is located within Seismic Zone 1.

The physical inventory of the subject site did not reveal any other visual easements and/or restrictions, encroachments, nuisances, hazards, detrimental influences, or private deed restrictions that would impact site utilization or value.

Site Improvements – Underground sprinklers, grass, shrubs, trees, concrete, and asphalt paving

Structural Improvements –

FOOTING/FOUNDATION: Concrete

FLOOR STRUCTURE: Concrete and wood

FLOOR COVER: Concrete, carpet, and sheet vinyl

FRAME: Masonry

EXTERIOR WALL: Block. Doors are metal in metal frames and glass/metal in metal frames. Windows are double pane in metal frames. There are two 14' x 12' overhead doors with openers in the garage/storage area.

PARTITIONS: Block, fixed glass, and wood stud framing with painted/textured sheetrock. Doors are wood in wood frames and metal in metal frames.

CEILING: Painted/textured sheetrock and drop-in acoustical tile with florescent lighting

ROOF STRUCTURE: Gable and mansard

ROOF COVER: Asphalt shingle

HVAC: Gas-fired forced air with air conditioning

ELECTRICAL: All wiring systems are assumed to be in compliance with applicable federal, state, and local codes. The number and type of fixtures and outlets are typical for the quality of construction and occupancy.

PLUMBING: There are two restrooms, each with a sink and toilet. The plumbing is typical for the quality of construction and occupancy.

INSULATION: Assumed

INTERIOR FINISH: The subject property's interior finish is average/good quality.

QUALITY/CONDITION: The overall quality of the materials and workmanship is average quality construction and in average/good condition overall.

COMMENTS: The garage/storage area has plumbing for a wash bay and a floor drain. Approximately 510 SF of the original garage space has been converted into office space.

HIGHEST AND BEST USE

In appraisal practice, the concept of highest and best use represents the premise upon which value is based. The four criteria the highest and best use must meet are 1) legal permissibility, 2) physical possibility, 3) financial feasibility and 4) maximum profitability. Highest and best use analysis involves assessing the subject as if vacant and as improved.

Vacant Land Highest and Best Use

The site is situated within the Neighborhood Office (NO) Zoning District. According to Billings City Code, “The NO district is intended to accommodate office and office/residential uses on neighborhood corridors and internal neighborhood locations where other commercial uses are inappropriate. This district is meant to be highly walkable and accessible to pedestrians and to fit well with the context of adjacent neighborhood residential buildings when located on corners or block ends.”

The subject site is not located within a designated flood hazard zone.

The appraiser is not aware of any other private covenants, conditions, or restrictions (CCRs), nuisances, hazards, or detrimental influences that run with the land. **However, a survey and title report should be consulted for final determination; neither of these documents has been supplied to the appraiser.**

The subject site is a corner parcel with a gross area of 23,052 SF. All utility services to the site are available. The parcel has good visibility and convenient access. There are curb, gutter, and sidewalk present on Lake Elmo Drive and curb and gutter on Hansen Lane. The soils have not been independently investigated and no opinion as to the suitability for any specific use has been rendered by the appraiser. In summary, there are no obvious physical deficiencies that preclude the proper development of the site.

The nature of existing improvements in the area reflects general commercial, retail, service, restaurant, medical/professional office, financial institutions, storage, surface parking, convenience stores, single/multi-family residential structures, and vacant land dispersed throughout the area. The most recent commercial developments in the area have taken place along Main Street and include a fast-food restaurant, a gas station/convenience store/casino, an automotive express lube center, a credit union, and a casino/liquor store.

The subject site has frontage along Lake Elmo Drive, an arterial street, with good visibility and convenient access from Hansen Lane off Main Street. It is concluded that the maximally productive use of the subject site may be for general commercial, retail, service, or office uses.

Improved Property Highest and Best Use

The site is situated within the Neighborhood Office (NO) Zoning District. According to Billings City Code, “The NO district is intended to accommodate office and office/residential uses on neighborhood corridors and internal neighborhood locations where other commercial uses are inappropriate. This district is meant to be highly walkable and accessible to pedestrians and to fit well with the context of adjacent neighborhood residential buildings when located on corners or block ends.”

There are minimal vacant sites available for development in and around the subject neighborhood. Developers and leasing agents of commercial space in Billings report the large office market in Billings recently has been soft, but the small, or micro, office market has fared better.

The subject property is in a desirable location with good access. Brokers report there is good demand for smaller office properties. The subject property is in average/good condition with convenient access, good visibility, and ample parking. The property was originally a fire station that was converted into office space with a garage/storage area. However, it appears that the property appears to perform function well as an office.

It is concluded that the maximally productive use of the property as improved is for continued use as an office building.

PROPERTY VALUATION

THE VALUATION PROCESS

The valuation process is a systematic procedure that involves defining the problem, taking a physical inventory of the subject property, conducting a highest and best use analysis, selecting, collecting, and analyzing the necessary data, reconciling the value indications and reporting the final value estimate(s).

Appraisers usually consider three approaches to estimating the market value of real property, the Cost Approach, Income Capitalization Approach, and the Sales Comparison Approach.

The Cost Approach assumes that an informed buyer would pay no more than the cost of developing a similar property with the same utility. This approach is applicable when the improvements are relatively new and represent the highest and best use of the land or when the property has unique or specialized improvements for which there are limited or no sales or income/expense data from comparable properties. The Cost Approach is typically used for new or relatively new properties and is rarely considered for older properties with significant depreciation.

The Income Capitalization Approach reflects the market's perception of a relationship between the potential income a property can generate and its market value. This approach converts the anticipated net operating income from the property into a value indication through capitalization. The methods used to determine a value indication are direct capitalization and/or a discounted cash flow analysis. This approach is generally used in appraising income-producing properties.

The Sales Comparison Approach assumes that an informed buyer would pay no more for a property than the cost of purchasing another existing property with the same utility. This approach is appropriate when there is an active market with sufficient and reliable data. The Sales Comparison Approach is less reliable in an inactive market or when estimating the value of a property for which no comparable data is available. The Sales Comparison Approach is often relied upon for owner-user properties.

Reconciliation of the various approaches utilized to determine a value indication of a property into a conclusion of value is based on an evaluation of the quality and quantity of data available for each approach and the applicability of each approach to the property being appraised.

Adjustments

Comparable land and building sales and rent comparables have been considered herein. Adjustments have been made reflecting anticipated market reaction to those items of significant variation between the subject and the comparable properties. If a significant item in the comparable property is superior to or more favorable than the subject property, a minus (-) adjustment is made thus reducing the indicated value of the subject. If a significant item in the comparable is inferior to or less favorable than the subject property, a plus (+) adjustment is made thus increasing the indicated value of the subject.

Specific dollar amounts or percentage adjustments have been utilized whenever possible. When specific adjustments cannot be extracted from the available data, qualitative analysis was utilized in estimating the value of the subject property. Qualitative analysis is a technique used to develop a supportable or defensible opinion of value. It is appropriate when one or more elements of comparison are known to affect value, but data are insufficient to estimate a specific lump sum or percentage adjustment. It is not a shortcut to avoid the extraction of market-derived data.

VALUATION METHODS SELECTED

The following traditional valuation methods have been selected as being appropriate for estimating the defined value of the subject property.

Cost Approach		Income Capitalization Approach	X	Sales Comparison Approach	X
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LAND/SITE VALUATION

The sales comparison approach using the price per square foot of gross site area for estimating the value of the subject site will be utilized. The subject property is situated on a 23,052 SF site. Six sales were identified and analyzed.

LAND SALES LOCATION MAP



Land Sale 1 is an interior parcel located on the east side of Gleneagles Boulevard north of West Wicks Lane in the Billings Heights. This site was vacant land and plans for this parcel are unknown.

Land Sale 2 is a corner site located at the southeast corner of 41st Street West and Avenue B. This site was vacant land and plans for this parcel are unknown.

Land Sale 3 is a corner site located at the southeast corner of Grand Avenue and Golden Valley Circle. This parcel is located in the Cardwell Ranch Subdivision, which is a planned unit development with CCRs that are similar to Community Commercial zoning. A medical office and treatment facility are planned for the site. The buyer is responsible for developing approaches, sidewalks, and lighting.

Land Sale 4 is a corner lot located at the southeast corner of Grand Avenue and 5th Street West. This is the site of the old McFiny's gas station/convenience store. The seller removed the underground gas tanks before the sale. The buyer paid approximately \$40,000 to raze the building and a coffee shop has been developed on the site.

Land Sale 5 is a corner lot located at the southwest corner of State Avenue and Van Buren Street just east of the State Avenue King’s Ace Hardware. Plans for this site are unknown.

Land Sale 6 is an interior site located on the east side of Main Street just north of Hilltop Road in the Billings Heights. The seller operated a Fuddrucker’s restaurant on the site before a fire caused severe damage to the building in August 2019. The seller had already been in negotiations with a developer who intended to tear down the building. The seller then razed the fire-damaged property at his cost and sold the parcel to the developer. A credit union has been developed on the parcel. The credit union wanted this specific site because it was located near a left-hand turn lane and has an access road on the southern boundary, which gives this site better access than most on Main Street.

Refer to the following table for a direct comparison summary for the subject site.

760 Lake Elmo Dr.							
Summary Grid of Land Sales							
Item	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6
Sale Price		\$411,450	\$330,000	\$498,788	\$350,000	\$155,000	\$1,900,000
Financing		Cash	Cash	Cash	Cash	CFD	Cash
Adjustment		\$0	\$0	\$0	\$0	\$0	\$0
Conditions of Sale		None	None	None	Demo	None	Demo
Adjustment		\$0	\$0	\$0	\$40,000	\$0	\$0
Date of Sale	10/10/2022	5/20/2022	5/3/2022	11/22/2021	11/12/2020	1/31/2020	10/25/2019
Adjustment		\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Sale Price		\$411,450	\$330,000	\$498,788	\$390,000	\$155,000	\$1,900,000
Exposure Time		> 6 Months	> 6 Months	> 12 Months	> 6 Months	< 12 Months	NA
Size	23,052 SF	63,300 SF	29,447 SF	59,154 SF	17,837 SF	21,958 SF	58,762 SF
Sale Price Per SF Site Area		\$6.50 SF	\$11.21 SF	\$8.43 SF	\$21.86 SF	\$7.06 SF	\$32.33 SF
DIRECT COMPARISON							
Location	Good	Inferior	Superior	Superior	Superior	Inferior	Superior
Adjustment		+	-	-	-	+	-
Zoning	NO	CMU1	CMU1	PUD	NMU	NC	HC
Adjustment		-	-	=	=	=	-
Corner Site	Yes	Inferior	Similar	Similar	Similar	Similar	Similar
Adjustment		+	=	=	=	=	=
Size	23,052 SF	63,300 SF	29,447 SF	59,154 SF	17,837 SF	21,958 SF	58,762 SF
Adjustment		+	+	+	-	=	+
Indicated \$/SF		\$6.50 SF	\$11.21 SF	\$8.43 SF	\$21.86 SF	\$7.06 SF	\$32.33 SF

Adjustments

Financing – All of the sales were reported to be cash or cash equivalent transactions; no adjustments are warranted.

Conditions of Sale – The seller of Land Sale 6 razed the fire-damaged building that was on the property at his cost. The buyer in Land Sale 4 paid \$40,000 to raze the old convenience store located on the site; that cost has been added to the sales price for Land Sale 4. The other land sales did not have any conditions of sale and affected the sales prices.

Date of Sale – This item of adjustment is for time elapsed between the date of a sale and the effective date of valuation. The sales span a time frame from 10/25/2019 to 5/20/2022 or up to 36 months prior to the effective date of valuation. There were no paired sales or sale/resales identified that provide an adjustment for market conditions. Therefore, no adjustment was attempted.

Location – The subject site is located along Lake Elmo Drive with good access and visibility. Land Sales 1 and 5 are located in areas that are less desirable for development, which is inferior with respect to location; upward adjustments are warranted. The remaining land sales are either located on superior arterials or are in areas that are more desirable for commercial development; downward adjustments are warranted.

Zoning – The subject property is situated in the Neighborhood Office (NO) zoning classification. Land Sales 1, 2, and 6 are located in less restrictive zoning districts and are superior with respect to zoning; downward adjustments are warranted. The remaining land sales are similar to the subject property with respect to zoning; no adjustments are warranted.

Corner Site – The subject site is a corner parcel. Land Sale 1 is an interior site and inferior to the subject site; an upward adjustment is warranted. The remaining land sales are corner sites; no adjustments are warranted.

Size – Smaller sites typically have higher square foot prices. Land Sale 3 is similar in size to the subject site; no adjustment is warranted. The remaining land sales are larger than the subject site; upward adjustments are warranted.

Final Correlation and Conclusion of Land Value

The indicated value range is \$6.50 SF to \$32.33 SF with a mean of \$14.57 SF and a median of \$9.82 SF. The bottom of the range is represented by Land Sale 1. This sale is superior with respect to zoning, but is inferior with respect to location, corner site, and is the largest of all the land sales. This suggests a value greater than \$6.50 SF. Land Sale 5 is similar with respect to zoning, corner site, and size but is inferior with respect to location. This suggests a value greater than \$7.06 SF. Land Sale 3 is superior with respect to location but is more than twice the site of the subject site. This suggests a value greater than \$8.43 SF.

Land Sale 6 represents the top of the range. This sale is larger but is superior with respect to location and zoning. Land Sale 6 was one of the last remaining sites located on Main Street available for development. This suggests a value of less than \$32.33 SF. Land Sale 4 is superior with respect to location and is smaller. This suggests a value of less than \$21.86 SF. Land Sale 2 is larger but superior with respect to location and zoning. This suggests a value of less than \$11.21 SF.

The narrowed range is from \$8.43 SF to \$11.21 SF with a mean and median of \$9.82 SF. It is concluded a value near the middle of the narrowed range at \$10.00 (R) SF is reasonable, supportable, and will be emphasized for the subject site.

The estimated market value of the subject site is 23,052 SF x \$10.00 SF = \$230,520 or \$230,500 (R).

COST APPROACH

The subject property was originally developed in 1978 and has been renovated. The main concern with determining a value by the Cost Approach is determining the effective age of the subject improvements and the amount of depreciation to apply to the reconstruction cost new. There is adequate but limited income and expense and building sales data to determine a value indication by the Income Capitalization and Sales Comparison Approaches. Additionally, commercial real estate brokers report buyers and sellers in the market rarely consider the Cost Approach when it comes to older properties. Therefore, a value by the Cost Approach is not included in this analysis.

INCOME CAPITALIZATION APPROACH

Income Quantity

The potential gross income (PGI) refers to the total income the property is capable of producing from rents and other income at full occupancy. The effective gross income (EGI) refers to the income after deducting an allowance for vacancy and collection loss. The net operating income (NOI) refers to the income after deducting landlord operating expenses but before debt service and depreciation.

Income Quality

Basic issues influencing the quality of the income stream include vacancy, tenant turnover rates, tenant strength, supply and demand, neighborhood trends, etc. The subject property is a former fire station that has been used as an office building for an extended period of time. The subject building is located in the Billings Heights along Lake Elmo Drive. There are office rental suites in the Heights that are vacant and available for occupancy. The property has been leased by the same tenant for years. Rental rates for retail/office space in the community range from around \$8.00 SF_± to about \$18.00 SF_± with a wide variety of landlord and tenant expense responsibilities.

Income Durability

The property has been leased by the same tenant for years. The landlord is currently renting the building for \$7.74 SF on a month-to-month basis with the tenant paying all the operating expenses associated with the property. However, the tenant is in the process of vacating the property.

Leased Fee Interest – Direct Capitalization

When this method is applied, a single year's income expectancy is capitalized at an overall capitalization rate derived from the mortgage equity band of investment method and/or market-extracted capitalization rates extracted from sales of similar use properties.

The analysis begins by determining the potential gross income the facility can generate based on market rental rates for similar space in the community. The total operating expenses are estimated and deducted to derive the net operating income. The net operating income is then capitalized at an appropriate capitalization rate.

A survey of rental rates for similar properties in the community was conducted.

Refer to the following page for a rent-comparable location map and rent-comparable summary table:

RENT COMPARABLE LOCATION MAP



Rent Comparable Summary

Identification	Size (SF)	Annual Rent Per SF	Expense Responsibilities
Rent Comparable 1 2923 Montana Ave.	7,250 SF	\$7.67 SF	L = None T = All
Rent Comparable 2 895 Main St.	2,600 SF	\$10.93 SF	L = T, I, M/R T = U
Rent Comparable 3 520 Wicks Ln.	Various	\$12.00 SF	L = None T = All
Rent Comparable 4 926 Main St.	1,231 SF	\$13.30 SF	L = T, I, M/R T = U
Rent Comparable 5 904 Main St.	3,289 SF	\$17.85 SF	L = None T = All

Legend: T = Taxes, I = Insurance, M/R = Major structural maintenance and repair, U = Utilities

Rent Comparable 1 is an average quality 7,250 SF_±, mixed-use building located at the northeast corner of Montana Avenue and North 30th Street. The building was built in 1905 and was remodeled in 2005. The building includes a two-stall garage/warehouse. This building has no off-street parking. The tenant pays all the operating expenses associated with this property.

Rent Comparable 2 is an average quality 2,600 SF rental suite in an office/retail strip mall located at the southeast corner of Milton Road and Main Street. This unit is being leased by Batteries Plus. There is limited on-site parking for this rent comparable. The tenant pays the cost of the utilities. The landlord pays all the other operating expenses associated with this property.

Rent Comparable 3 is an average-quality office/retail strip mall on the south side of Wicks Lane just west of Main Street. The property has various sizes of units. There is on-site parking for this property. The tenant pays a base rent plus a prorated share of the operating expenses for this facility.

Rent Comparable 4 is an average-quality 1,231 SF condominium rental suite in a multi-tenant office/retail facility located at the southwest corner of Milton Road and Main Street. There is on-site parking for this property. The tenant pays utilities and the landlord pays all other operating expenses associated with this facility.

Rent Comparable 5 is an excellent quality 3,289 SF suite in a retail strip center located at the northwest corner of Milton Road and Main Street. The tenant, Chase Bank, completely renovated the suite at its own cost. The landlord did not pay for any of the tenant improvements. This comparable has on-site parking. The tenant pays all the operating expenses associated with this property.

Final Correlation and Conclusion of Market Rental Rate

For purposes of this analysis, the subject's rental rate will reflect a triple-net lease agreement with the tenant being responsible for all of the operating expenses associated with the subject property. Rent Comparables 2 and 4 reflect modified-gross lease agreements and need to be adjusted downward. The total operating expenses for Rent Comparable 2 and 4 are estimated to be \$4.00 SF. The estimated cost of utilities is \$0.50 SF, which the tenants pay. Both these rent comparables will be adjusted downward by \$3.50 SF (\$4.00 SF - \$0.50 SF = \$3.50 SF) to reflect the landlord having to be responsible for those expenses. Please refer to the following table for a summary of the adjusted rental rates

Adjusted Rental Rate Summary	
Rent Comparable Number	Adjusted Rental Rate
Rent Comparable 1	\$7.67 SF
Rent Comparable 2	\$7.43 SF
Rent Comparable 3	\$12.00 SF
Rent Comparable 4	\$9.80 SF
Rent Comparable 5	\$17.85 SF

The rental rates range from \$7.43 SF to \$17.85 SF with a mean of \$10.95 SF and a median of \$9.80 SF. The low end of the range is represented by Rent Comparable 2. This rent comparable is inferior with respect to condition and on-site parking. Additionally, a broker familiar with the building said the rents in the facility were below market. This suggests a rental rate greater than \$7.43 SF. Rent Comparable 1 is larger, older, and lacks on-site parking. This suggests a rental rate greater than \$7.67 SF. Rent Comparable 4 is inferior with respect to condition, which suggests a rental rate greater than \$9.80 SF.

Rent Comparable 5 represents the top of the range. This rent comparable is superior with respect to condition and is rented by a national tenant that desired this location for a bank branch. This suggests a rental rate of less than \$17.85 SF. Rent Comparable 3 is the most similar rent comparable. Like the subject property, it is not located on Main Street but is conveniently located nearby

with good visibility and access. Emphasizing Rent Comparable 3, it is concluded that a rental rate of \$12.00 SF is reasonable, supportable, and will be utilized for the subject property.

Vacancy and Collection Loss

This category accounts for the time between tenants, as well as prolonged vacancies during slow market conditions, and reflects the probable vacancy during the economic life of the property, not necessarily the vacancy at any particular point in time.

NAI Business Properties tracks the amount of commercial space available for lease in the community. NAI's most recent survey indicated an 8.0% vacancy rate for Class B office space.

The subject property had been leased for an extended period of time. This would indicate a historical vacancy rate of 0.0%. The two vacancy indications range from 0.0% to 8.0% with a mean and median of 4.0%. The subject property is well maintained, has good visibility and access, and has off-street parking. Considering all the above, a vacancy rate of 4.0% will be applied to the estimated potential gross income the building could generate.

Operating Expenses

Management – This expense category is related to active management by the landlord and/or a representative who is responsible for maintaining property records, collecting rents, marketing the property, negotiating leases, etc. Property management firms typically collect a percentage of the effective gross income with the percentage, generally in the range of 3% to 6%, dependent upon the number of tenants and management responsibilities. The subject building is best suited for one tenant. For purposes of this analysis, a management fee of 3.0% of the effective gross income will be utilized for this expense category.

Capitalization Rate Determination

Market-extracted cap rates are the result of the interactions of buyers and sellers in the marketplace, therefore, they are considered the most reliable source of cap rates. However, this procedure requires considerable and accurate income and expense data that may not always be available.

Refer to the table on the following page, which summarizes cap rates for similar properties in the community where a cap rate could be extracted.

Building Cap Rate Summary

Identification	Year Sold	Sale Price	NOI	Cap Rate
3860 Avenue B Unit C	2021	\$510,000	\$39,100	7.67%
1131 North 27th Street	2021	\$1,400,000	\$104,412	7.46%
1523 Wyoming Avenue	2021	\$640,000	\$42,310	6.61%
2212 Broadwater Avenue	2020	\$750,000	\$52,500	7.00%
2923 Montana Avenue	2020	\$695,000	\$55,620	8.00%

The cap rates extracted from sales of properties in the community in the above table are not all true comparables to the subject property. However, they are sales of properties that have taken place over the years and reflect investor expectations of leased properties in the community. The cap rate range indicated by the building sales is from 6.61% to 8.00% with a mean of 7.35% and a median of 7.46%. It is concluded that a cap rate range from 7.00% to 8.00% is reasonable, supportable, and will be utilized.

Refer to the following table for a Direct Capitalization summary.

760 Lake Elmo Dr.				
Projected Operating Statement				
Type of Space/Tenant	SF Leased		Annual	
Office/storage	3,876 SF	\$12.00 SF	Income	
Potential Gross Income (PGI)			\$46,512	
			\$46,512	
ASSUMPTIONS				
Vacancy and Collection Loss			4.0%	
Cap Rate Range			7.00%	8.00%
			%	\$ Per SF
Potential Gross Income (PGI)			\$46,512	\$12.00 SF
Vacancy and Collection Loss			(\$1,860)	(\$.48 SF)
Effective Gross Income (EGI)			\$44,652	100.0%
Expenses				\$11.52 SF
Insurance			\$0	0.0%
Maintenance/Repair			\$0	0.0%
Management			\$1,340	3.0%
Real Estate Taxes			\$0	0.0%
Utilities			\$0	0.0%
Total Expenses			\$1,340	3.0%
Net Operating Income (NOI)			\$43,312	97.0%
				\$11.17 SF
% = Percentage of Effective Gross Income			\$44,652	
\$ = Dollars per SF			3,876 SF	
Direct Capitalization – Leased Fee Interest				
NOI	/	OAR	=	Value Indication
\$43,312	/	7.00%	=	\$618,743
\$43,312	/	7.50%	=	\$577,493
\$43,312	/	8.00%	=	\$541,400

The value opinion range is from \$541,400 (R) to \$618,700 (R).

SALES COMPARISON APPROACH

Direct Comparison

In this approach, the market value of the subject property is estimated by direct comparison analysis.

Direct comparison analysis compares improved sales to the subject property on a price per square foot of gross building area (GBA) basis without the land. The price per SF (GBA) above grade reflects the physical characteristics of a property and care must be taken in the building sale selection process. Six sales were analyzed.

BUILDING SALE LOCATION MAP



Building Sale 1 – This is an average-quality office building developed in 1975. This building is located at the northwest corner of 19th Street West and Central Avenue. There is 3,920 SF of average-quality office space on one floor. The building was reported to be in average/good condition at the time of the sale. This property does have on-site parking.

Building Sale 2 – This is a good quality retail/office building developed in 2003. This was a former City Brew coffee shop located on the east side of North 27th Street just south of 10th Avenue North that was being used as an office for City Brew management. There is 2,760 SF of office/retail space on the main floor and 1,122 SF of office space on the second floor. The building was in good condition at the time of the sale. The building was purchased by Montana Health Federal Credit Union, and it was

subsequently renovated into an MHFCU branch. The owner was motivated to purchase the property due to its close proximity to the health care corridor. This property does have on-site parking.

Building Sale 3 – This is a good-quality bank developed in 1995. This building is home to Valley Federal Credit Union and is located on the southwest corner of North 31st Street and 2nd Avenue North. There is 3,762 SF of good quality office space on one floor. There is a 3,480 SF basement that is a mix of finished and unfinished space that is used for storage. This building was reported to be in good condition at the time of the sale. The sale included furniture and an ATM that had an estimated value of approximately \$100,000. The buyer was motivated to buy this property because it was a perfect fit for what they needed. This building does have on-site parking.

Building Sale 4 – This is an average-quality office building developed in 1979. This building was home to a real estate office located on the east side of Lake Elmo Drive between Encanto Place and Bitmore Way. There is 2,524 SF of good quality office space on three floors and 1,074 SF of basement space. This sale was reported to be in good condition at the time of the sale. This property does have on-site parking.

Building Sale 5 – This is low cost/average quality office building developed in 1931. This building was a single-family residence that has been converted into a small office building located on the south side of Grand Avenue between 1st and 2nd Streets West. This is 1,500 SF of average-quality office space on two floors with a 380 SF storage basement. This sale was in fair/average condition at the time of the sale. The property has limited on-site parking.

Building Sale 6 is an average-quality mixed-use building located at the northeast corner of Montana Avenue and North 30th Street. The property was developed in 1905. The brick building has 950 SF of main-floor retail space, 2,300 SF of main-floor shop/warehouse space, 750 SF of mezzanine retail space, 2,475 SF of second-floor office space, and 775 SF of second-floor apartment space. This building was in average condition. There are two overhead doors that can be opened to allow parking for two vehicles but otherwise the property does not have on-site parking.

Refer to the following page for a direct comparison summary:

760 Lake Elmo Dr.

Building Sales Summary

Item	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6
Sale Price		\$590,000	\$1,400,000	\$1,070,000	\$550,000	\$250,000	\$695,000
Property Rights	Leased Fee	Fee Simple	Leased Fee	Fee Simple	Leased Fee	Leased Fee	Leased Fee
Adjustment		\$0	\$0	\$0	\$0	\$0	\$0
Financing	Normal	Cash	Cash	Cash	Cash	Cash	Cash
Adjustment		\$0	\$0	\$0	\$0	\$0	\$0
Conditions of Sale	Normal	Normal	Normal	Fixtures	Normal	Normal	Normal
Adjustment		\$0	\$0	(\$100,000)	\$0	\$0	\$0
Adjusted Sale Price		\$590,000	\$1,400,000	\$970,000	\$550,000	\$250,000	\$695,000
Date of Sale	10/10/2022	5/15/2022	9/2/2021	7/22/2021	6/9/2021	4/13/2021	4/3/2020
Adjustment		\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Sale Price		\$590,000	\$1,400,000	\$970,000	\$550,000	\$250,000	\$695,000
Exposure Time		NA	NA	NA	> 6 Months	NA	< 6 Months
Year Built	1978	1975	2003	1995	1979	1931	1905
Chronological Age in Years	44	47	18	26	42	90	115
Site Size (SF)	23,052 SF	15,396 SF	16,800 SF	14,000 SF	11,735 SF	7,000 SF	3,250 SF
Land Value		\$230,940	\$672,000	\$420,000	\$117,350	\$105,000	\$32,500
Value of Building & Site Improvements		\$359,060	\$728,000	\$550,000	\$432,650	\$145,000	\$662,500
GBA (SF)	3,876 SF	3,920 SF	3,882 SF	3,762 SF	3,600 SF	1,500 SF	7,250 SF
\$ Per SF GBA without the Land		\$91.60 SF	\$187.53 SF	\$146.20 SF	\$120.18 SF	\$96.67 SF	\$91.38 SF
Direct Comparison							
Quality of Construction	Average	Similar	Superior	Similar	Similar	Inferior	Similar
Adjustment		=	-	=	=	+	=
Condition	Average/Good	Similar	Superior	Superior	Superior	Inferior	Inferior
Adjustment		=	-	-	-	+	+
On-Site Parking	Yes	Similar	Similar	Similar	Similar	Inferior	Inferior
Adjustment		=	=	=	=	+	+
GBA (SF)	3,876 SF	3,920 SF	3,882 SF	3,762 SF	3,600 SF	1,500 SF	7,250 SF
Adjustment		=	=	-	-	-	+
Value Indication (\$/SF GBA without the land)		\$91.60 SF	\$187.53 SF	\$146.20 SF	\$120.18 SF	\$96.67 SF	\$91.38 SF

Adjustments

Property Rights – Despite the tenant moving out of the building, the subject property was technically leased as of the effective date of this appraisal. Building Sales 2, 4, 5, and 6 were leased at the time of sale. Building Sales 1 and 3 were fee simple estates. An adjustment for any difference between leased fee interest and fee simple estate could not be determined from the building sales analyzed; no adjustments have been attempted.

Financing – All of the building sales were reported to be cash or cash equivalent transactions; no adjustments are warranted.

Conditions of Sale – Building Sale 3 included furniture and an ATM that were valued at \$100,000. That amount has been deducted from the sales price. None of the other building sales had conditions associated with the building sales that had an impact on the sales prices; no adjustments are warranted.

Date of Sale – This item of adjustment is for time elapsed between the date of a sale and the effective date of valuation. The sales span a time frame from 4/3/2020 to 5/15/2022 or up to 31 months prior to the date of valuation. There were no sale/resales of similar buildings identified during that time to determine if there has been any appreciation or depreciation during that time; no adjustment has been attempted.

Land Value – The land value for each building sale was determined from an analysis of land sales that took place around the time of the building sale and deducted from the building sale price resulting in the contributory value of the building and site improvements. Some of the building sales took place in areas with few land sales. If a comparable land sale was identified, it was emphasized to determine the land value for the building sale. If no specific comparable sale was identified, a range from all the sales was developed and a value was determined by size, date of sale, and or location.

Quality of Construction – The subject building is average quality of construction. Building Sales 1, 3, 4, and 6 are similar with respect to quality of construction; no adjustments are warranted. Building Sale 2 is superior with respect to quality of construction; a downward adjustment is warranted. Building Sale 5 is inferior with respect to quality of construction; an upward adjustment is warranted.

Condition – The subject building is in average/good condition. Building Sale 1 is similar with respect to condition; no adjustment is warranted. Building Sales 5 and 6 are inferior to the subject property with respect to condition; upward adjustments are warranted. Building Sales 2, 3, and 4 are superior to the subject property with respect to condition; downward adjustments are warranted.

On-Site Parking – The subject property has ample parking. Building Sale 5 has limited parking and Building Sale 6 has a garage but no other on-site parking; downward adjustments are warranted. The remaining building sales have similar on-site parking; no adjustments are warranted.

GBA (SF) – Smaller facilities typically have higher square foot prices. The subject property has a GBA of 3,876 SF. Building Sales 1 and 2 are similar in size with respect to GBA; no adjustments are warranted. Building Sale 3, 4, and 5 are smaller than the subject property with respect to GBA; downward adjustments are warranted. Building Sale 6 is larger than the subject property; an upward adjustment is warranted.

Final Correlation and Conclusion of \$/SF of GBA without the Land

The indicated range for the building sales is from \$91.38 SF to \$187.53 SF of GBA without the land with a mean of \$122.26 SF and a median of \$108.43 SF. The high end of the range is represented by Building Sale 2. This sale is superior with respect to quality, condition, and may have included some buyer motivation. This suggests a value of less than \$187.53 SF. Building Sale 3 is superior with respect to condition, smaller, and also may have included buyer motivation. This suggests a value of less than \$146.20 SF. Building Sale 4 is superior with respect to condition and is smaller. This suggests a value of less than \$120.18 SF.

The low end of the range is represented by Building Sale 6. This sale is inferior with respect to condition, on-site parking, and is larger. This suggests a value greater than \$91.38 SF. Building Sale 1 is similar with respect to quality, condition, on-site parking, and size. This suggests a value of around \$91.60 SF. Building Sale 5 is smaller but inferior with respect to quality, condition, and on-site parking. This could suggest a value greater than \$96.67 SF. However, Building Sale 5 is more than half the size of the subject property. Therefore, Building Sale 5 will not be emphasized.

Building Sale 1 is the most recent sale, the most similar sale, and will be emphasized. Emphasizing Building Sale 1, it is concluded a value at \$90.00 (R) SF without the land is reasonable, supportable, and will be emphasized.

The indicated value by the direct comparison method is calculated as follows:

Direct Comparison			
\$/SF of GBA without Land	x	GBA (SF)	= Total
\$90.00 SF	x	3,876 SF	= \$348,840
Plus Land			<u>\$230,500</u>
Indicated Value			<u>\$579,340</u>

The value indication by the Sales Comparison Approach is \$579,300 (R).

HISTORY

The subject property has been owned by Vanderloos Properties LLC for an extended period of time and has not been transferred in the last three years. The City of Billings with right to assign has entered into an Agreement to Sell and Purchase, dated 9/8/2022, to purchase the subject property for \$575,000.

Indication of Sale –

Sale Price \$575,000

Land – 23,052 SF

23,052 SF x \$10.00 SF = \$230,520

Sale Price minus land value = \$344,480

Building – 3,876 SF

\$344,480 / 3,876 SF = \$88.88 SF

Analysis indicates that this purchase price falls within the range indicated by the Income Capitalization Approach and slightly below the value indicated by the Sales Comparison Approach. The sales price appears to be reasonable.

The appraiser is not aware of any other sale during the three years preceding the date of valuation nor of any other current option or buy/sell agreements with respect to the subject property.

EXPOSURE TIME

Exposure times for some of similar properties identified in the Sales Comparison Approach section of this report indicate an exposure time of more than six months. But several of the building sales were sold without ever being exposed to the market and brokers report the demand for small retail/office buildings is strong. The subject property is average/good quality office space with storage and off-street parking. A reasonable exposure period assuming proper pricing and marketing for the property may have been up to six months.

RECONCILIATION

The approaches to value indicated herein result in the following indications of value:

Value Indications	
Land Value	\$230,500
Cost Approach:	NA
Income Capitalization Approach	
Direct Capitalization:	\$541,400 to \$618,700
Sales Comparison Approach	
Direct Comparison:	\$579,300

The reconciliation of the value indications is the final step in the appraisal process and involves weighing each valuation technique in relation to the available market data and its reliability and applicability to the subject property.

The estimated land value is based on sales of similar sites in the community. The land sales were adjusted for location, zoning, corner influence, and size. The subject’s estimated land value was “bracketed,” and a land value was reported. The land value appears reasonable and supportable.

The Cost Approach is a good indicator of value when the improvements are new or relatively new and represent the highest and best use of the land or when relatively unique or specialized improvements are located on a site for which there exist few sales or leases. The property was developed in 1978 and has been renovated. There would be considerable subjective judgment involved in estimating the effective age of the improvements and the amount of depreciation to apply to the replacement cost new. There are limited lease data and building sales that have been analyzed to determine the market value of the subject property. Additionally, commercial real estate brokers report buyers and sellers in the market rarely consider the Cost Approach when it comes to older properties. Therefore, a value opinion by the cost approach has not been included in this analysis.

The Income Capitalization Approach is a good indicator for income-producing properties. The subject property is leased but the tenant is preparing to vacate. A rent survey of similar facilities was conducted. A market rental rate was determined from the rent survey. A vacancy rate was determined by using an NAI Business Properties survey and the building’s historical vacancy rate. The landlord’s operating expenses were estimated and deducted from the effective gross income (EGI). A cap rate was determined from sales of similar buildings. A market value opinion range for the subject property was reported. This approach is considered a valid indicator of value.

The Sales Comparison Approach is a good indicator of value in an active market where there are sufficient sales transactions available. Six similar sales were analyzed. The sales were then compared to the subject property with respect to the quality of construction, condition, on-site parking, and size. There is subjective judgment involved in determining the impact of the various

units of comparison. The most similar sale was emphasized, and a value opinion was reported. This approach is considered a valid indicator of value.

The Income Capitalization Approach suggests a value range between \$541,400 and \$618,700 and the Sales Comparison Approach suggests a value of \$579,300, which falls near the middle of the Income Capitalization range.

Concerns with the Income Capitalization Approach include the fact the property's tenant is vacating. Although there were leased similar facilities identified, there is a minimal number of similar rent comparables that are situated near the subject property. And the cap rate range is based on cap rates extracted from sales of facilities that might not all be true comparables.

Concerns with the Sales Comparison Approach include the subjective judgment required with respect to quantifying the impact of the various units of comparison on the subject property, especially the contributory value of on-site parking and condition. Another area of concern was the few comparable sales of office buildings with large garage/storage areas.

There are weaknesses associated with each approach. The Income Capitalization Approach ranges from \$541,400 to \$618,700 with a mean and median of \$580,050. The Sales Comparison Approach is \$579,300. The middle indication from the Income Capitalization Approach and Sales Comparison Approach indication have a mean and median of \$579,675. The purchase price in the Agreement to Sell and Purchase is \$575,000. Based on both value indications, it is concluded the purchase price of \$575,000 is reasonable, supportable, and will be emphasized.

LEASED FEE INTEREST

\$575,000

FIVE HUNDRED AND SEVENTY-FIVE THOUSAND DOLLARS

CERTIFICATION OF VALUE

The undersigned certifies 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 I have no personal interest with respect to the parties involved.
- I have performed no appraisal services, as an appraiser or in any other capacity, regarding the property that is the 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 this appraisal.
- My analysis, opinions, and conclusions were developed and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- I certify that to the best of my knowledge and belief, the reported analysis, 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 Appraisal Practice of the Appraisal Institute.
- I certify that 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 Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute.
- I have made a personal inspection of the property that is the subject of this report.
- No other person provided significant real property appraisal assistance to the person signing this certification.

Respectfully submitted,



Matt Bender
Certified General Real Estate Appraiser
State Of Montana License No. REA-RAG-LIC-9279

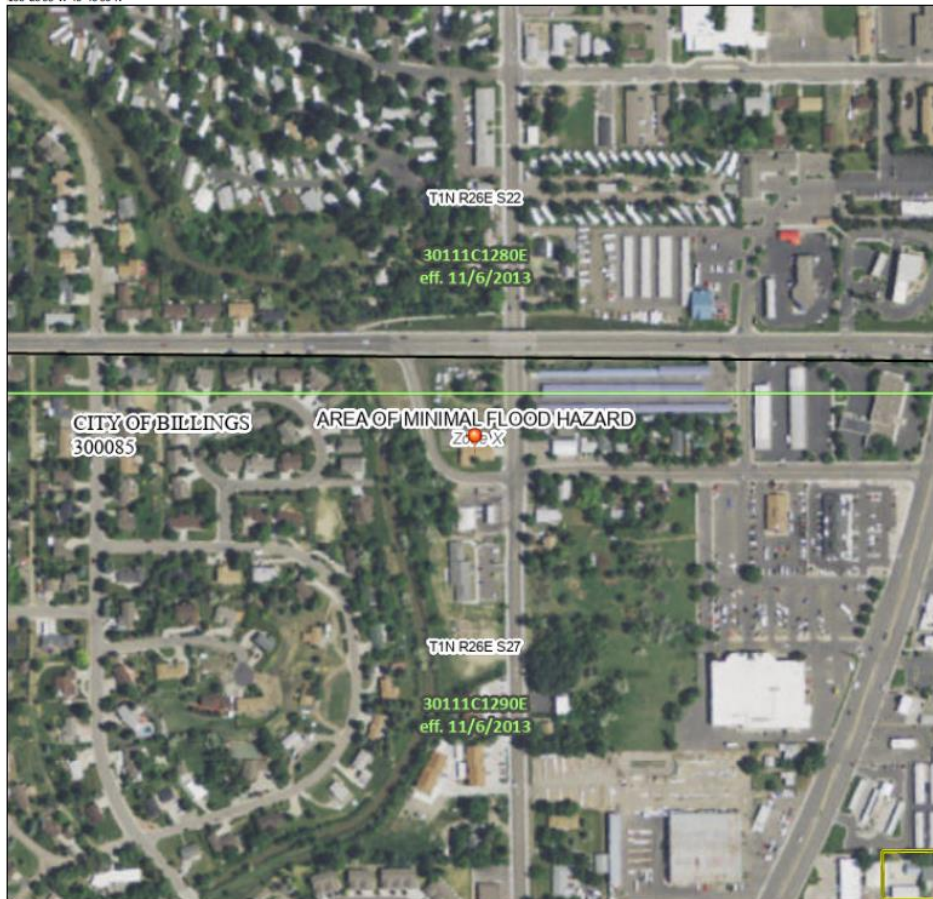
ADDENDA

FLOOD MAP

National Flood Hazard Layer FIRMette



108°28'55"W 45°48'56"N



0 250 500 1,000 1,500 2,000 Feet 1:6,000
 Basemap: USGS National Map: Orthoimagery: Data refreshed October, 2020

Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT

SPECIAL FLOOD HAZARD AREAS	Without Base Flood Elevation (BFE) Zone A, V, A99
	With BFE or Depth Zone AE, AO, AH, VE, AR
	Regulatory Floodway
OTHER AREAS OF FLOOD HAZARD	0.2% Annual Chance Flood Hazard, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile Zone X
	Future Conditions 1% Annual Chance Flood Hazard Zone X
	Area with Reduced Flood Risk due to Levee. See Notes, Zone X
	Area with Flood Risk due to Levee Zone D
OTHER AREAS	NO SCREEN Area of Minimal Flood Hazard Zone X
	Effective LOMRs
	Area of Undetermined Flood Hazard Zone D
GENERAL STRUCTURES	Channel, Culvert, or Storm Sewer
	Levee, Dike, or Floodwall
OTHER FEATURES	Cross Sections with 1% Annual Chance Water Surface Elevation
	Coastal Transect
	Base Flood Elevation Line (BFE)
	Limit of Study
	Jurisdiction Boundary
	Coastal Transect Baseline
	Profile Baseline
	Hydrographic Feature
MAP PANELS	Digital Data Available
	No Digital Data Available
	Unmapped

The pin displayed on the map is an approximate point selected by the user and does not represent an authoritative property location.

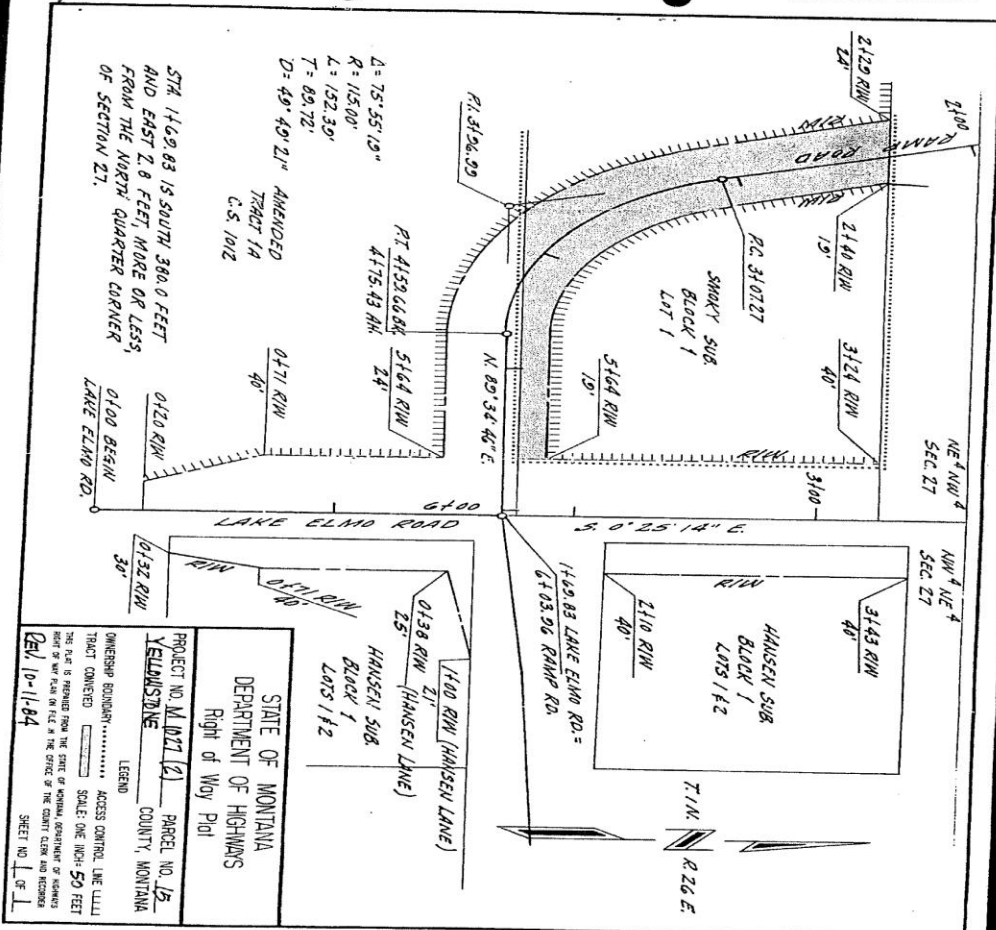
This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards.

The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 10/20/2022 at 5:49 PM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unmodernized areas cannot be used for regulatory purposes.

PLAT MAP

BOOK 1271 PAGE 3668



STA. 1469.83 IS SOUTH 380.0 FEET AND EAST 2.8 FEET, MORE OR LESS, FROM THE NORTH QUARTER CORNER OF SECTION 27.

AMENDED TRACT 1A C.S. 1012
 $\Delta = 73^{\circ} 55' 13''$
 $R = 115.00'$
 $L = 152.30'$
 $T = 89.72'$
 $D = 49^{\circ} 40' 21''$

STATE OF MONTANA
 DEPARTMENT OF HIGHWAYS
 Right of Way Plat

PROJECT NO. M. 027 (2)
 YELLMONSTONE COUNTY, MONTANA

PARCEL NO. 15
 SHEET NO. 1 OF 1

LEGEND
 OWNERSHIP BOUNDARY.....
 ACCESS CONTROL LINE [|||||]
 TRACT CORNER []
 SCALE: ONE INCH = 50 FEET
 THIS PLAN IS PREPARED FROM THE STATE OF MONTANA ARCHIVES OF RECORDS DEPT. OF HIGHWAYS FILE IN THE OFFICE OF THE COUNTY CLERK OF YELLMONSTONE COUNTY, MONTANA
 DATE: 10-11-84

RENT COMPARABLE PICTURES



Rent Comparable 1
2923 Montana Avenue



Rent Comparable 2
895 Main Street



Rent Comparable 3
520 Wicks Lane



Rent Comparable 4
926 Main Street



Rent Comparable 5
904 Main Street

BUILDING SALE PICTURES



Building Sale 1
1903 Central Avenue



Building Sale 2
1131 North 27th St.



Building Sale 3
3100 2nd Avenue North



Building Sale 4
623 Lake Elmo Drive



Building Sale 5
114 Grand Avenue



Building Sale 6
2923 Montana Avenue

APPRAISER'S QUALIFICATIONS**Summary of Qualifications
Matthew L. Bender****Certification**

Montana Board of Real Estate Appraisers Certified General Appraiser, License No. REA-RAG-LIC-9279 awarded June 2017.

Professional Affiliations

Practicing Affiliate of Appraisal Institute

Work Experience

June 2017 to Present: Full-time independent fee appraiser doing business as Matt Bender, Real Estate Appraiser and Consultant.

March 2012 to March 2017: Appraiser Trainee working under the supervision of Mentor Appraiser George L. Simek.

February 2005 to January 2012: Assistant General Manager, Billings Mustangs Professional Baseball Club, Billings, Montana.

October 2003 to February 2005: Reporter, KTVQ-Television, Billings, Montana.

March 2003 to October 2003: Game producer for MLB.com, the official website of Major League Baseball.

August 1998 to August 2002: Sales/Customer Service for Ryan Distributing, Billings, Montana.

February 1995 to August 1998: Reporter, The Billings Gazette, Billings, Montana.

July 1993 to February 1995: Reporter, The Montana Standard, Butte, Montana.

Education

B.S. in Journalism, 1993, University of Oregon, Eugene, Oregon.

Real Estate Education

Appraisal Institute Courses –

Basic Appraisal Principles
Basic Appraisal Procedures
15-hour National USPAP Course
Business Practices and Ethics
Advanced Income Approach
Using Your HP-12C Calculator
New Technology for Real Estate Appraisers

General Appraiser Sales Comparison Approach
General Appraiser Market Analysis Highest & Best Use
General Appraiser Site Valuation & Cost Approach
General Appraiser Report Writing & Case Studies
Real Estate Finance, Statistics & Valuation Modeling
Small Hotel/Motel Valuation

McKissock Courses –

General Appraiser Income Approach
That's a Violation

The Basics of Expert Witness for Commercial Appraisers
Evaluations, Desktops, and Other Limited Scope Appraisals

Property Types Appraised/Reviewed

Warehouse
Multi-family
Subsidized Housing
Professional Office
Truck Service Shop
Bar/Restaurant/Casino
Bank Branch
Mobile Home Park

Retail
Service
Vacant Land
Airplane Hangar
Mini-Storage Warehouse
Hardware Store
Dental Office
Fitness Facility

Veterinary Clinic/Kennel
Office/Shop/Warehouse
Office/Condominium
Office/Retail/Strip Center
Drive-through Bank
Medical Office/Surgery Center
Industrial Manufacturing

STATE CERTIFICATION



State of Montana
Business Standards Division
Board of Real Estate Appraisers

This certificate verifies licensure as:
CERTIFIED GENERAL APPRAISER

REA-RAG-LIC-9279

Status: **Active**
Expires: **03/31/2023**

MATTHEW LUKE BENDER
2320 3RD AVE N
BILLINGS, MT 59101



Montana Department of
LABOR & INDUSTRY
RENEW OR VERIFY YOUR LICENSE AT:
<https://ebiz.mt.gov/pol>