

XXXX AVENUE
CITY OF XXXX
XXXX COUNTY, NEW YORK

APPRAISAL REPORT

of

MIXED USE BUILDING

OWNER OF RECORD

XXXX

PREPARED FOR

XXXX

DATE OF PREPARATION

February XXXX

DATE OF VALUATION

February 10, XXXX

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

1080 STATE FAIR BLVD
SYRACUSE, NY 13209
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1080 STATE FAIR BLVD
SYRACUSE, NY 13209
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NO FAX

March 1, XXXX

XXXX
XXXX
XXXX
XXXX

Re: Mixed Use Building
XXXX Avenue
City of XXXX, XXXX County

Dear XXXX:

To fulfill my responsibility outlined in the Letter of Engagement submitted XXXX, I present this Appraisal Report prepared XXXX. As agreed, the market value of subject's fee simple interest¹ is provided in the attached report along with the supporting data and analysis that this appraisal format affords. The date of valuation is February 10, XXXX.

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

The client is XXXX, while intended users include: XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX. It may not be reproduced in all or part, or employed by any other entity, without my written permission.

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

Respectfully submitted,

THURSTON, CASALE & RYAN, LLC

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

¹ As legal, non-conforming and as not legal, not conforming

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- 1 SUBJECT AND NEIGHBORHOOD PHOTOS
- 2 DEED AND LEASES
- 3 GENERAL BUSINESS ZONING SECTIONS
- 4 COMPARABLE SYNOPSIS

I. CERTIFICATION

I CERTIFY THAT, TO THE BEST OF MY KNOWLEDGE AND BELIEF:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have not performed services, as an appraiser or in any other capacity, regarding the property that is subject of this report within the three-year period immediately preceding the agreement to perform this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the report.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.

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

II. GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

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

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

III. QUALIFICATIONS: TODD P. THURSTON, MAI

<p>EMPLOYMENT HISTORY</p>	<ul style="list-style-type: none"> ◦ 8/03-Current: Principal—Thurston, Casale & Ryan, LLC ◦ 11/01-7/03: President—Thurston Appraisal Company, LLC ◦ 12/93-11/01: Vice President—Pomeroy Appraisal Associates, Inc. ◦ 06/91-12/93: Staff Appraiser—Pomeroy Appraisal Associates, Inc.
<p>EDUCATION AND APPRAISAL RELATED COURSEWORK</p>	<p>Bachelor of Science in Finance: Rochester Institute of Technology (1991) Appraisal Institute (since 2010): 7-hour USPAP Update (11,13,15,17,20,22,23); Case Studies in Valuation of Upstate NY (10,12,14-21,25), Business Practice and Ethics (12,17,22), Appraisal of Nursing Facilities (10), Data Verification Methods (10), Appraising Convenience Stores (10), Fundamentals of Separating RP, PP, & IBA (12), Problems in the Valuation of Partial Acquisitions (12), Rates & Ratios: Making Sense of GIMs, OARs, & DCF (14), Analyzing Operating Expenses (14), Subdivision Valuation (16), Comparative Analysis (17), Fair Housing and Fair Lending Update (24), Fundamentals of the Uniform Appraisal Standards for Federal Land Acquisitions (24), Forecasting Revenue (24) IRWA: Case Studies(18,20,24) MANFRED: Fair Housing and Fair Lending (22)</p>
<p>PROFESSIONAL AFFILIATION</p>	<ul style="list-style-type: none"> ◦ Member of the Appraisal Institute (MAI) and ◦ Member of the International Right-of-Way Association (IRWA)
<p>LICENSES</p>	<ul style="list-style-type: none"> ◦ NYS Certified General Appraiser #46-20952 ◦ Consultant Appraiser—NYS Department of Transportation
<p>COURT/TESTIMONY EXPERIENCE</p>	<ul style="list-style-type: none"> ◦ Expert witness in NYS Supreme Court and NYS Court of Claims ◦ Several assessment grievance boards (Hornell, Oswego, Greece)
<p>PROFESSIONAL EXPERIENCE</p>	<ul style="list-style-type: none"> ◦ Experience includes: airports, apartments, automobile dealerships, banks, farms, golf courses, gravel beds, hotels/motels, manufacturing plants, mini-marts, mobile home parks, office buildings, office/warehouses, nursing homes, railroads (active and abandoned), residential dwellings, residential subdivisions, restaurants, shopping centers, utility properties (i.e. gas, electric, corridor), etc. ◦ Extensive eminent domain experience involving projects and claims of the NYS Departments of Transportation and Federal Aviation Administration.
<p>EXPERIENCE HIGHLIGHTS</p>	<ul style="list-style-type: none"> ◦ <u>Frequent Presenter for local chapters of Appraisal Institute and IRWA:</u> Topics have included: “Disparities in Easement Prices and Values and a Workable Framework for Partial Interest Valuation”, “Avigation Easement Valuation”, “Nuances of Eminent Domain Valuation”, “Impact of Differing Expense Frameworks on the Capitalization Rate”, “Impact of a Fuel Oil Spill on Residential Property”, “Corridor Valuation”, “Extracting Capitalization Rates for Single- and Multi-Family Dwellings”, “The Pitfalls of Expensing Capital Items”, “The Impact of Access on Visibility & Price”, “A Case Study in ATF Valuation”, and “Extracting External Obsolescence from Comparable Sales”. ◦ <u>Airport Projects (1991-25):</u> Involved in the valuation of airport properties and/or neighboring lands for federally funded projects to determine compensation resulting from full or partial fee acquisitions and avigation easements. List since 2009 includes: Columbia Co. (12), Floyd Bennett Memorial (09,12,14,16), Orange Co. (09), Elmira-Corning (09,16), Dansville Municipal (11), Finger Lakes (12), Perry-Warsaw (13,14,22), Saratoga (24), and Schenectady (25). Experience also includes appraisals of: Riverside Airport—NYSDOT appropriation (94), Hornell Airport—certiorari (99), Michael Airfield—acquisition (00), Syracuse Suburban Airport—acquisition (00,01); aircraft hangars/sites at Greater Binghamton, Fulton Co., Hancock Int’l, Clinton Co., Elmira-Corning, Finger Lakes, Griffiss, Hamilton, Saratoga, Tompkins Co., Watertown Int’l and Wellsville Municipal Airports

IV. SUMMARY OF IMPORTANT CONCLUSIONS

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

Type of Property: Mixed-Use; Bar and Student Apartments (four 3 BR units)

Site: 3,825± sq.ft. with 45± f.f. on XXXX Avenue and 85± f.f. on XXXX Avenue

Building Improvement(s): Two-story structure (and basement) containing 5,490± sq.ft. gross building area

Tax Map # and Assessment:

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

Highest and Best Use
As Though Vacant: Accessory Use
As Improved: Mixed Use as though legal, non-conforming and Student Housing as not legal, not conforming

Zoning Classification: XXXX District (XX)

Property Rights Appraised: Fee Simple (subject to existing leases)

Value Estimate Requested: Market Values as though "legal, non-conforming" and "not legal, not conforming"

Date of Inspection: March 12, 2004

Date of Value Estimate: February 10, XXXX

Final Market Values:

Scenario	Market Value
"Legal, Non-Conforming"	\$110,000
"Not Legal, Not Conforming"	\$51,000

V. IDENTIFICATION OF SUBJECT

***Picture of Subject

Subject consists of a two-story (plus basement) mixed-use structure on a 3,825± sq.ft. site. It is located on the southwest corner of XXXX and XXXX Avenues in the City of XXXX.

As requested, the subject will be appraised under two scenarios: "as though legal, non-conforming" and "not legal, not conforming". Such analysis is required because of the absence of onsite parking, a violation of the local zoning ordinance.

Additional photographs of subject and neighborhood are within Exhibit 1.

VI. SCOPE OF WORK

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

- Personally inspected the site and interior/exterior of the building improvement;
- Collected and analyzed relevant information from public/municipal sources
- Researched and verified comparable sales and rental data;
- Employed the sales comparison and income capitalization approaches to value.

Given the age of improvements and general property class (non-specialty), the cost approach is not considered applicable.

VII. INTENDED USER/FUNCTION OF APPRAISAL

Intended users include: XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX.

VIII. ASSIGNMENT CONDITIONS

Report considers the following:

- This is an Appraisal Report in a format consistent with what was formally known as a Summary Appraisal Report². It is prepared in compliance with the reporting requirements set forth in Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice.

² Term was revised in USPAP beginning January 2014

IX. EXTRAORDINARY ASSUMPTIONS

Extraordinary assumptions are defined as “an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions. ...Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”³ This report is subject to the following extraordinary assumptions:

- Site size is computed from dimensions on the tax map, while building size is premised on measurements taken at time of inspection.
- An unknown type of insulation is present along boiler piping in the kitchen (basement level), a section of which is hanging precipitously and may soon fall. Although “asbestos-like”, I am not qualified to render such an opinion and the client is urged to retain an environmental engineer. Regardless of the outcome, subject is appraised as though free and clear of hazardous substances as detailed in Statement 11 of my General Assumptions and Limiting Conditions.
- As will be discussed in more detail throughout this report, the City of XXXX has mandated that subject’s 4 apartment units remain vacant until 2 parking spaces per unit are secured in accordance with local code. Historically, parking for the units has been facilitated by a lot across the street that is shared with the bar tenant on the basement level (25 total). However, the parcel is of insufficient size to provide for the minimum number of spaces required (42) and the owner of the property is in or nearing foreclosure, placing ownership of the lot in doubt.



In order to adequately address the market value of this property, two valuations are provided. First will involve a legal, non-conforming scenario (i.e. “best case”), whereby proximate parking is obtainable/reliable and that all units are rentable. Secondly, a not legal, not conforming valuation offering a “worst case” alternative will be provided, accounting for the potential that parking across the street will become unavailable and alternative arrangements will be required. Refer to the sections that follow for further discussion on these issues.

³ The Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2024 Edition (Washington DC: Appraisal Standards Board, 2024) 4.

X. HYPOTHETICAL CONDITIONS

Defined as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. ...Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."⁴

- As discussed, the legal, nonconforming valuation scenario is predicated on the fact that all units are rentable. Since this is contrary to what exists, this report is subject to a hypothetical condition.

XI. PROPERTY RIGHTS APPRAISED

Interest appraised is **fee simple estate**, defined as: "(a)bsolute 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".⁵

XII. OWNER CONTACT AND PROPERTY INSPECTION

The inspection took place on March 12, 2004, consisting of a detailed review of the entire property. XXXX of XXXX Real Estate provided access to the property and accompanied the appraiser.

XIII. DATE OF VALUE ESTIMATE

Subject is valued as of the inspection date, March 12, 2004.

XIV. DEFINITION OF VALUE

Market value is defined as "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 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:

⁴ The Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2024 Edition (Washington DC: Appraisal Standards Board, 2024) 4.

⁵ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 73.

- 1) buyer and seller are typically motivated;
- 2) both parties are well-informed or well-advised, and acting in what they consider their own best interests;
- 3) a reasonable time is allowed for exposure in the open market;
- 4) payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- 5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale⁶.

XV. HISTORY OF THE PROPERTY

Subject's legal description is contained in the following:

Grantor:	XXXX
Grantee:	XXXX
Deed Date:	November 6, 1987
Recorded:	November 6, 1987
Purchase Price:	\$80,178.43
Book/Page:	XXXX/XXXX
Rights/Restrictions:	Rights-of-way along the west and east boundary lines for use by XXXX and XXXX, and their assigns

A copy of this deed is provided in Exhibit 2.

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

⁶ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 118.

XVI. CURRENT OCCUPANCY AND LEASES IN EFFECT

Subject is presently leased to two tenants. Terms of the agreements are summarized as follows:

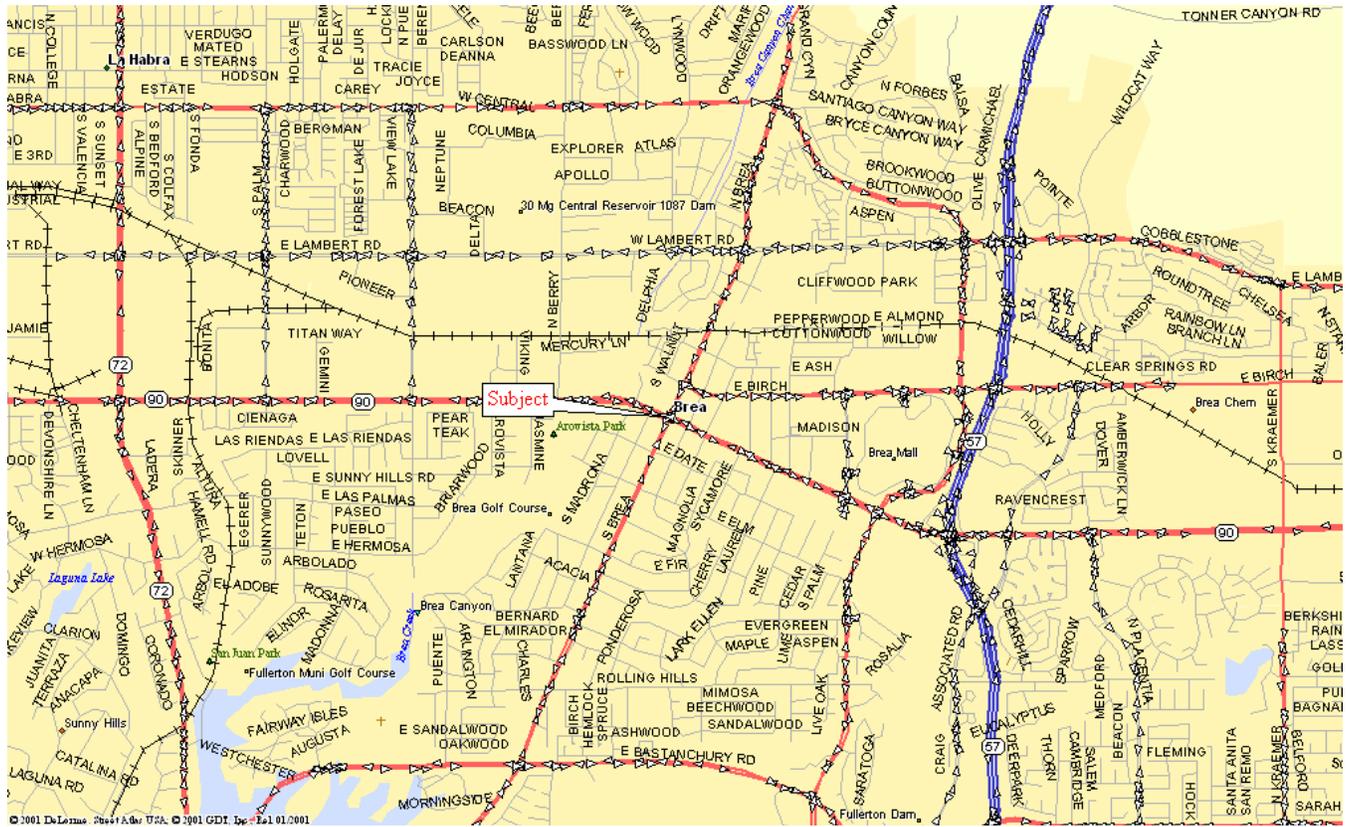
Tenant	Lease Date	Leased Area	Term	Current Contract Rent Per			Landlord Provisions
				Year	Month	Sq.Ft.	
XXXX ⁷	1/1/04	2,040 sq.ft.	3 years	\$26,400	\$2,200	\$12.94	Repairs in excess of \$200 per incident; gr. main on parking lot; RE Taxes
XXXX	2/1/04	Apt. #2	Monthly	\$8,400	\$700	N/A	All but electric

Refer to Exhibit 2 for copies of these leases.

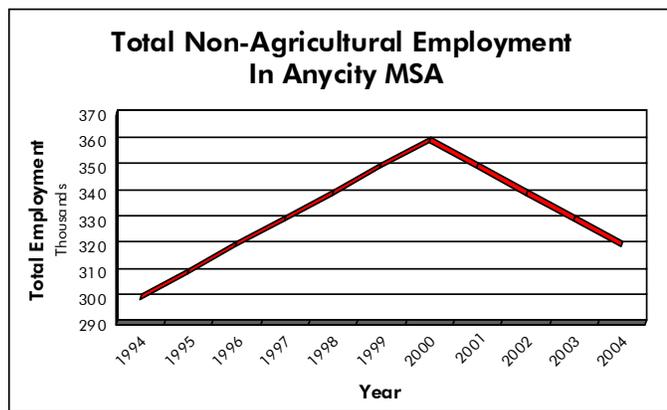
Based on the 2004-05 Off-Campus Housing List published by XXXX, asking rents for Units #1 through #4 were \$1,800 to \$2,000 per bedroom per semester, implying average monthly rents of \$1,140 per unit or \$380 per bedroom during the 10-month school year.

⁷ Includes 25 parking spaces across the street at 84 XXXX Avenue; agreement provided for \$2,200 in rent abatement over the first 2 months

XVII. REGIONAL AND COUNTY/NEIGHBORHOOD ANALYSIS



Upstate New York as a whole has experienced recessionary effects over the last decade, and the XXXX County area is no exception. Job growth is negative over the last five years⁸ (see chart left), while population is in decline⁹ (table below). As one would expect, this has had a stifling effect on real estate values and rent appreciation.



Area	1990 Population	2000 Population	Annual Change
City of XXXX	XXXX	XXXX	-5.4%
XXXX County	XXXX	XXXX	-0.7%

Neighborhood boundaries are essentially defined as the area surrounding XXXX's campus, framed by XXXX Avenue to the north, XXXX Terrace to the south, XXXX Avenue on the east, and XXXX Ave on the west. It is located approximately 0.4 miles from the Central Business District.

⁸ www.labor.state.ny.us
⁹ www.census.gov

Neighborhood property types are primarily multi-family residential, dedicated to off-campus housing for upperclassman, graduate students, and XXXX staff. In addition, commercial service businesses are also present (albeit to a lesser extent), including restaurants, bars, medical offices, etc.

Average construction ages for student housing are 70+ years, while occupancies average 80±%. Rents typically range between \$1,500 and \$2,000 per semester per bedroom, increasing \$0 to \$150 annually depending on the services offered.

In conclusion, subject is located in a region struggling to expand economically. Erosion to its population and employment bases have contributed to a general stabilization in real estate prices, with negative tendencies in some areas. Subject's neighborhood is perhaps better than elsewhere due to its proximity to XXXX, bolstering residential occupancies and rents. A continuation of these trends is expected over the near term.

XVIII. TRENDS IN REAL ESTATE PRICES, RENTS AND MARKETING

Over the last three to five years, real estate prices have generally remained static at best.

EXPOSURE TIME/MARKETING PERIOD:

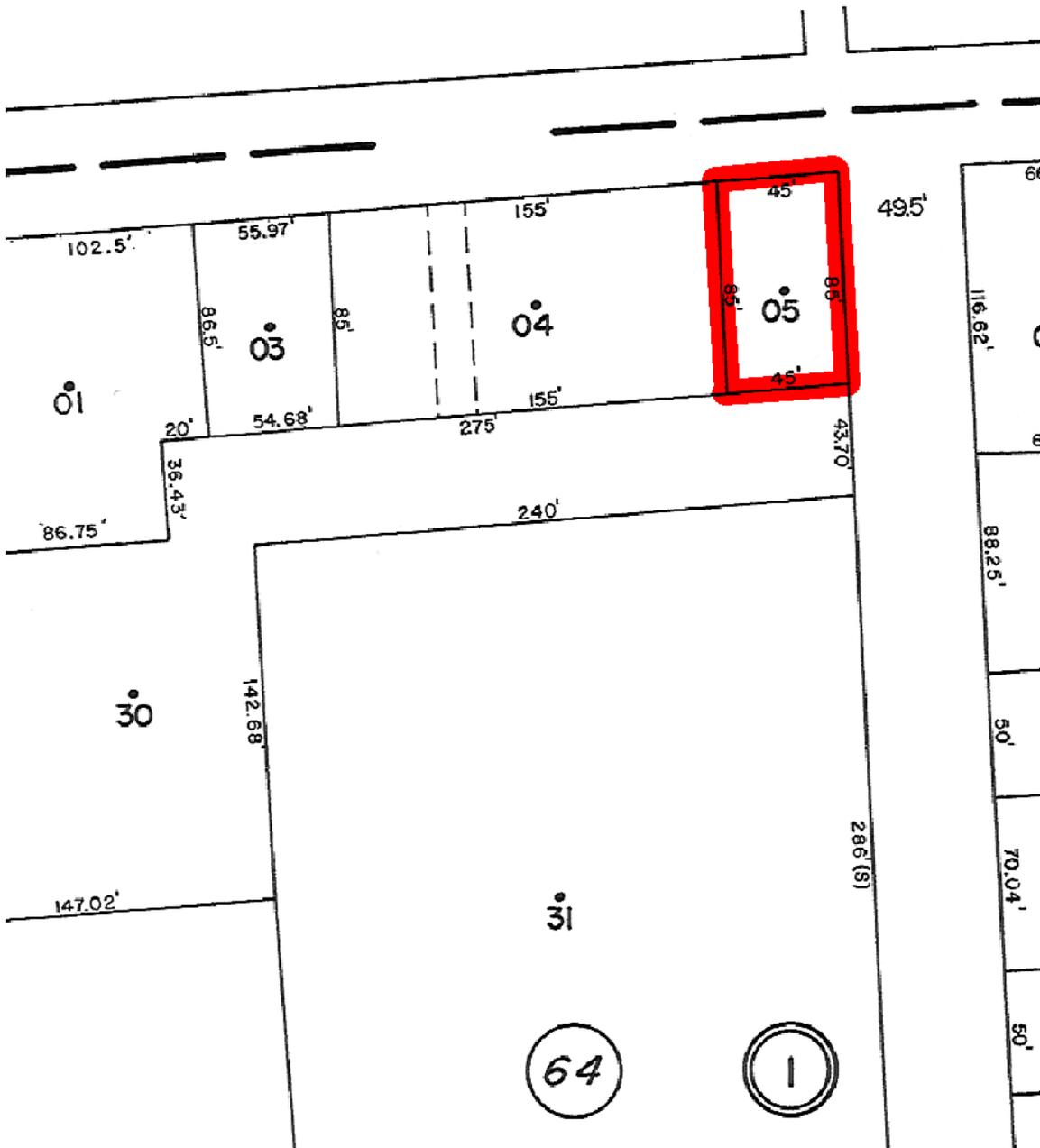
Subject's exposure time, defined as "(a)n opinion, based on supporting market data, of the length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of appraisal¹⁰", is estimated at up to one year based on available comparable data.

Marketing time is "(a)n opinion of the amount of time to sell a property interest at the concluded market value level or at a benchmark price during the period immediately after the effective date of an appraisal"¹¹. Based on current market conditions, a marketing period of up to one year is projected.

¹⁰ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 68.

¹¹ Appraisal Institute 116.

XIX. ASSESSMENT AND TAXES ANALYSIS

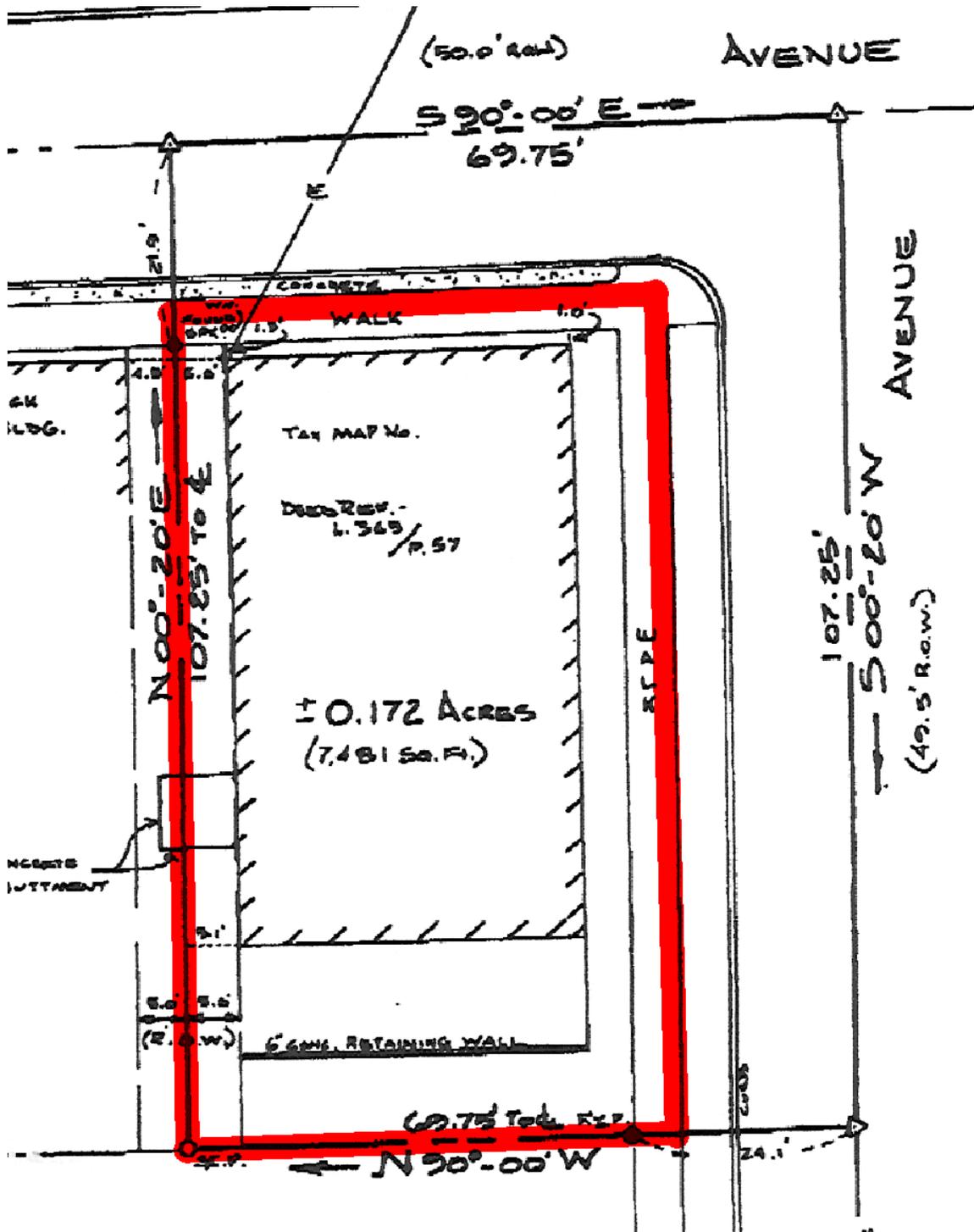


Tax Map #	2004 Assessments				2003 Equalization Data	
	Land	Improvements	Total	Taxable	Rate	Value
XXXX	\$7,700	\$103,700	\$111,400	\$111,400	100%	\$111,400

According to City Finance and the XXXX School Board, actual real estate taxes for 2003-04 amount to \$5,718.19. In addition to unpaid 2004 City/County taxes (\$3,775.30), further delinquency of \$3,682.55 is due, with interest/penalties accruing monthly.

Subject's equalized value is consistent with the market value estimate included herein (\$110,000). Subject is fairly-assessed in a legal, non-conforming scenario.

XX. SITE DATA AND ANALYSIS

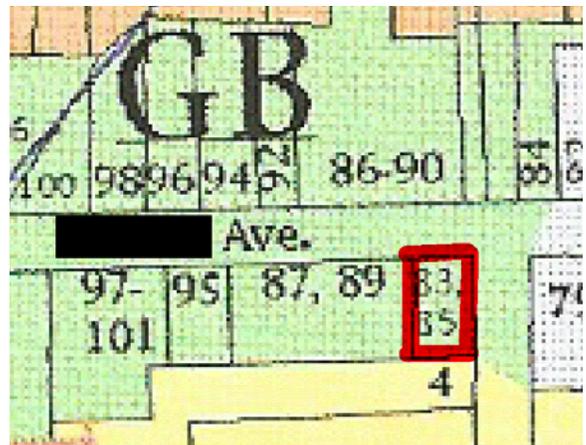


Size:	3,825± sq.ft.; exclusive of "centerline" areas
Access:	Road front; no curb cut for vehicles however
Frontage:	45± f.f. on XXXX Avenue and 85± f.f. on XXXX Avenue
Soil Conditions/Drainage:	Appears adequate
Topography:	Level to Sloping (10-12% slope); frontages are at grade

Shape:	Rectangular; not detrimental to value
Utilities:	All public
Land-to-Building Ratio:	0.7: 1
Public Street Improvements:	Asphalt surface, lighting, concrete curbing, and sidewalks
Water Features:	None
Easements/Encroachments:	Rights-of-way along the eastern and western boundary lines
Flood Zone Information:	Outside 100-year flood plain; Zone C: XXXX 0001C; dated 8/15/19 XX
NYS Wetland Classification:	None
Zoning Designation:	General Business District (GB); permits a wide variety of commercial and residential uses (including mixed-use buildings); bulk requirements are as indicated below
Site Improvements:	Concrete sidewalks, lawn area

ZONING REGULATIONS: Permitted use and bulk requirements of the General Business District are summarized as follows (applicable sections included in Exhibit 3):

SUMMARY OF ZONING REGULATIONS¹²	
	GB
Uses Permitted	Art galleries, clubs, indoor Entertainment, lodging, Dry cleaners, fuel stations, Mixed use buildings, Indoor/outdoor sales, etc.
Minimum Lot Area	10,000 sq.ft.
Minimum Lot Width	100'
Minimum Building Size	N/A
Maximum Lot Coverage	N/A
Minimum Front Yard Setback	40' (5' min. for green space)
Minimum Side Yard Setback	5'
Minimum Rear Yard Setback	20'
Maximum Building Height	N/A
On-Site Parking Requirement	Apts: 2 spaces/unit Bar: 1 space/60 sq.ft.

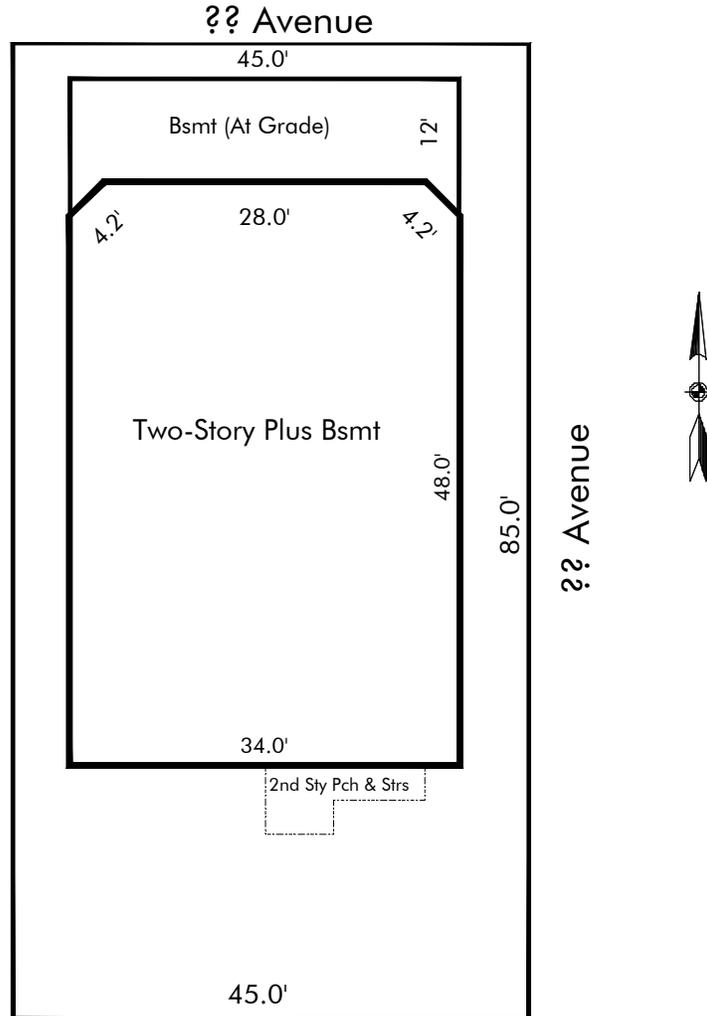


Site Data and Analysis Conclusion: Site is marginal for all conceivable uses. At only 3,825± sq.ft., it is not functional for new development (as though vacant) or even many accessory uses such as parking because of a 10-12% slope. It does not conform to zoning in lot area, lot width, front yard setback, or on-site parking (42 spaces required¹³). This results in its consideration for accessory use as though vacant, as discussed in the Highest and Best Use section that follows.

¹² Source: Sections of the newly approved zoning code dated 12-16-03; reportedly not yet available for sale

¹³ 4 Apts. x 2/unit = 8 spaces; 2,040 sq.ft. bar ÷ 60 sq.ft. = 34 spaces

XXI. IMPROVEMENT DATA AND ANALYSIS



Sketch by Apex IV™

Improvement Type:	Mixed-Use; four 3 bedroom apartment units and basement level bar
Stories:	Two plus basement and attic
Gross Building Area:	5,490± sq.ft. exclusive of unfinished attic (2,040± sq.ft. basement; 3,450± sq.ft. apartments)
Basement:	Built-out for bar with small food service operation
Year Construction:	c.1920; assessment record erroneously indicates 1974
Actual & Effective Ages:	84± years; 37± years
Foundation:	Concrete or stone and mortar
Frame:	Wood
Roof:	Mansard with asphalt shingle cover (appears in average condition); flat, built-up roof over basement addition
Exterior:	Painted wood clapboard with basement featuring brick exterior
Windows:	Wood framed, primarily double hung, single pane with storms/screens
Interior Partitioning:	Mostly painted plaster with plank paneling in bar

Ceilings/Lighting:	Mostly painted plaster with some fixed acoustical tile and 2' x 4' suspended tile in kitchen
Floor Coverings:	Primarily vinyl composition tile and hardwood flooring, with some ceramic tile and sheet linoleum
HVAC:	Gas-fired boiler supplying baseboard units; no central air (thru-wall window-style air conditioning units for bar only)
Plumbing:	Bar features two two-fixture restrooms; each apartment unit has full bath
Electrical Service:	400 amp electrical service; each unit separately metered
Security/Fire Protection:	Battery powered smoke detectors
Elevator:	None
Miscellaneous Features:	6±' x 6±' cooler/freezer in kitchen; wood-burning fireplace in bar

Improvement Data and Analysis Conclusion: Subject layout is typical of its age and property type, featuring a ground floor commercial tenant (bar) with two levels of apartments (4 units with 3 bedrooms each).

The bar contains 2,040 sq.ft. and has an approximate seating capacity of 50, although its kitchen is very small (250± sq.ft.) and food likely represents only a small portion of its business. The apartment units are highly similar, featuring 3 bedrooms, living room, kitchen, and bath. Each is equipped with a stove and refrigerator. The units share a common laundry room (first floor) that houses a single washer and dryer.

Minor items of deferred maintenance are present, but are characteristic of the property's use for student housing (i.e. scratched flooring, small wall holes, presence of old furniture, areas in need of cleaning, etc.). However, a number of major issues were observed in a second floor apartment,



including a broken entry door and water damaged ceiling and wall (pictured left and above). Material and repair costs are not expected to be significant, but will likely require \$500 to \$700 prior to occupancy.

Overall condition is considered fair with the presumption that monies will be required to update or repair areas of need. As deferred maintenance is typical of the market, specific deductions from market value are not required.

XXII. HIGHEST AND BEST USE ANALYSIS

Definition:

“The reasonably probable use of property that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.”¹⁴

Introduction:

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

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

Site As Though Vacant:

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

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

Legally Permissible: Subject’s XXXX District (XX) allows for office, retail, restaurant, multi-family dwellings, etc. Other uses, including those related to industrial or agricultural use, are not permitted or practical. It also requires minimum site size and lot widths of 10,000 sq.ft. and 100’, respectively, both substantially above existing levels (i.e. 3,825± sq.ft. and 45’).

As subject predates current zoning, it is legal, non-conforming, and no code action is pending due to insufficient bulk requirements. However, these factors clearly impair any prospective use of the site, resulting in its consideration as accessory land under this criterion.

¹⁴ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2010) 88.

Physically Possible: Parcel is capable of accommodating only a limited number of uses. Its size and topography are primarily responsible for its consideration as accessory commercial/residential use.

Financially Feasible: Likewise, accessory use is the only feasible function of this parcel if viewed independently and outside of an assemblage scenario.

Maximally Productive: Given subject's limited utility, accessory use would yield the highest return to the land and thus is maximally productive.

Conclusion: Site has met all four criteria for a highest and best use for **Accessory Use**.

Appraiser Note: Consideration of the site for accessory use is not in conflict with the principle of consistent use, which holds that "...land cannot be valued based on one use while improvements are valued based on another..."¹⁵. This is because the rule applies to situations where the improvements represent an interim use. In such cases, the land cannot be valued for a higher use until it exceeds the total value of the property "as is" (inclusive of demolition). Residential dwellings on commercial corridors are typical examples of the use imbalance outlined by the principle.

Since there are no such development/value pressures on this site, the principle of consistent use does not apply.

Property As Improved:

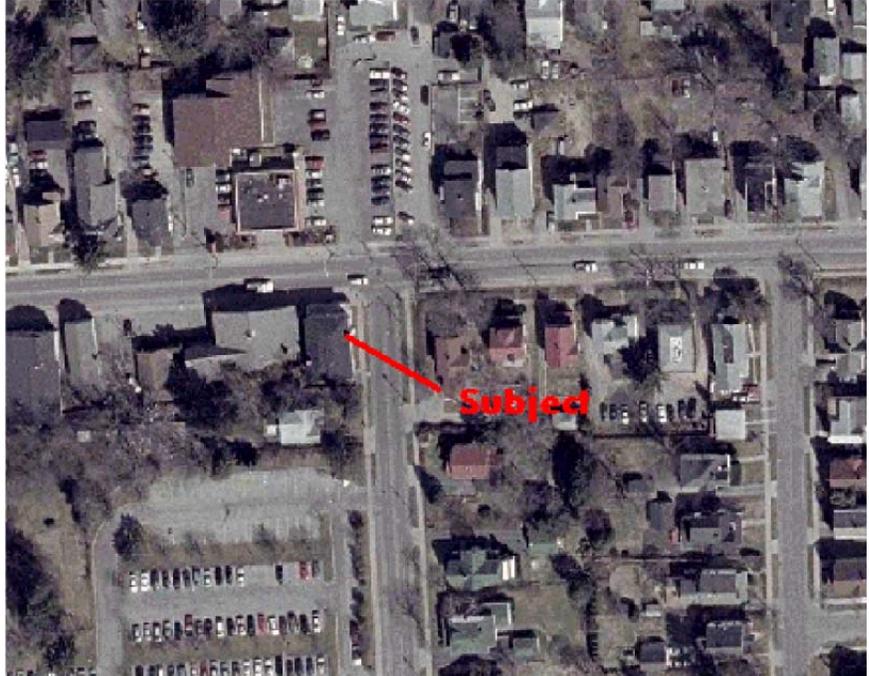
The same criteria used to determine the highest and best use of the site as though vacant are applicable here:

Legally Permissible: Within the last 6 months, the City of XXXX, in response to major parking shortages in around the XXXX Campus, has chosen to strictly enforce its parking mandate that each apartment unit have 2 spaces onsite or within close proximity (within 300'). Although Mr. XXXX has a parking lot across the street, those spaces are dedicated to the basement tenant (XXXX), with none remaining for the apartments. Thus, the City has forced the vacancy of its units until compliance is demonstrated.

While the legal, non-conforming valuation assumes sufficient parking is available and that the imposed vacancy is lifted, it is necessary under the "worst case" scenario to determine what use satisfies the legally permissible criterion. Refer to the following:

¹⁵ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 38.

Under strict interpretation of the code, compliance will involve either the installation of eight parking spaces onsite (an impossibility) or the acquisition of another parcel of land within 300' (under the same ownership). This latter option will require a Special Permit, which would be reasonably granted with proof that the spaces are to be utilized strictly for apartment tenants.



Perusal of the neighborhood revealed that no vacant parcels are available for acquisition within the specified distance (see aerial map above). Under the City's strict guidelines, this would infer that the apartment units are no longer rentable, drastically reducing the value of this property.

Two options still remain before relegating the subject to a "bar with an attic" or worse yet, an entirely unrentable property (depending on the availability of XXXX lot). First, a XXXX parking lot lies about 50' to the south on XXXX Avenue. While officially off-limits to undergraduates or bar patrons, 24/7 parking is available to graduate students and staff. Requests from XXXX's parking division for parking license information enabling undergraduate use went unanswered, but reportedly are obtainable according to a local landlord. Consequently, proximate parking is feasible for, at the very least, graduate students and college staff.

Second, local code provides for a "hardship" challenge whereby a property owner can appeal a Code Enforcement ruling to the Zoning Board of Appeals. It must be demonstrated that: 1) applicant cannot realize a reasonable return; 2) hardship is unique and doesn't apply to a substantial portion of the neighborhood; 3) variance will not alter the character of the neighborhood; and 4) hardship has not been self-created.

By imposing vacancy due to insufficient parking, the City has reduced the income potential of the property by nearly 75% (\$34,200). According to "XXXX's Off-Campus Housing List", nearly all of XXXX Avenue's student apartments include parking, confirming that subject's situation is essentially unique. Furthermore, this property was likely one of the first on the corridor and, until recently, has been used in the same manner it was intended. Clearly a variance would not alter the neighborhood's character. Lastly, no major alterations or modifications have been made to the structure or site in many years, supporting the position that the hardship was not self-created.

Based on these points, and considering the availability of parking for graduate students and staff on the XXXX lot, the City of XXXX would have no choice but to grant a variance. The

process takes approximately 60 days, and will involve some monies for application and public notice fees. A total of \$1,000 to \$1,500 should be sufficient for out-of-pocket/attorney costs and personal time.

In light of these findings, the "worst case" scenario will still involve student apartment use, but for a smaller segment of the market (graduate students). It is important to recognize, however, that the bar's occupancy is precarious at best. Continued tenancy is viable only with the 25 spaces across the street. Regardless of the City's position to allow continued operation despite a parking deficiency (9 spaces), commercial tenancy is not economic without the nearby lot. Since it looks increasingly as though the parcel will fall under someone else's control, income from the basement unit is in doubt. As stated, no alternatives exist for the bar to comply with its parking needs.

Whereas mixed use satisfies the legally permissible criterion under the legal, non-conforming scenario, student housing without commercial tenancy is the only reasonable consideration under the "worst case" alternative.

Physically Possible: Physically, the improvements are conducive to bar and apartment use. No significant physical deficiencies or superadequacies are present. Thus, mixed-use is physically possible in the legal, non-conforming valuation. Alternatively, student housing without commercial tenancy is suitable in the not legal, not conforming scenario.

Financially Feasible: The subject's proximity to the college supports student housing usage in both valuations. However, parking restrictions prohibit commercial use in the not legal, not conforming alternative.

Maximally Productive: The past performance of the subject operating at its designed use implies a low amount of risk in the legal, non-conforming scenario. However, parking uncertainties result in a maximally productive use for student housing only in the not legal, not conforming valuation.

Conclusion: Based on the foregoing data and analysis, subject's highest and best use as improved is for ***Mixed Use as though legal, non-conforming and Student Housing as not legal, not conforming.***

XXIII. SITE VALUATION

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

ALL VACANT, ARM'S LENGTH SITE SALES WITHIN CITY LIMITS									
#	Street	City	Tax Map #	Book	Page	Sale Date	Sale Price	Site Size (Sq.Ft.)	Price/Sq.Ft.
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	\$19,500	18,684	\$1.04
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	17,500	17,550	1.00
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	25,000	13,978	1.79
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	17,500	12,916	1.35
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,000	27,613	0.25
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	13,500	6,803	1.98
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	14,250	14,111	1.01
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	9,000	9,048	0.99
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	5,000	5,663	0.88
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	35,000	14,810	2.36
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	15,000	9,570	1.57
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	12,000	12,856	0.93
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	15,000	23,748	0.63
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	20,000	12,150	1.65
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	25,000	19,258	1.30
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	10,000	18,297	0.55
XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,500	5,996	1.25
True Average							\$15,750	14,297	\$1.10
Median							\$15,000	13,978	\$1.04

Site Valuation Conclusion: Commercial site sales were not found in the market. Several improved transfers were noted that involved subsequent demolition or redevelopment, but the resulting unit prices were nonsensical and motivated by non-market factors.

Since the intent of this valuation is simply to project a land allocation, the 17 sales are utilized only to derive tendencies. Most were purchased for residential development or accessory use, and are reliable when used in this regard.

After a review of the data and the facts contained herein, the market value for subject's 3,825± sq.ft. site is **\$1.00 per sq.ft.**, indicating a land value of \$3,825 (rounded) **\$4,000.**

XXIV. SALES COMPARISON APPROACH—LEGAL, NON-CONFORMING

Definition:

"The process of deriving a value indication for the subject property by comparing sales of similar properties to the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison."¹⁶

Applicability:

Subject's property class is sometimes conveyed to owner occupants, supporting the use of this approach. It is employed in this analysis as a result.

Procedure:

Proper application of this approach requires a multi-step process, outlined as follows¹⁷:

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

Collection and Verification of Data:

Approximately ten transfers were initially investigated and inspected to determine compatibility with subject. Those with potential were researched in more detail by reviewing deeds, RP-5217 data from "SalesWeb", and a real estate inventory program (i.e. "Landata"). After a process of primary verification with buyer, seller, and/or attorney, five sales met the necessary criteria for inclusion in this report. While the levels of comparability vary, the sale data sufficiently bracket subject's value and are a good representation of the market.

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

Units of Comparison:

A unit of comparison must be selected that adequately represents what typical investors use in the marketplace. For mixed-use properties, none is more widely employed than **dollars per sq.ft.** (including land). It is utilized as the basis of comparison as a result.

¹⁶ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, Seventh Edition (Chicago: Appraisal Institute, 2022) 170.

¹⁷ Appraisal Institute 339.

TOTAL PROPERTY VALUATION: SALES COMPARISON APPROACH											
	SUBJECT	IMP. SALE 1		IMP. SALE 2		IMP. SALE 3		IMP. SALE 4		IMP. SALE 5	
Total Sale Price		\$78,500		\$118,000		\$75,000		\$106,000		\$78,500	
Sale Price per Sq.Ft.		\$23.79		\$31.05		\$25.86		\$13.42		\$20.66	
RIGHTS CONVEYED	Fee Simple	Fee Simple		Fee Simple		Fee Simple		Fee Simple		Fee Simple	
Adjusted Sale Price per Sq.Ft.		\$23.79		\$31.05		\$25.86		\$13.42		\$20.66	
FINANCING TERMS	Cash or Equivalent	Similar		Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		\$23.79		\$31.05		\$25.86		\$13.42		\$20.66	
CONDITIONS OF SALE	Arm's Length	Unreported	\$3.03	Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		\$26.82		\$31.05		\$25.86		\$13.42		\$20.66	
IMPENDING EXPENDITURES/PERSONALTY	Minor PP	Similar		Similar		Similar		Similar		Similar	
Adjusted Sale Price per Sq.Ft.		\$26.82		\$31.05		\$25.86		\$13.42		\$20.66	
SALE DATE; PRICE TRENDS	03/12/XX	XXXX		XXXX		XXXX		XXXX		XXXX	
Adjusted Sale Price per Sq.Ft.		\$26.82		\$31.05		\$25.86		\$13.42		\$20.66	
PHYSICAL CHARACTERISTICS											
Location	XXXX	XXXX	\$1.08	XXXX	-\$1.50	XXXX	-\$1.22	XXXX	-\$0.64	XXXX	-\$0.93
Land Allocation per Sq.Ft.	\$0.73	\$2.27	-\$1.54	\$1.05	-\$0.32	\$1.38	-\$0.65	\$0.63	\$0.10	\$1.97	-\$1.24
Land-To-Building Ratio	0.7:1	2.2:1	-\$1.08	0.4:1		0.4:1		0.3:1		1.7:1	-\$0.93
Parking Ratio	0	1: 275	-\$1.08	Similar		Similar		Similar		1: 633	-\$0.93
Building Size (sq.ft.)	5,490	3,300	-\$1.51	3,800	-\$1.50	2,900	-\$1.96	7,900	\$0.64	3,800	-\$0.93
Construction Type	Wood	Similar		Masonry		Masonry		Masonry		Masonry	
Primary Exterior Type	Clapboard	Steel		Brick		Brick		Brick		Brick	
Year Built; Condition	1920; Fair	Similar		1920; Good	-\$6.00	1920; Avg	-\$2.45	1920; Avg	-\$1.28	1920; Avg	-\$1.87
Utility	Bar; 4 Apts	Bar; 3 Apts		Retail/Off/3 Apt		Rest/4 Apts		Retail/Off/2 Apt		Retail	
Accessory Building Improvements	None	Similar		Similar		Similar		Similar		Similar	
PHYSICAL CHARACTERISTICS—NET ADJUSTMENT		(\$4.13)	-15%	(\$9.32)	-30%	(\$6.28)	-24%	(\$1.18)	-9%	(\$6.83)	-33%
PHYSICAL CHARACTERISTICS—ABSOLUTE ADJUSTMENT		\$6.29	23%	\$9.32	30%	\$6.28	24%	\$2.66	20%	\$6.83	33%
RECONCILED SALE PRICE PER SQ.FT.		\$22.69		\$21.73		\$19.58		\$12.24		\$13.83	
Central Tendencies:											
Mean		\$18.01									
Median		\$19.58									
Spread (Lowest to Highest)											
Before Adjustment		131%									
After Adjustment		85%									

Explanation of Adjustments:

	Improvement Allocation	
	Total	Per Sq.Ft.
Imp. Sale 1	\$71,000	\$21.52
Imp. Sale 2	114,000	30.00
Imp. Sale 3	71,000	24.48
Imp. Sale 4	101,000	12.78
Imp. Sale 5	71,000	18.68

Percentage adjustments for categories such as Location, Land-to-Building Ratio, Condition, etc. are based on allocated improvement prices cited on individual sale data sheets (summarized in table left).

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

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

Conditions of Sale: Improved Sale 1 reportedly included an additional \$10,000 purchase money mortgage held by the seller at market rates. An adjustment of \$3.03 per sq.ft. ($\$10,000 \div 3,300$ sq.ft.) is applied as a result. Improved Sale 5 was sold by a bank after a foreclosure action. Although there was adequate exposure time between sale dates (6 months), the bank was highly motivated to sell, potentially resulting in a discounted price. While sufficient evidence exists to recognize a conditions of sale factor, no adjustment is applied. Rather, the presence of any discount will be considered in the final reconciliation.

Impending Expenditures/Improvements: None of the comparables required extraordinary renovation costs or included substantive personal property, for no adjustment.

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

Location: Improved Sale 1 is located in a peripheral neighborhood away from XXXX (+5%; +\$1.08/sq.ft.). Conversely, remaining sales are located within XXXX's Central Business District, requiring -5% adjustments to each.

Land Allocation Per Sq.Ft.: The purpose of this category is simply to make adjustments on the contributory value of land on a dollar per sq.ft. basis. This ensures that the Reconciled Sale Price Per Sq.Ft. line includes subject's exact land value. Adjustments are applied according to the table right.

	A Site Allocation	B Building Size	C Site Alloc./ Sq.Ft. (A/B)	D Subject Site Alloc./Sq.Ft.	Difference (D-C)
Subject	\$4,000	5,490	\$0.73		
Imp. Sale 1	7,500	3,300	2.27	\$0.73	-\$1.54
Imp. Sale 2	4,000	3,800	1.05	0.73	-0.32
Imp. Sale 3	4,000	2,900	1.38	0.73	-0.65
Imp. Sale 4	5,000	7,900	0.63	0.73	0.10
Imp. Sale 5	7,500	3,800	1.97	0.73	-1.24

Land-To-Building Ratio: This category relates strictly to the enhancement/detriment of excess or inadequate land area to the improvements. Subject's ratio of 0.7:1 is inadequate, but similar to Improved Sales 2, 3, and 4. Improved Sales 1 and 5 are superior, requiring -5% adjustments.

	Size	Cost/Sq.Ft.	Adjustment
Subject	5,490	\$59.01	
Imp. Sale 1	3,300	63.16	-7%
Imp. Sale 2	3,800	61.96	-5%
Imp. Sale 3	2,900	64.45	-8%
Imp. Sale 4	7,900	56.30	5%
Imp. Sale 5	3,800	61.96	-5%

Parking Ratio: Onsite parking as a ratio of building square footage is calculated for each comparable. Only two have sufficient area to provide for parking (Improved Sales 1 and 5), requiring -5% adjustments.

Building Size: Using size/cost differentials developed using the Marshall & Swift Cost Service (table above), adjustments are applied to each comparable.

Construction Type: Subject and comparables are reasonably similar under this category for no adjustment.

Primary Exterior Type: Improved Sale 1 features a steel exterior that is aesthetically inferior to clapboard or brick. However, no detriment is evident from the data to support a corresponding modification. No adjustments are applied as a result.

Year Built/Condition: Improved Sales 2, 3, 4, and 5 are in superior condition, resulting in -10% to -20% adjustments.

Utility: The comparables range from a one-story, two-tenant retail building to a mixed-use retail and office building with 2 apartment units. As shown by Improved Sales 4 and 5, however, there is virtually no distinction in value for differences in utility. No adjustments are applied as a result.

Miscellaneous Improvements: Subject and comparables are reasonably similar under this category for no adjustment.

Sales Comparison Approach—Conclusion:

A broad cross section of the XXXX market was analyzed using four multi-story, mixed-use (retail/office and apartment) properties and one one-story, two-tenant retail building. Despite the consistency in use, significant price disparities were present, in large part resulting from the small size of the market. Market participants are generally local and all but one of the properties were purchased for owner occupancy (retail component). Consequently, the limited number of buyers at any given time reduces the consistency in price.

Improved Sales 1 through 3 are allocated greatest weight in the final determination. Thus, it is my opinion that the market value for subject is **\$20.00 per sq.ft.** and for 5,490± sq.ft., a final value of \$109,800 (rounded) **\$110,000**.

XXV. INCOME CAPITALIZATION APPROACH—LEGAL, NON-CONFORMING

Definition:

“Specific appraisal techniques applied to develop a value indication for a property based on its earning capability and calculated by the capitalization of property income.”¹⁸

Introduction:

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

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

Direct Capitalization: Direct capitalization is defined as: “(a) method used to convert an estimate of a single year’s income expectancy into an indication of value...”¹⁹ Direct capitalization is simplistic in its application because the assumptions and inputs that provide the foundation of the analysis are relatively easy to determine. Capitalization rates or income multipliers are often available from market data, as are typical financing terms.

Yield Capitalization: Yield capitalization is “...used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment’s income pattern, holding period, value change, and yield rate.”²⁰ Also known as discounted cash flow analysis, this approach requires additional analysis due to an extended holding period, projection of future trends, explicit accounting of the reversion, etc. Inputs such as equity yield rates, discount rates, length of holding period, etc. are frequently difficult to measure, especially for those property classes where this approach is not typically employed.

Applicability:

Subject is, and has historically been, tenant-occupied justifying the use of this approach. The **direct capitalization method** is employed as a result. The non-investment grade nature of this property disqualifies yield capitalization from consideration. This approach is processed as follows:

¹⁸ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 94.

¹⁹ Appraisal Institute 53.

²⁰ Appraisal Institute 206.

INCOME

Potential gross income (PGI) is "(t)he total income attributable to property at full occupancy before vacancy and operating expenses are deducted".²¹ It includes all forms of income, such as electricity reimbursements (office), food & beverage (hotel), common area maintenance (retail), etc. Effective gross income (EGI) is "(t)he anticipated income from all operations of the real estate after an allowance is made for vacancy and collection losses and an addition is made for any other income."²² The final step before capitalization is to estimate net operating income (NOI) which is "(t)he actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted".²³

Each form of income is discussed on the following pages.

Potential Gross Income—Comparative Analysis:

As discussed in the Current Occupancy and Leases In Effect section, subject is partially leased. In order to verify that contract rents are at market, fourteen market rentals are compared and analyzed as follows:

²¹ Appraisal Institute, The Dictionary of Real Estate Appraisal, Seventh Edition (Chicago: Appraisal Institute, 2022) 145.

²² Appraisal Institute 60.

²³ Appraisal Institute 131.

COMMERCIAL RENTALS								
Rental #	Tenant	Address	Lease Date	Leased Area	Term	Rent/ Yr.	Rent/ Sq.Ft.	Landlord Provisions
Subject	XXXX	XXXX	1/1/2004	2,040	3 yrs.	\$26,400	\$12.94	Partial Gross
1	XXXX	XXXX	N/A	1,520	Monthly	8,400	5.53	All but Util.
2	XXXX	XXXX	N/A	1,300	3+ yrs.	9,600	7.38	All but Util.
APARTMENT RENTALS								
Rental #	Tenant	Address	Lease Date	Leased Area	Term	Rent/ Yr.	Parking	Landlord Provisions
Subject	XXXX	XXXX	2/1/2004	3BR Apt	Monthly	\$8,400	No	All but Elec.
3	Student	XXXX	2004-05	1 BR	Semister	3,700	Extra	All but Elec.
4	Student	XXXX	2004-05	1 BR	Semister	3,970	Yes	All but Elec.
5	Student	XXXX	2004-05	1 BR	Semister	3,850	Yes	All but Elec.
6	Student	XXXX	2004-05	1 BR	Semister	3,850	Yes	All but Elec.
7	Student	XXXX	2004-05	1 BR	Semister	3,850	Yes	All but Elec.
8	Student	XXXX	2004-05	1 BR	Semister	3,900	No	All but Elec.
9	Student	XXXX	2004-05	1 BR	Semister	,800	Yes	All but Elec.
10	Student	XXXX	2004-05	1 BR	Semister	3,800	Yes	All but Elec.
11	Non-Student	XXXX	2003	2 BR	Monthly	4,200	1 space	All but Util.
12	Non-Student	XXXX	2003	1 BR	Monthly	4,200	No	All but Util.
13	Non-Student	XXXX	2003	1 BR	Monthly	4,620	No	All but Util.
14	Non-Student	XXXX	2003	2 BR	Monthly	6,900	No	All

Unlike Rentals 1 and 2, the subject's lease to XXXX includes a 25-car parking lot across the street and some equipment. Additionally, Rentals 3 through 10 are based on bedroom agreements with students on a semester basis. The last four leases are of month-to-month arrangements with non-students.

Potential Gross Income—Conclusion:

Based on the foregoing, some adjustment to contract rent is required to reflect market. First, the XXXX's inclusion of a parking lot (6,100± sq.ft.) requires major adjustment to rent. While the Site Valuation indicates nominal values for land allocations (\$1/sq.ft.; \$6,100), parking lots vital to a commercial tenant are altogether different. Zoning requirements aside, the bar operation is not economic without convenient parking. Since street or municipal parking is not within reasonable proximity, the lot value is multiples above the implied allocation.

While somewhat subjective, I consider a market value of \$25,000 to be reasonable for the lot. Several non-traditional methods are available to support this figure given the lack of commercial site sales within the City (ground rent analysis and extraction), but ultimately a "reality check" will be provided near the end of this sub-section to demonstrate reasonableness.

Also included within the rental of the bar is FF&E. All of the kitchen equipment, bar stools, tables and chairs, etc. are owned by the landlord and must be allocated out of contract rent. Providing \$8,000 for these items, a total of \$33,000 in non-subject market value is included within the lease agreement.

Translating value into gross rent is accomplished using reverse capitalization techniques. Instead of the income capitalization approach's normal progression of gross rent less vacancy & collection loss less operating expenses divided by the capitalization rate, the opposite will be performed, expressed as: market value x capitalization rate + operating expenses + vacancy & collection loss = gross rent. The capitalization rate and expense percentages are taken from the income/expense spreadsheet that follows. Refer to the table right:

NON-SUBJECT VALUE CONSIDERATIONS			
Parking Lot			\$25,000
FF&E			<u>8,000</u>
Total Non-Subject Considerations			\$33,000
Capitalization Rate	@	10.50%	
NET OPERATING INCOME			\$3,465
Add: OPERATING EXPENSES		67.0%	<u>7,035</u> (NOI/(1-OE)) – NOI
EFFECTIVE GROSS INCOME			\$10,500
Add: Vacancy and Collection Loss	@	25.0% of PGI	<u>3,500</u> (EGI/(1-V&CL)) – EGI
GROSS INCOME DEDUCTION			\$14,000

Consequently, the XXXX contributes \$12,400 per year (\$26,400 - \$14,000), exclusive of the parking lot and FF&E. At \$1,033/month or \$6.08/sq.ft., the rental is bracketed by the commercial comparables on page 28, which include little or no onsite parking or equipment. The analysis is reasonably supported as a result.

As far as the apartments are concerned, the current rental of \$700 per month for single occupancy (non-student) is above market. Historically, the subject has been leased to students at asking rents of \$1,750 to \$2,000 per semester (average of \$1,862 plus electric) including a parking space on the nearby lot (assuming one was available). Again, without consideration of onsite parking, a deduction in rent is required. Based on a review of those rents listed on page 28, as well as the "2004-05 Off-Campus Housing List" published by XXXX, \$437 is deducted from average asking rents to yield \$1,425 per semester per bedroom (\$2,850/year/bedroom).

Tenant Type	Size	Rent/Unit	Total Rent
Retail	2,040 Sq.Ft.	\$ 6.08 /sq.ft.	\$12,400
Apartments	12 Bedrooms	2,850 /BR/Yr	34,200
Potential Gross Income			\$46,600

Based on the foregoing, potential gross income of **\$46,600** is estimated on a partial gross basis.

Effective Gross Income—Vacancy & Collection Loss Analysis:

Although the income analysis assumes full occupancy, it is necessary to adjust for the prospects of vacancy in a stabilized expense stream. Data shown in the Neighborhood Data and Analysis, and observations within subject's general area indicate that vacancy levels for student housing are approximately 20%. Retail tenancy is generally at the same level when parking is readily available. Given that a period of lease-up is required for the subject's apartment units, a slightly higher percentage is allotted, with **25%** considered reasonable for this analysis.

Therefore, effective gross income represents 75% of its potential, or **\$34,950** per annum.

EXPENSES

The next step in this valuation approach is to calculate operating expenses. As stated, properties such as the subject are typically leased on a partial gross basis with most expenses incurred by the landlord. For the purposes of constructing an income and expense statement, other deductions must be considered, including management (real estate), miscellaneous, and leasing commissions:

Management—Real Estate: An expense for management must be accounted for to cover the cost of a manager to budget income and expenses, accounting, major maintenance scheduling, etc.

According to publications such as BOMA²⁴, 5% to 6% of effective gross income is typical for multi-tenanted structures. Since subject's occupancy is dedicated to uses that require intensive management (i.e. students and bar), a higher rate of **10%** is considered reasonable overall.

Real Estate Taxes: As reported in the Assessment and Taxes Analysis section, actual real estate taxes amount to \$5,718 (rounded) **\$5,800**.

Insurance: The bar tenant is responsible for adequate fire and liability insurance coverage. However, the apartments must be covered by the landlord at approximately \$200 per unit. An insurance expense of **\$800** is assessed as a result.

Structural Maintenance/Allowance For Replacements: Although tenants are responsible for minor maintenance items, the landlord is accountable for roof, HVAC, and other major repairs. Even in years when such expenditures are unnecessary, an "allowance for replacements" is generally employed to stabilize the expense stream.

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

Interior Maintenance: As outlined in the bar lease, the landlord is responsible for all repairs in excess of \$200 per event. Additionally, the frequent turnover and intensive use of students requires a higher than typical maintenance allowance in the apartments. An expense of **\$1.00 per sq.ft.** considered reasonable as a result.

Grounds Maintenance: The bar tenant is responsible for shoveling the front sidewalk, but lawn care and other minor yard maintenance is assessed at **\$0.10 per sq.ft.** or **\$549 per year**.

Utilities: Expenses related to heat (i.e. natural gas), water, trash are projected at **\$1.00 per sq.ft.** or **\$5,490 per year**.

Miscellaneous: To account for unforeseen expenses related to occupancy (or vacancy), a miscellaneous expense of **1%** of EGI is applied.

²⁴ Building Owners and Managers Association

Expenses Conclusion:

As subject is analyzed on a partial gross basis, operating costs such as management (real estate), real estate taxes, insurance, maintenance, utilities, and miscellaneous are deducted from effective gross income. Other expenses such as electricity, some insurance and maintenance, janitorial, etc. are the responsibility of the tenants.

CAPITALIZATION RATE

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

Capitalization Rate Analysis:

Market Extraction: Insufficient rental/expense data is available to compute capitalization rates from the sale data. Market extraction is not a viable option as a result.

Band-of-

Investment: This technique is useful in establishing capitalization rates as it considers both debt and equity requirements. Assumptions for the former are based on frequent lender interviews, as well as market surveys (table right), while data contained in my files support the latter.

Current financing terms include a 8.5% interest rate over a 20-year amortization (computed monthly) with a 75% loan-to-value.

RealtyRates.com INVESTOR SURVEY - 1st Quarter 2004											
PERMANENT FINANCING											
	Apt.	Golf	Health Senior Housing	Ind.	Lodging	RW/Camp Mfg Hsg MH Park	Office	Restaurant	Retail	Self Storage	Special Purpose
Spread Over Base*											
Minimum	1.05%	2.05%	1.45%	1.35%	1.49%	1.33%	1.43%	2.05%	1.40%	1.48%	2.05%
Maximum	4.45%	5.00%	6.58%	4.68%	10.00%	6.63%	4.80%	7.60%	5.18%	4.80%	12.00%
Average	2.35%	3.29%	2.81%	2.54%	3.37%	2.40%	2.62%	3.93%	2.66%	3.67%	5.52%
Interest Rate											
Minimum	5.35%	6.35%	5.75%	5.65%	5.79%	5.63%	5.73%	6.35%	5.70%	5.70%	6.35%
Maximum	8.75%	9.30%	10.88%	8.98%	14.30%	10.93%	9.10%	11.90%	9.48%	9.48%	16.30%
Average	6.65%	7.59%	7.11%	6.94%	7.67%	6.70%	6.92%	8.23%	6.96%	6.96%	9.92%
Debt Coverage Ratio											
Minimum	1.15	1.25	1.10	1.20	1.30	1.20	1.20	1.30	1.20	1.20	1.25
Maximum	1.90	1.80	2.25	1.90	2.25	1.90	1.90	2.10	1.90	2.30	2.40
Average	1.51	1.50	1.58	1.41	1.64	1.42	1.55	1.61	1.41	1.52	1.70
Loan-to-Value Ratio											
Minimum	50%	50%	50%	50%	50%	60%	50%	50%	50%	80%	50%
Maximum	85%	80%	85%	85%	80%	80%	85%	75%	80%	50%	80%
Average	73%	66%	71%	71%	68%	72%	70%	63%	72%	69%	65%
Amortization (Yrs.)											
Minimum	15	15	15	15	15	20	20	15	20	15	15
Maximum	35	30	35	30	30	30	30	25	30	30	30
Average	27	21	25	25	22	26	28	19	26	28	21
Term (Yrs.)											
Minimum	3	5	3	3	5	5	3	3	3	3	3
Maximum	40	30	25	30	30	30	30	15	10	10	20
Average	21.50	9.25	13.75	11.67	8.00	9.25	8.00	7.50	6.25	6.25	8.00

* 10-Year Treasury

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This yields a mortgage constant (i.e. mortgage capitalization rate) of 0.1041.

An equity dividend rate reflects investor requirements regarding an annual return on equity. Acceptance of an equity dividend rate by an investor takes into account his/her perception of additional anticipated future benefits, such as increases in value, debt reduction, increases in income, etc.

OVERALL CAPITALIZATION RATE BY BAND-OF-INVESTMENT		
Mortgage/Equity Ratio	Rate	Derivation
75%	10.41%	7.81%
25%	11.00%	2.75%
Overall Capitalization Rate		10.56%
(rounded)		10.60%

Based on mortgage commitment surveys conducted by the American Council of Life Insurers, an equity dividend rate of 11% is employed for this analysis. Refer to the table left, for the capitalization rate

estimated by band of investment.

Debt Coverage Formula: As an additional guide, the debt coverage formula will be utilized, which is based on $R_o = DCR \times M \times R_m$. Again, survey data and periodic lender interviews provide the basis for the debt coverage ratio utilized herein (1.35). The abbreviation M is the ratio of the mortgage, or loan to value (LTV), which is 75%. The last component necessary is R_m , which is the mortgage capitalization rate of 10.41% (table above).

As indicated by the formula, an overall capitalization rate is therefore estimated as: $1.35 \times 75\% \times 10.41\%$ yielding **9.5%**.

Market Surveys: Although referenced only as a secondary method, survey statistics by RealtyRates.com²⁵ are available to provide an estimation for overall rates for investment grade properties. For "apartments", the reported capitalization rate was **9.19%**.

²⁵ <http://www.realtyrates.com>

RealtyRates.com INVESTOR SURVEY - 1st Quarter 2004												
CURRENT & HISTORICAL CAP RATE INDICES												
Method-Weighted* Property Category Indices												Weighted* Composite Index
Year	Apt.	Golf	Healthcare Senior Housing	Ind.	Lodging	MH/RV Park Camping	Office	Retail	Restaurant	Self Storage	Special Purpose	
2003	9.19	10.38	10.56	9.53	11.69	9.51	9.44	9.05	11.16	10.04	12.04	9.93
4th Qtr.	9.29	10.25	10.94	9.70	11.44	9.49	9.37	9.04	11.16	10.09	12.52	9.98
3rd Qtr.	9.40	10.57	10.98	9.75	11.17	9.58	9.36	9.11	11.23	10.17	11.81	9.98
2nd Qtr.	8.87	10.14	10.37	9.17	11.98	9.32	9.22	8.85	10.90	9.71	11.36	9.70
1st Qtr.	9.19	10.57	9.94	9.48	12.18	9.63	9.79	9.21	11.33	10.19	12.47	10.08
2002	9.21	10.70	9.92	9.20	11.13	9.62	9.43	9.23	11.08	10.57	10.99	9.82
2001	9.61	10.52	10.31	9.81	10.87	10.22	9.78	9.85	11.11	10.69	12.76	10.23
2000	8.97	9.19	9.41	9.65	9.89	10.90	10.13	10.38	10.64	10.56	12.44	10.01
1999	7.94	8.14	8.34	8.54	8.76	9.65	8.97	9.19	9.42	9.35	11.02	8.87
1998	8.71	8.93	9.15	9.37	9.60	10.59	9.84	10.08	10.33	10.26	12.09	9.73
1997	8.45	8.66	8.88	9.10	9.32	10.28	9.55	9.79	10.03	9.96	11.73	9.44
1996	8.47	8.70	8.93	9.17	9.41	10.46	9.66	9.92	10.19	10.06	11.92	9.54
1995	9.22	9.45	9.68	9.92	10.17	11.21	10.42	10.68	10.94	10.86	12.80	10.30
1994	9.15	10.37	11.63	12.92	12.74	13.94	12.05	11.35	12.63	12.84	14.78	11.90
1993	9.15	10.37	11.63	12.92	12.74	13.94	12.05	11.35	12.63	12.84	14.78	11.90
1992	9.66	10.90	12.17	13.47	13.30	14.56	12.63	11.94	13.24	13.45	15.49	12.48

* Weighted by methodology: Band-of-Investment, DCR Technique, Sales Survey
* Further weighted by property category

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Capitalization Rate Analysis—Conclusion:

Overall capitalization rates are summarized in the table below. Allocating greatest weight to band-of-investment, an overall capitalization rate of **10.5%** is estimated.

Market Extraction	Insufficient Data
Band-of-Investment	10.6%
Debt Coverage Formula	10.5%
Market Surveys	9.19%

INCOME AND EXPENSE STATEMENT

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

INCOME:		
Base Rent (B.R.)		
Bar	\$ 6.08 /sq.ft. =	\$12,400
Apartments	2,850 /BR/Yr. =	<u>34,200</u>
Total Base Rent (B.R.)		\$46,600
Total Reimbursables		0
TOTAL POTENTIAL GROSS INCOME		\$46,600
Less Vacancy and Collection Loss	@ 25.0% of PGI	<u>11,650</u>
EFFECTIVE GROSS INCOME		\$34,950
EXPENSES:		
Management—Real Estate	@ 10.0% of EGI	\$3,495
Real Estate Taxes	@ \$ 1.06 /sq.ft. =	5,800
Insurance	@ \$ 0.15 /sq.ft. =	800
Repairs & Maintenance:		
Structural/Allowance for Replacements	@ \$ 0.25 /sq.ft. =	1,373
Interior	@ \$ 1.00 /sq.ft. =	5,490
Grounds	@ \$ 0.10 /sq.ft. =	549
Utilities (Trash, Heat, Water)	@ \$ 1.00 /sq.ft. =	5,490
Miscellaneous	@ 1.0% of EGI	<u>350</u>
TOTAL OPERATING EXPENSES		\$23,347
NET OPERATING INCOME		\$11,603
Capitalization Rate	@ 10.5%	
MARKET VIA BY DIRECT CAPITALIZATION		\$110,505
		(rounded) \$111,000

Income Capitalization Approach—Conclusion: Using the direct capitalization method, a market value of **\$111,000** was derived.

XXVI. RECONCILIATION OF VALUE INDICATORS—LEGAL, NON-CONFORMING

Intended Use/Function of Appraisal:

Intended users include: XXXX. The function of the appraisal is restricted to the above referenced parties for XXXX.

Summary of Values:

MARKET VALUE CONCLUSIONS OF APPROACHES TO VALUE ASSUMING LEGAL, NON-CONFORMING STATUS	
Site Valuation	\$4,000
Cost Approach	Not Utilized
Sales Comparison Approach	\$110,000
Income Capitalization Approach	
Direct Capitalization	\$111,000

Reasonability and Weight Determination:

Site Valuation: Referencing a schedule of 17 local site sales, a land allocation of **\$4,000** was developed. Because of its very small size (3,825± sq.ft.), narrow width, and slope, it has very limited utility if vacant.

Cost Approach: As subject was constructed in the early part of the last century, the cost approach has limited applicability. It was not utilized as a result.

Sales Comparison Approach: Five sales were available and compared to the subject on a price per sq.ft. basis (including land). Before adjustment, the sales indicated a price range of \$13.42 to \$31.05 per sq.ft. (131% spread). After adjustment, the value range is \$12.24 to \$22.69 per sq.ft. (85% spread). A total value of **\$20.00 per sq.ft.** or **\$110,000** was estimated.

The sales comparison approach is typically a strong indicator of value in small markets and for potentially owner-occupied properties. Such is the case here, resulting in its considerable weighting in the final determination of value.

Income Capitalization Approach: The direct capitalization method of this approach was utilized solely, as this property type does not lend itself to yield capitalization. Fourteen rent comparables were used to support market rent. After allocations were subtracted from contract rent for neighboring lands, parking, and FF&E, potential gross income of \$46,600 was derived on a partial gross basis. After deductions for vacancy & collection loss, as well as the necessary operating expenses, a net operating income of \$11,603 was realized. Capitalized at a 10.5% rate yielded a market value estimate of **\$111,000**.

Conclusion: The sales comparison approach is frequently utilized by market participants given the likelihood of owner occupancy. The income capitalization approach is also reliable, considering subject's historical tenancy. As discussed, the extended age of improvements disqualified use of the cost approach.

Based on the foregoing, subject's market value, as of March 12, 2004, is estimated as:

**ONE HUNDRED TEN THOUSAND DOLLARS
(\$110,000)**

Allocated As:

Land	\$4,000
Improvements	\$106,000

XXVII. MARKET VALUATION BASED ON NOT LEGAL, NOT CONFORMING SCENARIO

The intent of this section is to provide a “worst case” scenario resulting from the impact of a parking non-conformance. As previously stated, the City of XXXX has imposed vacancy on the subject’s four apartment units due to a lack of dedicated parking. The subject’s bar tenant remains open, however, as they lease 25 spaces across the street on a lot owned by Mr. XXXX.

At first glance, the proper “not legal, not conforming” scenario would involve the valuation of the bar with no apartment income. However, the opposite is actually the most appropriate reflection of the “worst case” alternative. This is because the bar or any “retail” tenant is viable only with the 25 spaces across the street, regardless of the City’s position. Since it looks increasingly as though that lot will fall under someone else’s control, income from the basement unit is in doubt.

In terms of the apartment units, legal parking for graduate students is within close proximity on XXXX’s lot. When coupled with the “hardship” provision, the City would have no recourse but to lift its vacancy mandate. Consequently, the property under this scenario would be dedicated exclusively to graduate student housing. The basement level would remain vacant until its conversion to apartments or the XXXX lot is procured.

The most appropriate valuation method to address the subject under this condition is the income capitalization approach. The sales comparison approach has limited viability as no sales of mixed-use properties were found with uneconomic “retail” components.

The assumptions of the income capitalization approach are as previously presented, except for the following modifications:

- **Rental Income:** As indicated, the bar tenant is no longer viable and must be eliminated from the cash flow. Additionally, because the units can only be marketed to graduate students, a reduction in rent is needed to reflect the smaller tenant pool. Thus, the \$1,425 per semester per bedroom rent outlined previously is reduced to \$1,300. This results in potential gross income of \$31,200.
- **Vacancy & Collection Loss:** With the reduction in rent and loss of the commercial tenant, vacancy and collection loss is reduced slightly to **20%**.
- **Real Estate Taxes:** Since the basement space is no longer economic, a corresponding reduction in assessment is required. From past experience, a drop in taxes commensurate with expected value loss is unlikely, but a 25% reduction could be reasonably obtained at nominal cost. Projected taxes are assessed at **\$4,350** as a result.
- **Interior Maintenance:** In order to account for a lower maintenance expense due to the bar vacancy, a reduced provision of **\$0.75 per sq.ft.** is considered.

- **Variance Procedure:** As a final deduction, the time and monies required to obtain a variance are projected at \$1,000 to \$1,500. The upper end of the range is considered reasonable (**\$1,500**) and is applied after the capitalization of net income.

Assessing all other expenses at aforementioned levels, along with a static capitalization rate, the subject's market value under a not legal, not conforming scenario is as follows:

INCOME:		
Base Rent (B.R.)		
Bar		\$0
Apartments	\$2,600 /BR/Yr.=	<u>31,200</u>
Total Base Rent (B.R.)		\$31,200
Total Reimbursables		0
TOTAL POTENTIAL GROSS INCOME		\$31,200
Less Vacancy and Collection Loss	@ 20.0% of PGI	<u>6,240</u>
EFFECTIVE GROSS INCOME		\$24,960
EXPENSES:		
Management—Real Estate	@ 10.0% of EGI	\$2,496
Real Estate Taxes	@ \$ 0.79 /sq.ft.=	4,350
Insurance	@ \$ 0.15 /sq.ft.=	800
Repairs & Maintenance:		
Structural/Allowance for Replacements	@ \$ 0.25 /sq.ft.=	1,373
Interior	@ \$ 0.75 /sq.ft.=	4,118
Grounds	@ \$ 0.10 /sq.ft.=	549
Utilities (Trash,Heat,Water)	@ \$ 1.00 /sq.ft.=	5,490
Miscellaneous	@ 1.0% of EGI	<u>250</u>
TOTAL OPERATING EXPENSES		\$19,426
NET OPERATING INCOME		\$5,534
Capitalization Rate	@ 10.5%	
MARKET VALUE OF SUBJECT WITH ZONING MANDATE LIFTED		\$52,705
Less: Monies/Time Involved to Obtain Special Permit		<u>1,500</u>
MARKET VIA BY DIRECT CAPITALIZATION (After Cost-to-Cure)		\$51,205
		(rounded) \$51,000

Market Valuation Based on Not Legal, Not Conforming Scenario—Conclusion: Using the direct capitalization method of the income capitalization approach, a market value of **\$51,000** was derived.