

# APPRAISAL OF REAL PROPERTY

## PROPERTY

Former Shell Gas Station/Retail Property  
6401 Highway 10  
Ramsey, Anoka County, MN 55303

## DATE OF REPORT

December 23, 2016

## CLIENT

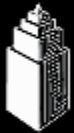
Mr. Patrick Brama  
Economic Development Manager/Assistant City  
Administrator  
City of Ramsey  
7550 Sunwood Drive NW  
Ramsey, MN 55303

## EFFECTIVE DATES OF VALUE

December 2, 2016 – “As-Is”  
March 1, 2017 – “As-Completed”  
June 1, 2017 – “As-Stabilized”

## PREPARED BY

Insight Realty Advisors, Inc.  
275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-983-2408  
Email: [tony.lesicka@insightrealtyadvisors.com](mailto:tony.lesicka@insightrealtyadvisors.com)  
Insight File #: 2016-491



**INSIGHT**  
REALTY ADVISORS INC.



Former Shell Gas Station/Retail Property  
6401 Highway 10  
Ramsey, Anoka County, MN 55303

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275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-983-2408  
Email: tony.lesicka@insightrealtyadvisors.com

December 23, 2016

Mr. Patrick Brama  
City of Ramsey  
7550 Sunwood Drive NW  
Ramsey, MN 55303

**RE: Appraisal of the Former Shell Gas Station/Retail Property located at 6401 Highway 10, Ramsey, Anoka County, MN 55303**

**Insight File Number: 2016-491**

Dear Mr. Brama,

In accordance with your request, we are pleased to submit the accompanying appraisal of the Former Shell Gas Station/Retail Property located at 6401 Highway 10, Ramsey, Anoka County, MN 55303. The purpose of the appraisal is to estimate the 'as-is', 'as-completed' and 'as-stabilized' market values of the subject property. The client for the assignment is City of Ramsey and the intended use is for assistance in determining a purchase price. City of Ramsey, the State of MN, the MN Department of Transportation, the Metropolitan Council, and the current property owners (Series Sunfish of Athans Holdings, Inc.) are the intended users of this appraisal; the report was prepared for their exclusive use and is not intended for use by any other party.

The subject property is a single existing building, originally constructed and most recently used as a gas station/car wash with a small restaurant space. The building contains a total of 8,998 square feet of Gross Building Area (GBA) and Net Rentable Area (NRA), which includes the gas station, car wash and restaurant space. The improvements were originally constructed in 2003. The subject is currently 100% vacant, and while the fuel pumps have been removed, the canopy and underground fuel tanks are still present on the site. The site area of the subject parcel is 1.65 acres (or 71,996 SF), and has above average visibility, but poor access. Access was changed in conjunction with a road improvement project of US Highway 10 and Sunfish Lake Boulevard, circa 2007/2008, whereby access to the site is now provided only by right-in, right-out along northbound US Highway 10 and southbound Sunfish Lake Boulevard. The site is zoned H1 -

Highway 10 Business District, which is an interim use zoning district that allows for less traffic-oriented commercial uses until at which point the US Highway 10 transportation system improvement project commences.

The main value scenario relevant to the current state of the subject is the “as is” value, however, as a result of our Highest and Best Use conclusion, which was to keep the existing improvements but renovate and convert them to general retail space, it was necessary to develop and report an “as complete” and “as stabilized” values as well.

Based on our subject property tour, and after examining and considering the subject’s location, physical and economic characteristics, current market conditions, demographic influences, and other legal, social, economic factors, the details of which are included in the valuation analysis in the accompanying report, subject to the definitions, assumptions, and limiting conditions expressed in the report, our value opinions are as follows:

<b>VALUE CONCLUSIONS</b>					
<b>Valuation Premise</b>	<b>Interest Appraised</b>	<b>Date of Value</b>	<b>Value Conclusion</b>	<b>per SF of NRA</b>	
Market Value "As-Is"	Fee Simple	December 2, 2016	\$645,000	\$71.68	
Market Value "As-Completed"	Fee Simple	March 1, 2017	\$845,000	\$93.91	
Market Value "As-Stabilized"	Fee Simple	June 1, 2017	\$1,025,000	\$113.91	

**Exposure Time and Marketing Time**

Based on our review of national, regional and local investor surveys, discussions with market participants and information gathered during the sales verification process, a reasonable exposure time for the subject property at the value concluded within this report would have been approximately 12 months. This assumes an active and professional marketing plan would have been employed by the current owner.

We believe, based on the assumptions employed in our analysis, as well as our selection of investment parameters for the subject, that our value conclusion represents a price achievable within 12 months.

**Extraordinary Assumptions**

An extraordinary assumption is defined by the USPAP as “an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”

- The subject has historically operated as a gas station, and while the fuel pumps have been removed, it is our observation and understanding that the canopy and the underground

fuel tanks are still present on the site. It is also our understanding that a Phase I environmental assessment report has been completed, the results of which have indicated the need for a Phase II assessment. We have not been provided with a copy of the Phase I report, or any other summary of the potential issues it uncovered. Our analysis is subject to the Extraordinary Assumption that there is no environmental contamination or impact of any kind. Should there turn out to be any environmental or contamination-related issues, our value conclusions could change substantially. Specifically, the costs of remediating any environmental contamination would most likely be subtracted from the value conclusion.

- Our 'as-complete' and 'as-stabilized' values are subject to the assumption that the required renovations would be completed to the specifications and within the timeline we have outlined in our appraisal. Furthermore, we also assume that market conditions will remain as anticipated during the construction and lease up period. Should anything turn out to be different than what we have outlined in this report, then our value conclusions could change substantially.

### **Hypothetical Conditions**

A hypothetical condition is defined by the USPAP as “that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”

- While the purchase negotiations between the City of Ramsey and the current property owner are not part of condemnation proceedings, we believe that the acquisition does appear to qualify for the 'Scope of the Project Rule' as part of the Uniform Appraisal Standards for Federal Land Acquisitions. Specifically, there is a public purpose requiring the acquisition of the land, the particular lands required for the public purpose have been clearly identified, and the acquisition of the particular lands is evident to the public. Based on our market research and market participant interviews, the market is well aware of the US Highway 10 transportation system improvement plans, and we have observed specific market evidence measuring the impact. For the purposes of this appraisal, we have employed the 'Scope of the Project Rule' and our analysis is therefore subject to the Hypothetical Condition that the looming highway improvement project has not impacted market values for the particular properties affected. Should it be determined that the

'Scope of the Project Rule' does not apply, then we reserve the right to revise our analysis and conclusions.<sup>1</sup>

### **Other Important Risk Factors**

- The subject property, as well as most of the properties along US Highway 10 from Anoka to Elk River (particularly the northern parcels in between Highway 10 and the Burlington Northern Railroad Tracks), are being impacted the looming US Highway 10 transportation system improvement project. Aside from the rise in acquisitions of properties along the corridor by the Cities of Ramsey and Anoka, the prices of many properties listed or sold in recent years have been negatively impacted by the anticipated/planned future reduction of access points along Highway 10, and also the cloud of eventual condemnation when the project begins. We have observed direct market evidence to this affect, including but not limited to, would-be buyers of properties walking away from purchases once they learn of the project, as well as longer marketing/exposure periods for land and improved parcels listed on the market.
- Access to the subject site is considered to be poor. A prior road improvement project (circa 2007/2008) has restricted access from US Highway 10 and created the median along Sunfish Lake Boulevard, thereby limiting the subject's access to right-in, right-out only, from northbound Highway 10 and southbound Sunfish Lake Boulevard. This access issue had the largest affect on the highest and best use and value conclusion.
- Based on our market data research, as well as our conversations with market participants, gas station use (or other traffic-intensive retail use) is not the Highest and Best Use (H&BU) of the subject. Nor is the H&BU to demolish the improvements and redevelop the site with another use. It is our conclusion that the H&BU of the property, as-improved, is to renovate and convert the property from a gas station/car wash use to a general retail/office use.
- As part of this H&BU conclusion, the renovation would entail removing the fuel tanks and canopy, as well as some construction on interior demising for the convenience store space and renovation of the car wash space to increase its functional utility. This would also require a lease up period to find new tenants (and the related appropriate costs), and to provide an appropriate amount of landlord-paid tenant improvement allowance for the finishing of the space to the tenant's specifications.

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<sup>1</sup> See: Uniform Appraisal Standards for Federal Land Acquisitions, section B-10, "Enhancement or Diminution in Value Due to the Project."

- The adjacent retail center to the west of the subject (which shares access), has also been significantly impacted by the above-referenced change in access, but has bounced back recently with some recent leasing activity which will be described in greater detail within this report. This center provides strong support for our concluded highest and best use.

This letter is accompanied by an Appraisal Report as defined by the Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2(a). Accordingly, it provides a summary or description of the appraisal process, subject and market data and valuation analyses. The report was also prepared to comply with the requirements of the Code of Professional Ethics of the Appraisal Institute. The depth of discussion contained in this report is specific to the needs of the client and the intended use of the appraisal.

This appraisal has been prepared for the client, and may not be used or relied upon by anyone other than the client for any purposes whatsoever without the express written consent of the appraiser and the client.

If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,



Tony Lesicka, MAI  
MN Certified General 20371321  
Principal  
Insight Realty Advisors, Inc.  
275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-983-2408  
Email: [tony.lesicka@insightrealtyadvisors.com](mailto:tony.lesicka@insightrealtyadvisors.com)



Nathan Hansen  
MN Certified General 20302614  
Principal  
Insight Realty Advisors, Inc.  
275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-470-1229  
Email: [nathan.hansen@insightrealtyadvisors.com](mailto:nathan.hansen@insightrealtyadvisors.com)

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## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

### BASIC INFORMATION

<b>Common Property Name:</b>	Former Shell Gas Station/Retail Property
<b>Address:</b>	6401 Highway 10
<b>City:</b>	Ramsey
<b>State:</b>	MN
<b>Zip Code:</b>	55303
<b>County:</b>	Anoka
<b>Property Ownership Entity:</b>	Series Sunfish of Athans Holdings LLC
<b>Report Type:</b>	Appraisal
<b>Property Rights Appraised:</b>	Fee Simple
<b>Date of Property Tour:</b>	12/2/2016
<b>Date of Report:</b>	12/23/2016
<b>Date of Value:</b>	
"As-Is"	12/2/2016
"As-Completed"	3/1/2017
"As-Stabilized"	6/1/2017
<b>Legal Description:</b>	
Lot 2, Block 1, Sunfish Commons, Subject to Easement of Record	

### SITE INFORMATION

<b>Land Area SF:</b>	71,996
<b>Land Area Acres:</b>	1.65
<b>Excess/Surplus Land?</b>	No
<b>Flood Zone:</b>	Zone X
<b>Flood Map Number:</b>	27003C0281E
<b>Flood Map Date:</b>	12/16/2015
<b>Site Utility:</b>	Below Average
<b>Site Topography:</b>	Level
<b>Site Shape:</b>	Irregular
<b>Lot Location:</b>	Corner
<b>Frontage:</b>	Average
<b>Access:</b>	Poor
<b>Visibility:</b>	Above Average
<b>Utilities Available:</b>	All available at site
<b>Number of Parking Spaces:</b>	30
<b>Parking Ratio (per 1,000 SF):</b>	3.3341
<b>Parking Type:</b>	Surface

## BUILDING INFORMATION

<b>Type of Property:</b>	Retail
<b>Type of Construction:</b>	Block/Masonry, Steel
<b>Number of Buildings:</b>	One (1)
<b>Gross Building Area (SF):</b>	8,998
<b>Net Rentable Area (SF):</b>	8,998
<b>Usage:</b>	
	Retail/C-Store - 5,748
	(% of GBA) - 64%
	Car Wash - 3,250
	(% of GBA) - 36%
	<b>Total (SF) - 8,998</b>
<b>Number of Stories:</b>	One (1)
<b>Deferred Maintenance:</b>	None noted
<b>Occupancy Status:</b>	Multi-tenant
<b>Actual Age:</b>	13 years
<b>Year Built:</b>	2003
<b>Year Renovated:</b>	N/A
<b>Quality:</b>	Average
<b>Condition:</b>	Above Average
<b>Land to Building Ratio:</b>	8 : 1
<b>Sprinkler Protection:</b>	0%

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**MUNICIPAL INFORMATION:**

**Assessing Authority:** Anoka County  
**Assessor's Parcel ID Number:** 34-32-25-14-0027  
**Current Taxes Payable Year:** 2016  
**Current Assessor's Estimated Market Value (as of January 2, 2015):** \$986,000  
**Current Tax Liability (Payable 2016):**

**Base Tax:** \$38,490.07  
**Special Assessments:** \$3,488.93  
**Service Charges:** \$0.00  
**Total:** \$41,979.00

**Current Tax Rate (base tax only):** 3.90%  
**Taxes Per SF of NRA (base tax only):** \$4.28

**Special Assessment Summary:**

Based on readily available county records, the current tax year indicates \$3,488.93 in special assessments.

**Are Taxes Current?** Yes  
**Is a grievance underway?** Not to our knowledge  
**Zoning Authority:** City of Ramsey  
**Current Zoning Designation:** H1 - Highway 10 Business District  
**Is current use permitted?** Yes  
**Zoning Change Pending?** No  
**Zoning Variance Applied for?** No

**HIGHEST AND BEST USE:**

**As Though Vacant:**  
Immediate general retail development

**As Improved:**  
Immediate renovation to general retail use

*See Highest and Best Use section for additional analysis and detail.*

<b>VALUE CONCLUSIONS:</b>			
Type of Value:	Market Value "As-Is"	Market Value "As-Completed"	Market Value "As-Stabilized"
Date of Value:	12/2/2016	3/1/2017	6/1/2017
Real Property Interest:	Fee Simple	Fee Simple	Fee Simple
<b>Land Value:</b>			
Indicated Land Value:	\$360,000	\$360,000	\$360,000
Per Square Foot:	\$5.00	\$5.00	\$5.00
<b>Sales Comparison Approach:</b>			
Concluded Value (Rounded):	\$1,030,000	\$1,030,000	\$1,030,000
LESS: Lease-Up Cost	(\$180,000)	(\$180,000)	-
LESS: Construction Cost	(\$200,000)	-	-
Value Indication via Sales Approach:	<b>\$650,000</b>	<b>\$850,000</b>	<b>\$1,030,000</b>
Per Square Foot (NRA):	\$72.24	\$94.47	\$114.47
<b>Income Approach:</b>			
Direct Capitalization:			
Net Operating Income (Stabilized):	\$91,589	\$91,589	\$91,589
Capitalization Rate:	9.00%	9.00%	9.00%
Preliminary Value:	\$1,017,660	\$1,017,660	\$1,017,660
Concluded Value (Rounded):	\$1,020,000	\$1,020,000	\$1,020,000
LESS: Lease-Up Cost	(\$180,000)	(\$180,000)	-
LESS: Construction Cost	(\$200,000)	-	-
Value Indication via Direct Capitalization (Rounded):	<b>\$640,000</b>	<b>\$840,000</b>	<b>\$1,020,000</b>
Per Square Foot (NRA):	\$71.13	\$93.35	\$113.36
<b>FINAL VALUE CONCLUSION:</b>			
Concluded Value:	<b>\$645,000</b>	<b>\$845,000</b>	<b>\$1,025,000</b>
Exposure Period:	12 months	12 months	12 months
Marketing Period:	12 months	12 months	12 months

**Subject Photos (photos taken December 2, 2016)**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**Subject Exterior**



**View of Adjacent Retail Center**



**View of Adjacent Retail Center**



**Subject Exterior**



Subject Exterior



Subject Exterior



Subject Exterior



Subject Exterior



Subject Exterior



Subject Exterior



**Subject Exterior**



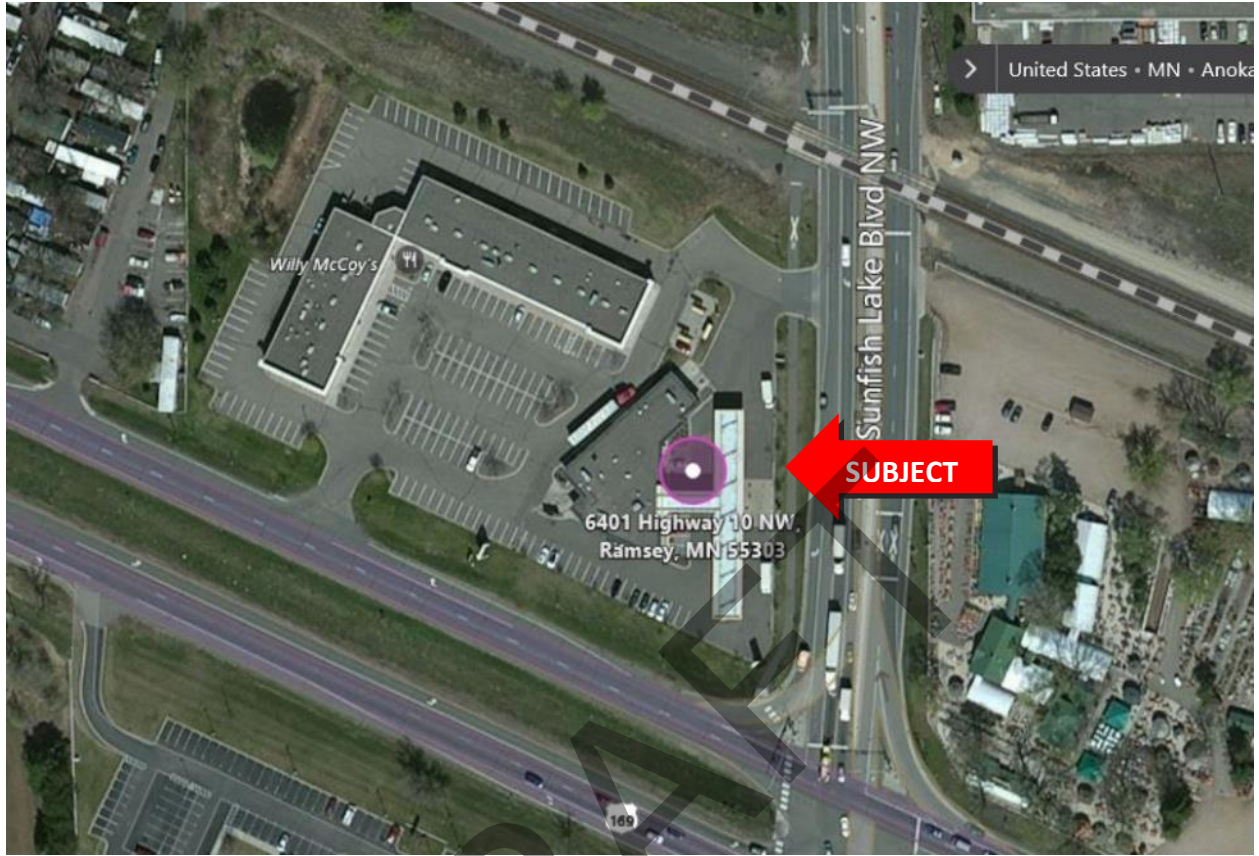
**Subject Exterior**

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Oblique Aerial Photo - Subject



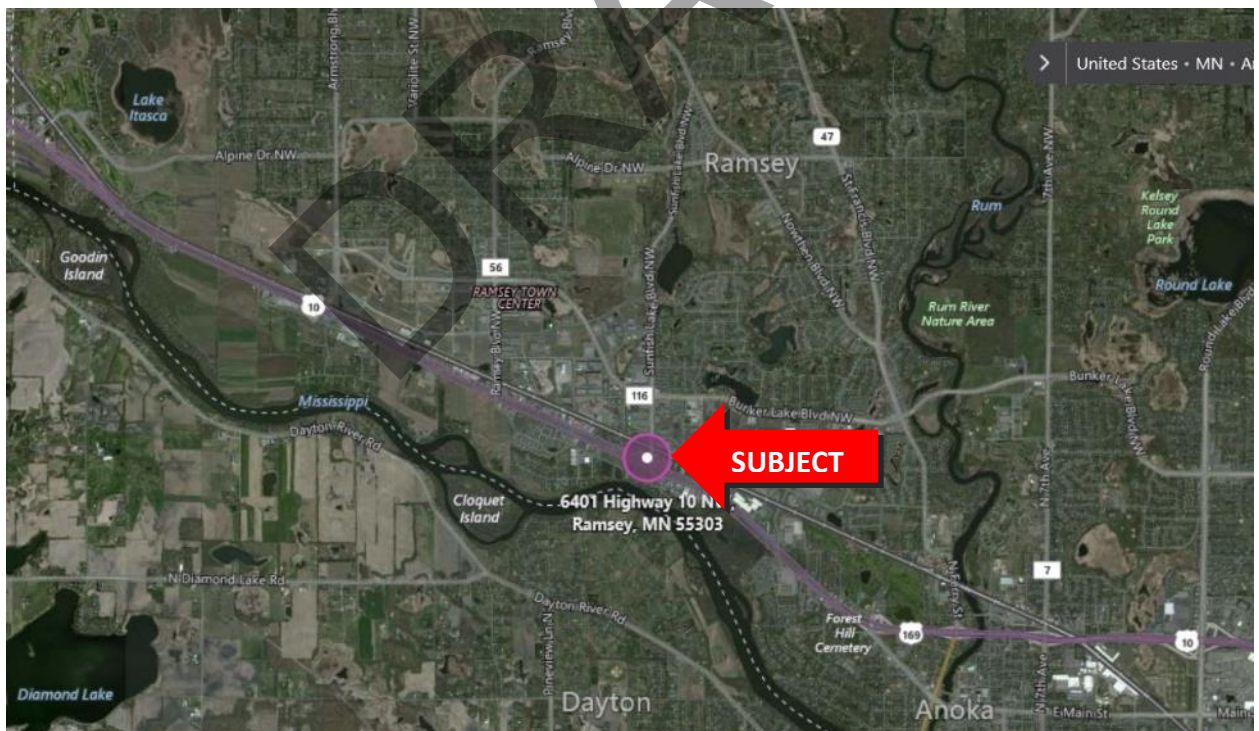
Aerial Photo - Subject



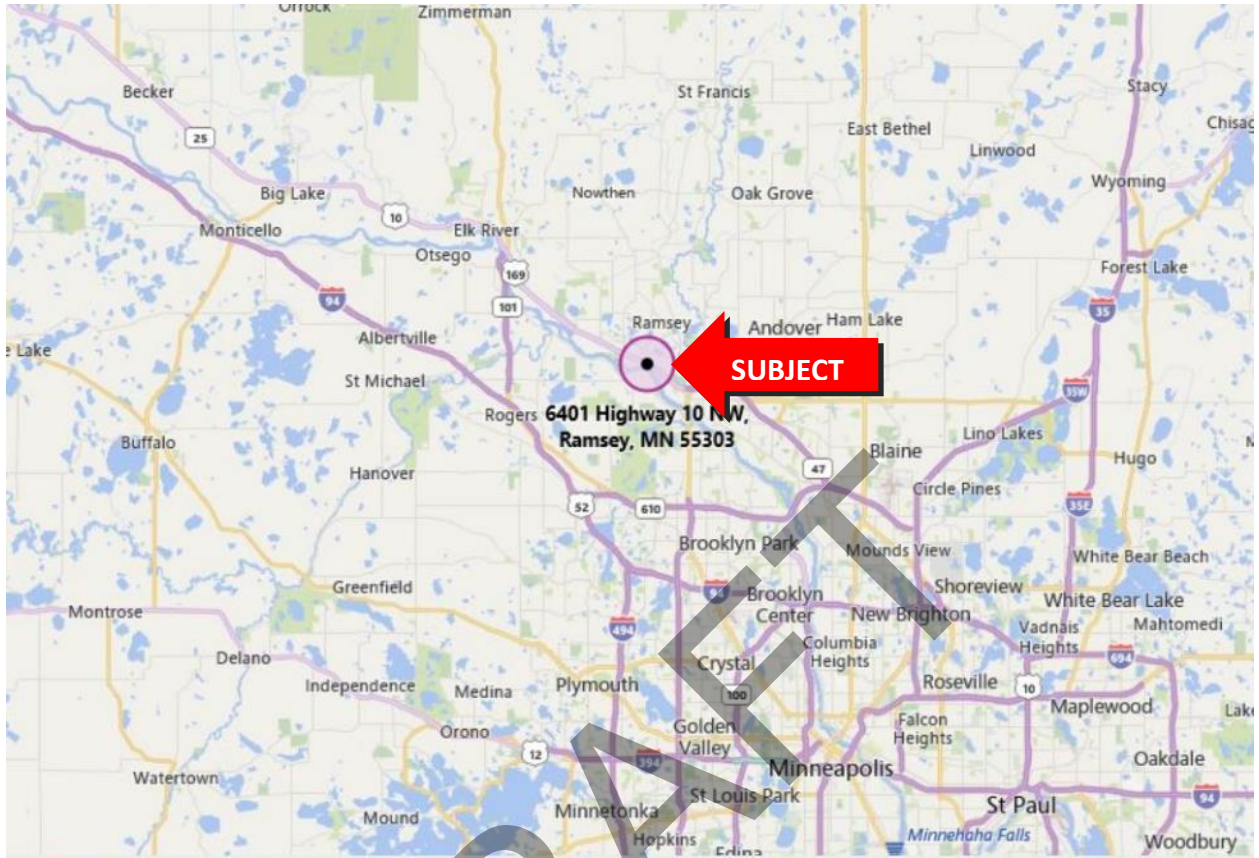
## Neighborhood Map



## Community Map



## General Location Map



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## SCOPE OF WORK

To determine the appropriate scope of work for the assignment, we considered the intended use of the appraisal, the needs of the user, the complexity of the property, and other pertinent factors. Our concluded scope of work is described below.

Insight Realty Advisors, Inc. requires a “second read” of all appraisals. Assignments are read by another appraiser who is not participating in the assignment. For this assignment, quality control oversight was provided by Nathan Hansen. In addition to a qualitative assessment of the appraisal report, Nathan Hansen is a signatory to the appraisal report and concurs in the value opinions set forth herein.

## Valuation Methodology

Appraisers usually consider the use of three approaches to value when developing a market value opinion for real property. These are the Cost Approach, Sales Comparison Approach, and Income Capitalization Approach. Use of the approaches in this assignment is summarized as follows:

APPROACHES TO VALUE		
Approach	Necessary for Credible Results?	Use in Assignment
Cost Approach	No	Not Utilized
Sales Comparison Approach	Yes	Utilized
Income Capitalization Approach	Yes	Utilized

This appraisal utilizes the Sales Comparison and Income Approaches. The Cost Approach was excluded due to the presence of significant depreciation at the subject, and to the concluded highest and best use resulting in a remodeling of the improvements, and finally because most market participants do not rely on this approach for properties such as the subject.

## Data Research and Analysis

The process employed to collect, verify, and analyze relevant data is detailed in individual sections of the report, which included the following:

- Background information on the subject property was obtained relating to ownership, occupancy, property history, financial performance, and site and improvement data.
- Records and data were reviewed relating to real estate taxes, zoning regulations, flood plain status, and other public and governmental influences.
- Regional, city and neighborhood data were gathered and examined.
- Market research was conducted to find the best available comparable land and improved sales, rental comparables, comparable expense data and capitalization rate data. Unless otherwise stated, the comparables were not personally visited or verified by the appraisers for this assignment.
- The subject’s competitive position in the appropriate real estate market was examined.

- The highest and best use of the subject was analyzed.
- Reconciliation of the values indicated by the approaches to value utilized was completed. A final value conclusion represents our opinion of the subject's market value as of the effective date of this appraisal.

Data sources used in this report included, but are not limited to, the following:

- The property owner and/or property manager;
- Government and public sources;
- Market reports and surveys prepared by national and regional real estate companies;
- Buyers and sellers of real estate;
- Real estate brokers and agents;
- Other real estate appraisers;
- Primary and secondary data published by marketing firms;
- General information and non-confidential data contained in our own files.

### Property Tour

Tony Lesicka, MAI has conducted a physical tour of the exterior of the property on December 2, 2016. Nathan Hansen has not toured the property.

### Report Format

This is an Appraisal Report as defined by the Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2(a). Accordingly, it provides a summary or description of the appraisal process, subject and market data and valuation analyses. The report was also prepared to comply with the requirements of the Code of Professional Ethics of the Appraisal Institute. The depth of discussion contained in this report is specific to the needs of the client and the intended use of the appraisal.

### Exclusions from Scope of Work

The scope of this appraisal did not require us to perform the following:

- Engage an environmental engineering company to determine if asbestos or other hazardous wastes exist within the subject's improvements, soil or groundwater.
- Engage a mechanical engineer or technician to inspect the HVAC or other mechanical systems in place at the subject property.
- Engage a roofing contractor to inspect the roof and estimate the remaining life thereof, or prepare a conditions report with suggested repairs.
- Engage a soil scientist or engineer to determine soil properties such as load bearing capacity, depth to groundwater, or other characteristics.

We assume the subject property does not contain any hazardous wastes and that soil conditions allow commercial development on the site.

## CLIENT, INTENDED USE AND USERS, AND PURPOSE OF THE APPRAISAL

Client:	The client for this assignment is City of Ramsey.
Purpose of the Appraisal:	The purpose of this appraisal is to estimate the 'as-is', 'as-completed' and 'as-stabilized' market values of the subject property, in the Fee Simple interest, as of the effective dates of the appraisal.
Intended Use:	The intended use of the appraisal is to assist the Client in making a decision for assistance in determining a purchase price.
Intended User:	City of Ramsey, the State of MN, the MN Department of Transportation, the Metropolitan Council, and the current property owners (Series Sunfish of Athans Holdings, Inc.) are the intended users of this appraisal; the report was prepared for their exclusive use and is not intended for use by any other party.

## PROPERTY TOUR AND DATES OF VALUATION

Effective Date of Valuation:	December 2, 2016 – “As-Is” March 1, 2017 “As-Completed” June 1, 2017 “As-Stabilized”
Date of Tour:	December 2, 2016
Property Toured By:	Tony Lesicka, MAI
Tour Type:	Exterior

## IDENTIFICATION OF THE SUBJECT PROPERTY

Property Name:	Former Shell Gas Station/Retail Property
Location:	The subject property is located at 6401 Highway 10, Ramsey, Anoka County, MN 55303
Legal Description:	Lot 2, Block 1, Sunfish Commons, Subject to Easement of Record
Assessor's Parcel Number:	34-32-25-14-0027

## OWNERSHIP AND HISTORY OF THE SUBJECT PROPERTY

Current Ownership:	Series Sunfish of Athans Holdings LLC
Occupancy of the Subject Property:	Overall, the subject is currently vacant.
History of the Subject Property:	Per county records, there have been no recorded sales or transfers of the subject property within the past three years.

According to our research, the subject was sold and developed in 2002. We were able to obtain a Certificate of Real Estate Value (CREV) for the land sale of the subject which was dated 10/28/2002, and had a sale price of \$450,000, or \$6.25 per SF of land area. We note that this sale occurred prior to the change in access to the subject along both Highway 10 and Sunfish Lake Boulevard.

Subsequent to this sale, the subject was developed with the gas station/restaurant use in 2003.

There was one additional sale we were able to identify in our research. The property sold on 12/10/2008 for \$1,558,514, or \$173.21 per SF of Gross Building Area (GBA)/Net Rentable Area (NRA). According to the CREV, this appears to be a sale/leaseback situation where the seller leased the property back for a reported 60 month term after the sale. It was also reported that this sale was directly negotiated by the parties involved, and that an appraisal had been completed at the time, with an indicated value of \$1,400,000.

#### Current Disposition

The property is currently listed for sale for \$695,000, which is equal to \$77.24 per SF of GBA/NRA, or \$9.65 per SF of land area. It has been listed with the current broker for roughly 6 months. According to the listing broker, there has been little interest from potential buyers in the subject property. Importantly, the broker stated that they have presented the subject property to numerous potential gas station users, all of which were reportedly not interested due to the access limitations. The listing broker thought that converting the property to a general retail use would be the most probable scenario for the subject.

Prior to the current listing, the entire real property, personal property and business value (if any) had been listed for sale for a couple of years by Calhoun Companies. We were provided with an old listing that stated the asking price was \$1,495,000.

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## PROPERTY DESCRIPTION AND ANALYSIS

The following is a description of the subject property's physical characteristics of both the site and the improvements.

### Site Description

The subject site is located on the northwestern corner of US Highway 10 and Sunfish Lake Boulevard, in a transitional area that runs in between Highway 10 and the Burlington Northern Railroad, in Ramsey, MN. The site has an irregular shape and a level topography.

Access to the site is considered to be poor. A prior road improvement project (circa 2007/2008) has restricted access from US Highway 10 and created the median along Sunfish Lake Boulevard, thereby limiting the subject's access to right-in, right-out only, from northbound Highway 10 and southbound Sunfish Lake Boulevard.

Visibility from both roads is considered above average.

Specific land features are as follows:

LAND AREA DIMENSIONS	
<b>Source:</b>	Subject Plat, County Records
<b>Land Area (SF):</b>	71,996
<b>Land Area (Acres):</b>	1.65

SETTING	
<b>Site Utility:</b>	Below Average
<b>Lot Location:</b>	Corner
<b>Accessibility:</b>	Poor
<b>Visibility:</b>	Above Average
<b>Frontage:</b>	Average
<b>Adjacent Properties/Land Uses:</b>	North: Railroad Tracks/Industrial/Flex Buildings East: Sunfish Lake Blvd/Garden Center South: Highway 10/General Commercial Uses West: Retail Center/Mobile Home Park
<b>Street Surface:</b>	Bituminous
<b>Number of Street Lanes: (in Each Direction)</b>	US Highway 10 - two lanes each direction Sunfish Lake Boulevard - two lanes each direction
<b>Curb and Gutter:</b>	Concrete

## UTILITIES

**Utilities Available:** All available at site

---

## PHYSICAL FEATURES

**Approximate Shape:** Irregular

**Flood Zone:** Zone X

**Flood Map Number:** 27003C0281E

**Flood Map Date:** 12/16/2015

**Flood Plain Status:** Area of minimal flooding per the FEMA Flood Map Service Center website

**Topography:** Level

**Soils:** Assumed stable

**Drainage:** Overall the drainage appears adequate

**Apparent Easements / Encroachments, or Restrictions:** No survey or titlework were provided for review. This appraisal assumes there are no known easements that negatively affect the use of the subject property.

**Environmental Conditions:** An Environmental Assessment was not provided for review. This appraisal assumes that the subject is not affected by any environmental conditions.

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Tax Map



## Improvements Description

The subject property is a single, existing building, originally constructed and most recently used as a gas station/car wash with a small restaurant space. The building contains a total of 8,998 square feet of Gross Building Area (GBA) and Net Rentable Area (NRA), which includes the gas station, car wash and restaurant space. The improvements were originally constructed in 2003. The subject is currently 100% vacant, and while the fuel pumps have been removed, the canopy and underground fuel tanks are still present on the site.

As will be discussed in our Highest and Best Use section, we have concluded that the highest and best use of the subject property would be to renovate the existing improvements and convert them into general retail space. This would entail removing the fuel tanks and canopy, as well as some construction on interior demising for the convenience store space and renovation of the car wash space to increase its functional utility. This would also require a lease up period to find new tenants (and the related appropriate costs), and to provide an appropriate amount of landlord-paid tenant improvement allowance for the finishing of the space to the tenant's specifications.

Specific improvements features are as follows, though we note that aside from general building characteristics, specific interior demising and finishes are our estimation of the "as-complete" condition required to meet market standard.

### BUILDING AREA STATISTICS

<b>Source:</b>	County Records, Listing, Tour, Web Records	
<b>Existing/Proposed?:</b>	Existing	
<b>Gross Building Area (SF):</b>	8,998	
<b>Net Rentable Area (SF):</b>	8,998	
<b>Usage:</b>		
	<b>Retail/C-Store -</b>	5,748      64%
	<b><u>Car Wash -</u></b>	<u>3,250</u> <u>36%</u>
	<b>Total (SF) -</b>	8,998      100%
<b>Number of Buildings:</b>	One (1)	
<b>Land-to-Building Ratio:</b>	8 : 1	

## GENERAL - AFTER RENOVATION

<b>Current Occupancy:</b>	Multi-tenant
<b>Type of Building:</b>	Retail
<b>Type of Construction:</b>	Block/Masonry, Steel
<b>Quality of Construction:</b>	Average
<b>Date of Construction:</b>	2003
<b>Actual Age:</b>	13
<b>Effective Age:</b>	5
<b>Remaining Economic Life:</b>	40
<b>Total Economic Life:</b>	45
<b>Building Condition:</b>	Above Average
<b>Deferred Maintenance</b>	None noted
<b>Number of Stories:</b>	One (1)

## BASIC CONSTRUCTION

<b>Foundation:</b>	Poured concrete footings/slab
<b>Frame:</b>	Steel/Masonry
<b>Floor Structure:</b>	Poured concrete slab
<b>Exterior Walls:</b>	Block/Brick/Stucco
<b>Roof Structure:</b>	Flat
<b>Roof Cover:</b>	Built-up with tar and gravel

## SITE IMPROVEMENTS

<b>General:</b>	Asphalt parking areas, curbing, signage, landscaping, yard lighting and drainage
<b>Landscaping:</b>	Grass and trees along the perimeter of the site
<b>Number of Parking Spaces:</b>	30
<b>Parking Ratio (per 1,000 SF of GBA):</b>	3.3341
<b>Parking Type:</b>	Surface

## ZONING INFORMATION

The subject is zoned H1 - Highway 10 Business District, by the City of Ramsey. According to the City, the properties lying between Highway 10 and Burlington Railroad tracks are integral to the future improvement of the U.S. Highway 10 transportation system. These properties are therefore in a state of transition. The intent of the H-1 Highway 10 Business District is to allow for uses that minimize traffic, vehicular access, and facilitate orderly transition of the corridor while allowing the property owners the ability to utilize their property for economic benefit until such time as the U.S. Highway 10 transportation system improvements are initiated.

The following is a brief summary of the subject's relation to the district:

### ZONING:

<b>Municipality Governing Zoning:</b>	City of Ramsey
<b>Current Zoning:</b>	H1 - Highway 10 Business District
<b>Current Use:</b>	Retail
<b>Is current use permitted:</b>	Yes
<b>Permit Details:</b>	According to the zoning code, all structures, buildings and uses in existence upon the effective date of the ordinance from which this section is derived shall be considered legal nonconforming. There is an additional limitation on expansion or intensification of certain uses over a certain size threshold.
<b>Change in Zoning Pending?:</b>	No
<b>Zoning Variance Applied For:</b>	No
<b>Permitted Uses:</b>	Various Non-Traffic Intensive Commercial Uses

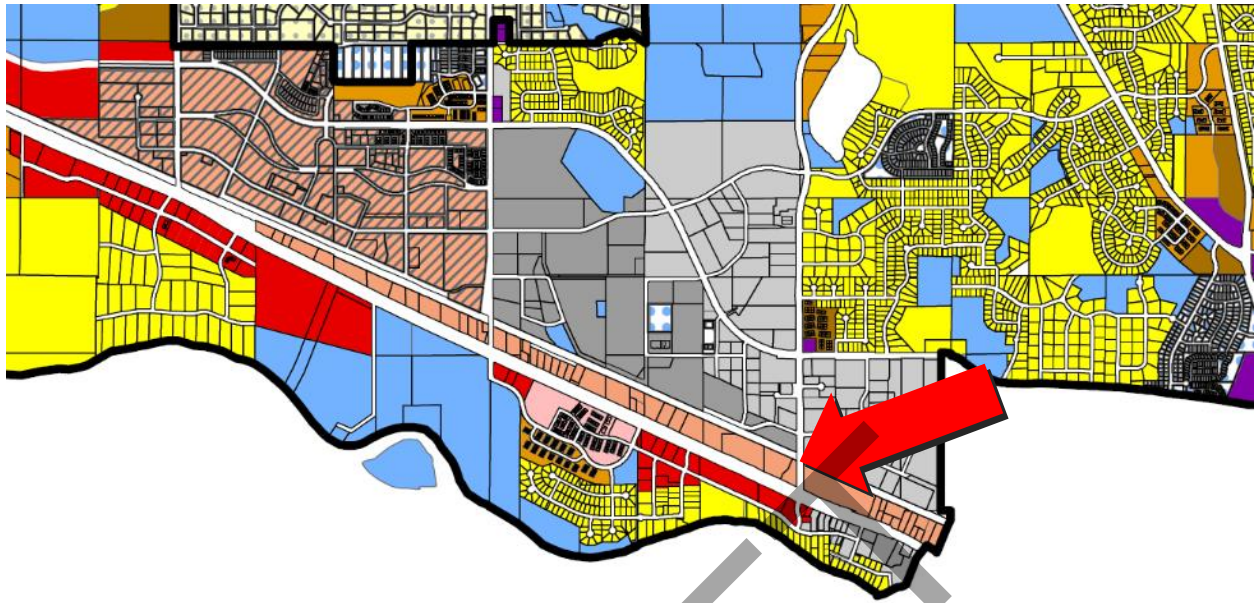
### Zoning Compliance

We are not experts in the interpretation of complex zoning ordinances but based on our review of public information, **the subject property, as a low-traffic retail/commercial use, would appear to conform to the H1 - Highway 10 Business District district zoning code.**
















To verify compliance, it is recommended that the user obtain a Zoning Compliance letter from the City or hire a third party zoning compliance specialist.

A zoning map with the subject property and surrounding properties is found on the next page.

## Zoning Map



### Legend

-  2030 MUSA
-  R-1 Residential (MUSA)
-  R-1 Residential (Central Rural Reserve)
-  R-1 Residential (Rural Developing)
-  R-2
-  R-3
-  B-1
-  B-2
-  H-1
-  E-1
-  E-2
-  MU-PUD
-  Public/Quasi-Public
-  PUD
-  Town Center (See Master Plan for Sub-Districts)

Update: March 2011

## REAL ESTATE TAX ANALYSIS

Real estate taxes are a key determinant of value in Minnesota, because properties are taxed at rates that are higher than rates for comparable properties in neighboring states. Commercial properties are taxed at about 2% to 5% of the assessor's estimated market value of the property each year. Taxes are paid one year in arrears in Minnesota, which means that the taxes payable in 2016 relate to the January 2, 2015 assessor's estimated market values.

The effective tax rate is comprised of the class rate adjusted by the rates for local taxing authorities such as:

- The city
- The county
- Watershed district
- Library system
- School district

Total real estate taxes payable each year may be a combination of:

- Base taxes (based on the type of property and its AEMV)
- Special assessments (property specific payments for public works)
- County / city service charges (annual fees charged to fund certain programs)

### Subject Taxes and Assessor's Estimate of Market Value

The various taxes are summarized in the following tables:

REAL ESTATE TAXES						
Payable in 2016						
PID#	Base Tax	Effective Tax Rate	Special Assessments	Service Charges	Total Real Estate Taxes	Taxes per SF of NRA
34-32-25-14-0027	\$38,490.07	3.90%	\$3,488.93	\$0.00	\$41,979.00	
<b>Total</b>	<b>\$38,490.07</b>	<b>3.90%</b>	<b>\$3,488.93</b>	<b>\$0.00</b>	<b>\$41,979.00</b>	<b>\$4.28</b>
<i>Effective Tax Rate = Base Tax / AEMV</i>						

ASSESSOR'S ESTIMATED MARKET VALUE - PAYABLE 2016						
(as of January 2, 2015)						
PID#	Land Value	per SF of Land	Improvements Value	per SF of NRA	Total Value	per SF of NRA
34-32-25-14-0027	-	-	-	-	\$986,000	\$109.58
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$986,000</b>	<b>\$109.58</b>

PROPOSED ASSESSOR'S ESTIMATED MARKET VALUE - PAYABLE 2017						
(as of January 2, 2016)						
PID#	Land Value	per SF of Land	Improvements Value	per SF of NRA	Total Value	per SF of NRA
34-32-25-14-0027	\$450,700	\$6.26	\$562,200	\$62.48	\$1,012,900	\$112.57
<b>Total</b>	<b>\$450,700</b>	<b>\$6.26</b>	<b>\$562,200</b>	<b>\$62.48</b>	<b>\$1,012,900</b>	<b>\$112.57</b>

## Special Assessments

Special assessments are charges levied by the city and/or county on a property to pay for public infrastructure that directly benefits that property. In theory, the value of a property should increase at least by the amount of the special assessment.

Special assessments are often charged to property owners for public works such as streets and roads, water lines, sanitary sewer lines, storm sewer lines, and storm water retention areas. Special assessments are paid annually over a specific term and the property owner is charged interest on the unpaid balance. The property owner has the option to pay the principal balance at any time.

Based on readily available county records, the current tax year indicates \$3,488.93 in special assessments.

**The value conclusion of this appraisal assumes special assessments are paid in full.**

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## MARKET ANALYSIS

### Introduction

Market Analysis identifies the interaction of the four forces on supply and demand, which in turn directly influences the value of real property. The four forces are categorized as follows:

- 1) Economic
- 2) Governmental
- 3) Social
- 4) Environmental

The subject property is located in the City of Ramsey in the northwest Retail submarket of the Minneapolis/St. Paul/Bloomington MSA.

### Economic Analysis

The following profile of the Minneapolis/St. Paul/Bloomington MSA was provided by Moody's Economy.com. Economy.com's core assets of proprietary editorial and research content as well as economic and financial databases are a source of information on national and regional economies, industries, financial markets, and demographics.

Economy.com's approach to the analysis of the U.S. economy consists of building a large-scale, simultaneous-equation econometric model, which they simulate and adjust with local market information, creating a model of the U.S. macro economy that is both top-down and bottom-up. In this model, those variables that are national in nature are modeled nationally while those that are regional in nature are modeled regionally. Interest rates, prices, and business investment are modeled as national variables; key sectors such as labor markets (employment, labor force), demographics (population, households, and migration), and construction activity (housing starts and sales) are modeled regionally and then aggregated to national totals. This approach allows local information to influence the macroeconomic outlook. Therefore, changes in fiscal policy at the national level (changes in tax rates, for example) are translated into their corresponding effects on state economies. At the same time, the growth patterns of large states, such as California, New York, and Texas, play a major role in shaping the national outlook. In addition, on a regional basis, the modeling system is explicitly linked to other states through migration flows and unemployment rates. Economy.com's model structure also takes into account migration between states.

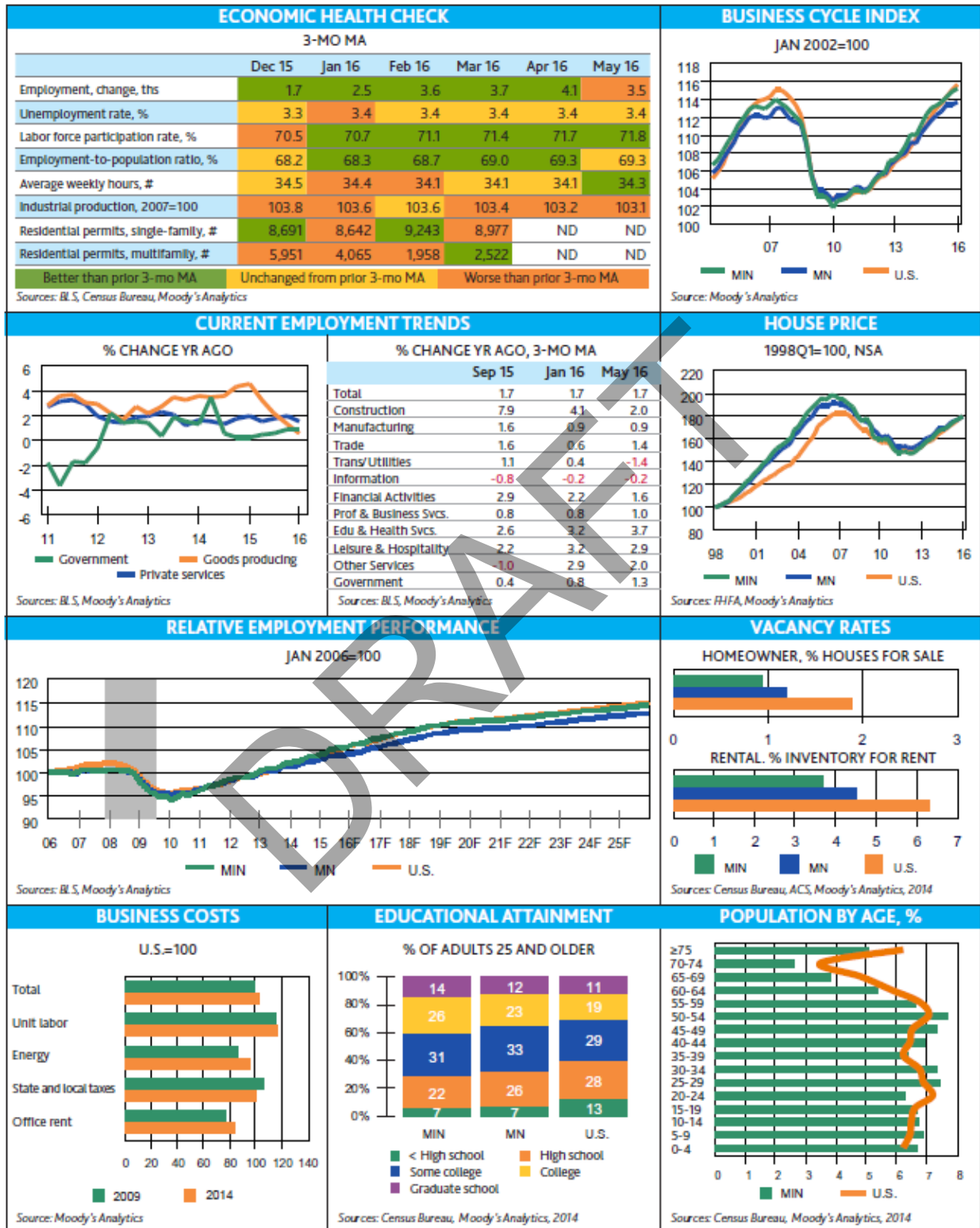
# Twin Cities Metropolitan Area Economic Analysis

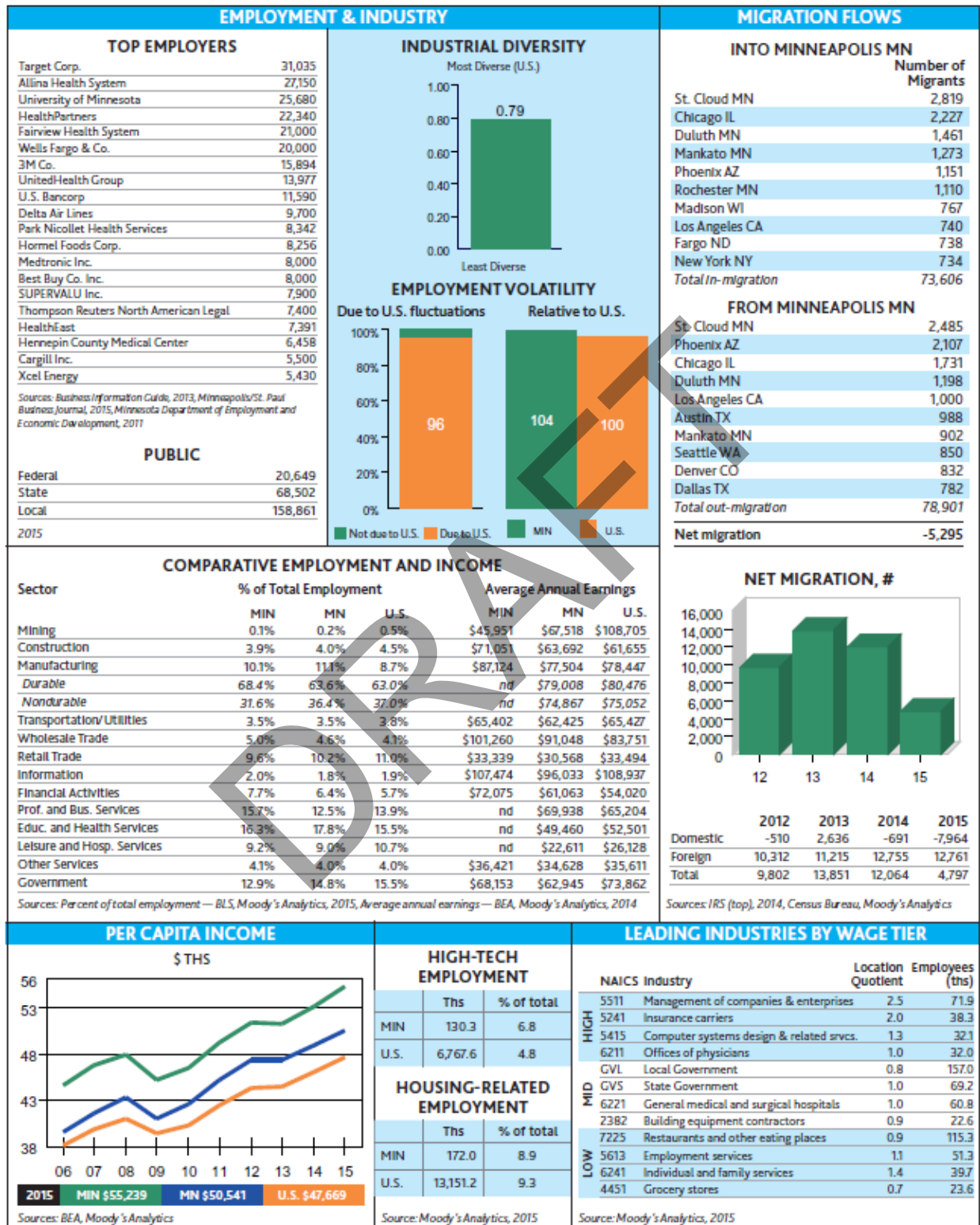
**Moody's**  
ANALYTICS

## MINNEAPOLIS-ST. PAUL-BLOOMINGTON MN-WI

Data Buffet® MSA code: IUSA\_MMIN

ECONOMIC DRIVERS			EMPLOYMENT GROWTH RANK		RELATIVE COSTS		VITALITY					
FINANCIAL \$ £ € CENTER	HIGH TECH 	COLLEGE  TOWN	2015-2017 <b>240</b> 4th quintile	2015-2020 <b>230</b> 3rd quintile	LIVING <b>101%</b>	BUSINESS <b>103%</b>	RELATIVE <b>106%</b>	RANK <b>111</b>				
			<small>Best=1, Worst=408</small>		<small>U.S.=100%</small>		<small>U.S.=100% Best=1, Worst=401</small>					
BUSINESS CYCLE STATUS			ANALYSIS									
<div style="display: flex; justify-content: space-between;"> <span>&gt;&gt;</span> <span>&lt;&lt;</span> </div> <div style="text-align: center; border: 1px solid black; padding: 5px;"> <p><b>EXPANSION</b></p> <p>Recovery</p> <p>At Risk</p> <p>Moderating Recession</p> <p>In Recession</p> </div>			<p><b>Recent Performance.</b> Minneapolis-St. Paul-Bloomington is gliding along at an impressive pace. Job creation has broadened this year with the public sector and almost two-thirds of private industries adding workers. After struggling to make headway last year, goods-producing industries are showing signs of life with hiring in manufacturing and construction. Office-using industries are also perking up, but firms are having trouble finding workers in high-skill fields. The unemployment rate is no longer declining thanks to rapid expansion in the labor force, but at 3.5%, it is well below average and below its trough reached before the last recession. A tight job market coupled with mid- and high-wage job additions are lifting wages; hourly pay is up about twice as much as nationally over the past year. Meanwhile, improving demand and low inventories of homes for sale are fueling more residential building. Commercial real estate is benefiting from renovations to the Nicollet Mall and Amazon's new distribution center.</p> <p><b>Office Industries.</b> The lull in office-using industries is over, and employment will increase at a moderate rate as gains in business/professional services more than offset cutbacks in financial services. Insurers have already beefed up their workforces in response to MNsure and the Affordable Care Act and will now grow more slowly, while banks will stay focused on cutting costs in the current interest rate environment.</p> <p>Business and professional services, on the other hand, will soon turn more expansionary. Office rents are rising, but business costs overall are only slightly above average and relatively low for such a large economy. MIN's highly educated workforce will appeal to talent-hungry firms, but growth will be hampered by poor labor availability. Nevertheless, the number of high-paying management jobs is no longer declining and will get a boost next year when Stahl Construction moves its headquarters to MIN.</p> <p><b>High tech.</b> High-tech employment has risen steadily since 2014 and will grow at an above-average rate this year and next. Medical device makers have made a difference for MIN. With the acquisition of HeatWare, Medtronic is expanding its market and positioning itself to produce ventricular assist devices. Medical device equipment employment is rising at the fastest rate in five years. Going forward, prospects for growth are better for other parts of high tech such as computer systems design and information. The latter is being hurt by softness in telecom, but some parts of information such as software publishing are hiring and will employ more workers than ever before by decade's end.</p> <p><b>Healthcare.</b> Healthcare, which is benefiting from an aging and expanding population and more insured residents, will add more jobs in MIN this year than last. Industry payrolls are up about 3% from a year ago, more than in the rest of the Midwest, and have risen by one-fifth since 2010. MNsure has helped expand the pool of insured residents and increase demand for medical services. Rising hospital admissions and shrinking staff-to-patient ratios at Allina Health's five hospitals will spur hiring. Primary care facilities are also expanding with job gains in ambulatory healthcare and social assistance that will help incomes and consumer-related industries.</p> <p><b>Minneapolis-St. Paul-Bloomington will maintain its lead over the Midwest, but with the labor market tight and low- and high-skill jobs becoming hard to fill, growth in the economy will decelerate modestly this year and next. The long-run outlook remains positive. A diversified economy, the presence of key anchors, and strengthening demographics will enable MIN to perform better than the region and the nation over the forecast horizon.</b></p> <p style="text-align: right;"><i>Shannon Brobst</i> June 2016</p> <p style="text-align: right;"><small>1-866-275-3266 help@economy.com</small></p>									
STRENGTHS & WEAKNESSES												
<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>» Major research institutions and corporate headquarters foster innovation.</li> <li>» Highly educated labor force attracts firms and supports above-average incomes.</li> <li>» Healthy consumer balance sheets.</li> <li>» Stable, positive net migration.</li> </ul> <p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>» Relatively high tax burden for businesses.</li> <li>» Unduly tight labor market; worker shortages in high-skill fields.</li> </ul>												
FORECAST RISKS												
SHORT TERM	LONG TERM											
RISK EXPOSURE 2016-2021	<b>254</b>	4th quintile <small>Highest=1 Lowest=401</small>										
<p><b>UPSIDE</b></p> <ul style="list-style-type: none"> <li>» Construction activity turns out to be stronger.</li> <li>» Medical device manufacturing provides bigger boost to high tech.</li> <li>» Healthcare investments and rising demand fuel bigger industry job gains.</li> </ul> <p><b>DOWNSIDE</b></p> <ul style="list-style-type: none"> <li>» Fewer management jobs undermine income and spending growth.</li> <li>» End of insurance boom weighs more heavily on financial activities employment.</li> </ul>												
MOODY'S RATING												
<b>Aaa</b>												
<small>COUNTY AS OF JAN 13, 2013</small>												
2010	2011	2012	2013	2014	2015	INDICATORS	2016	2017	2018	2019	2020	2021
185.1	190.7	192.7	196.8	201.1	206.3	Gross metro product (C09\$ bil)	213.8	221.8	227.5	232.0	237.0	242.9
3.3	3.0	1.1	2.1	2.2	2.6	% change	3.6	3.7	2.6	2.0	2.2	2.5
1,750.6	1,791.2	1,824.1	1,861.5	1,894.6	1,929.9	Total employment (ths)	1,961.3	1,989.8	2,016.8	2,037.2	2,046.1	2,053.1
-0.5	2.3	1.8	2.0	1.8	1.9	% change	1.6	1.5	1.4	1.0	0.4	0.3
7.3	6.3	5.4	4.6	3.8	3.4	Unemployment rate (%)	3.1	2.6	2.3	2.5	2.7	2.8
3.8	7.0	5.2	0.8	4.9	4.8	Personal income growth (%)	2.7	4.8	3.9	3.5	3.7	3.8
63.5	64.3	66.0	67.7	69.1	70.5	Median household income (\$ ths)	71.1	73.2	75.1	76.8	78.2	79.7
3,355.5	3,389.6	3,423.3	3,460.8	3,495.7	3,524.6	Population (ths)	3,562.3	3,600.7	3,640.5	3,680.9	3,722.1	3,762.5
0.8	1.0	1.0	1.1	1.0	0.8	% change	1.1	1.1	1.1	1.1	1.1	1.1
-0.2	10.7	9.8	13.9	12.1	4.8	Net migration (ths)	13.6	14.5	16.1	16.8	17.9	17.3
3,867	3,832	5,829	7,262	6,689	8,499	Single-family permits (#)	9,864	15,075	18,519	18,642	17,721	18,321
1,921	1,396	5,743	4,865	4,736	5,484	Multifamily permits (#)	2,842	5,385	6,368	5,690	5,732	6,126
186.8	175.1	174.2	184.8	196.3	205.5	FHFA house price (1995Q1=100)	214.7	223.6	228.9	232.8	237.7	243.8





## Twin Cities Retail Market Analysis

The following Twin Cities retail market analysis is provided by the July 2016 Cushman & Wakefield NorthMarq Compass Report.

### **Retail Market Is Healthy, But Space-Constrained: Lack of Construction is Driving Upward Pressure on Rates, Renovations of Existing Centers**

Fueled by a stronger economy and increasing consumer spending, the Twin Cities retail market has rebounded and retailers are looking to capitalize and expand. However, the market is very competitive, and retailers face two major obstacles: a lack of available quality space and rising rates.

At 6.7%, the vacancy rate remains near its lowest since the pre-recession levels of 2006. Expanding retailers are having difficulty finding space that meets their requirements, primarily due to a lack of new construction. Although construction has increased, it remains well below pre-recession levels, and much of the product being delivered is smaller in scale—including mixed-use developments with a residential component—compared with past cycles where developers were building larger suburban retail centers.

Coming off of nearly 900,000 square feet (sf) of absorption in 2015, the market took a dip to 263,293 sf in the first half of the year. However, absorption is expected to rebound by year end as new construction is delivered, including stores at Eagan's Hy-Vee-anchored Central Park Commons.

### **Solid Interest From Same 'Active List' of Retailers**

The retailers that are performing well continue filling holes that are popping up—whether they are snapping up the limited new construction or backfilling existing spaces (including those left behind as bankrupt Sports Authority and Hancock Fabrics leave the market). There is an active list of seven or eight retailers scooping up the majority of the vacant space. Discount retailers are driving much of the demand.

### **Rates Soar for Prime Small-Shop Space**

As retailers compete for a limited amount of available space, rents are being pushed to unprecedented levels. For newer small-shop space at top-performing centers in high-demand trade markets, landlords can draw rents in the \$60-per-square-foot (psf) range, which is a new benchmark and up from approximately \$40 psf in 2015. Examples of sought-after markets include Edina's France Avenue, St. Paul's Grand Avenue, Minneapolis' 26th and Hennepin and Woodbury's Radio Drive. These increasing rates are pricing out some retailers and forcing them to think outside the box to get deals done. They may turn to secondary locations or space that needs more tenant improvements.

### **Landlords/Developers Also Get Innovative**

The lack of new construction is also driving owners to invest in existing properties through renovation and/or adding retail pad sites. An example is Burnsville Market where Cub Foods is being razed and relocated on the site and new junior-box pads are being added. In other cases, developers are snagging sites where they can add a small-shop building and fill it with a coffee shop, quick-serve restaurant, cell phone company, etc., which drive the highest rates.

### **Grocery Shakeup Continues**

Grocery is retail's hottest category, and a battle continues as more grocer concepts compete in a very crowded market. Newer arrivals Hy-Vee and Fresh Thyme Farmers Market are aggressively expanding and have entered a market that traditionally has been dominated by Cub Foods, Target and Walmart. They also face competition from warehouse clubs Sam's Club and Costco. In addition, Aldi, Jerry's Foods, Whole Foods Market, Trader Joe's, Lunds & Byerly's, and Kowalski's Markets are active. Newcomers Lucky's Market, 365 By Whole Foods and Meijer's are scouting locations. Food co-ops such as Eastside, Linden Hills and The Wedge are exploring mergers to stay competitive.

### **New Coffee Players 'Percolating' in the Market**

New coffee competition is coming as Dunkin' Donuts and Tim Hortons announced they are opening Twin Cities locations. They will compete for prime sites with established coffee shops Caribou Coffee, Starbucks and Dunn Bros.

### **Other Hot Concepts**

In addition to grocer and coffee, additional growth categories include quick-serve restaurants like Piada Italian Street Food, Five Guys Burgers and Fries, Naf Naf Grill, Chick-fil-A and Shake Shack; value and off-price retailers like T.J. Maxx and Marshalls; retail health clinics like MedExpress; banks; fitness concepts; and daycare centers.

### **Next Big Development Is Still Missing**

Large retail projects are underway in Eagan and Woodbury. However, once this round of development is complete, there are no large retail projects on the horizon. While there may be many factors, the cost of land, labor and materials is high, making development challenging. Also, there may not be enough new suburban housing development yet to justify large-scale new construction. In addition, the market may have been a bit overbuilt in the last boom and developers may be a little gun shy.

**Outlook**

Approximately 800,000 to 950,000 sf of absorption is projected in the second half of the year, which could help push the vacancy rate below 6%. As the supply of space continues to shrink, finding quality space will remain very competitive. Prime small-shop space, in particular, will likely continue to be scarce, prompting retailers to get creative to get deals done.

The recycling of older concepts will likely continue, offering retailers the opportunity to expand or enter the market. For example, Office Max, Sports Authority, Old Country Buffet and Hancock Fabrics are closing stores, and strong competition exists to backfill these spaces.

Rates should continue trending higher due to the space-constrained environment.

DRAFT

## Retail - Neighborhood Centers

- Vacancy Flat at 8.5%
- Absorption Turned negative
- Rental Rates Increased to \$16.25

### Highlights

- “Battle of the grocers” continues as more concepts compete in a very crowded market. Newer arrivals Hy-Vee and Fresh Thyme Farmers Market have entered a market that traditionally has been dominated by Cub Foods, Target and Walmart. They also face competition from warehouse clubs Sam’s Club and Costco.
- Aldi, Jerry’s Foods, Whole Foods Market, Lunds & Byerly’s, and Kowalski’s Markets are actively seeking sites. In addition, Niwot, Colo.-based Lucky’s Market—owned by Kroger Co.—and 365 by Whole Foods are scouting neighborhood locations.
- Rents for newer, small-shop space at class “A” centers in high-demand trade markets increased to an unprecedented \$60-psf range in some instances, up from approximately \$40 psf in 2015. There is not a very deep cast of retailers that can pay these escalated rates, which is forcing retailers to think outside the box and consider a secondary location or one that needs more tenant improvements.
- Approximately 300,000 sf of positive absorption is projected for the second half of 2016.

DRAFT

Next, we present the 3<sup>rd</sup> Quarter 2016 Research & Forecast Report by Colliers International for the Twin Cities Retail Market.



## National tenants and grocers compete for space, push up rental rates while several struggling retailers close stores

There was an increase in the Minneapolis-St. Paul retail vacancy rate during the third quarter of 2016. Vacancy increased to 5.1 percent from 4.6 percent at Quarter Two, with negative quarterly absorption of 110,428 square feet. Strong absorption in the grocery sector couldn't offset store closings due to bankruptcies at Sports Authority and Hancock Fabrics, which closed seven and three stores, respectively. In addition, struggling grocer Rainbow Foods closed another store in Maple Grove. Golfsmith, which also recently filed for bankruptcy, is closing its Minnetonka store, although there has been no announcement regarding the status of its Richfield and Roseville stores. For 2016, the year-to-date absorption remains positive at 355,435 square feet.

Outside of these store closings, the area continues to be a magnet for new retailers ready to backfill the spaces left behind, especially in prime trade areas. While the vacancy rate in the total market is 5.1 percent, vacancy in the prime trade areas we track is 3.5 percent overall and is as low as 0.2 percent in the Ridgedale and Plymouth areas.

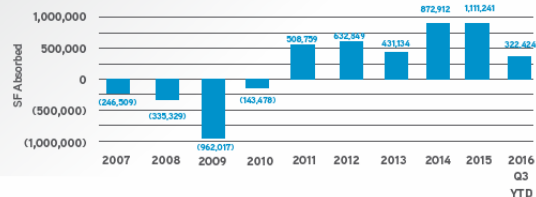
### Grocers Contend for Market Share

The Minneapolis-St. Paul grocery market is fast-growing and competitive, serving as the corporate home of Target, Supervalu and Lunds and Bylerys, the area has seen the entrance of new grocers in the last few years, including Hy-Vee and Fresh Thyme Farmer's Market. Hy-Vee opened two stores, one in Brooklyn Park and another in Eagan at Central Park Commons, adding to existing stores in New Hope, Oakdale, and Lakeville. Hy-Vee also has stores under construction in Cottage Grove and Savage, and has two stores planned for Maple Grove, with additional stores planned in the cities of Columbia Heights, Farmington, and Shakopee. The retailer is also planning two large gas station/convenience stores in Eden Prairie and Lakeville. These c-stores will be 7,900 square feet, approximately twice the size of the stores it locates near its grocery stores, and will include a coffee partner.

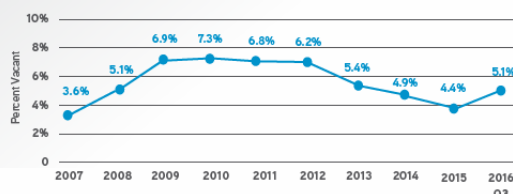
### Market Indicators

Relative to prior period	Q3 2016
VACANCY	↑
NET ABSORPTION	↔
RENTAL RATE	↑

### Net Absorption



### Vacancy



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### Grocers Contend for Market Share (con't.)

Fresh Thyme Farmer's Market opened three new stores in Plymouth, Vadnais Heights, and Savage, adding to existing stores in Bloomington and Apple Valley. There are also plans for stores in Waite Park and West St. Paul. Aldi recently opened a Cottage Grove store, is opening a new store in Apple Valley, and has a store planned for Burnsville. Whole Foods, Cub Foods, Kowalskis, and Trader Joe's are all expanding locations, and Cub Foods, Kowalskis, and Lunds and Byerlys are remodeling existing stores.

### Coffee Competition

Tim Hortons and Dunkin' Donuts are new entrants in the coffee market this year. Existing players Caribou Coffee and Starbucks are already well-established here. Starbucks has several new stores planned, and is partnering with Hy-Vee to open shops in their Minneapolis-St. Paul stores.



### Restaurants, Wine & Spiking Rates

Fast casual/quick serve restaurants continue to dominate growth in this category. Naf Naf Grill, Café Zupas, Piada Italian Street Food, and Pancheros are all expanding or looking for new locations in this market, and will compete with established brands Chipotle and Noodles & Co.

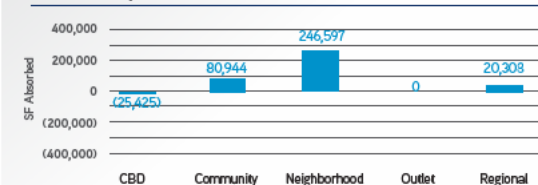
Total Wine continues to scout locations and post strong volumes in the stores it has opened. Their search is not without its challenges, as local liquor owners petition city council's to block their entrance. Minnetonka recently rejected Total Wine's appeal for a liquor license after the retailer had spent two years working to comply with the city of Minnetonka's requirements. There are stores in Bloomington, Burnsville, Chanhassen, Roseville, Maple Grove, and Woodbury, and a new store will be opening soon at Central Park Commons in Eagan.

Discount department stores T.J. Maxx, Marshalls, HomeGoods, and Nordstrom Rack are also expanding and thriving.

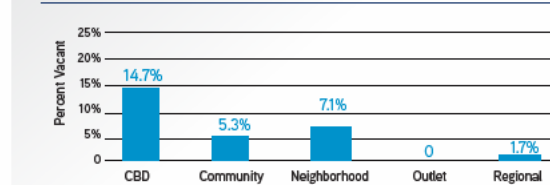
The competitive retail landscape and low vacancy continues to push rental rates upward to all-time highs. We are seeing growing demand in secondary locations as retailers try to expand or open new stores. Overall occupancy costs will continue to rise as CAM and taxes increase. Many assets have changed hands at high prices, leading to higher assessed values and pushing up the tax burden, which landlords pass on to tenants.

We expect to see weakness in the office products category as OfficeMax and Staples pull back on expansion plans and close stores. Competition from online sales will continue to plague apparel, footwear and handbag sectors and hamper brick-and-mortar growth among these retailers.

Net Absorption - Q3



Vacancy - Q3



## Tenant Activity

- › Sears is planning to close 64 additional Kmart stores across the country, including their store in West St. Paul. Sears also announced it will be closing its store at Eden Prairie mall in Eden Prairie. The REIT that owns Sears properties is marketing all of its St. Paul store and portions of its Maplewood Mall and Burnsville Center locations.
- › Costco will break ground with a new store in Woodbury, which is planned to be completed in the fall of 2017. The company has scouted locations in the suburb for 18 years. The 165,000-square-foot store will be built at the northwest quadrant of Interstate 494 and Tamarack Road, and will be Costco's seventh store in the Minneapolis-St. Paul area.
- › At Hy-Vee's planned Maple Grove location at Maple Grove Parkway and Highway 610, the company is proposing a mixed-use development that will include partnering with a housing developer for either senior living or multifamily residential in addition to its standard inclusion of a full-service restaurant, pharmacy, medical clinic, post office, and drive-through coffee shop.
- › Canadian coffee purveyor Tim Hortons' local franchisee submitted plans for a store in Brooklyn Park at 8500 Xylon Ave. N., where it is proposing a 1,800-square-foot drive-through coffee shop. It is also planning a shop in Dinkytown.
- › Nordstrom Rack signed a lease to open a 40,000-square-foot store at IDS Center along Nicollet Mall, opening in the fall of 2017.
- › After closing seven Twin Cities locations, Ruby Tuesday is left with four restaurants at Southdale Center, Rosedale Center, Shakopee, and Inver Grove Heights. Nationally, the restaurant chain is closing 95 locations.

## Tenant Tracker

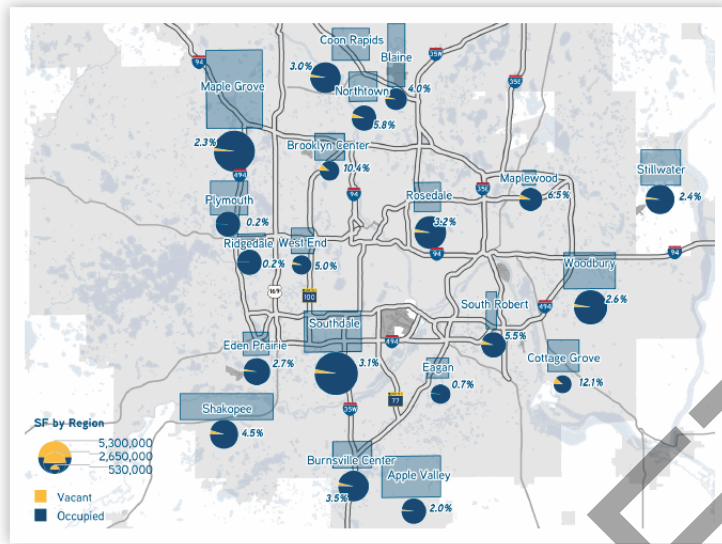
### Expanding



### New or Looking



# Minneapolis-St. Paul Retail Trade Areas



Please note for historical comparisons, since Q2 2016 we have added eight additional trade areas to our retail report: Plymouth, Coon Rapids, Stillwater, Blaine, Shakopee, West End, Brooklyn Center, and Cottage Grove.

Data Summary							
TRADE AREA	SF	VACANT	%VACANT	Q1 2016 ABSORPTION	Q2 2016 ABSORPTION	Q3 2016 ABSORPTION	YTD ABSORPTION
Ridge Dale	2,099,343	4,303	0.2%	41,646	0	(1,445)	40,201
Plymouth	1,976,620	3,993	0.2%	NA	1,200	51,680	NA
Eagan Town Center	1,391,715	9,642	0.7%	(6,618)	453	98,141	91,976
Apple Valley	2,054,496	41,293	2.0%	5,456	43,336	(5,703)	43,089
Eden Prairie	2,425,004	65,425	2.7%	4,422	2,091	(42,365)	(35,852)
Coon Rapids	2,887,028	86,562	3.0%	NA	(18,070)	(33,811)	NA
Burnsville	3,020,067	105,214	3.5%	1,100	119,371	(39,661)	80,810
Maple Grove	5,037,849	113,916	2.3%	8,644	10,440	(3,954)	15,130
Southdale	5,256,356	161,779	3.1%	7,496	13,866	(27,833)	(6,471)
Rosedale	3,216,932	103,740	3.2%	(10,638)	45	19,976	9,383
Woodbury	3,371,769	87,856	2.6%	1,044	104,179	(20,081)	85,142
Stillwater	2,562,007	62,027	2.4%	NA	241	30,076	NA
Blaine	1,635,869	64,924	4.0%	NA	(1,257)	(798)	NA
Shakopee	2,525,038	112,986	4.5%	NA	1,698	(435)	NA
West End	1,276,323	63,937	5.0%	NA	0	0	NA
Northtown	2,122,701	123,714	5.8%	1,500	0	(11,201)	(9,701)
Maplewood	1,875,383	122,098	6.5%	(23,686)	(5,443)	(21,055)	(50,184)
South Robert	2,100,642	115,811	5.5%	7,146	(23,916)	1,634	(15,136)
Brooklyn Center	1,429,582	148,146	10.4%	NA	25,432	22,229	NA
Cottage Grove	1,213,220	146,470	12.1%	NA	(7,005)	10,840	NA
<b>Total</b>	<b>49,477,944</b>	<b>1,743,836</b>	<b>3.5%</b>	<b>37,512</b>	<b>266,661</b>	<b>26,234</b>	<b>248,387</b>

## Market Statistics

Submarket	Total SF	Direct Vacant SF	% Vacant Direct	Sublease Vacant SF	% Vacant W/ Sublease	Q3 Absorption	YTD Absorption
<b>Minneapolis CBD</b>	<b>980,041</b>	<b>143,912</b>	<b>14.7%</b>	<b>0</b>	<b>14.7%</b>	<b>(28,672)</b>	<b>(25,425)</b>
<b>Northeast</b>							
Community Center	4,187,322	172,630	4.1%	0	4.1%	70,926	(14,038)
Neighborhood Center	5,058,437	299,296	5.9%	0	5.9%	(49,724)	(42,842)
Regional Center	2,914,077	97,973	3.4%	0	3.4%	(60,000)	(60,960)
<b>Totals:</b>	<b>12,159,836</b>	<b>569,899</b>	<b>4.7%</b>	<b>0</b>	<b>4.1%</b>	<b>(38,798)</b>	<b>(117,840)</b>
<b>Northwest</b>							
Community Center	5,707,514	392,998	6.9%	0	6.9%	(52,494)	16,356
Neighborhood Center	9,069,693	627,926	6.9%	4,967	7.0%	111,698	90,930
Outlet Mall	430,000	0	0.0%	0	0.0%	0	0
Regional Center	3,900,369	61,536	1.6%	0	1.6%	7,397	31,626
<b>Totals:</b>	<b>19,107,576</b>	<b>1,082,460</b>	<b>5.7%</b>	<b>4,967</b>	<b>5.7%</b>	<b>66,601</b>	<b>138,912</b>
<b>Southeast</b>							
Community Center	4,421,257	211,028	4.8%	61,736	6.2%	55,029	45,245
Neighborhood Center	7,172,786	607,980	8.5%	1,500	8.5%	(149,193)	68,562
Outlet Mall	409,000	0	0.0%	0	0.0%	0	0
Regional Center	6,015,202	87,186	1.4%	0	1.4%	12,294	48,737
<b>Totals:</b>	<b>18,018,245</b>	<b>906,194</b>	<b>5.0%</b>	<b>63,236</b>	<b>4.4%</b>	<b>(81,870)</b>	<b>162,544</b>
<b>Southwest</b>							
Community Center	3,550,912	174,367	4.9%	0	4.9%	18,410	33,381
Neighborhood Center	6,641,480	447,461	6.7%	0	6.7%	(70,621)	129,947
Regional Center	5,934,679	78,538	1.3%	0	1.3%	24,522	905
<b>Totals:</b>	<b>16,127,071</b>	<b>700,366</b>	<b>4.3%</b>	<b>0</b>	<b>2.5%</b>	<b>(27,689)</b>	<b>164,233</b>
<b>Total All Markets</b>							
CBD of Minneapolis	980,041	143,912	14.7%	0	14.7%	(28,672)	(25,425)
Community Center	17,867,005	951,023	5.3%	61,736	5.7%	91,871	80,944
Neighborhood Center	27,942,396	1,982,663	7.1%	6,467	7.1%	(157,840)	246,597
Outlet Mall	839,000	0	0.0%	0	0.0%	0	0
Regional Center	18,764,327	325,233	1.7%	0	1.7%	(15,787)	20,308
<b>Totals:</b>	<b>66,392,769</b>	<b>3,402,831</b>	<b>5.1%</b>	<b>68,203</b>	<b>5.2%</b>	<b>(110,428)</b>	<b>322,424</b>

## Subject's Neighborhood Analysis

### Subject's Neighborhood Boundaries

The property is located in the eastern portion of the city of Ramsey. This market area is generally delineated as follows:

North:	Bunker Lake Boulevard
South:	Mississippi River
East:	Thurston Avenue/Western Anoka
West:	Armstrong Boulevard, and eastern Elk River beyond

### Neighborhood Access and Linkages

The subject fronts US Highway 10, the main northwest/southeast thoroughfare in the area. US Highway 10 connects to US Highway 169 to the southeast in Anoka, and Highway 101 to the northwest in Otsego/Elk River. Highways 10, 169 and 101 are part of the Minneapolis/St. Paul freeway system and provide regional ingress and egress. Overall, vehicular access to the subject's neighborhood is average.

The three major roads that branch off from US Highway 10 in the subject's immediate neighborhood are Sunfish Lake Boulevard (which the subject also fronts) and then Ramsey Boulevard and Armstrong Boulevard, both to the west of the subject.

As discussed earlier, the subject is located in an area that has been identified as being part of a future road/transportation improvement project along Highway 10. The subject's zoning district code states "The city finds that the properties lying between Highway 10 and Burlington Railroad tracks are integral to the future improvement of the US Highway 10 transportation system. These properties are therefore in a state of transition...In order to preserve the land that is needed for the US Highway 10 Transportation System, the city has identified said corridor on its official map."

Aside from the rise in acquisitions of properties along the corridor by the Cities of Ramsey and Anoka, the prices of many properties listed or sold in recent years have been negatively impacted by the anticipated/planned future reduction of access points along Highway 10, and also the cloud of eventual condemnation when the project begins. We have observed direct market evidence to this affect, including but not limited to, would-be buyers of properties walking away from purchases once they learn of the project.

### Neighborhood Land Use

Land uses along major thoroughfares in the subject's neighborhood are primarily commercial in nature, including office, retail, and multifamily uses. In the immediate vicinity of the subject, land uses include a mix of retail, mobile home park, industrial and office/showroom.

Other land use characteristics for the subject's immediate area are summarized below.

#### Subject's Immediate Surrounding Land Uses

North:	Railroad Tracks/Industrial/Flex Buildings
South:	Highway 10/General Commercial Uses
East:	Sunfish Lake Blvd/Garden Center
West:	Retail Center/Mobile Home Park

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## Market Participant Interviews

For this specific appraisal assignment, market participants were interviewed to discuss general market conditions, as well as specific factors influencing the subject property. A brief summary of the discussions is as follows:

- **Subject Listing Broker – (Nate Hansen, Colliers International):**

Comments:

- The subject had good, successful operation as a gas station until the access changed as part of the 2007/2008 road project along US Highway 10 and Sunfish Lake Boulevard.
- Now, the right-in, right-out only access from Highway 10 and Sunfish Lake Boulevard has limited potential buyers of the subject, particularly those desiring high-traffic uses. The train tracks to the north of the property also limit the potential for u-turns.
- In all four Anoka County long-term plans associated with the subject's corridor, the subject (and other nearby properties) are specifically identified as being eventually taken by the County via eminent domain or other, earlier means.
- Since listing the property approximately 6 months ago, they have presented the subject to numerous gas station owner/operators, all of which were not interested in the subject given the access constraints.
- He stated that the most probable use for the subject would be to remove the canopy and fuel tanks, and to renovate the improvements into a general retail use with 1-3 tenants. He noted that they would not be national-credit tenants (which would be precluded given the access issue), but that it would most likely be local-credit tenants that are more destination oriented as opposed to traffic-centric.
- He did not have an exact estimate of the cost of removing the canopy and tanks, or of the interior demising or car wash conversion costs. However, he thought the canopy and tanks could potentially cost \$50,000 to \$75,000 total. He stated that the property would need a new façade, and while it was structurally sound, it was a little beat up inside, and would require some work to get it to a vanilla shell.

- **Broker 1 – (Confidential)**

Comments:

- Has several land listings along US Highway 10.
- Access is a big issue, because people know that they (i.e. the County and Cities) are taking away access points.
- Retailers want full access and visibility; they need both.

- Along Highway 10, very few get full access.
  - He knew of the subject property and thought that the underlying land value would be in the \$5.00 to \$7.00 per SF range.
- 
- **Broker 2 – (Confidential)**  
Comments:
    - Very active in the northern/northwestern Twin Cities market area.
    - Knew the subject property and has been inside of it in the past.
    - In order to convert the space to general retail, he estimated the following costs:
      - \$6.00 to \$10.00 per SF for interior demising of the existing retail/c-store space.
      - \$20.00 to \$25.00 per SF for remodeling of the car wash space, converting it to rentable retail space, considering the possibility for it to be either fully functional retail space or perhaps storage space for the retail units.
      - In addition, a landlord-paid tenant improvement allowance of \$5.00 to \$10.00 would be required, above and beyond the vanilla shell conversion, which would go toward minimal interior finish for the local-credit, low quality build out that would be anticipated (not a Starbuck’s build-out requirement, or rent amount).
      - In a scenario with better access, rents could be high teen’s to as high as \$20 per SF. But as a result of the access issue at the subject, the rent would most likely be in the \$10.00 to \$12.00 per SF range on a net basis.
- 
- **Market Participant 1 – (Confidential)**  
Comments:
    - Canopy and Tank Removal costs would likely be as low as \$20,000, but no higher than \$100,000 unless major environmental issues were identified.
- 
- **Market Participant 2 – (Confidential)**  
Comments:
    - Tank Removal costs are typically \$1.00 per gallon of tank size, noting economies of scale with smaller versus larger sizes.

## HIGHEST AND BEST USE ANALYSIS

### HIGHEST AND BEST USE DEFINITION

*The Dictionary of Real Estate Appraisal, Fifth Edition.* (Appraisal Institute, Chicago, 2010), defines the highest and best use as:

The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

To determine the highest and best use the subject site is typically evaluated under two scenarios: as though vacant land and as presently improved. In both cases, the property's highest and best use must meet the four criteria described above.

### Highest and Best Use – As Though Vacant

#### Physically Possible

The physical possibility of a use is dictated by the size, shape, topography, availability of utilities, and any other physical aspects of the site. The subject site contains 1.65 acres, or 71,996 square feet. The site is irregular in shape, and has a level topography. It has average frontage, poor access, and above average visibility. The overall utility of the site is considered to be below average.

#### Legally Permissible

The zoning regulations in effect at the time of the appraisal determine the legal permissibility of a potential use of the subject site. As described in the Zoning section, the subject site is zoned H1 - Highway 10 Business District by the City of Ramsey. Permitted uses within this district include various non-traffic intensive commercial uses. Given the interim nature of this zoning district, new development on the subject site, if it were vacant, would likely be limited. However, as discussed in our Hypothetical Condition, we are invoking the Scope of the Project Rule, and are therefore considering the potential legally permissible uses of the subject outside of the proposed project. Based on our analysis of the zoning code, it appears that the desired uses include commercial uses that minimize traffic and access. This is already a limitation posed to the subject property given its existing access configuration. We consider this type of use as the physically possible and legally permissible uses in our analysis.

#### Financially Feasible

In order to be seriously considered, a use must have the potential to provide a sufficient return to attract investment capital over alternative forms of investment. A positive net income or acceptable rate of return would indicate that a use is financially feasible. Financially feasible uses are those uses that can generate a profit over and above the cost of acquiring the site, and constructing the improvements.

Given the developed nature of the subject's immediate neighborhood, the site could accommodate a variety of non-traffic-oriented retail uses and would likely be developed immediately with some type of retail use. This would include more destination-oriented users similar to those in the adjacent retail center to the west of the subject property.

### **Maximally Productive**

Of the uses that are permitted, possible, and financially feasible, the one that will result in the maximum value for the property is considered the highest and best use. There does not appear to be any reasonably probable use of the site that would generate a higher residual land value than immediate general retail development. Accordingly, it is our opinion that immediate general retail development, consistent with the normal market density level permitted by zoning, is the maximally productive use of the property as though vacant.

### **CONCLUSION**

We have considered the legal issues related to zoning and legal restrictions. We also analyzed the physical characteristics of the site to determine what legal uses would be possible, and considered the financial feasibility of these uses to determine the use that is maximally productive.

**Considering the subject site's physical characteristics and location, as well as the state of the local market, it is our opinion that the concluded highest and best use of the subject as though vacant, is immediate general retail development.**

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## Highest and Best Use – As Improved

*The Dictionary of Real Estate Appraisal, Fifth Edition* (Appraisal Institute, Chicago, 2010) defines highest and best use of the property as improved as:

The use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

In analyzing the Highest and Best Use of a property as improved, it is recognized that the improvements should continue to be used until it is financially advantageous to alter physical elements of the structure or to demolish it and build a new one.

### Physically Possible

The subject improvements were constructed in 2003. In the “as-is” condition, the property is configured for gas station and car wash use, with a small retail/restaurant component. However, as discussed earlier, the access to the subject (right-in, right-out only from both northbound Highway 10 and southbound Sunfish Lake Boulevard), significantly impacts the possible uses of the subject. It would be physically possible to remove the subject’s canopy and underground fuel tanks, and to convert the car wash space and demise the interior of the c-store space to accommodate a general retail use. This would result in a use similar to the adjacent retail center to the west of the subject, which shares the same access as the subject.

### Legally Permissible

As described in the Zoning Analysis section of this report, the subject site is zoned H1 - Highway 10 Business District. The site is improved with an existing gas station/retail building. In the Zoning section of this appraisal, we determined that the existing improvements represent a legal nonconforming use. Again, permitted uses within this district include various non-traffic intensive commercial uses. Given the interim nature of this zoning district, new development on the subject site, if it were vacant, would likely be limited. However, as discussed in our Hypothetical Condition, we are invoking the Scope of the Project Rule, and are therefore considering the potential legally permissible uses of the subject outside of the proposed project. Based on our analysis of the zoning code, it appears that the desired uses include commercial uses that minimize traffic and access. This is already a limitation posed to the subject property given its existing access configuration.

### **Financially Feasible**

The subject property had reportedly been successfully occupied and operated as a gas station/fast food restaurant until the road improvement project along Highway 10 and Sunfish Lake Boulevard (circa 2007/2008) changed the access to right-in, right-out only from northbound Highway 10 and southbound Sunfish Lake Boulevard. After that road project, the property continued to operate at lower levels than historically had been achieved, but was eventually vacated. This included both the gas station as well as the restaurant space which had originally been a Taco Johns but was subsequently converted to an off-brand “Taco Pulco” restaurant. The property was marketed for a couple years by Calhoun Companies as an operating gas station/restaurant property for \$1,495,000, but was not sold. Approximately 6 months ago, the property was listed with another broker who listed the property for \$695,000. Our interview with the listing broker revealed that he had presented the listing to numerous gas station owner/operators, none of whom were interested in the subject given the access issue.

Based on our market analysis and market participant interviews, it is our conclusion that there are two financially feasible uses for the subject in our analysis: demolish the site and re-develop with an alternative use, or to renovate the existing improvements into a general retail use.

### **Maximally Productive**

In the previous analysis, we determined that both demolishing the improvements and redeveloping the site as well as renovating the existing improvements to a general retail use would be financially feasible. In order to determine which would be the maximally productive, we consider our land value conclusion and our “as-is” market value conclusion for the subject both concluded in this appraisal. The conclusions show that there is some residual value to the existing improvements above and beyond the land value, particularly when factoring in potential razing costs for demolishing the entire improvements and redeveloping the site. As a result, it is our conclusion that the maximally productive use is to renovate the existing improvements into a general retail use.

### **CONCLUSION**

It is our opinion that the existing improvements add value to the site as though vacant. It is our opinion that **immediate renovation to general retail use is maximally productive and therefore the highest and best use of the site as improved.**

### **MOST PROBABLE BUYER**

Taking into account the size and class of the property, as well as its projected occupancy, the likely buyer is a local owner-user (full or partial) or investor.

## THE VALUATION PROCESS

### Valuation Methodology

The traditional methods of processing market data into a value indication include:

- Cost Approach;
- Sales Comparison Approach; and
- Income Capitalization Approach.

The Cost Approach is based on the assumption that an informed purchaser would pay no more than the cost of producing a substitute property with the same utility. This approach is particularly applicable when the improvements being appraised 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 is little or no sales data from comparable properties.

The Sales Comparison Approach is based on the assumption that an informed purchaser would pay no more for a property than the cost of acquiring another existing property with the same utility. This approach is especially appropriate when an active market provides sufficient reliable data that can be verified from authoritative sources. The Sales Comparison Approach is less reliable in an inactive market, or when estimating the value of properties for which no real comparable sales data is available. It is also questionable when sales data cannot be verified with principals to the transaction.

The Income Capitalization Approach reflects the market's perception of a relationship between a property's potential income and its market value, a relationship expressed as a capitalization rate. This approach converts the anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value indication through capitalization. This approach is widely applied when appraising income-producing properties.

In appraisal practice, an approach to value is included or eliminated based on its applicability to the property type being valued and the quality of information available. The reliability of each approach depends on the availability and comparability of market data as well as the motivation and thinking of purchasers.

Use of the approaches in this assignment is summarized as follows:

<b>APPROACHES TO VALUE</b>		
<b>Approach</b>	<b>Necessary for Credible Results?</b>	<b>Use in Assignment</b>
Cost Approach	No	Not Utilized
Sales Comparison Approach	Yes	Utilized
Income Capitalization Approach	Yes	Utilized

This appraisal utilizes the Sales Comparison and Income Approaches. The Cost Approach was excluded due to the presence of significant depreciation at the subject, and to the concluded highest and best use resulting in a remodeling of the improvements, and finally because most market participants do not rely on this approach for properties such as the subject.

#### **Final Reconciliation Process**

The valuation process is concluded by analyzing each approach to value used in the appraisal. When more than one approach is used, each approach is judged based on its applicability, reliability, and the quantity and quality of its data. A final value opinion is chosen that either corresponds to one of the approaches to value, or is a correlation of all the approaches used in the appraisal.

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## LAND VALUATION

To develop an opinion of the subject's land value, we utilize the Sales Comparison Approach, which is usually the most appropriate method for valuing land. A search of public records and proprietary data sources was conducted to identify recent land sales and listings in proximity to the subject and having a similar highest and best use.

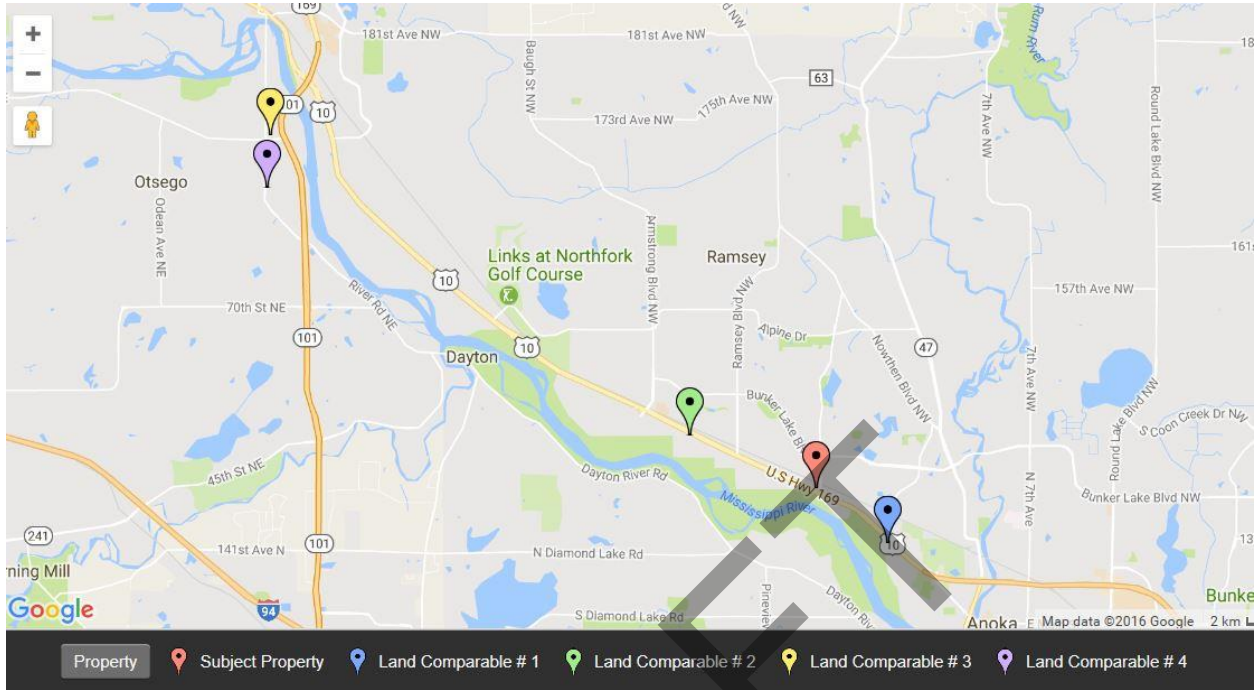
Out of all data reviewed, the following sales are selected as the best indicators of the subject's value. We choose price per square foot of land area as the most appropriate unit of comparison because market participants typically compare sale prices and land values of properties similar to the subject on this basis.

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**SUMMARY OF COMPARABLE LAND SALES**

Property Name # Address, City, State	Usable Land: SF; Acres	Access; Visibility	Shape; Topography	Zoning; Use	Grantor; Grantee	Sale Date	Sale Price	\$ per SF of Land
1 Kwik Trip Site 2900 Cutters Grove Avenue Anoka, MN 55303 Comments: This was an existing gas station that was purchased and subsequently redeveloped with a Kwik Trip brand gas station. Based on our research, it appears that the entire property was remodeled whereby the position of the building and canopies essentially switched.	62,291 1.43	Excellent Above Average	Irregular Generally level	B-2, Shopping Center Business Gas Station Redevelopment	Gulf Coast Bank & Trust Convenience Store Investments	Sep-11	\$600,000	\$9.63
2 7817 Riverdale Drive Site 7817 Riverdale Drive Ramsey, MN 55303 Comments: This is a purchase of a land parcel that was bought in conjunction (simultaneously) with the adjacent improved property. The details of this sale reflect the land parcel only, as it was reportedly negotiated separately and a separate CREV was filed, etc. The property was subsequently developed/used as an RV/auto-related sales lot.	50,530 1.16	Average Above Average	Rectangular Generally level	B-2 RV/Auto Sales Lot	Parent Professional Properties DSB Ventures, LLC	Nov-12	\$257,000	\$5.09
3 90th Street NE & Quantrell Avenue NE 90th Street NE & Quantrell Avenue NE Otsego, MN 55330 Comments: This is the sale of two land parcels with above average access and visibility along Highway 101 just south of Elk River where Highway 101 meets Highway 10/169. The buyer, who has no immediate plans for development, is also assuming the outstanding special assessment balance of \$105,705.50. However, the buyer anticipates meeting the minimum value threshold once the site is developed in order to qualify for a development incentive payment from the City in the amount of \$108,690.35. As such, the buyer considered the two amounts to offset each other. These parcels were lender-owned, and based on our verification of the sale, this appears to have negatively influenced the price achieved.	145,490 3.34	Above Average Above Average	Irregular Generally level	PUD Future retail	GCI Capital Otsego Devs, LLC	Oct-16	\$390,000	\$2.68
4 Kwik Trip Site 70th Street & Highway 101 Otsego, MN 55330 Comments: This site is located at the northeast quadrant of Highway 101 and 70th Street. The site is situated at the exit ramp onto 70th, a signalized intersection providing direct access to the site. The property is a platted site.	258,979 5.95	Excellent Above Average	Irregular Level	B-3/General Business Kwik Trip	Darkenwald's Riverbend Company II, LLP Kwik Trip, Inc.	Dec-15	\$1,839,575	\$7.10
<b>STATISTICS</b>								
	<b>Land SF</b>					<b>Sale Date</b>	<b>Sale Price</b>	<b>\$ per SF of Land</b>
<b>Low</b>	50,530					Sep-11	\$257,000	\$2.68
<b>High</b>	258,979					Oct-16	\$1,839,575	\$9.63
<b>Average</b>	129,322					May-14	\$771,644	\$6.13
<b>Median</b>	103,891					May-14	\$495,000	\$6.09
<b>SUBJECT</b>								
Former Shell Gas Station/Retail Property 6401 Highway 10 Ramsey, MN 55303	71,996	Poor Above Average	Irregular Level	H1 - Highway 10 Business District				

## Comparable Land Sales Map



Property	Address
<b>Subject Property</b>	<b>6401 Highway 10, Ramsey, MN 55303</b>
Land Comparable # 1	2900 Cutters Grove Avenue, Anoka, MN 55303
Land Comparable # 2	7817 Riverdale Drive, Ramsey, MN 55303
Land Comparable # 3	90th Street NE & Quantrell Avenue NE, Otsego, MN 55330
Land Comparable # 4	70th Street & Highway 101, Otsego, MN 55330

**Location & Property Identification**

**Property Name:** Kwik Trip Site  
**Sub-Property Type:** Land: Commercial  
**Address:** 2900 Cutters Grove Avenue  
**City, State, Zip:** Anoka, MN, 55303  
**County:** Anoka  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 02-31-25-11-0018



**Acres (gross):** 1.43  
**Land SF (gross):** 62,291  
**Acres (usable):** 1.43  
**Land SF (usable):** 62,291  
**Shape:** Irregular  
**Topography:** Generally level  
**Access:** Excellent  
**Visibility:** Above Average

**Zoning Designation:**  
 B-2, Shopping Center Business

**Sale Information**

**Sale Price:** \$600,000  
**Effective RE Sale Price:** \$600,000  
**Sale Date:** 9/30/2011

**Sale Status:** Closed

**\$/Acre (gross):** \$419,580  
**\$/Land SF (gross):** \$9.63

**\$/Acre (usable):** \$419,580  
**\$/Land SF (usable):** \$9.63

**Grantor/Seller:** Gulf Coast Bank & Trust  
 Convenience Store

**Grantee/Buyer:** Investments

**Property Rights Conveyed:** Fee Simple  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Reliable third party

**Comments:**

This was an existing gas station that was purchased and subsequently redeveloped with a Kwik Trip brand gas station. Based on our research, it appears that the entire property was remodeled whereby the position of the building and canopies essentially switched.

**Location & Property Identification**

**Property Name:** 7817 Riverdale Drive Site  
**Sub-Property Type:** Land: Commercial  
**Address:** 7817 Riverdale Drive  
**City, State, Zip:** Ramsey, MN, 55303  
**County:** Anoka  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 28-32-25-32-0008 (Now part of -0025)

**Acres (gross):** 1.16  
**Land SF (gross):** 50,530  
**Acres (usable):** 1.16  
**Land SF (usable):** 50,530  
**Shape:** Rectangular  
**Topography:** Generally level  
**Access:** Average  
**Visibility:** Above Average



**Zoning Designation:**  
 B-2

**Sale Information**

**Sale Price:** \$257,000  
**Effective RE Sale Price:** \$257,000  
**Sale Date:** 11/8/2012

**Sale Status:** Closed

**\$/Acre (gross):** \$221,552  
**\$/Land SF (gross):** \$5.09

**\$/Acre (usable):** \$221,552  
**\$/Land SF (usable):** \$5.09

**Grantor/Seller:** Parent Professional Properties  
**Grantee/Buyer:** DSB Ventures, LLC

**Property Rights Conveyed:** Fee Simple  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Reliable third party

**Comments:**

This is a purchase of a land parcel that was bought in conjunction (simultaneously) with the adjacent improved property. The details of this sale reflect the land parcel only, as it was reportedly negotiated separately and a separate CREV was filed, etc. The property was subsequently developed/used as an RV/auto-related sales lot.

**Location & Property Identification**

**Property Name:** 90th Street NE & Quantrell Avenue NE  
**Sub-Property Type:** Land: Commercial  
 90th Street NE & Quantrell Avenue NE  
**Address:** Avenue NE  
**City, State, Zip:** Otsego, MN, 55330  
**County:** Wright  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 118-264-000030, & -000040

**Acres (gross):** 3.34  
**Land SF (gross):** 145,490  
**Acres (usable):** 3.34  
**Land SF (usable):** 145,490  
**Shape:** Irregular  
**Topography:** Generally level  
**Access:** Above Average  
**Visibility:** Above Average



**Zoning Designation:** PUD

**Sale Information**

**Sale Price:** \$390,000  
**Effective RE Sale Price:** \$390,000  
**Sale Date:** 10/11/2016  
**List Date:** 8/1/2016  
**Sale Status:** Closed

**\$/Acre (gross):** \$116,766  
**\$/Land SF (gross):** \$2.68

**\$/Acre (usable):** \$116,766  
**\$/Land SF (usable):** \$2.68

**Grantor/Seller:** GCI Capital  
**Grantee/Buyer:** Otsego Devs, LLC

**Property Rights Conveyed:** Fee Simple  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Buyer, seller, reliable third party

**Comments:**

This is the sale of two land parcels with above average access and visibility along Highway 101 just south of Elk River where Highway 101 meets Highway 10/169. The buyer, who has no immediate plans for development, is also assuming the outstanding special assessment balance of \$105,705.50. However, the buyer anticipates meeting the minimum value threshold once the site is developed in order to qualify for a development incentive payment from the City in the amount of \$108,690.35. As such, the buyer considered the two amounts to offset each other. These parcels were lender-owned, and based on our verification of the sale, this appears to have negatively influenced the price achieved.



### ***Analysis and Adjustment of Sales***

The major points of comparison for this type of analysis include the property rights conveyed, the financial terms incorporated into the transaction, the conditions or motivations surrounding the sale, changes in market conditions since the sale, the location of the real estate, its physical traits and the economic characteristics of the property.

The first adjustment made to the market data takes into account differences between the subject property and the comparable property sales with regard to the legal interest transferred. Advantageous financing terms or atypical conditions of sale are then adjusted to reflect a normal market transaction. Next, changes in market conditions are accounted for, creating a time adjusted price. Lastly, adjustments for location, physical traits and the economic characteristics of the market data are made in order to generate the final adjusted unit rate for the subject property.

Downward adjustments were applied to those factors of comparison where the comparables were considered superior to the subject and, conversely, upward adjustments where the comparables considered inferior. The adjustable elements of comparison are:

#### **Real Property Rights Conveyed**

This adjustment is generally applied to reflect the transfer of property rights different from those being appraised, such as differences between properties owned in fee simple and in leased fee.

In this analysis, no adjustments are required.

#### **Financing Terms**

This adjustment is generally applied to a property that transfers with atypical financing, such as having assumed an existing mortgage at a favorable interest rate. Conversely, a property may be encumbered with an above-market mortgage which has no prepayment clause or a very costly prepayment clause. Such atypical financing often plays a role in the negotiated sale price.

In this analysis, no adjustments are required.

#### **Conditions of Sale**

This adjustment category reflects extraordinary motivations of the buyer or seller to complete the sale. Examples include a purchase for assemblage involving anticipated incremental value or a quick sale for cash. This adjustment category may also reflect a distress-related sale, or a corporation recording a non-market price.

In this analysis, comparable 3 was lender-owned, and according to the listing broker, they had owned the property for several years and were motivated to sell for a below market price.

## Expenditures at Purchase

This adjustment is appropriate in situations where the sale price has been influenced by expenditures that the buyer intended to make immediately after purchase. Examples include buyer-paid sales commissions, buyer-paid back taxes, and costs to demolish obsolete structures to clear a site for redevelopment.

In this analysis, any expenditures at purchase were included in the effective sale price listed in the table, and therefore are reflected in the per unit indication.

**The previous adjustments, if required, are applied sequentially.**

## Time - Market Conditions

Real estate values normally change over time. The rate of this change fluctuates due to investors' perceptions of prevailing market conditions. This adjustment category reflects value changes, if any, that have occurred between the date of the sale and the effective date of the appraisal.

In this analysis, we determined the "as-is" market value using the date of December 2, 2016. All of the comparables were adjusted to this date. The sales that are included in this analysis occurred between September 2011 and October 2016. The market has improved over this time period; as such, we apply a compound annual market conditions adjustment of 2.0 percent.

**Time - Market Conditions adjustments are applied after the previous adjustments, but before any of the following adjustments.**

## Location

Location has a great impact on property values. This adjustment category considers general market area influences as well as a property's accessibility and visibility from a main thoroughfare.

In this analysis, we first applied macro-level location adjustments to comparables 1, 3 and 4 to account for overall differences in locations, surrounding development, proximity to the core TCMA and general neighborhood access characteristics.

Subsequently, we applied specific adjustments for access and visibility, as follows:

DERIVATION OF ACCESS ADJUSTMENT				
Rating Scale:	Incremental Adjustment:			
-Poor	5.00%			
-Below Average				
-Average				
-Above Average				
-Excellent				
	SALE # 1	SALE # 2	SALE # 3	SALE # 4
<b>Access Rating of Comparable</b>	Excellent	Average	Above Average	Excellent
<b>Subject Access Rating</b>	Poor	Poor	Poor	Poor
<b>Difference in Rating (1 per Increment)</b>	-4	-2	-3	-4
<b>Adjustment Percentage (per increment)</b>	5.00%	5.00%	5.00%	5.00%
<b>Final Indicated Access Adjustment</b>	<b>-20.00%</b>	<b>-10.00%</b>	<b>-15.00%</b>	<b>-20.00%</b>

<b>DERIVATION OF VISIBILITY ADJUSTMENT</b>				
<b>Rating Scale:</b>	<b>Incremental Adjustment:</b>			
-Poor	5.00%			
-Below Average				
-Average				
-Above Average				
-Excellent				
	<b>SALE # 1</b>	<b>SALE # 2</b>	<b>SALE # 3</b>	<b>SALE # 4</b>
<b>Visibility Rating of Comparable</b>	Above Average	Above Average	Above Average	Above Average
<b>Subject Visibility Rating</b>	Above Average	Above Average	Above Average	Above Average
<b>Difference in Rating (1 per Increment)</b>	0	0	0	0
<b>Adjustment Percentage (per increment)</b>	5.00%	5.00%	5.00%	5.00%
<b>Final Indicated Visibility Adjustment</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>

### Physical Characteristics

This adjustment category generally reflects differences such as site size, configuration, availability of utilities, or topography.

In this analysis, we apply size adjustments to comparables 3 and 4.

### Use

This adjustment category generally addresses any differences between the highest and best use of the subject and the comparables.

In this analysis, we apply downward adjustments to comparables 1 and 4, which were bought for gas station use, as the subject's zoning (and our H&BU) conclusion precludes the subject from being a gas station or high-traffic retail use site. We have considered this adjustment in combination with the access and visibility adjustments.

**A summary of all the adjustments applied to the comparables is located on the following table:**

## Land Sales Adjustment Grid

DESCRIPTION	SUBJECT	1	2	3	4
Address	Former Shell Gas Station/Retail Property 6401 Highway 10 Ramsey, MN 55303	Kwik Trip Site 2900 Cutters Grove Avenue Anoka, MN 55303	7817 Riverdale Drive Site 7817 Riverdale Drive Ramsey, MN 55303	90th Street NE & Quantrell Avenue NE 90th Street NE & Quantrell Avenue NE Otsego, MN 55330	Kwik Trip Site 70th Street & Highway 101 Otsego, MN 55330
Access	Poor	Excellent	Average	Above Average	Excellent
Visibility	Above Average	Above Average	Above Average	Above Average	Above Average
Land Area (SF)	71,996	62,291	50,530	145,490	258,979
Zoning	H1 - Highway 10 Business District	B-2, Shopping Center Business	B-2	PUD	B-3/General Business
Unadjusted Price per SF		\$9.63	\$5.09	\$2.68	\$7.10
Sale Date		Sep-11	Nov-12	Oct-16	Dec-15
<b>Cumulative Adjustments</b>					
Property Rights					
Financing					
Conditions of Sale				25%	
Market Conditions		10.8%	8.4%	0.3%	1.9%
<b>Effective \$/SF</b>		<b>\$10.67</b>	<b>\$5.51</b>	<b>\$3.36</b>	<b>\$7.24</b>
<b>Additive Adjustments</b>					
Location		-5%		5%	5%
Access		-20%	-10%	-15%	-20%
Visibility		0%	0%	0%	0%
Physical Characteristics				5%	10%
Zoning/Use		-25%			-25%
<b>Net Adjustment</b>		<b>-50%</b>	<b>-10%</b>	<b>-5%</b>	<b>-30%</b>
<b>Adjusted Price per SF</b>		<b>\$5.34</b>	<b>\$4.96</b>	<b>\$3.19</b>	<b>\$5.07</b>

## LAND VALUE CONCLUSION

Based on the preceding analysis and adjustments, the comparable land sales provide a range of adjusted value indications from \$3.19 to \$5.34 per SF of land area, with an average of \$4.64 and a median of \$5.01 per SF of land area. Giving roughly equal weight to each comparable, though less weight to comparable 3, it is our opinion that the applicable unit value is \$5.00 per SF of land area, resulting in the following indicated land value:

Indicator	Unadjusted Price per SF	Adjusted Price per SF
Range	\$2.68 - \$9.63	\$3.19 - \$5.34
Average	\$6.13	\$4.64
Median	\$6.09	\$5.01
Site Size (SF)	Value per SF	Total
71,996	\$5.00	\$359,980
Opinion of Value Site as Vacant - Rounded to Nearest: \$10,000		\$360,000

## Other Sales or Listings Considered

In addition to the comparables analyzed above, we also considered the following listings and/or sales in our analysis and conclusion:

### 2520 N Ferry Street, Anoka

This former Sinclair Gas Station is located on the northeast quadrant of US Highway 10 and Ferry Street N, in Anoka. The site is located just off the interchange, and access is considered average. Visibility is considered average to below average. The building and canopy remain on the site, but according to the listing, the tanks have been removed and there is a no action letter from the MPCA. The building area is 500 SF, and the year built was 1966.



The asking price for this property is \$239,000, or \$10.55 per SF of land area. The property has been on the market for 2,573 days (or over 7 years).

Overall, it is considered to have general comparability to the subject, and while it has inferior visibility, it has superior access to the subject. It's location closer to the core City of Anoka is also a factor. The most important consideration is the very long time the property has been exposed to the market, which would indicate a lack of interest at the list price.

**XXX Armstrong Boulevard NW, Ramsey (PID#29-32-25-11-0011)**

This is a 5.37 acre parcel of land, zoned TC-2, that is listed for \$1,561,408 or \$6.68 per SF of land area. This property has been listed for 162 days (or 0.44 years).



**XXX Highway 10 NW, Anoka, MN (PID#s 01-31-25-22-0050 & -0067)**

This is a closed sale of a 0.66 acre parcel of land where the City of Anoka purchased the property, reportedly related to the Highway 10 transportation system improvement project. The sale date was 4/29/2015, and the sale price was \$140,000, or \$4.87 per SF of land area.

**6050-6080 Highway 10 NW, Anoka, MN (Former PID#s 35-32-25-31-0001 & -0004)**

This was the sale of a total of 3.55 acres of land (with economically depleted improvements) that were purchased by the City of Anoka. The sale date was 3/2/2015, and the sale price was \$388,100, which is equal to \$2.51 per SF of land area. The property had reportedly been on the market for five years, with an initial asking price of \$575,000.



**XXX Yale Court, Elk River, MN (PID#75-784-0120)**

This 1.45 acre parcel of land was purchased on 6/5/2015 for \$185,000 (or \$2.93 per SF of land area) by the City of Elk River Economic Development department. The property was zoned for Highway Commercial use.



DRAFT

## SALES COMPARISON APPROACH

In the Sales Comparison Approach, sales of comparable properties are adjusted for differences to estimate a value for the subject property. This approach relies on the principle of substitution, which holds that when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming that no costly delay is encountered in making the substitution.

A unit of comparison such as price per square foot of building area or effective gross income multiplier is typically used to value the property. Adjustments are applied to the unit of comparison from an analysis of comparable sales, and the adjusted unit of comparison is then used to derive an opinion of value for the subject property.

The following pages contain a summary of the improved properties that were compared to the subject property, a map showing their locations, detailed write-ups of each sale, as well as the adjustment process.

To apply the Sales Comparison Approach, we searched for sale transactions within the following parameters:

- Property Type: Retail
- Location: Throughout the Northwest Submarket
- Size: 5,000 to 25,000 square feet of NRA
- Age/Quality: Ideally within 10 years effective age of the subject
- Transaction Date: 1/1/2014 to present

### Summary of Comparable Sales

A search of public records and proprietary data sources was conducted to identify recent improved sales and listings in proximity to the subject and having a similar highest and best use.

Out of all data reviewed, the following sales are selected as the best indicators of the subject's value. We choose price per square foot of Net Rentable Area (NRA) as the most appropriate unit of comparison because market participants typically compare sale prices and values on this basis.

**SUMMARY OF COMPARABLE IMPROVED SALES**

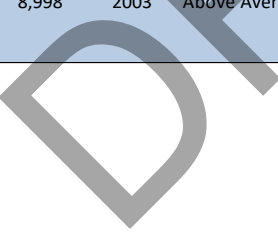
Name # Address	GBA (SF); NRA (SF)	Yr Built; # Stories	Condition	Acres; LTB Ratio; Pkg Ratio	Grantor; Grantee	% Occ.; NOI/SF; Cap Rate	Sale Price; Sale Date; Prop. Rights	\$ per SF of NRA
1 Ham Lake Retail Center 16210-16230 Aberdeen Street NE Ham Lake, MN 55304 Comments:	17,144 17,144	1998 1	Average	2.35 5.97 2.04	BankCherokee HTP LLC	NAV \$6.77 10.00%	\$1,160,000 <b>Jan-14</b> Leased Fee	<b>\$67.66</b>
This is a sale of a multi-tenant retail center in Ham Lake, MN. The property was on the market for one year, with an initial asking price of the property was \$1,200,000. The transaction was in escrow for approximately 60 days. This sale had no reported sale conditions. The sale was verified with the seller broker and with seller.								
2 Boulevard Center 6211-6225 Brooklyn Blvd Brooklyn Center, MN 55429 Comments:	20,120 20,120	1965 1	Average	2.22 4.81 8.15	Kraus-Anderson Realty Company RP Mallery Group, LLC	100% \$11.32 9.97%	\$2,285,000 <b>Aug-13</b> Leased Fee	<b>\$113.57</b>
The 20,120 square foot retail center sold for \$2,285,000 or \$113.57 per square foot. The center is fully leased with a cap rate near 10%. 70% of tenants have lease terms of longer than 5 years. Details were confirmed by parties on both sides of the transaction as well as through county documents.								
3 Albertville Plaza 11011 61st Street NE Albertville, MN 55301 Comments:	11,688 11,688	2001 1	Average	2.41 8.98 3.42	Albertville Plaza, LLC Excelsior Property, LLC	100% \$8.00 8.50%	\$1,100,000 <b>Aug-16</b> Leased Fee	<b>\$94.11</b>
This is a sale of a multi-tenant retail center in Albertville, MN. The property was reportedly 100% occupied by 5 tenants at the time of sale, and sold for an 8.50% cap rate on in-place NOI. Tenants were local-credit quality.								
4 Family Dollar/O'Reilly's 180 Jefferson Boulevard Big Lake, MN 55309 Comments:	14,000 14,000	2004 1	Average	0.58 1.80 2.14	Charles Crotty Big Lake Center, LLC	100% \$9.30 7.75%	\$1,680,000 <b>Jun-15</b> Leased Fee	<b>\$120.00</b>
This is a sale of a two-tenant net leased property. The two tenants are Family Dollar and O'Reilly's Auto Parts.								
5 Jefferson Plaza 8501-8511 Jefferson Lane N Brooklyn Park, MN 55445 Comments:	17,927 17,927	2002 1	Average	1.91 4.64 4.24	Jefferson Properties, LLC Jefferson Plaza Partners, LLC	79% \$12.10 8.34%	\$2,600,000 <b>Dec-15</b> Leased Fee	<b>\$145.03</b>
This is a sale of a multi-tenant retail center in Brooklyn Park. Reported occupancy was just under 80%, and the reported cap rate was 8.34%. The tenants were mostly local credit quality.								

**STATISTICS**

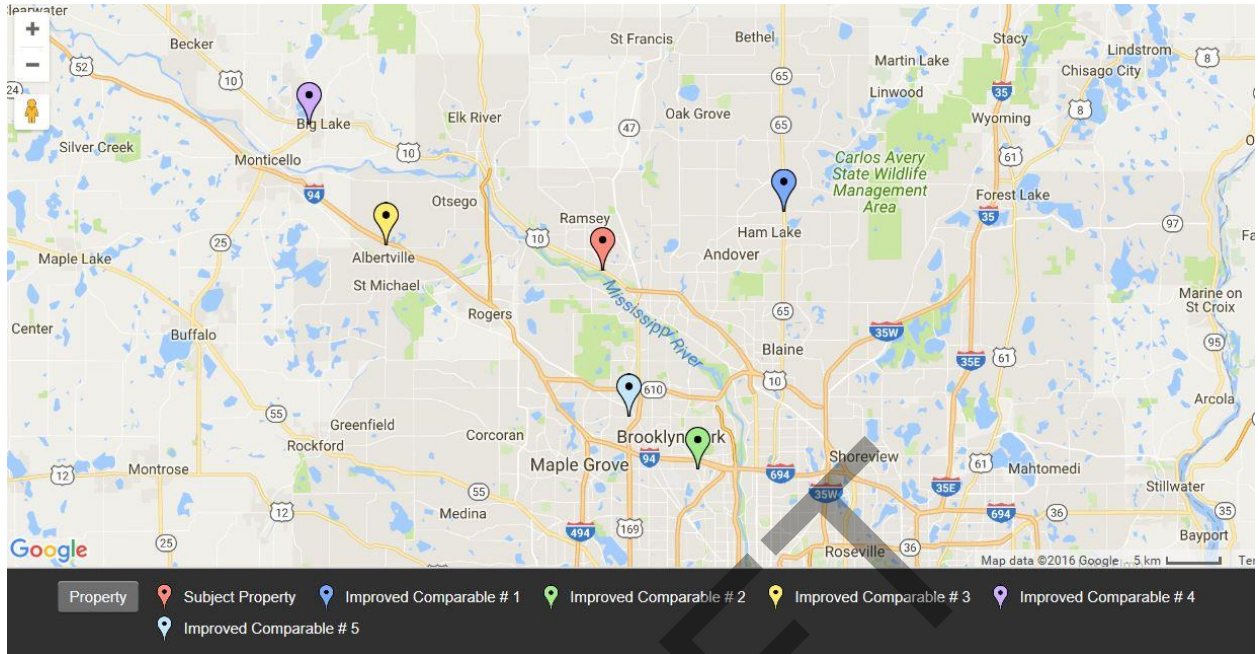
	NRA	Year Built	Parking Ratio	LTB Ratio	Sale Date	Cap Rate	Sale Price	\$ per SF of NRA
<b>Low</b>	11,688	1965	2.04	1.80	Aug-13	7.75%	\$1,100,000	\$67.66
<b>High</b>	20,120	2004	8.15	8.98	Aug-16	10.00%	\$2,600,000	\$145.03
<b>Average</b>	16,176	1994	4.00	5.24	Feb-15	8.91%	\$1,765,000	\$108.08
<b>Median</b>	17,144	2001	3.42	4.81	Jun-15	8.50%	\$1,680,000	\$113.57

**SUBJECT**

Former Shell Gas Station/Retail Property  
6401 Highway 10  
Ramsey, MN 55303



## Improved Sales Map



Property	Address
<b>Subject Property</b>	<b>6401 Highway 10, Ramsey, MN 55303</b>
Improved Comparable # 1	16210-16230 Aberdeen Street NE, Ham Lake, MN 55304
Improved Comparable # 2	6211-6225 Brooklyn Blvd, Brooklyn Center, MN 55429
Improved Comparable # 3	11011 61st Street NE, Albertville, MN 55301
Improved Comparable # 4	180 Jefferson Boulevard, Big Lake, MN 55309
Improved Comparable # 5	8501-8511 Jefferson Lane N, Brooklyn Park, MN 55445

**Location & Property Identification**

**Property Name:** Ham Lake Retail Center  
**Sub-Property Type:** Commercial/Retail  
**Address:** 16210-16230 Aberdeen Street NE  
**City, State, Zip:** Ham Lake, MN, 55304  
**County:** Anoka  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 17-32-23-13-0017



**Sale Information**

**Sale Price:** \$1,160,000  
**Effective RE Sale Price:** \$1,160,000  
**Sale Date:** 1/21/2014

**Sale Status:** Closed

**\$/SF (GBA):** \$67.66  
**\$/SF (NRA):** \$67.66

**Grantor/Seller:** BankCherokee  
**Grantee/Buyer:** HTP LLC

**Property Rights Conveyed:** Leased Fee  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented  
**Document Type:** Warranty Deed  
**Verification Type:** Verified with Buyer

**Operating Data and Key Indicators**

**% Occupied:** NAV  
**# of Tenants:** 9  
**Net Operating Income:** \$116,000  
**Reserves Included:** NAV  
**Operating Data Type:** NAV  
**Capitalization Rate:** 10.00%  
**Management Included:** NAV

**Comments:**

This is a sale of a multi-tenant retail center in Ham Lake, MN. The property was on the market for one year, with an initial asking price of the property was \$1,200,000. The transaction was in escrow for approximately 60 days. This sale had no reported sale conditions. The sale was verified with the seller broker and with seller.

**Site and Improvement Data**

**Acres (gross):** 2.35  
**Land SF (gross):** 102,366  
**Acres (usable):** 2.35  
**Land SF (usable):** 102,366

**Access:** Average  
**Visibility:** Average

**Zoning Designation:** Commercial

**GBA SF:** 17,144  
**NRA SF:** 17,144  
**Year Built/Renovated:** 1998/  
**Condition of Improvements:** Average  
**# Buildings/# Stories:** 1 / 1  
**Occupancy Type:** Multi-tenant  
**# Units:** 9

**Land-to-Building Ratio:** 5.97  
**Parking Ratio (per 1,000 SF GBA):** 2.04

**Property Information Source:**

Reliable third party

**Location & Property Identification**

**Property Name:** Boulevard Center  
**Sub-Property Type:** Commercial/Retail  
**Address:** 6211-6225 Brooklyn Blvd  
**City, State, Zip:** Brooklyn Center, MN, 55429  
**County:** Hennepin  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 34-119-21-43-0006



**Sale Information**

**Sale Price:** \$2,285,000  
**Effective RE Sale Price:** \$2,285,000  
**Sale Date:** 8/14/2013  
**List Date:** 8/14/2013  
**Sale Status:** Closed  
  
**\$/SF (GBA):** \$113.57  
**\$/SF (NRA):** \$113.57

**Grantor/Seller:** Kraus-Anderson Realty Company  
**Grantee/Buyer:** RP Mallery Group, LLC

**Property Rights Conveyed:** Leased Fee  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented  
**Document Type:** Warranty Deed  
**Verification Type:** Verified with Buyer

**Operating Data and Key Indicators**

**% Occupied:** 100%  
**# of Tenants:** 6  
**Net Operating Income:** \$227,815  
**Reserves Included:** NAV  
**Operating Data Type:** NAV  
**Capitalization Rate:** 9.97%  
**Management Included:** NAV

**Comments:**

The 20,120 square foot retail center sold for \$2,285,000 or \$113.57 per square foot. The center is fully leased with a cap rate near 10%. 70% of tenants have lease terms of longer than 5 years. Details were confirmed by parties on both sides of the transaction as well as through county documents.

**Site and Improvement Data**

**Acres (gross):** 2.22  
**Land SF (gross):** 96,703  
**Acres (usable):** 2.22  
**Land SF (usable):** 96,703

**Access:** Average  
**Visibility:** Average

**GBA SF:** 20,120  
**NRA SF:** 20,120  
**Year Built/Renovated:** 1965/  
**Condition of Improvements:** Average  
**# Buildings/# Stories:** 1 / 1  
**Occupancy Type:** Multi-tenant  
**# Units:** 6

**Land-to-Building Ratio:** 4.81  
**Parking Ratio (per 1,000 SF GBA):** 8.15

**Property Information Source:**  
 Reliable third party

**Location & Property Identification**

**Property Name:** Albertville Plaza  
**Sub-Property Type:** Retail Center  
**Address:** 11011 61st Street NE  
**City, State, Zip:** Albertville, MN, 55301  
**County:** Wright  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 101-078-001010



**Sale Information**

**Sale Price:** \$1,100,000  
**Effective RE Sale Price:** \$1,100,000  
**Sale Date:** 8/26/2016

**Sale Status:** Closed

**\$/SF (GBA):** \$94.11  
**\$/SF (NRA):** \$94.11

**Grantor/Seller:** Albertville Plaza, LLC  
**Grantee/Buyer:** Excelsior Property, LLC

**Property Rights Conveyed:** Leased Fee  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Reliable 3rd Party, Public Record

**Site and Improvement Data**

**Acres (gross):** 2.41  
**Land SF (gross):** 104,980  
**Acres (usable):** 2.41  
**Land SF (usable):** 104,980

**Access:** Average  
**Visibility:** Below Average

**GBA SF:** 11,688  
**NRA SF:** 11,688  
**Year Built/Renovated:** 2001/  
**Condition of Improvements:** Average  
**# Buildings/# Stories:** 1 / 1  
**Occupancy Type:** Multi-tenant  
**# Units:** 5

**Operating Data and Key Indicators**

**% Occupied:** 100%  
**# of Tenants:** 5  
**Net Operating Income:** \$93,500  
**Reserves Included:** NAV  
**Operating Data Type:** NAV  
**Capitalization Rate:** 8.50%  
**Management Included:** NAV

**Land-to-Building Ratio:** 8.98  
**Parking Ratio (per 1,000 SF GBA):** 3.42

**Comments:**

This is a sale of a multi-tenant retail center in Albertville, MN. The property was reportedly 100% occupied by 5 tenants at the time of sale, and sold for an 8.50% cap rate on in-place NOI. Tenants were local-credit quality.

**Property Information Source:**  
 Reliable 3rd Party, Public Record

**Location & Property Identification**

**Property Name:** Family Dollar/O'Reilly's  
**Sub-Property Type:** Retail Center  
**Address:** 180 Jefferson Boulevard  
**City, State, Zip:** Big Lake, MN, 55309  
**County:** Sherburne  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 65-542-0110, -0105



**Sale Information**

**Sale Price:** \$1,680,000  
**Effective RE Sale Price:** \$1,680,000  
**Sale Date:** 6/4/2015  
**List Date:** 1/12/2015  
**Sale Status:** Closed  
  
**\$/SF (GBA):** \$120.00  
**\$/SF (NRA):** \$120.00

**Grantor/Seller:** Charles Crotty  
**Grantee/Buyer:** Big Lake Center, LLC

**Property Rights Conveyed:** Leased Fee  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Reliable 3rd Party, Public Record

**Operating Data and Key Indicators**

**% Occupied:** 100%  
**# of Tenants:** 2  
**Net Operating Income:** \$130,200  
**Reserves Included:** NAV  
**Operating Data Type:** NAV  
**Capitalization Rate:** 7.75%  
**Management Included:** NAV

**Comments:**

This is a sale of a two-tenant net leased property. The two tenants are Family Dollar and O'Reilly's Auto Parts.

**Site and Improvement Data**

**Acres (gross):** 0.58  
**Land SF (gross):** 25,265  
**Acres (usable):** 0.58  
**Land SF (usable):** 25,265  
  
**Access:** Above Average  
**Visibility:** Above Average

**GBA SF:** 14,000  
**NRA SF:** 14,000  
**Year Built/Renovated:** 2004/  
**Condition of Improvements:** Average  
**# Buildings/# Stories:** 1 / 1  
**Occupancy Type:** Multi-tenant  
**# Units:** 2

**Land-to-Building Ratio:** 1.80  
**Parking Ratio (per 1,000 SF GBA):** 2.14  
**Property Information Source:** Reliable 3rd Party, Public Record

**Location & Property Identification**

**Property Name:** Jefferson Plaza  
**Sub-Property Type:** Retail Center  
**Address:** 8501-8511 Jefferson Lane N  
**City, State, Zip:** Brooklyn Park, MN, 55445  
**County:** Hennepin  
**MSA:** Minneapolis/St. Paul  
**Legal/Tax/Parcel ID:** 18-119-21-33-0032



**Sale Information**

**Sale Price:** \$2,600,000  
**Effective RE Sale Price:** \$2,600,000  
**Sale Date:** 12/3/2015

**Sale Status:** Closed

**\$/SF (GBA):** \$145.03  
**\$/SF (NRA):** \$145.03

**Grantor/Seller:** Jefferson Properties, LLC  
**Grantee/Buyer:** Jefferson Plaza Partners, LLC

**Property Rights Conveyed:** Leased Fee  
**% of Interest Conveyed:** 100%  
**Terms of Sale:** Market oriented

**Verification Type:** Reliable 3rd Party, Public Record

**Site and Improvement Data**

**Acres (gross):** 1.91  
**Land SF (gross):** 83,200  
**Acres (usable):** 1.91  
**Land SF (usable):** 83,200

**Access:** Average  
**Visibility:** Average

**GBA SF:** 17,927  
**NRA SF:** 17,927  
**Year Built/Renovated:** 2002/  
**Condition of Improvements:** Average  
**# Buildings/# Stories:** 1 / 1  
**Occupancy Type:** Multi-tenant  
**# Units:** 5

**Operating Data and Key Indicators**

**% Occupied:** 79%  
**# of Tenants:** 5  
**Net Operating Income:** \$216,840  
**Reserves Included:** NAV  
**Operating Data Type:** NAV  
**Capitalization Rate:** 8.34%  
**Management Included:** NAV

**Land-to-Building Ratio:** 4.64  
**Parking Ratio (per 1,000 SF GBA):** 4.24

**Comments:**

This is a sale of a multi-tenant retail center in Brooklyn Park. Reported occupancy was just under 80%, and the reported cap rate was 8.34%. The tenants were mostly local credit quality.

**Property Information Source:**  
 Reliable 3rd Party, Public Record

## **Adjustment Process – “AS-STABILIZED” BASIS**

Adjustments can be applied through quantitative or qualitative analysis, or both. Quantitative adjustments are specific numeric adjustments that are most credible when adequate data and analysis can be performed such as statistical analysis or matched-pair-sales. Consistent with the scope of work for this assignment, we present numerical adjustments (using percentages) in the sales comparison analysis that follows, but note that they are based on qualitative judgment rather than empirical data. This methodology is commonly used by participants that buy and sell property similar to the subject property, therefore, it is considered the appropriate methodology to use in this assignment. Our qualitative adjustments are based on a scale calibrated in 5% increments, with a minor adjustment considered to be 5% and a substantial adjustment considered to be 25%.

Downward adjustments were applied to those factors of comparison where the comparables were considered superior to the subject and, conversely, upward adjustments where the comparables considered inferior.

### **Property Rights Conveyed**

The property rights conveyed in a transaction typically have an impact on the price that is paid. Acquiring the fee simple interest implies that the buyer is acquiring the full bundle of rights. Acquiring a leased fee interest typically means that the property being acquired is encumbered by at least one lease, which is a binding agreement transferring rights of use and occupancy to the tenant. A leasehold interest involves the acquisition of a lease, which conveys the rights to use and occupy the property to the buyer for a finite period of time. At the end of the lease term, there is typically no reversionary value to the leasehold interest.

In this case, since we are valuing the fee simple interest, an adjustment for property rights is not required. We account for differences in rent and investment risk in our Economics Characteristics adjustment category.

### **Financial Terms**

The financial terms of a transaction can have an impact on the sale price of a property. A buyer who purchases an asset with favorable financing might pay a higher price, as the reduced cost of debt creates a favorable debt coverage ratio. A transaction involving above-market debt will typically involve a lower purchase price tied to the lower equity returns after debt service. We analyzed all of the transactions to account for atypical financing terms.

To the best of our knowledge, all of the sales used in this analysis were accomplished with cash or market-oriented financing. Therefore, no adjustments were required.

### **Conditions of Sale**

Adjustments for conditions of sale usually reflect the motivations of the buyer and the seller. In many situations the conditions of sale may significantly affect transaction prices.

In this case, no adjustments were applied.

**The previous adjustments, if required, are applied sequentially.**

### **Market Conditions**

Real estate values normally change over time. The rate of this change fluctuates due to investors' perceptions of prevailing market conditions. This adjustment category reflects value changes, if any, that have occurred between the date of the sale and the effective date of the appraisal.

In this analysis, we determined the as-stabilized market value using the date of December 1, 2016/June 1, 2017. All of the comparables were adjusted to this date. The sales that are included in this analysis occurred between August 2013 and August 2016. The market has improved over this period; as such, we apply an annual market conditions adjustment of 2.00%.

**Time - Market Conditions adjustments are applied after the previous adjustments, but before any of the following adjustments.**

### **Location**

Location has a significant impact on property values. This adjustment category considers general market area influences as well as a property's accessibility and visibility from a main thoroughfare. Differing rent levels or land values are typically good indications that a location adjustment is required.

First, macro-level location adjustments were applied to comparables 1, 4 and 5, to account for overall differences in locations, surrounding development, proximity to the core TCMA and general neighborhood access characteristics

Second, we apply specific micro-level location adjustments to all comparables as appropriate, based on the following analysis:

DERIVATION OF ACCESS ADJUSTMENT					
<b>Rating Scale:</b>	<b>Incremental Adjustment:</b>				
-Poor	5.00%				
-Below Average					
-Average					
-Above Average					
-Excellent					
	<b>SALE # 1</b>	<b>SALE # 2</b>	<b>SALE # 3</b>	<b>SALE # 4</b>	<b>SALE # 5</b>
<b>Access Rating of Comparable</b>	Average	Average	Average	Above Average	Average
<b>Subject Access Rating</b>	Poor	Poor	Poor	Poor	Poor
<b>Difference in Rating (1 per Increment)</b>	-2	-2	-2	-3	-2
<b>Adjustment Percentage (per increment)</b>	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Final Indicated Access Adjustment</b>	<b>-10.00%</b>	<b>-10.00%</b>	<b>-10.00%</b>	<b>-15.00%</b>	<b>-10.00%</b>

DERIVATION OF VISIBILITY ADJUSTMENT					
<b>Rating Scale:</b>	<b>Incremental Adjustment:</b>				
-Poor	5.00%				
-Below Average					
-Average					
-Above Average					
-Excellent					
	<b>SALE # 1</b>	<b>SALE # 2</b>	<b>SALE # 3</b>	<b>SALE # 4</b>	<b>SALE # 5</b>
<b>Visibility Rating of Comparable</b>	Average	Average	Below Average	Above Average	Average
<b>Subject Visibility Rating</b>	Above Average	Above Average	Above Average	Above Average	Above Average
<b>Difference in Rating (1 per Increment)</b>	1	1	2	0	1
<b>Adjustment Percentage (per increment)</b>	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Final Indicated Visibility Adjustment</b>	<b>5.00%</b>	<b>5.00%</b>	<b>10.00%</b>	<b>0.00%</b>	<b>5.00%</b>

## Physical Characteristics

Each property has various physical traits that determine its appeal. These traits include size, age, condition, quality, parking ratio and utility.

- We note size differences, but do not apply adjustments as no clear adjustable difference was observed.
- All comparables were adjusted for differences in Age/Quality/Condition, as measured by Effective Age, as follows:

DERIVATION OF AGE ADJUSTMENT					
	<b>SALE # 1</b>	<b>SALE # 2</b>	<b>SALE # 3</b>	<b>SALE # 4</b>	<b>SALE # 5</b>
<b>Date of Sale</b>	Jan-14	Aug-13	Aug-16	Jun-15	Dec-15
<b>Date of Construction</b>	1998	1965	2001	2004	2002
<b>Effective Age at Sale</b>	8	25	8	5	7
<b>Effective Age of Subject Property</b>	5	5	5	5	5
<b>Difference in Age</b>	3	19.5	3	0	2
<b>Annual Depreciation</b>	2.22%	2.22%	2.22%	2.22%	2.22%
<i>(45 year economic life)</i>					
<b>Preliminary Indicated Age Adjustment</b>	6.67%	43.33%	5.56%	0.00%	3.33%
<b>Less: Adjustment to Account for Land*</b>	0.75	0.75	0.75	0.75	0.75
<b>Final Indicated Age Adjustment</b>	<b>5.00%</b>	<b>32.50%</b>	<b>4.17%</b>	<b>0.00%</b>	<b>2.50%</b>

\*Land does not depreciate

- Comparable 2 was adjusted for a significantly superior parking ratio.

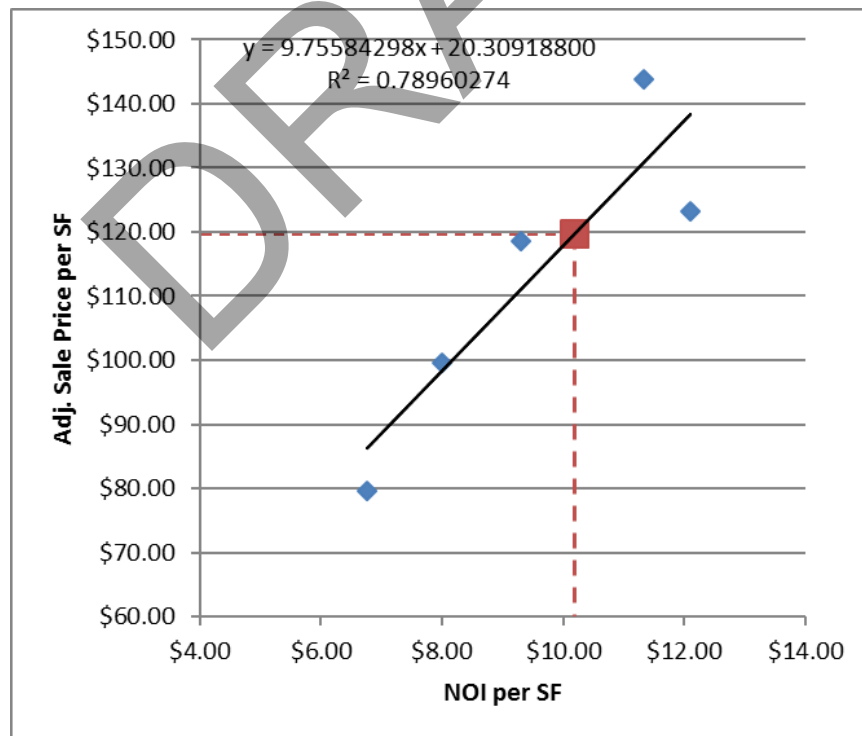
### Economic Characteristics

The economic characteristics of a property include its occupancy levels, operating expense ratios, tenant quality, and other items not covered under prior adjustments that would have an economic impact on the transaction.

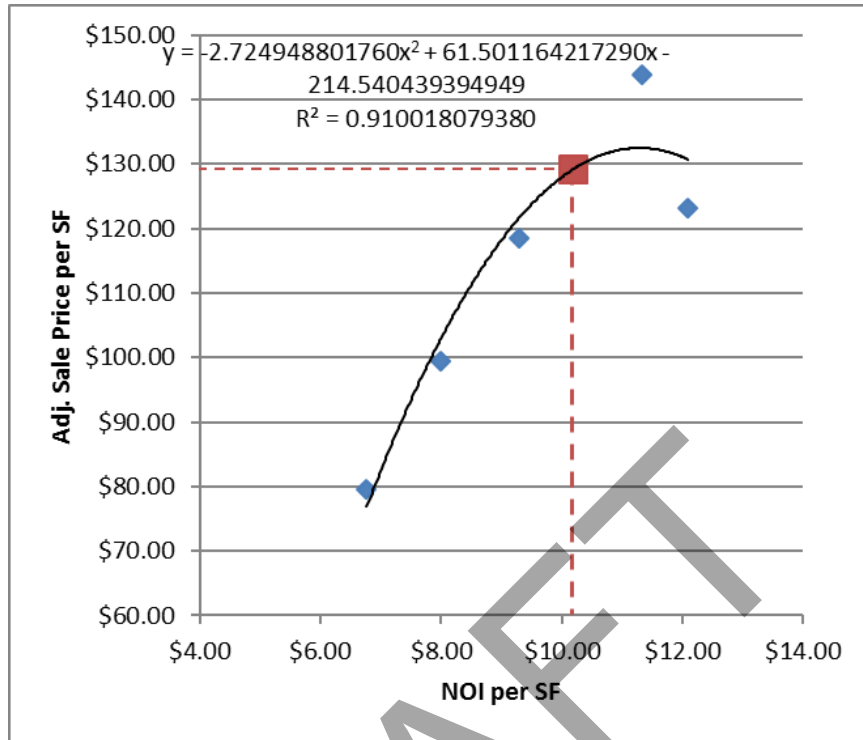
For retail properties such as the subject (in it's as-stabilized condition) we observe a strong correlation between the economic characteristics of the property and its corresponding sale price. To measure this difference, we will apply regression analysis, comparing the NOI per SF for each of the comparables with the Adjusted Price per SF (including all adjustments except for Economic Characteristics). Our analysis is as follows:

Sale No.	NOI per SF	Adjusted Sale Price per SF
1	\$6.77	\$79.55
2	\$11.32	\$143.87
3	\$8.00	\$99.53
4	\$9.30	\$118.59
5	\$12.10	\$123.25

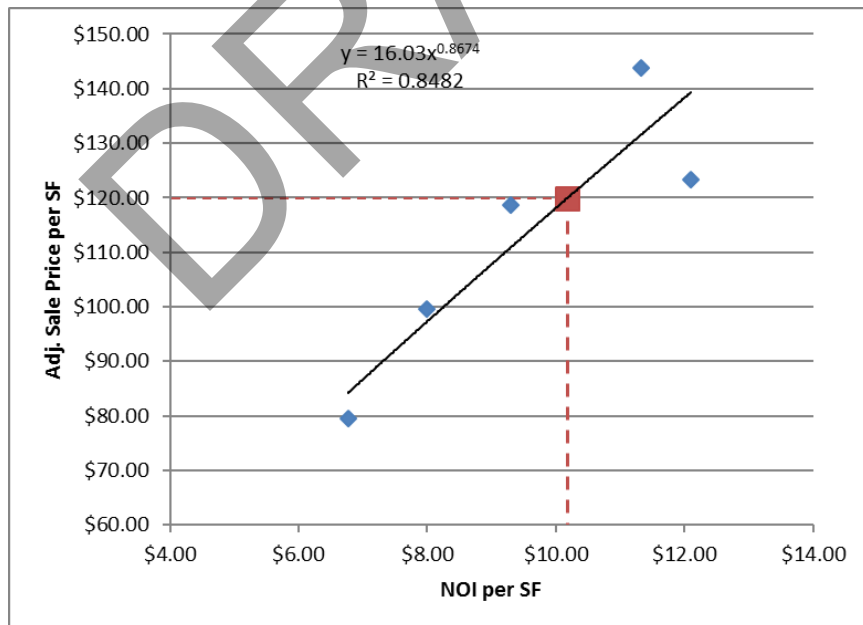
First, we present the regression analysis with a linear trendline:



Next, we present the same analysis but with a polynomial trendline:



Finally, we present the same with a power trendline:



We note that in each case the r-squared, which is a measure of correlation, is very high, indicating a strong correlation between the two variables.

We then apply the regression analyses toward our concluded NOI for the subject, which results in an indication of price per SF for the subject, as follows:

<b>Subject's NOI per SF</b>	<b>\$10.18</b>
<b>Forecast (Excel Function)</b>	<b>\$119.61</b>
<b>Linear Regression</b>	<b>\$119.61</b>
<b>Polynomial Regression</b>	<b>\$129.14</b>
<b>Power Regression</b>	<b>\$119.95</b>
<b>Average Indication:</b>	<b>\$122.79</b>

While this analysis provides support for a clear correlation between NOI per SF and sale price per SF, we do not apply the precise analysis directly in the economic characteristics adjustment, but rather, we will use the indicated correlation to apply qualitative adjustments to each comparable consistent with the trend indicated.

**A summary of all the adjustments applied to the comparables is located on the following table:**

DRAFT

## Improved Sales Adjustment Grid

DESCRIPTION	SUBJECT	1	2	3	4	5
Address	Former Shell Gas Station/Retail Property 6401 Highway 10 Ramsey, MN 55303	Ham Lake Retail Center 16210-16230 Aberdeen Street NE Ham Lake, MN 55304	Boulevard Center 6211-6225 Brooklyn Blvd Brooklyn Center, MN 55429	Albertville Plaza 11011 61st Street NE Albertville, MN 55301	Family Dollar/O'Reilly's 180 Jefferson Boulevard Big Lake, MN 55309	Jefferson Plaza 8501-8511 Jefferson Lane N Brooklyn Park, MN 55445
Access	Poor	Average	Average	Average	Above Average	Average
Visibility	Above Average	Average	Average	Below Average	Above Average	Average
Year Built	2003	1998	1965	2001	2004	2002
NRA (SF)	8,998	17,144	20,120	11,688	14,000	17,927
Parking Ratio	3.33	2.04	8.15	3.42	2.14	4.24
NOI/SF	\$10.18	\$6.77	\$11.32	\$8.00	\$9.30	\$12.10
Unadjusted Price per SF		\$67.66	\$113.57	\$94.11	\$120.00	\$145.03
Sale Date		Jan-14	Aug-13	Aug-16	Jun-15	Dec-15
<b>Cumulative Adjustments</b>						
Property Rights						
Financing						
Conditions of Sale						
Market Conditions*		6.9%	7.8%	1.5%	4.0%	3.0%
<b>Effective \$/SF</b>		<b>\$72.32</b>	<b>\$122.44</b>	<b>\$95.55</b>	<b>\$124.83</b>	<b>\$149.39</b>
<b>Additive Adjustments</b>						
Location		10%			10%	-15%
Access		-10%	-10%	-10%	-15%	-10%
Visibility		5%	5%	10%	0%	5%
Size						
Age/Quality/Condition		5%	33%	4%	0%	3%
Parking Ratio			-10%			
Economics		40%	-30%	20%	5%	0%
<b>Net Adjustment</b>		<b>50%</b>	<b>-13%</b>	<b>24%</b>	<b>0%</b>	<b>-18%</b>
<b>Adjusted Price per SF</b>		<b>\$108.48</b>	<b>\$107.14</b>	<b>\$118.64</b>	<b>\$124.83</b>	<b>\$123.25</b>

**Value Indicated via Sales Comparison Approach – “AS-STABILIZED” BASIS**

Based on the preceding analysis and adjustments, the comparable sales provide adjusted value indications ranging from \$107.14 to \$124.83 per square foot of NRA, with an average of \$116.47, and a median of \$118.64. Giving roughly equal weight to all comparables, it is our opinion that the applicable unit value is \$115.00 per square foot. This results in the following estimate of value by the Sales Comparison Approach:

Indicator	Unadjusted Price per SF	Adjusted Price per SF
Range	\$67.66 - \$145.03	\$107.14 - \$124.83
Average	\$108.08	\$116.47
Median	\$113.57	\$118.64
Size (NRA SF)	Value per SF	Total
8,998	\$115.00	\$1,034,770
Market Value "As-Stabilized" - Rounded to Nearest: \$10,000		\$1,030,000

**Other Sales or Listings Considered – “As-Stabilized” Basis**

In addition to the comparables analyzed above, we also considered the following listings and/or sales in our analysis and conclusion:

**7157 Highway 10 NW, Ramsey, MN (PID#27-32-25-33-0005)**

This is the former Holiday Gas Station located on the northeast corner of Highway 10 and Ramsey Boulevard that was purchased by the City of Ramsey in July 2009. The land area is 87,120 SF. The sale price was \$860,000, which is the equivalent to \$9.87 per SF of land area. The Holiday station was subsequently constructed on the southeast corner of the same intersection. We note that this property has equal visibility as the subject, and at the time, had superior access characteristics. We chose not to include this sale in our analysis above given the buyer was the City of Ramsey, but we feel like this is a good comparable sale, when considering the fact that it is superior to the subject given its superior access characteristics.



### Value Indicated via Sales Comparison Approach – “AS-COMPLETED” BASIS

The previous value conclusion was of the “as-stabilized” condition. To arrive at the “as-complete” condition, we will deduct the appropriate lease up costs that the most probable buyer would anticipate. Our lease up analysis, which is supported by our market analysis and market participant interviews, is as follows:

LEASE-UP COSTS	
	Assumptions
Average Lease-Up Period (years)	0.25
Vacant Space (SF)	8,998
Market Rent (\$/SF)	\$12.00
Leasing Commissions (\$ or %)	6.50%
Tenant Improvements	\$10.00
Free Rent (months)	0
Entrepreneurial Profit (% of lease-up)	10.00%
Lease-Up Costs	Value
Rent Loss	\$26,994
Expense Carry	\$16,025
Leasing Commissions	\$35,092
Free Rent	\$0
Tenant Improvements	\$89,980
Total Lease-Up Costs	\$168,091
Plus Entrepreneurial Profit	\$16,809
Total Lease-Up Costs (With Profit)	\$184,900
<b>Total Lease-Up Costs (With Profit, Rounded)</b>	<b>\$180,000</b>

Deducting the lease up costs, plus profit, from the “as-stabilized” value indication results in the following conclusion for the “as-complete” scenario:

Market Value "As-Stabilized"	\$1,034,770
LESS: Lease-Up Costs	(\$180,000)
Market Value "As-Completed" - Rounded to Nearest: \$10,000	\$850,000

### Value Indicated via Sales Comparison Approach – “AS-IS” BASIS

The previous value conclusion was of the “as-complete” condition. To arrive at the “as-is” condition, we will deduct the appropriate construction costs that the most probable buyer would anticipate in order to remove the canopy and tanks, and to demise the interior of the convenience store and to convert the car wash space into usable, rentable space. Our lease up analysis, which is supported by our market analysis and market participant interviews, is as follows:

CONSTRUCTION COSTS		Assumptions
Canopy Removal		\$25,000
Tanks Removal		\$25,000
<u>Interior and Car Wash Demising Construction (\$15/SF)</u>		<u>\$135,000</u>
Total Construction Costs		\$185,000
Plus Entrepreneurial Profit	10%	\$18,500
Total Construction Costs (With Profit)		\$203,500
<b>Total Construction Costs (With Profit)</b>		<b>\$200,000</b>

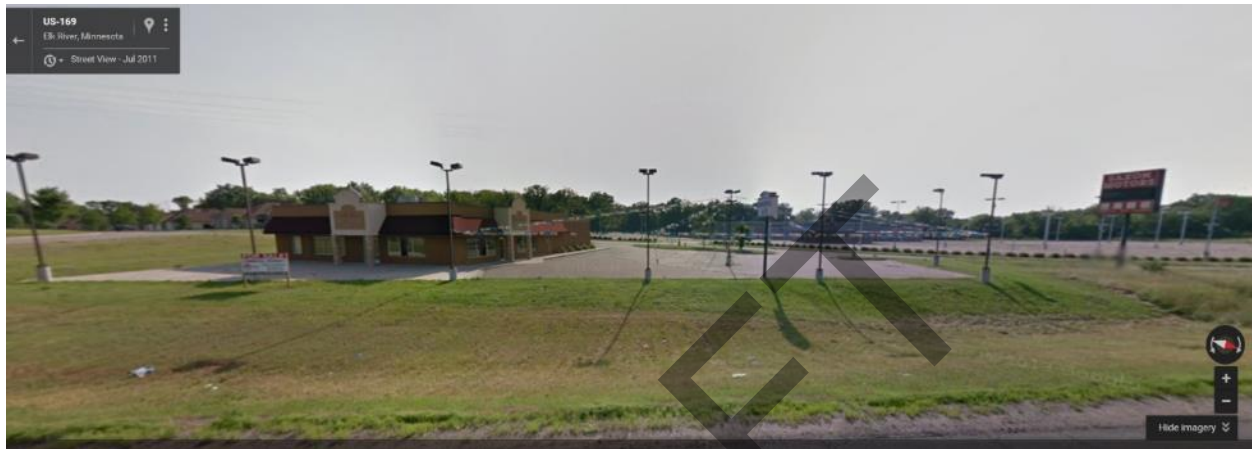
Deducting the lease up costs, plus profit, from the “as-complete” value indication results in the following conclusion for the “as-is” scenario:

Market Value "As-Stabilized"		\$1,034,770
	LESS: Lease-Up Costs	(\$180,000)
	LESS: Construction Costs and Profit	(\$200,000)
<b>Market Value "As-Is" - Rounded to Nearest:</b>	<b>\$10,000</b>	<b>\$650,000</b>

### *Other Sales Considered – “As-Is” Basis*

We also present the following comparable sales which reflect direct market evidence of properties in need of renovation and stabilization, which reflects our subject property’s “as-is” condition. Generally, these sales were purchased as dark, vacant buildings, which were subsequently renovated and occupied.

#### **17315 Zane Street, Elk River, MN**



This 7,000 SF commercial/retail building, originally built in 1992 but renovated in 2005, sold on 02/21/2013 for \$525,000, or \$75.00 per SF. The property had been an auto sales dealer/lot, was vacant at the time of sale, and was purchased for the conversion to a dialysis center. The property was bank-owned at the time, but had been actively marketed for 1,260 days (3.45 years). We confirmed this sale directly with the seller, who stated that there were no unusual sale conditions.

This property is considered to be overall slightly superior to the subject in that while it is located farther out of the Twin Cities (north of the subject along Highway 10), it has much better access than the subject, and at least equal visibility. We were unable to obtain the exact renovation costs, though we note that the change in use (auto sales to dialysis center) is significant, and likely

required a significant build-out. Regardless, this comparable provides direct market support for the methodology employed in our lease up and construction cost deductions to arrive at the “as-completed” and “as-is” market value conclusions. We further note that this property is technically outside of the specifically identified properties that are subject to the future Highway 10 transportation system improvement project.

### **2830 Cutters Grove Avenue, Anoka, MN**

This 14,104 SF commercial/retail building, built in 2005, sold on 7/31/2013 for \$900,000, or \$63.81 per SF. The property was vacant and in vanilla shell condition at the time of sale, and was purchased for the partial conversion (estimated 20% of GBA) to a medical office use (buyer is a retinal surgeon) and then leasing out the remaining portion to third party tenants. The property was lender-owned at the time, but had been actively marketed for 1,274 days (3.5 years). There were no unusual sale conditions reported.



This property is considered to be overall similar to the subject in that while it has inferior visibility (particularly from Highway 10), it has superior access. We were unable to obtain the exact renovation costs. Regardless, this comparable provides direct market support for the methodology employed in our lease up and construction cost deductions to arrive at the “as-completed” and “as-is” market value conclusions. We further note that this property is located south of Highway 10 on Cutters Grove Avenue, south of the Kwik Trip station on the southeast corner of Highway 10 and Cutters Grove, and appears to fall outside of the range of those properties affected by the future Highway 10 transportation system improvement project.

## 6360-6346 Highway 10 NW



This 5,048 SF former gas station/car wash building, built in 1996, sold on 6/23/2011 for \$110,000, or \$21.79 per SF. The property was vacant at the time of sale, and was purchased for the conversion to a print shop use (Do All Printing). The property was owned by BP America, Inc. of Warrenville, IL at the time, but had been actively marketed for 364 days (1 year). One of our sources stated there may have been soil contamination issues, but we verified this sale directly with the buyer who stated that there were none. The buyer also stated that the prior owner had removed the canopy/underground fuel tanks prior to/as part of the sale.

The significance of this comparable is that it is located in the opposite corner (SEC) of Highway 10 and Sunfish Lake Boulevard as the subject property (NWC). There are too many unknown factors involved in this sale that we were unable to verify, including the cost, if any, of canopy/tank removal, any soil conditions, any renovation costs associated with the change in use

to a print shop, etc. We also note that the seller specifically stated that he was not aware of the Highway 10 transportation system improvement project when he purchased the property.

**21135 South Diamond Lake Road, Rogers, MN (PID#14-120-23-43-0030)**

On 2/22/2013 the retail property located at 21135 S Diamond Lake Road in Rogers sold for \$775,000, or \$63.46 per SF of GBA. This 12,213 SF of GBA retail building was 40% occupied at the time of sale, and was purchased for partial owner-occupancy. The buyer built-out their portion of the space after sale. The property was originally built in 2005, and was on the market for roughly 6 months prior to sale. The initial asking price was \$850,000, or \$69.60 per SF of GBA. The buyer stated that they liked the location for their business and that they could collect rental revenue from the rest of the property.



## INCOME CAPITALIZATION APPROACH

The Income Capitalization Approach determines the value of a property based on the anticipated economic benefits. The principle of “anticipation” is essential to this approach, which recognizes the relationship between an asset’s potential future income and its value. To value the anticipated economic benefits of a property, potential income and expenses must be projected, and the most appropriate capitalization method must be selected.

The most common methods of converting net income into value are Direct Capitalization and Yield Capitalization. In direct capitalization, net operating income is divided by an overall capitalization rate to indicate an opinion of market value. In the yield capitalization method, anticipated future cash flows and a reversionary value are discounted to an opinion of net present value at a chosen yield rate (internal rate of return).

Depending on certain factors, each of the Income Approach methods has merit. Considering all of the aspects that would influence an investment decision in the subject property, we conclude that **only the Direct Capitalization Analysis is appropriate in this assignment, and necessary for a credible value indication.**

### Potential Gross Income – “AS-STABILIZED” BASIS

Potential gross income is generated by a number of distinct elements: minimum rent determined by lease agreement; reimbursement of certain expenses incurred in the ownership and operation of the real estate; and other miscellaneous revenues. Minimum base rent is a legal contract between landlord and tenant establishing a return to investors in the real estate. The lease terms also dictate specific expense reimbursement charges that can be billed to the tenant. Finally, miscellaneous income can be generated from a variety of sources. The first step in this appraisal is to analyze all potential gross income, starting with an analysis of the subject’s tenancy.

### Subject Tenancy

The subject property has been demised for multi-tenant occupancy, but could be occupied by a single tenant as well. In our highest and best use conclusion, we determined that renovating the improvements into a general retail use would be the maximally productive use. Therefore, we will analyze the subject as a single general retail property for our income analysis.

On the following pages we will discuss the subject's occupancy, lease structure and rent levels, and we will contrast this information against comparable properties in the market.

### Expense Structure

It is our expectation that typical lease terms for current and future vacant space at the subject would be on a net lease basis with most expenses being paid by the tenant.

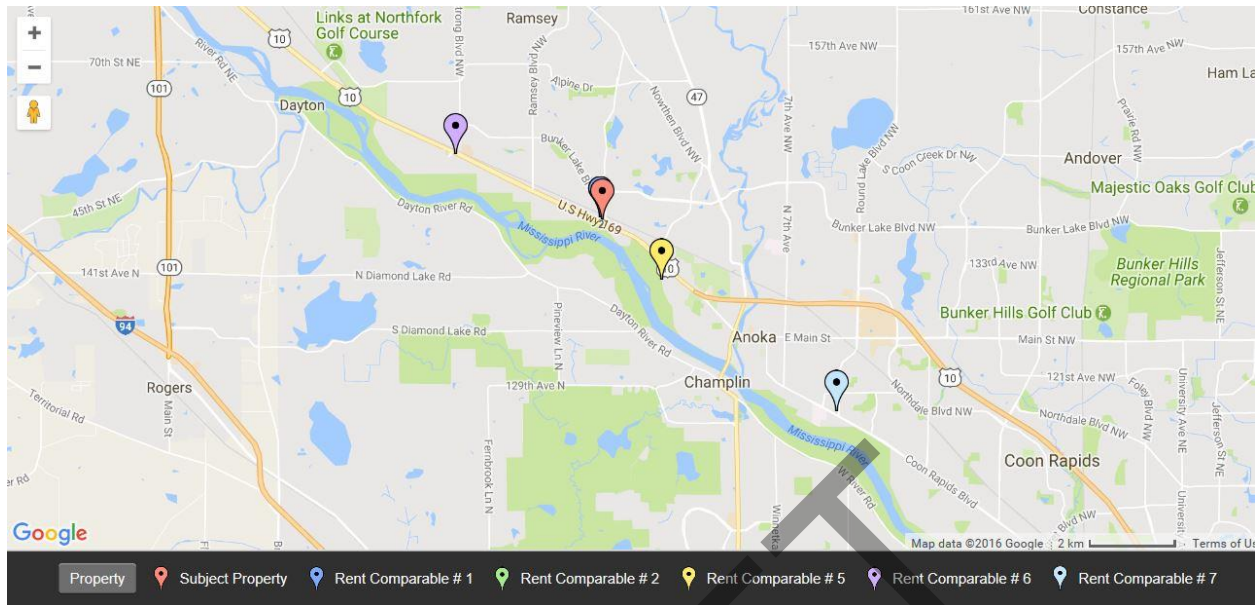
## Analysis of Comparable Rents

The following table summarizes rental activity for comparable space in competing buildings in the market.

SUMMARY OF RENT COMPARABLES							
#	Name Address	NRA (SF); Year Built;	Tenant Name	Lease Start; Lease Type; Term (Months)	Initial Rent/SF; Months Free	Taxes per SF; CAM per SF; Total per SF	TI's per SF; Rent Escalations
1	Sunfish Commons Retail Center 6415 Highway 10 Ramsey, MN 55303	<5,000 2001	Award Staffing	9/1/2016 Net NAV	<b>\$9.00-9.25</b> 0	NAV NAV \$6.00	\$0.00 NAV
	Comments:	We were not provided with all of the details regarding this lease. However, the broker stated that they just signed Award Staffing at \$9-9.25 per SF on a net basis, with no TI's and no free rent. This is located across the parking lot from the subject. The broker also stated that total taxes and CAM reimbursements were "sub \$6.00/SF".					
2	Sunfish Commons Retail Center 6415 Highway 10 Ramsey, MN 55303	27,736 2001	Asking Rent	Asking Rent Net NAV	<b>\$11.00 - \$13.00</b> NAV	NAV NAV \$6.00	NAV NAV
	Comments:	The listing broker stated that this is the asking rent range for this property, subject to different TI and free rent allowances. This is located across the parking lot from the subject. The broker also stated that total taxes and CAM reimbursements were "sub \$6.00/SF".					
3	Confidential Confidential Coon Rapids, MN	1,557 2006	Confidential	Effective 2015 Net NAV	<b>\$16.00</b> NAV	\$0.00 \$0.00 \$8.67	NAV NAV
	Comments:	Multi-tenant retail center adjacent to a large retailer. Typical market-level rent steps.					
4	Confidential Confidential Monticello, MN	1,500 2004	Confidential	11/15/2015 Net 60	<b>\$16.45</b> 0	\$3.25 \$3.56 \$6.81	\$13.33 2% annual
	Comments:	Multi-tenant retail center on Highway 25 in Monticello.					
5	Riverview Plaza Retail 2830 Cutters Grove Avenue Ramsey, MN 55303	6,700 2005	Asking Rent	Asking Rent Net NAV	<b>\$14.00</b> NAV	\$2.93 NAV NAV	NAV NAV
	Comments:	This is the asking rent for first generation space in a retail building south of Highway 10 on Cutters Grove Avenue. Space is vanilla shell, and would require TI allowance to finish the space.					
6	Ramsey Commons 8035 Riverdale Drive NW Ramsey, MN 55303	4,372 2009	Asking Rent	Asking Rent Net NAV	<b>\$14.00 - \$16.00</b> NAV	\$4.10 \$5.70 \$9.80	NAV NAV
	Comments:	Asking rent for a US Bank-anchored strip center across Highway 10 from the Coborn's-anchored development Northstar Marketplace and from the COR Development.					
7	Coon Rapids Marketplace 11650 Round Lake Boulevard NV Coon Rapids, MN 55433	7,132 2007	Asking Rent	Asking Rent Net NAV	<b>\$15.00</b> NAV	NAV NAV \$9.56	NAV NAV
	Comments:	Asking rent for retail/office space in Coon Rapids.					

STATISTICS						
	NRA (SF)	Lease Start Date	Initial Rent/SF	Total Taxes &		TI's per SF
				CAM		
<b>Low</b>	1,500	Nov-15	\$9.00	\$6.00		\$0.00
<b>High</b>	27,736	Sep-16	\$16.45	\$9.80		\$13.33
<b>Average</b>	8,166	Apr-16	\$13.19	\$7.81		\$6.67
<b>Median</b>	5,536	Apr-16	\$14.00	\$7.74		\$6.67

## Rent Comparables Map



Property	Address
<b>Subject Property</b>	<b>6401 Highway 10, Ramsey, MN 55303</b>
Rent Comparable # 1	6415 Highway 10, Ramsey, MN 55303
Rent Comparable # 2	6415 Highway 10, Ramsey, MN 55303
Rent Comparable # 3	Confidential, Coon Rapids, MN
Rent Comparable # 4	Confidential, Monticello, MN
Rent Comparable # 5	2830 Cutters Grove Avenue, Ramsey, MN 55303
Rent Comparable # 6	8035 Riverdale Drive NW, Ramsey, MN 55303
Rent Comparable # 7	11650 Round Lake Boulevard NW, Coon Rapids, MN 55433

### Discussion of Comparable Rents

We analyzed recent leases negotiated in competitive buildings in the marketplace and considered competitive listings. The comparables range in size from 1,500 square feet to 27,736 square feet. These are all located in buildings similar in class to the subject, and in the subject’s competitive submarket. The comparables exhibit a range of rents from \$9.00 to \$16.45 per square foot. All of these are triple-net leases in which the tenant is required to pay all operating costs.

We note that active listings were also included, and based on our conversations with market participants, would likely achieve \$1.00 to \$2.00 less than asking for actual contract rent.

We place primary emphasis on the two comparables in the retail center adjacent to the subject (Sunfish Commons Retail Center). We also consider differences in TI allowances, and other factors such as location. Our concluded market rent also considers our estimate of TI allowance for the subject property, which was factored into our lease up cost analysis.

Based on our analysis of the comparables, we conclude to the following market rent for the subject property:

MARKET RENT CONCLUSION	
Market Rent	
Retail Space	\$12.00
Lease Term (years)	5
Lease Type (reimbursements)	Net
Contract Rent Increase Projection	2.0% per year

## Revenue and Expenses Analysis

We developed an opinion of the property's annual income and operating expenses after reviewing the operating performance of similar buildings. No historical operating statements for the subject property were reviewed. We analyzed each item of expense and developed an opinion regarding what an informed investor would consider typical.

## Base Rental Revenue

The subject's potential gross rent for the first forecast year is calculated by multiplying the market rental rates by the entire space. The resulting potential gross rent is \$107,976.

POTENTIAL GROSS RENT CALCULATION			
Space Type	SF	Market	
		Rent per SF	Annual Net Rent
Retail Space	8,998	\$12.00	\$107,976
<b>Totals/Averages:</b>	<b>8,998</b>	<b>\$12.00</b>	<b>\$107,976</b>

## Expense Reimbursements

Tenants in the subject's market are responsible for their pro-rata share of real estate taxes and operating expenses. Based on our analysis, we estimated total reimbursement revenue for year one at \$64,099, which equates to \$7.12 per square foot.

## Vacancy and Collection Loss

Vacancy and collection loss is a function of the interrelationship between absorption, lease expiration, renewal probability, estimated downtime between leases, and a collection loss factor based on the relative stability and credit of the subject's tenant base. The following table summarizes the relevant vacancy data related to the subject property:

VACANCY ANALYSIS		
Vacancy Statistics	Rate	Building Class and Market
Current Vacancy at Subject Property	100.0%	(Subject is vacant)
Regional Vacancy Statistics	15.6%	Office Space, Twin Cities Office Market
Local Vacancy Statistics	21.7%	Office Space, Northwest Submarket
Regional Vacancy Statistics	8.5%	Neighborhood Centers, Twin Cities Market

We also present the following table from the NorthMarq Compass report that shows vacancy and absorption data:

Office Market - Vacancy and Absorption - 2nd Quarter 2016									
Submarket	Total # of Buildings	NRA	Vacant Space	Sublease Space	Percent Vacant	Percent Vacant w/ Sublease	Absorption		
							2nd Half 2015	1st Half 2016	
<b>Northwest</b>									
Class A	12	739,704	99,656	0	13.50%	13.50%	(644)	5,501	
Class B	16	1,102,734	263,563	1,386	23.90%	24.00%	27,286	33,131	
Class C	7	399,273	123,057	0	30.80%	30.80%	(11,801)	(31,869)	
<b>Total Northwest</b>	<b>35</b>	<b>2,241,711</b>	<b>486,276</b>	<b>1,386</b>	<b>21.70%</b>	<b>21.80%</b>	<b>14,841</b>	<b>6,763</b>	
Office Market - Vacancy and Absorption - 2nd Quarter 2016									
Submarket	Total # of Buildings	NRA	Vacant Space	Sublease Space	Percent Vacant	Percent Vacant w/ Sublease	Absorption		
							2nd Half 2015	1st Half 2016	
<b>Total Market</b>									
Class A	158	33,688,668	4,412,599	507,362	13.10%	14.60%	64,214	(77,442)	
Class B	350	31,449,970	5,826,262	438,611	18.50%	19.90%	357,326	132,181	
Class C	116	6,211,457	905,146	32,339	14.60%	15.10%	92,551	96,856	
<b>TOTAL MARKET</b>	<b>624</b>	<b>71,350,095</b>	<b>11,144,007</b>	<b>978,312</b>	<b>15.60%</b>	<b>17.00%</b>	<b>514,091</b>	<b>151,595</b>	
Retail Vacancy and Absorption - 1st Half 2016									
Submarket	Total # Of Buildings	NRA	Vacant Space	Sublease Space	Percent Vacant	Percent Vacant w/ Sublease	Absorption		
							1st Half 2015	2nd Half 2015	1st Half 2016
Community	124	31,669,481	1,774,602	195,272	5.60%	6.20%	3,563	100,193	167,044
Minneapolis CBD	18	1,319,301	186,848	0	14.20%	14.20%	12,431	7,857	85,094
Neighborhood	309	20,194,375	1,726,324	67,930	8.50%	8.90%	111,018	271,635	(22,923)
Outlet Mall	4	1,197,440	74,350	0	6.20%	6.20%	0	0	(4,000)
Regional	8	10,981,097	475,012	0	4.30%	4.30%	69,630	242,669	68,205
Specialty	22	2,342,341	321,375	0	13.70%	13.70%	(4,929)	74,292	(30,127)
St. Paul CBD	9	368,737	12,596	0	3.40%	3.40%	0	(2,304)	0
<b>TOTAL MARKET</b>									

We have included an 7.00% vacancy rate and a 2.00% collection loss for the subject property, based primarily on the reported local/neighborhood vacancy in conjunction with the subject's historic owner-occupancy. Deducting vacancy and collection loss from potential gross income, we arrive at effective gross income.

### Total Effective Gross Income (EGI)

By adding the Potential Gross Rent and Expense Reimbursements, and then deducting for vacancy/collection loss, the resulting subject's EGI is projected to be \$156,589 for the 12-month period following the effective date of the appraisal.

### Operating Expense Analysis

Typical terms of leases in the subject's submarket are on a net basis which means that the tenant is responsible for most operating expenses. Projected expenses are for the 12-month period following the effective date of the appraisal.

We present the following table from the NorthMarq Compass report that shows average net rent and expense data relevant to the subject:

<b>Office Northwest Submarket - Quoted Average Net Rental Rates and Op. Exp. - 2nd Quarter 2016</b>						
<b>Submarket</b>	<b>1st Quarter 2016</b>			<b>2nd Quarter 2016</b>		
	<b>Avg. Rate</b>	<b>Total OE &amp; Tax</b>	<b>Taxes</b>	<b>Avg. Rate</b>	<b>Total OE &amp; Tax</b>	<b>Taxes</b>
<b>Northwest</b>						
Class A	\$12.54	\$10.55	\$3.67	\$12.65	\$10.62	\$3.69
Class B	\$10.69	\$8.96	\$2.44	\$10.41	\$8.96	\$2.44
Class C	\$7.81	\$7.89	\$1.63	\$8.73	\$7.89	\$1.63
<b>Total Northwest</b>	<b>\$10.79</b>	<b>\$9.29</b>	<b>\$2.70</b>	<b>\$10.85</b>	<b>\$9.32</b>	<b>\$2.71</b>
<b>Office Total Market - Quoted Average Net Rental Rates and Op. Exp. - 2nd Quarter 2016</b>						
<b>Submarket</b>	<b>1st Quarter 2016</b>			<b>2nd Quarter 2016</b>		
	<b>Avg. Rate</b>	<b>Total OE &amp; Tax</b>	<b>Taxes</b>	<b>Avg. Rate</b>	<b>Total OE &amp; Tax</b>	<b>Taxes</b>
<b>Total Market</b>						
Class A	\$16.89	\$12.64	\$4.97	\$16.89	\$13.16	\$5.46
Class B	\$12.36	\$9.98	\$2.77	\$12.25	\$10.00	\$2.86
Class C	\$10.17	\$7.93	\$1.96	\$10.44	\$8.04	\$2.12
<b>TOTAL MARKET</b>	<b>\$14.55</b>	<b>\$11.22</b>	<b>\$3.85</b>	<b>\$14.55</b>	<b>\$11.52</b>	<b>\$4.16</b>
<b>Retail Market Quoted Average Net Rental Rates - 1st Half 2016</b>						
<b>Submarket</b>	<b>2nd Half 2015</b>			<b>1st Half 2016</b>		
	<b>Avg Rate</b>	<b>Total OE &amp; T</b>	<b>Taxes</b>	<b>Avg Rate</b>	<b>Total OE &amp; T</b>	<b>Taxes</b>
Community	\$18.92	\$8.23	\$4.88	\$18.87	\$8.52	\$4.95
Minneapolis CBD	\$24.14	\$14.25	\$4.01	\$24.66	\$15.04	\$4.59
Neighborhood	\$16.04	\$7.17	\$3.68	\$16.25	\$7.22	\$3.73
Outlet Mall	\$33.74	\$6.19	\$2.32	\$33.74	\$6.19	\$2.32
Regional	\$62.99	\$33.49	\$14.28	\$62.99	\$33.49	\$14.28
Specialty	\$31.89	\$14.79	\$8.81	\$32.34	\$14.34	\$8.33
St. Paul CBD	\$16.42	\$8.92	\$2.09	\$16.42	\$8.92	\$2.09
<b>TOTAL MARKET</b>	<b>\$27.48</b>	<b>\$13.22</b>	<b>\$6.44</b>	<b>\$27.54</b>	<b>\$13.35</b>	<b>\$6.47</b>

### Income and Expense Pro Forma

The following chart summarizes our opinion of income and expenses for the first stabilized year in this analysis.

INCOME AND EXPENSE RECONSTRUCTION		
	Stabilized Proforma	per SF
Potential Gross Rent	\$107,976	\$12.00
Reimbursements - Real Estate Taxes	\$38,490	\$4.28
Reimbursements - Other Expenses	\$25,609	\$2.85
Potential Gross Income	\$172,075	\$19.12
Vacancy	-\$12,045	7.00%
Collection Loss	-\$3,442	2.00%
Effective Gross Income	\$156,589	\$17.40
EXPENSES:		
CAM	\$17,996	\$2.00
Property Insurance	\$1,350	\$0.15
Management Fees	\$6,264	4.00%
Professional Fees	\$900	\$0.10
Subtotal	\$26,509	\$2.95
RE Taxes	\$38,490	\$4.28
Total Operating Expenses:	\$64,999	\$7.22
Operating Expense Ratio		41.51%
<b>Net Operating Income</b>	<b>\$91,589</b>	<b>\$10.18</b>

### Capitalization Rate Analysis

We have used three methods to estimate a capitalization rate applicable to the estimated stabilized NOI for the subject: the band of investment method, a review of investor surveys and an analysis of capitalization rate comparables.

#### Capitalization Rates from Band-of-Investment Method

Most properties are purchased with financing and equity; therefore, the overall capitalization rate must satisfy the market return requirements of both investment positions. The lender must anticipate a rate of return that is appropriate for the investment's perceived risk in order to make the loan; the loan principal is typically repaid through periodic amortization payments. The equity investor must also anticipate a rate of return that is commensurate with the investment's perceived risk or they opt for an alternative investment. Therefore, we analyze capitalization rates for debt and equity.

<b>BAND OF INVESTMENT - CAPITALIZATION RATE</b>		
<b>MORTGAGE COMPONENT</b>		
Mortgage Rate	4.50%	
Amortization Term (Years)	20	
Number of Payments	240	
Loan-to-Value Ratio (M)	75.00%	
Mortgage Constant (Rm)	7.59%	
<b>EQUITY COMPONENT</b>		
Equity Ratio (E)	25.00%	
Equity Dividend Rate (Re)	14.00%	
<b>RO BY BAND OF INVESTMENT</b>		
Mortgage Ratio	75.00%	
Annual Mortgage Constant	7.59%	
Mortgage Component		5.69%
Equity Ratio	25.00%	
Equity Dividend Rate	14.00%	
Equity Component		3.50%
<b>Indicated Overall Rate (Ro)</b>		<b>9.19%</b>

### *Capitalization Rates from Investor Surveys*

We considered data extracted from the PwC Real Estate Investor Survey for competitive properties. The most recent information from this survey is summarized below:

<b>CAPITALIZATION RATES</b>					
Survey	Date	Range			Average
PwC (National Strip Shopping Center)	Q4-2016	4.00%	-	9.50%	6.18%
PwC (National Strip Shopping Center, Non-Institutional)	Q4-2016	-	-	-	7.52%
PwC (National Office - CBD)	Q4-2016	3.50%	-	7.50%	5.57%
PwC (National Office - Suburban)	Q4-2016	5.00%	-	9.50%	6.63%
PwC (National Secondary Office)	Q4-2016	4.50%	-	10.00%	7.36%
PwC (National Secondary Office, Non-Institutional)	Q4-2016	-	-	-	8.62%

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### Capitalization Rates from Comparable Sales

We present details on the individual cap rate comparables below.

CAPITALIZATION RATES						
Property	Property Type	Year Built	Sale Date	Sale Price/SF	NOI/SF	Cap Rate
Ham Lake Retail Center 16210-16230 Aberdeen Street NE Ham Lake, MN 55304	Commercial/Retail	1998	Jan-14	\$67.66	\$6.77	10.00%
Boulevard Center 6211-6225 Brooklyn Blvd Brooklyn Center, MN 55429	Commercial/Retail	1965	Aug-13	\$113.57	\$5.77	9.97%
Albertville Plaza 11011 61st Street NE Albertville, MN 55301	Retail Center	2001	Aug-16	\$94.11	\$9.92	8.50%
Family Dollar/O'Reilly's 180 Jefferson Boulevard Big Lake, MN 55309	Retail Center	2004	Jun-15	\$120.00	\$8.29	7.75%
Jefferson Plaza 8501-8511 Jefferson Lane N Brooklyn Park, MN 55445	Retail Center	2002	Dec-15	\$145.03	\$6.47	8.34%
Retail Center 601 125th Avenue NE Blaine, MN 55434	Commercial/Retail	1985	Jul-15	-	-	8.30%
Retail Center 15704 90th Street NE Otsego, MN 55330	Commercial/Retail	2007	Nov-14	-	-	9.00%
Rogers Marketplace 21135 South Diamond Lake Road Rogers, MN 55374	Commercial/Retail	2005	Feb-13	\$63.46	\$6.35	10.00%
Retail Center 1966 Bunker Lake Blvd NW Andover MN 55304	Commercial/Retail	2005	Jul-14	-	-	7.75%
					<b>Min:</b>	<b>7.75%</b>
					<b>Max:</b>	<b>10.00%</b>
					<b>Average:</b>	<b>8.85%</b>
					<b>Median:</b>	<b>8.50%</b>

### Capitalization Rate Conclusions

To reconcile the results of the three methods, considering the investment risks associated with the subject property in its "as-stabilized" condition, we conclude a capitalization rate of **9.00%** for the subject.

### Value Indication via Income Approach – “AS-STABILIZED” BASIS

In the Direct Capitalization Method, we developed an opinion of market value by dividing year one net operating income by the selected overall capitalization rate. Our conclusion using the Direct Capitalization Method is as follows:

<b>DIRECT CAPITALIZATION METHOD</b>			
<b>NET OPERATING INCOME</b>		\$91,589	\$10.18
<b>Sensitivity Analysis Spread of:</b>	0.50%	<b>Value</b>	<b>\$ / SF of NRA</b>
Based on Low-Range of	8.50%	\$1,077,523	\$119.75
Based on Most Probable Range of	9.00%	\$1,017,660	\$113.10
Based on High-Range of	9.50%	\$964,099	\$107.15
<b>Preliminary Value</b>		<b>\$1,017,660</b>	<b>\$113.10</b>
<b>Market Value "As-Stabilized" - Rounded to Nearest: \$10,000</b>		<b>\$1,020,000</b>	<b>\$113.36</b>

### Value Indication via Income Approach - “AS-COMPLETED” BASIS

The previous value conclusion was of the “as-stabilized” condition. To arrive at the “as-complete” condition, we will deduct the appropriate lease up costs that the most probable buyer would anticipate. Our lease up analysis, which is supported by our market analysis and market participant interviews, is as follows:

<b>LEASE-UP COSTS</b>	
	<b>Assumptions</b>
Average Lease-Up Period (years)	0.25
Vacant Space (SF)	8,998
Market Rent (\$/SF)	\$12.00
Leasing Commissions (\$ or %)	6.50%
Tenant Improvements	\$10.00
Free Rent (months)	0
Entrepreneurial Profit (% of lease-up)	10.00%
<b>Lease-Up Costs</b>	<b>Value</b>
Rent Loss	\$26,994
Expense Carry	\$16,025
Leasing Commissions	\$35,092
Free Rent	\$0
Tenant Improvements	\$89,980
Total Lease-Up Costs	\$168,091
Plus Entrepreneurial Profit	\$16,809
Total Lease-Up Costs (With Profit)	\$184,900
<b>Total Lease-Up Costs (With Profit, Rounded)</b>	<b>\$180,000</b>

Deducting the lease up costs, plus profit, from the “as-stabilized” value indication results in the following conclusion for the “as-complete” scenario:

		<i>\$ / SF of NRA</i>	
<b>Market Value "As-Stabilized"</b>		<b>\$1,017,660</b>	<b>\$113.10</b>
	LESS: Lease-Up Costs	<b>(\$180,000)</b>	
<b>Market Value "As-Completed"</b>	<b>Rounded to Nearest: \$10,000</b>	<b>\$840,000</b>	<b>\$93.35</b>

### Value Indication via Income Approach - “AS-IS” BASIS

The previous value conclusion was of the “as-complete” condition. To arrive at the “as-is” condition, we will deduct the appropriate construction costs that the most probable buyer would anticipate in order to remove the canopy and tanks, and to demise the interior of the convenience store and to convert the car wash space into usable, rentable space. Our lease up analysis, which is supported by our market analysis and market participant interviews, is as follows:

<b>CONSTRUCTION COSTS</b>		
		<b>Assumptions</b>
Canopy Removal		\$25,000
Tanks Removal		\$25,000
<u>Interior and Car Wash Demising Construction (\$15/SF)</u>		<u>\$135,000</u>
Total Construction Costs		\$185,000
Plus Entrepreneurial Profit	10%	\$18,500
Total Construction Costs (With Profit)		\$203,500
<b>Total Construction Costs (With Profit)</b>		<b>\$200,000</b>

Deducting the lease up costs, plus profit, from the “as-complete” value indication results in the following conclusion for the “as-is” scenario:

		<i>\$ / SF of NRA</i>	
<b>Market Value "As-Stabilized"</b>		<b>\$1,017,660</b>	<b>\$113.10</b>
	LESS: Lease-Up Costs	<b>(\$180,000)</b>	
	LESS: Construction Costs	<b>(\$200,000)</b>	
<b>Market Value "As-Is"</b>	<b>Rounded to Nearest: \$10,000</b>	<b>\$640,000</b>	<b>\$71.13</b>

## RECONCILIATION AND FINAL VALUE OPINION

This appraisal utilizes the Sales Comparison and Income Approaches. The Cost Approach was excluded due to the presence of significant depreciation at the subject, and to the concluded highest and best use resulting in a remodeling of the improvements, and finally because most market participants do not rely on this approach for properties such as the subject. The approaches indicated the following:

<b>VALUE CONCLUSIONS:</b>			
Type of Value:	Market Value "As-Is"	Market Value "As-Completed"	Market Value "As-Stabilized"
Date of Value:	12/2/2016	3/1/2017	6/1/2017
Real Property Interest:	Fee Simple	Fee Simple	Fee Simple
<b>Land Value:</b>			
Indicated Land Value:	\$360,000	\$360,000	\$360,000
Per Square Foot:	\$5.00	\$5.00	\$5.00
<b>Sales Comparison Approach:</b>			
Concluded Value (Rounded):	\$1,030,000	\$1,030,000	\$1,030,000
LESS: Lease-Up Cost	(\$180,000)	(\$180,000)	-
LESS: Construction Cost	(\$200,000)	-	-
Value Indication via Sales Approach:	<b>\$650,000</b>	<b>\$850,000</b>	<b>\$1,030,000</b>
Per Square Foot (NRA):	\$72.24	\$94.47	\$114.47
<b>Income Approach:</b>			
<b>Direct Capitalization:</b>			
Net Operating Income (Stabilized):	\$91,589	\$91,589	\$91,589
Capitalization Rate:	9.00%	9.00%	9.00%
Preliminary Value:	\$1,017,660	\$1,017,660	\$1,017,660
Concluded Value (Rounded):	\$1,020,000	\$1,020,000	\$1,020,000
LESS: Lease-Up Cost	(\$180,000)	(\$180,000)	-
LESS: Construction Cost	(\$200,000)	-	-
Value Indication via Direct Capitalization (Rounded):	<b>\$640,000</b>	<b>\$840,000</b>	<b>\$1,020,000</b>
Per Square Foot (NRA):	\$71.13	\$93.35	\$113.36
<b>FINAL VALUE CONCLUSION:</b>			
Concluded Value:	<b>\$645,000</b>	<b>\$845,000</b>	<b>\$1,025,000</b>
Exposure Period:	12 months	12 months	12 months
Marketing Period:	12 months	12 months	12 months

We have given approximately equal weight to both the Sales Comparison Approach and the Income Approach, given the subject property's configuration and use. The Cost Approach is not considered to be necessary for credible results and was therefore omitted from the analysis.

## Conclusion of Market Value

Based on our tour of the subject property, and after examining and considering the subject's location, physical and economic characteristics, current market conditions, demographic influences, and other legal, social, economic factors, the details of which are included in the valuation analysis in the accompanying report, subject to the definitions, assumptions, and limiting conditions expressed in the report, our value opinion is as follows:

VALUE CONCLUSIONS					
Valuation Premise	Interest Appraised	Date of Value	Value Conclusion	per SF of NRA	
Market Value "As-Is"	Fee Simple	December 2, 2016	\$645,000	\$71.68	
Market Value "As-Completed"	Fee Simple	March 1, 2017	\$845,000	\$93.91	
Market Value "As-Stabilized"	Fee Simple	June 1, 2017	\$1,025,000	\$113.91	

## Exposure Time and Marketing Time

Based on our review of national, regional and local investor surveys, discussions with market participants and information gathered during the sales verification process, a reasonable exposure time for the subject property at the value concluded within this report would have been approximately 12 months. This assumes an active and professional marketing plan would have been employed by the current owner.

We believe, based on the assumptions employed in our analysis, as well as our selection of investment parameters for the subject, that our value conclusion represents a price achievable within 12 months.

## Extraordinary Assumptions

An extraordinary assumption is defined by the USPAP as "an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."

- The subject has historically operated as a gas station, and while the fuel pumps have been removed, it is our observation and understanding that the canopy and the underground fuel tanks are still present on the site. It is also our understanding that a Phase I environmental assessment report has been completed, the results of which have indicated the need for a Phase II assessment. We have not been provided with a copy of the Phase I report, or any other summary of the potential issues it uncovered. Our analysis is subject to the Extraordinary Assumption that there is no environmental contamination or impact of any kind. Should there turn out to be any environmental or

contamination-related issues, our value conclusions could change substantially. Specifically, the costs of remediating any environmental contamination would most likely be subtracted from the value conclusion.

- Our 'as-complete' and 'as-stabilized' values are subject to the assumption that the required renovations would be completed to the specifications and within the timeline we have outlined in our appraisal. Furthermore, we also assume that market conditions will remain as anticipated during the construction and lease up period. Should anything turn out to be different than what we have outlined in this report, then our value conclusions could change substantially.

### **Hypothetical Conditions**

A hypothetical condition is defined by the USPAP as “that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”

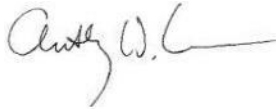
- While the purchase negotiations between the City of Ramsey and the current property owner are not part of condemnation proceedings, we believe that the acquisition does appear to qualify for the 'Scope of the Project Rule' as part of the Uniform Appraisal Standards for Federal Land Acquisitions. Specifically, there is a public purpose requiring the acquisition of the land, the particular lands required for the public purpose have been clearly identified, and the acquisition of the particular lands is evident to the public. Based on our market research and market participant interviews, the market is well aware of the US Highway 10 transportation system improvement plans, and we have observed specific market evidence measuring the impact. For the purposes of this appraisal, we have employed the 'Scope of the Project Rule' and our analysis is therefore subject to the Hypothetical Condition that the looming highway improvement project has not impacted market values for the particular properties affected. Should it be determined that the 'Scope of the Project Rule' does not apply, then we reserve the right to revise our analysis and conclusions.

## CERTIFICATION AND ADDENDA

### Certification

We certify that, to the best of our 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 our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We 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.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our 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.
- Tony Lesicka, MAI has made a personal tour of the property that is the subject of this report. Nathan Hansen has not made a personal tour of the property that is the subject of this report.
- We have performed no 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.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as well as the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Tony Lesicka, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.
- As of the date of this report, Richard Nordquist has completed the Standards and Ethics Education Requirements for Candidates for Designation of the Appraisal Institute.



Tony Lesicka, MAI  
MN Certified General 20371321  
Principal  
Insight Realty Advisors, Inc.  
275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-983-2408  
Email: tony.lesicka@insightrealtyadvisors.com



Nathan Hansen  
MN Certified General 20302614  
Principal  
Insight Realty Advisors, Inc.  
275 East 4th Street, Suite 325  
St. Paul, MN 55101  
Phone: 651-470-1229  
Email: nathan.hansen@insightrealtyadvisors.com

## Assumptions and Limiting Conditions

"Report" means the appraisal report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"Appraiser(s)" means the person(s) who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

- No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
- The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. The Appraiser shall not be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of the Appraiser any inaccuracies or errors that it believes are contained in the Report.
- The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.
- The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of the Appraiser is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without the Appraiser's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by the Appraiser in writing to use or rely thereon, hereby agrees to indemnify and hold the Appraiser harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).

- Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Appraisal.
- The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.
- The physical condition of the improvements considered by the Report is based on visual observation by the Appraiser or other person identified in the Report. The Appraiser assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.
- In this appraisal, we received and relied upon various information provided by other parties including, but not limited to, property owners, property managers, brokers, realtors, appraisers, engineers, assessors, planning officials, etc. Should any of the information provided to us change in any way, then our value conclusions could also change substantially.
- The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. The Appraiser recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.
- The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser makes no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
- Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of

the Property. The Appraisers are not qualified to detect such substances. The Appraiser recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.

- Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. The Appraiser recommends that an expert in this field be employed to determine the compliance of the Property with the requirements of the ADA and the impact of these matters on the opinion of value.
- If the Report is submitted to a lender or investor with the prior approval of the Appraiser, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.
- Appraiser and Client agree that the following mutual limitation of liability is agreed to in consideration of the fees to be charged and the nature of Appraiser's services under this Agreement. Appraiser and Client agree that to the fullest extent permitted by applicable law, each party's and its Personnel's maximum aggregate and joint liability to the other party for claims and causes of action relating to this Agreement or to appraisals or other services under this Agreement shall be limited to the higher of \$10,000 or the total fees and costs charged by Appraiser for the services that are the subject of the claim(s) or cause(s) of action. This limitation of liability extends to all types of claims or causes of action, whether in breach of contract or tort, including without limitation claims/causes of action for negligence, professional negligence or negligent misrepresentation on the part of either party or its Personnel, but excluding claims/causes of action for intentionally fraudulent conduct, criminal conduct or intentionally caused injury. The Personnel of each party are intended third-party beneficiaries of this limitation of liability. "Personnel," as used in this paragraph, means the respective party's staff, employees, contractors, members, partners and shareholders. Appraiser and Client agree that they each have been free to negotiate different terms than stated above or contract with other parties.
- If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and the Appraiser has no liability to such recipients. The Appraiser disclaims any and all liability to any party other than the party that retained the Appraiser to prepare the Report.

- By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.

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## Addenda Contents

ADDENDUM A: GLOSSARY

ADDENDUM B: APPRAISER QUALIFICATIONS

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## A: GLOSSARY

### Glossary

This glossary contains the definitions of common words and phrases, used throughout the appraisal industry, as applied within this document. Please refer to the publications listed in the **Works Cited** section below for more information.

### Works Cited:

- Appraisal Institute. *The Appraisal of Real Estate*. 14th ed. Chicago: Appraisal Institute, 2013. Print.
- Appraisal Institute. *The Dictionary of Real Estate Appraisal*. 6th ed. 2015. Print.

### As-Is Market Value

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal's effective date. –*Interagency Appraisal and Evaluation Guidelines (12/2010)*

### Band of Investment

A technique in which the capitalization rates attributable to components of an investment are weighted and combined to derive a weighted-average rate attributable to the total investment (i.e., debt and equity, land and improvements). (Dictionary, 6th Edition)

### Common Area

1. The total area within a property that is not designed for sale or rental but is available for common use by all owners, tenants, or their invitees, e.g., parking and its appurtenances, malls, sidewalks, landscaped areas, recreation areas, public toilets, truck and service facilities.
2. In a shopping center, the walkways and areas onto which the stores face and which conduct the flow of customer traffic. (ICSC) (Dictionary, 6th Edition)

### Common Area Maintenance (CAM)

1. The expense of operating and maintaining common areas; may or may not include management charges and usually does not include capital expenditures on tenant improvements or other improvements to the property.
2. The amount of money charged to tenants for their shares of maintaining a [shopping]

center's common area. The charge that a tenant pays for shared services and facilities such as electricity, security, and maintenance of parking lots. The area maintained in common by all tenants, such as parking lots and common passages. Items charged to common area maintenance may include cleaning services, parking lot sweeping and maintenance, snow removal, security, and upkeep. (ICSC) (Dictionary, 6th Edition)

### Debt Coverage Ratio (DCR)

The ratio of net operating income to annual debt service ( $DCR = NOI/I_m$ ), which measures the relative ability of a property to meet its debt service out of net operating income; also called *debt service coverage ratio (DSCR)*. A larger *DCR* indicates a greater ability for a property to withstand a reduction of income, providing an improved safety margin for a lender. (Dictionary, 6th Edition)

### Depreciation

1. In appraisal, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.
2. In accounting, an allocation of the original cost of an asset, amortizing the cost over the asset's life; calculated using a variety of standard techniques. (Dictionary, 6th Edition)

**Discount Rate**

A rate of return on capital used to convert future payments or receipts into present value; usually considered to be a synonym for yield rate. (Dictionary, 6th Edition)

**Effective Age**

The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. (Dictionary, 6th Edition)

**Effective Date**

1. The date on which the appraisal or review opinion apply.
2. In a lease document, the date upon which the lease goes into effect. (Dictionary, 6th Edition)

**Exposure Time**

1. The time a property remains on the market.
2. The estimated length of time that 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. Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. (Dictionary, 6th Edition)

**External Obsolescence**

A type of depreciation; a diminution in value caused by negative external influences and generally incurable on the part of the owner, landlord, or tenant. The external influence may be either temporary or permanent. (Dictionary, 6th Edition)

**Extraordinary Assumption**

An assumption, directly related to a specific assignment, as of the date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject

property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2016-2017 ed.) (Dictionary, 6th Edition)

**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, 6th Edition)

**Functional Obsolescence**

The impairment of functional capacity of improvements according to market tastes and standards. (Dictionary, 6th Edition)

**Functional Utility**

The ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards; the efficiency of a building's use in terms of architectural style, design and layout, traffic patterns, and the size and type of rooms. (The Appraisal of Real Estate, 14th Edition) (Dictionary, 6th Edition)

**Gross Building Area (GBA)**

1. Total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls of the above grade area. This includes mezzanines and basements if and when typically included in the market area of the type of property involved.
2. Gross leasable area plus all common areas.
3. For residential space, the total area of all floor levels measured from the exterior of the walls and including the superstructure and substructure basement; typically does not include garage space. (Dictionary, 6th Edition)

**Gross Leasable Area (GLA)**

Total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines; measured from the center of joint partitioning to the outside wall surfaces. (Dictionary, 6th Edition)

### **Highest & Best Use**

1. The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.
2. The use of an asset that maximizes its potential and that is possible, legally permissible, and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid. (IVS)
3. [The] highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future. (Uniform Appraisal Standards for Federal Land Acquisitions) (Dictionary, 6th Edition)

### **Hypothetical Condition**

1. A condition that is presumed to be true when it is known to be false. (SVP)
2. A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2016-2017 ed.) (Dictionary, 6th Edition)

### **Leased Fee Interest**

The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires. (Dictionary, 6th Edition)

### **Leasehold Interest**

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease. (Dictionary, 6th Edition)

### **Market Area**

The geographic region from which a majority of demand comes and in which the majority of competition is located. Depending on the market, a market area may be further subdivided into components such as primary, secondary, and tertiary market areas, or the competitive market area may be distinguished from the general market area. (Dictionary, 6th Edition)

### **Market Rent**

The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs). (Dictionary, 6th Edition)

### **Market Value**

A type of value that is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined, such as the following.

1. The most widely accepted components of market value are incorporated in the following definition: The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

2. Market value is described, not defined, in the Uniform Standards of Professional Appraisal Practice (USPAP) as follows: A type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal. Comment: Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client's intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:
  - a. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
  - b. the terms of sale (e.g., cash, cash equivalent, or other terms); and
  - c. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).
3. The following definition of market value is used by agencies that regulate federally insured financial institutions in the United States: The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and the 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:
  - If the appraisal is conditioned upon financing or other terms, specification as to whether the financing or terms are at, below, or above market interest rates and/or contain unusual conditions or incentives. The terms of above- or below-market interest rates and/or other special incentives must be clearly set forth; their contribution to, or negative influence on, value must be described and estimated; and the market data supporting the opinion of value must be described and explained.
  - Buyer and seller are typically motivated;
  - Both parties are well informed or well advised, and acting in what they consider their 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 sales concessions granted by anyone associated with the sale.

*Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value. (USPAP, 2016-2017 ed.)*

USPAP also requires that certain items be included in every appraisal report. Among these items, the following are directly related to the definition of market value:

- Identification of the specific property rights to be appraised.
- Statement of the effective date of the value opinion.
- Specification as to whether cash, terms equivalent to cash, or other precisely described financing terms are assumed as the basis of the appraisal.

(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)

4. The International Valuation Standards Council defines *market value* for the purpose of international standards as follows: The estimated amount for which a property should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion. (IVS)
5. The Uniform Standards for Federal Land Acquisitions defines *market value* as follows: Market value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal. (Uniform Appraisal Standards for Federal Land Acquisitions) (Dictionary, 6th Edition)

#### **Marketing Time**

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of The Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.) (Dictionary, 6th Edition)

#### **Net Operating Income (NOI or I<sub>o</sub>)**

The actual or anticipated net income that remains after all operating expenses are

deducted from effective gross income but before mortgage debt service and book depreciation are deducted. Note: This definition mirrors the convention used in corporate finance and business valuation for EBITDA (earnings before interest, taxes, depreciation, and amortization). (Dictionary, 6th Edition)

#### **Obsolescence**

One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external. (Dictionary, 6th Edition)

#### **Parking Ratio**

A ratio of parking area or parking spaces to an economic or physical unit of comparison. Minimum required parking ratios of various land uses are often stated in zoning ordinances. (Dictionary, 6th Edition)

#### **Prospective Opinion of Value**

A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy. (Dictionary, 6th Edition)

#### **Prospective Market Value "As Completed" and "As Stabilized"**

A prospective market value may be appropriate for the valuation of a property interest related to a credit decision for a proposed development or renovation project. According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report. Prospective value opinions are intended to reflect the current expectations and perceptions of market

participants, based on available data. Two prospective value opinions may be required to reflect the time frame during which development, construction, and occupancy will occur. The prospective market value—as completed—reflects the property’s market value as of the time that development is expected to be completed. The prospective market value—as stabilized—reflects the property’s market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties. (See USPAP Statement 4\* and Advisory Opinion 17.) (Interagency Appraisal and Evaluation Guidelines) (Dictionary, 6th Edition)

#### **Rentable Area**

For office or retail buildings, the tenant’s pro rata portion of the entire office floor, excluding elements of the building that penetrate through the floor to the areas below. The rentable area of a floor is computed by measuring to the inside finished surface of the dominant portion of the permanent building walls, excluding any major vertical penetrations of the floor. Alternatively, the amount of space on which the rent is based; calculated according to local practice. (Dictionary, 6th Edition)

#### **Replacement Cost**

The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout. (Dictionary, 6th Edition)

#### **Scope of Work**

1. The type of data and the extent of research and analyses. (SVP)
2. The type and extent of research and analyses in an appraisal or appraisal review assignment. (USPAP, 2016-2017 ed.) (Dictionary, 6th Edition)

#### **Stabilized Occupancy**

1. The occupancy of a property that would be expected at a particular point in time, considering its relative competitive strength and supply and demand conditions at the time, and presuming it is priced at market rent and has had reasonable market exposure. A property is at stabilized occupancy when it is capturing its appropriate share of market demand.
2. An expression of the average or typical occupancy that would be expected for a property over a specified projection period or over its economic life. (Dictionary, 6th Edition)

#### **Tenant Improvements (TIs)**

1. Fixed improvements to the land or structures installed and paid for use by a lessee.
2. The original installation of finished tenant space in a construction project; subject to periodic change for succeeding tenants. (Dictionary, 6th Edition)

#### **Vacancy and Collection Loss**

A deduction from potential gross income (*PGI*) made to reflect income reductions due to vacancies, tenant turnover, and nonpayment of rent; also called *vacancy and credit loss* or *vacancy and contingency loss*. (Dictionary, 6th Edition)

## Operating Expenses

**Other Taxes, Fees & Permits** - Personal property taxes, sales taxes, utility taxes, fees and permit expenses.

**Property Insurance** – Coverage for loss or damage to the property caused by the perils of fire, lightning, extended coverage perils, vandalism and malicious mischief, and additional perils.

**Management Fees** - The sum paid for management services. Management services may be contracted for or provided by the property owner. Management expenses may include supervision, on-site offices or apartments for resident managers, telephone service, clerical help, legal or accounting services, printing and postage, and advertising. Management fees may occasionally be included among recoverable operating expenses

**Total Administrative Fees** – Depending on the nature of the real estate, these usually include professional fees and other general administrative expenses, such as rent of offices and the services needed to operate the property. Administrative expenses can be provided either in the following expense subcategories or in a bulk total. 1) Professional Fees – Fees paid for any professional services contracted for or incurred in property operation; or 2) Other Administrative – Any other general administrative expenses incurred in property operation.

**Heating Fuel** - The cost of heating fuel purchased from outside producers. The cost of heat is generally a tenant expense in single-tenant, industrial or retail properties, and apartment projects with individual heating units. It is a major expense item shown in operating statements for office buildings and many apartment properties. The fuel consumed may be coal, oil, or public steam. Heating supplies, maintenance, and workers' wages are included in this expense category under certain accounting methods.

**Electricity** - The cost of electricity purchased from outside producers. Although the cost of electricity for leased space is frequently a tenant expense, and therefore not included in the operating expense statement, the owner may be responsible for lighting public areas and for the power needed to run elevators and other building equipment.

**Gas** - The cost of gas purchased from outside producers. When used for heating and air conditioning, gas can be a major expense item that is either paid by the tenant or reflected in the rent.

**Water & Sewer** - The cost of water consumed, including water specially treated for the circulating ice water system, or purchased for drinking purposes. The cost of water is a major consideration for industrial plants that use processes depending on water and for multifamily projects, in which the cost of sewer service usually ties to the amount of water used. It is also an important consideration for laundries, restaurants, taverns, hotels, and similar operations.

**Other Utilities** - The cost of other utilities purchased from outside producers.

**Total Utilities** - The cost of utilities net of energy sales to stores and others. Utilities are services rendered by public and private utility companies (e.g., electricity, gas, heating fuel, water/sewer and other utilities providers). Utility expenses can be provided either in expense subcategories or in a bulk total.

**Repairs & Maintenance** - All expenses incurred for the general repairs and maintenance of the building, including common areas and general upkeep. Repairs and maintenance expenses include elevator, HVAC, electrical and plumbing, structural/roof, and other repairs and maintenance expense items. Repairs and Maintenance expenses can be provided either in the following expense subcategories or in a bulk total. 1) Elevator - The expense of the contract and any additional expenses for elevator repairs and maintenance. This expense item may also include escalator repairs and maintenance. 2) HVAC – The expense of the contract and any additional expenses for heating, ventilation and air-conditioning systems. 3) Electrical & Plumbing – The expense of all repairs and maintenance associated with the property's electrical and plumbing systems. 4) Structural/Roof - The expense of all repairs and maintenance associated with the property's building structure and roof. 5) Pest Control – The expense of insect and rodent control. 6). Other Repairs & Maintenance - The cost of any other repairs and maintenance items not specifically included in other expense categories.

**Common Area Maintenance** - The common area is the total area within a property that is not designed for sale or rental, but is available for common use by all owners, tenants, or their invitees, e.g., parking and its appurtenances, malls, sidewalks, landscaped areas, recreation areas, public toilets, truck and service facilities. Common Area Maintenance (CAM) expenses can be entered in bulk or through the sub-categories. 1) Utilities – Cost of utilities that

are included in CAM charges and passed through to tenants. 2) Repair & Maintenance – Cost of repair and maintenance items that are included in CAM charges and passed through to tenants. 3) Parking Lot Maintenance – Cost of parking lot maintenance items that are included in CAM charges and passed through to tenants. 4) Snow Removal – Cost of snow removal that are included in CAM charges and passed through to tenants. 5) Grounds Maintenance – Cost of ground maintenance items that are included in CAM charges and passed through to tenants. 6) Other CAM expenses are items that are included in CAM charges and passed through to tenants.

**Painting & Decorating** - This expense category is relevant to residential properties where the landlord is required to prepare a dwelling unit for occupancy in between tenancies.

**Cleaning & Janitorial** - The expenses for building cleaning and janitorial services, for both daytime and night-time cleaning and janitorial service for tenant spaces, public areas, atriums, elevators, restrooms, windows, etc. Cleaning and Janitorial expenses can be provided either in the following subcategories or entered in a bulk total. 1) Contract Services - The expense of cleaning and janitorial services contracted for with outside service providers. 2) Supplies, Materials & Misc. - The cost any cleaning materials and any other janitorial supplies required for property cleaning and janitorial services and not covered elsewhere. 3) Trash Removal - The expense of property trash and rubbish removal and related services. Sometimes this expense item includes the cost of pest control and/or snow removal .4) Other Cleaning/Janitorial - Any other cleaning and janitorial related expenses not included in other specific expense categories.

**Advertising & Promotion** - Expenses related to advertising, promotion, sales, and publicity and all related printing, stationary, artwork, magazine space, broadcasting, and postage related to marketing.

**Professional Fees** - All professional fees associated with property leasing activities including legal, accounting, data processing, and auditing costs to the extent necessary to satisfy tenant lease requirements and permanent lender requirements.

**Total Payroll** - The payroll expenses for all employees involved in the ongoing operation of the property, but whose salaries and wages are not included in other expense categories. Payroll expenses can be provided either in the following subcategories or entered in a bulk total. 1) Administrative Payroll – The payroll expenses for all employees involved in on-going property administration. 2) Repair & Maintenance Payroll - The expense of all employees involved in on-going repairs and maintenance of the property. 3) Cleaning Payroll - The expense of all employees involved in providing on-going cleaning and janitorial services to the property 4) Other Payroll - The expense of any other employees involved in providing services to the property not covered in other specific categories.

**Security** - Expenses related to the security of the Lessees and the Property. This expense item includes payroll, contract services and other security expenses not covered in other expense categories. This item also includes the expense of maintenance of security systems such as alarms and closed circuit television (CCTV), and ordinary supplies necessary to operate a security program, including batteries, control forms, access cards, and security uniforms.

**Roads & Grounds** - The cost of maintaining the grounds and parking areas of the property. This expense can vary widely depending on the type of property and its total area. Landscaping improvements can range from none to extensive beds, gardens and trees. In addition, hard-surfaced public parking areas with drains, lights, and marked car spaces are subject to intensive wear and can be costly to maintain.

**Other Operating Expenses** - Any other expenses incurred in the operation of the property not specifically covered elsewhere.

**Real Estate Taxes** - The tax levied on real estate (i.e., on the land, appurtenances, improvements, structures and buildings); typically by the state, county and/or municipality in which the property is located.

## **B: APPRAISER QUALIFICATIONS**

### **Professional Qualifications of:**

#### **Anthony W. Lesicka, MAI**

Mr. Lesicka is a co-founder of Insight Realty Advisors, Inc. where he performs real estate valuation and consulting analyses on various property types (industrial, office, retail, multifamily and vacant land), as well as appraisal-related regulatory consulting for various clients and intended uses across the Upper Midwest. Prior to co-founding Insight, Mr. Lesicka was the Chief Appraiser for Stillwater, MN-based Central Bank, a bank that grew from roughly \$350 million in size to \$1.2 billion over the 2008-2011 time period through the acquisition of several failed banks. Prior to joining Central Bank, he set up and managed the appraisal review department for another bank in the Twin Cities. Mr. Lesicka began his appraisal career as a fee appraiser. He has also worked as an in-house valuation expert for a major commercial property developer and as an underwriter for a lender specializing in multifamily and seniors housing loans.

### **Experience**

His appraisal experience encompasses virtually all property types, covering appraisal, appraisal review and appraisal consulting. He also has experience consulting with federally related financial institutions on appraisal-related regulations. Importantly, he has experience from the perspective of several different users of appraisal services, having worked for a developer, a multifamily/seniors housing agency lender, as well as two different banks.

### **Education**

University of Minnesota-Twin Cities  
Bachelor of Individualized Studies (2004)  
Management/Information & Decision Sciences, Communication Studies, and Global Studies

## Professional Activities

- Minnesota Certified General Real Property Appraiser License No. 20371321
- Wisconsin Certified General Real Property Appraiser License No. 1400-10
- Iowa Certified General Real Property Appraiser License No. CG03439
- Designated Member: Appraisal Institute, Member No. 457907
- Member – Board of Directors: North Star Chapter of the Appraisal Institute (2010-2012)
- President: North Star Chapter of the Appraisal Institute (2016)
- Member – Public Relations Committee: North Star Chapter of the Appraisal Institute (2009-)
  - Frequent presenter of various valuation-related seminars through various industry organizations including the Appraisal Institute, the MN Banker’s Association, the Risk Management Association and the Real Estate Journal seminar series. Author/co-author various research and commentary articles for industry and other publications in an effort to promote the Appraisal Institute, its members, and its designations. Develop/Support other marketing/public relations opportunities to promote the valuation profession.  
Examples Include:
    - <http://finance-commerce.com/2010/11/missing-forest-for-the-trees-with-cre-data/>
    - <http://news.investors.com/article/556313/201012091757/property-worth-its-tough-to-tell.htm?Ntt=tony-lesicka>
    - <http://www.startribune.com/housing/commercial/124099969.html>
    - [http://www.northwesternfinancialreview.com/archives/Archives2013/June%2015%202013/june15\\_2013appraiserscorner\\_lesicka.html](http://www.northwesternfinancialreview.com/archives/Archives2013/June%2015%202013/june15_2013appraiserscorner_lesicka.html)
- Published Author: Real Estate Appraisal Practice: A Collection of Examples (2013)
  - Co-authored a real estate appraisal textbook highlighting the best practices of real estate appraisal collected from real world examples.
- Adjunct Lecturer: University of Wisconsin-Stout, School of Hospitality Leadership, Real Estate Appraisal Course

## **Professional Qualifications of:**

### **Nathan Hansen**

Mr. Hansen is a Principal of Insight Realty Advisors, Inc. where he performs real estate valuation and consulting analyses on various property types (industrial, office, retail, multifamily and vacant land) for various clients and intended uses across the Upper Midwest. Prior to joining Insight, Mr. Hansen was with Nagell Appraisal & Consulting since 2002. He has completed appraisals in all of Minnesota, and portions of Wisconsin, Iowa, and North Dakota. Appraisal assignments included multiple properties types for financing, condemnation, and estate purposes.

### **Experience**

His appraisal experience encompasses all property types, including: retail centers, office buildings, apartment complexes, industrial buildings, bare land, subdivisions, new development, hotels/motels, etc.

### **Education**

Bachelor of Science  
North Dakota State University

### **Professional Activities**

- Minnesota Certified General Appraiser License #20302614
- Wisconsin Certified General Appraiser License #1666-010
- Candidate for Designation, Appraisal Institute

Successfully completed numerous education courses, including the continuing education program, from the Appraisal Institute. Appraisal Institute coursework completed include the following:

- Advanced Income Capitalization
- Basic Income Capitalization
- Evaluation of Commercial Construction
- Fundamentals of Separating Real Property, Personal Property and Intangible Business Assets
- General Market Analysis & Highest and Best Use
- Income Valuation of Small, Mixed-use Properties
- Real Estate Finance – Market Number Impact on Value and Appraisal
- Regression Analysis in Appraisal Practice
- Report Writing & Valuation Analysis
- USPAP and other appropriate Standard & Ethics update courses