


**PREPARED FOR**

  
**U.S. Bank**  
4050 E. Main Street  
Ventura, California 93003

**APPRAISAL OF AN EXISTING**

**IHOP Restaurant**

**LOCATED AT**

701 N. Interstate 27, Plainview, Hale County, Texas 79072

**APPRAISAL DATE**

October 15, 2018

**PREPARED BY**

***NET LEASE APPRAISALS***

8230 Santa Clara Drive  
Dallas, Texas 75218

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Net Lease Appraisals.com

# NET LEASE APPRAISALS

October 30, 2018

[REDACTED]

4050 E. Main Street  
Ventura, California 93003

RE: Appraisal of a 4,836 square foot IHOP restaurant located at 701 N. Interstate 27, Plainview, Hale County, Texas 79072.

Dear Mr. [REDACTED]

At your request, we have estimated the "as is" market value of the Leased Fee Estate of the above referenced property.

The Subject is located at 701 N. Interstate 27 in Plainview, Hale County, Texas 79072. The property was built in 2006 and is of average quality "Class D" construction. According to the appraisal district the Subject consists of a 4,836 square foot restaurant and a 1.1858 acre (51,654 SF) site. The floor area ratio is 0.09 to 1. The site is zoned "C-3" Commercial General Business District by the City of Plainview and is in FEMA flood Zone AE, a Special Flood Hazard Area (SFHA).

Your attention is directed to the assumptions and limiting conditions contained within the body of this report for a more thorough understanding of the conditions upon which the value indications and conclusions herein were based.

## AS IS" MARKET VALUE

Based upon our analysis of the Subject and the NNN market, the "as is" market value of the Leased Fee Estate, as of October 15, 2018, inclusive of F, F & E, is considered to be:

[REDACTED]

Sincerely,

**NET LEASE APPRAISALS**

Ronald E. Dunham, MAI

## **SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

Property Type:	Restaurant
City/County/State/Zip:	Plainview, Hale County, Texas 79072
Address:	701 N. Interstate 27
Legal Description:	Westridge PLV Unit 2, Lot 1B
Date of Value Estimate:	October 15, 2018
Date of Property Inspection:	October 15, 2018
Date of Report:	October 30, 2018
Property Rights Appraised:	Leased Fee Estate

### **PHYSICAL DATA**

Description:	The Subject is located at 701 N. Interstate 27 in Plainview, Hale County, Texas 79072. The property was built in 2006 and is of average quality "Class D" construction. According to the appraisal district the Subject consists of a 4,836 square foot restaurant and a 1.1858 acre (51,654 SF) site. The floor area ratio is 0.09 to 1. The site is zoned "C-3" Commercial General Business District by the City of Plainview and is in FEMA flood Zone AE, a Special Flood Hazard Area (SFHA).
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Zoning:	"C-3" Commercial General Business District
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### **VALUE INDICATIONS**

"As Is" Market Value	
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## IHOP Overview

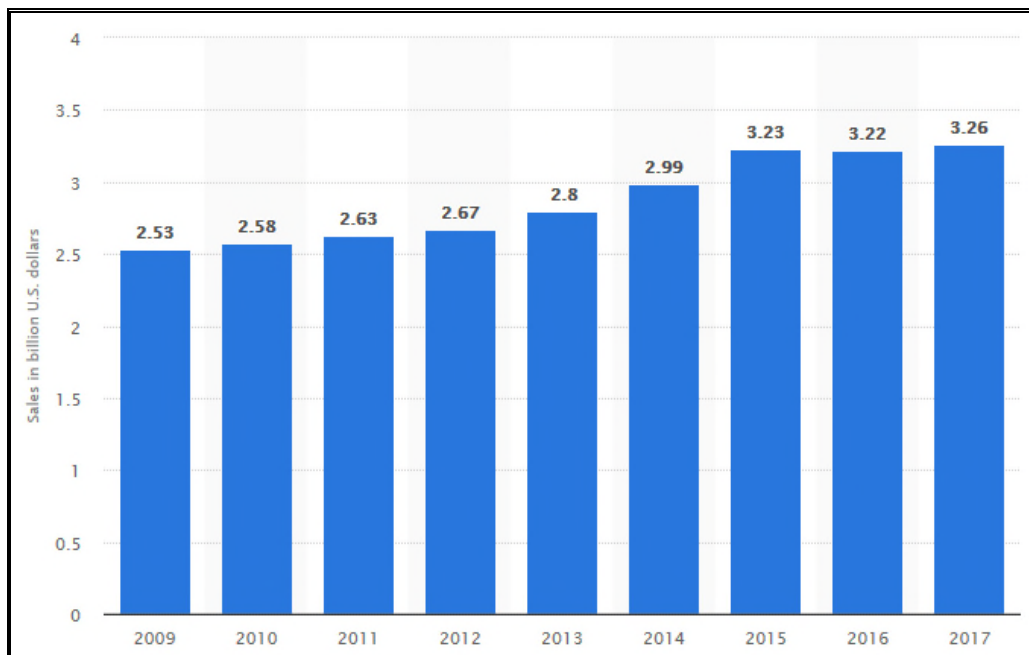
International House of Pancakes® began making people smile in 1958 when it opened its doors in the suburbs of Los Angeles. Fifteen years later, a new marketing campaign introduced the acronym "IHOP", and since then it's been the name people know as the place they can enjoy their favorite breakfast experience—any time of day.

For 58 years, the IHOP family restaurant chain has served world famous pancakes and a wide variety of breakfast, lunch and dinner items.

As of 2015, there were 1,650 IHOP restaurants in 50 states and the District of Columbia, as well as in Bahrain, Canada, Dubai (UAE), Guatemala, Kuwait, Mexico, Puerto Rico, Saudi Arabia, The Philippines and the U.S. Virgin Islands.

IHOP restaurants are franchised and operated by Glendale, California-based International House of Pancakes, LLC and its affiliates. International House of Pancakes, LLC is a wholly-owned subsidiary of Dine Brands Global (NYSE: DIN).

Sales of International House of Pancakes (IHOP) restaurants in the United States from 2009 to 2017 (in billion U.S. dollars)



The above shows the sales of International House of Pancakes (IHOP) restaurants in the United States from 2009 to 2017. Casual dining restaurant chain IHOP generated approximately 3.26 billion U.S. dollars in sales from its restaurants in the U.S. in 2017. The above is from statista.com.

In 2007, IHOP was brought together with Applebee's under the umbrella company Dine Brands Global, to create synergy between the casual dining restaurant chains.

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## Dine Brands Global, Inc. Reports Second Quarter 2018 Results

"Applebee's and IHOP's domestic same-restaurant sales increased 5.7% and 0.7%, respectively. Positive sales momentum for both brands continued into the second quarter. I am pleased to report that for the third consecutive quarter, both Applebee's and IHOP outperformed their respective categories based on sales and traffic. The execution of our strategic growth plans over the past year are producing meaningful results. Applebee's achieved its highest quarterly domestic sales increase in over a decade. Additionally, IHOP successfully launched its all new Ultimate Steakburgers platform, further establishing the brand as a destination beyond breakfast.

We also recently announced that IHOP will be introduced in South America for the first time through an agreement with a new franchisee to open 25 restaurants in Peru over the next ten years," said Steve Joyce, Chief Executive Officer of Dine Brands Global, Inc.

Mr. Joyce added, "We've made great progress stabilizing the performance of our brands and we are excited about the results to date. We are also working on a number of key initiatives that we believe will create significant long-term value for our shareholders, including the refinancing of our debt this year."

### Second Quarter of Fiscal 2018 Financial Highlights

GAAP net income available to common stockholders was \$12.3 million, or earnings per diluted share of \$0.69 for the second quarter of 2018. This compares to net income available to common stockholders of \$21.8 million, or earnings per diluted share of \$1.23, for the second quarter of fiscal 2017. The decrease in net income was primarily due to lower segment profit as the result of \$16.5 million in franchisor contributions to the Applebee's national advertising fund, partially offset by a decline in bad debt expense, IHOP restaurant development over the past twelve months and improvement in Applebee's and IHOP's domestic same-restaurant sales.

Adjusted net income available to common stockholders was \$18.3 million, or adjusted earnings per diluted share of \$1.03, for the second quarter of fiscal 2018. This compares to adjusted net income available to common stockholders of \$23.8 million, or adjusted earnings per diluted share of \$1.34, for the second quarter of fiscal 2017. The decrease in adjusted net income was mainly due to lower segment profit as the result of \$16.5 million in franchisor contributions to the Applebee's national advertising fund, partially offset by a decline in bad debt expense, IHOP restaurant development over the past twelve months and improvement in Applebee's and IHOP's domestic same-restaurant sales. (See "Non-GAAP Financial Measures" below.)

General and administrative expenses were \$38.8 million for the second quarter of fiscal 2018 compared to \$37.4 million for the second quarter of fiscal 2017. The increase was primarily due to higher personnel-related costs, partially offset by a decline in professional services expenses.

### First Six Months of Fiscal 2018 Financial Highlights

GAAP net income available to common stockholders was \$28.8 million, or earnings per diluted share of \$1.61 for the first six months of fiscal 2018. This compares to net income available to common stockholders of \$37.1 million, or earnings per diluted share of \$2.09, for the first six months of fiscal 2017. The decrease in net income was primarily due to lower segment profit as the result of \$30.0 million in franchisor contributions to the Applebee's national advertising fund, partially offset by a decline in bad debt expense, IHOP restaurant development over the past

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twelve months and improvement in Applebee's and IHOP's domestic same-restaurant sales. The impact of lower segment profit was partially offset by lower income tax expense and a decline in general and administrative expenses.

Adjusted net income available to common stockholders was \$38.0 million, or adjusted earnings per diluted share of \$2.13, for the first six months of fiscal 2018. This compares to adjusted net income available to common stockholders of \$46.6 million, or adjusted earnings per diluted share of \$2.63, for the first six months of fiscal 2017. The decrease in adjusted net income was mainly due to lower segment profit, as explained in the paragraph above. The impact of lower segment profit was partially offset by lower income taxes and a decline in general and administrative expenses. (See "Non-GAAP Financial Measures" below.)

General and administrative expenses were \$80.7 million for the first six months of fiscal 2018 compared to \$87.7 million for the same period of fiscal 2017. The decline was primarily due to approximately \$8.8 million in executive separation costs incurred during the first six months of 2017 that did not recur in the comparable period of fiscal 2018.

Cash flows from operating activities were approximately \$25.8 million for the first six months of fiscal 2018 compared to approximately \$20.9 million for the first six months of fiscal 2017. Adjusted free cash flow was \$28.1 million for the first six months of fiscal 2018. This compares to \$19.2 million for the first six months of fiscal 2017.

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**PHOTOGRAPHS OF SUBJECT**





**Aerial views (boundary lines are approximate)**



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**Closer in aerial view**

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**Front view of Subject**



**Front view of Subject**

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**Front and side view of Subject**



**View of Subject and parking lot**



**Rear and side view of Subject**



**Rear view of Subject and parking lot**





Interior picture



Interior picture

*Dallas, Texas*

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Interior picture



Interior picture



**Signage and street scene facing south**



**Street scene facing north**



## ASSUMPTIONS AND LIMITING CONDITIONS

The Certification of Value appearing in the appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Appraisers in the report.

1. The Appraisers assume no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor do the Appraisers render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership, competent management, and is appraised as if free and clear of any or all liens or encumbrances.
2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The Appraisers have made no survey of the property.
3. The Appraisers are not required to give testimony or appear in court because of having made the appraisal in reference to the property in question, unless arrangements have been previously made.
4. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
5. The Appraisers assume that there are no hidden or unapparent conditions of the property, subsoil, or structure, which would render it more or less valuable. The Appraisers assume no responsibility for such conditions, or for engineering, which might be required to discover such factors.
6. Information, estimates and opinions furnished to the Appraisers, and contained in the report, were obtained from sources considered reliable and are believed to be true and correct. However, no responsibility for the accuracy of such items furnished the Appraisers can be assumed by the Appraisers.
7. Disclosure of the contents of this appraisal is governed by the Bylaws and Regulations of the Appraisal Institute.
8. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected) shall be disseminated to the public through advertising media, public relations media, news media or any other public means of communication without the prior written consent and approval of the appraisers.

## EXTRAORDINARY ASSUMPTIONS/HYPOTHETICAL CONDITIONS

The lease did not indicate that the F, F & E is included in the rental rate. In most NNN cases the F, F, & E is included. This report makes the extraordinary assumption that the F, F, & E is included. Should this not be the case it could cause our value to be misleading.

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**APPRAISER'S LIABILITY LIMITATIONS,  
AND SPECIAL REPORT CONDITIONS  
AND CLIENT AGREEMENTS**

The acceptance of this report and its use by the client in any manner whatsoever or for any purpose is acknowledgment by the client that his report is a satisfactory professional product, and that the client has personally read the report, and specifically agrees that the data herein is accurate to the best of the Appraiser's ability.

The report remains the personal property of the signer and may not be transmitted to the third party without the signer's written permission. (Permission is granted to transmit to third party mortgagor.)

Dunham Commercial Appraisers, Inc. or the Appraiser's personal responsibilities do not extend to a third party under any circumstances whatsoever.

As a part of the Appraiser-Client employment agreement, the Client agrees to notify the Appraiser of any error, omission, or invalid data herein within 15 days of receipt and to return the report along with all copies to the Appraiser for correction prior to any use whatsoever. Corrections will be made at the Appraiser's discretion.

Thus, by acceptance of this report, the client acknowledges that a value opinion is the product of a trained professional, but nevertheless is an opinion only and not a provable fact. As a personal opinion, valuation may vary between Appraisers based on the same facts.

Thus, Dunham Commercial Appraisers warrants only that the value conclusion is the Appraiser's best opinion estimate as of the exact day of valuation.

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### **PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to provide a supportable estimate of the "as is" market value of the Subject property.

### **USER AND USE OF THE APPRAISAL**

The use of this appraisal is for collateral valuation purposes by [REDACTED], our client.

### **DATE OF VALUE ESTIMATE**

The effective date of the market value estimate is October 15, 2018. The appraisers conducted a physical inspection of the property on October 15, 2018.

### **DATE OF REPORT**

The date of this report is October 30, 2018.

### **COMPETENCY OF APPRAISERS**

The appraisal firm of Dunham Commercial Appraisers, Inc., is competent to appraise the subject property by having requisite abilities, qualities, knowledge, and insight to the surrounding subject area. Dunham Commercial Appraisers Inc., combines a vast amount of appraisal experience along with continuous academics in order to remain abreast of current and future trends in the real estate market and the appraisal profession. Qualifications of the appraiser are included in the Addenda. The appraiser has valued numerous similar properties in the region.

### **PROPERTY RIGHTS APPRAISED**

The property rights appraised in this report are Leased Fee Estate, which is defined as follows:

*“An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others: the rights of the lessor (the leased fee owner) and leased fee are specified by contract terms contained within the lease.”*

Source: The Appraisal of Real Estate, published by The Appraisal Institute,

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## SCOPE OF THE APPRAISAL

### Scope of Work

The scope of work is defined as the type of research and analysis performed in the appraisal assignment. The Subject Property is an existing franchised IHOP Restaurant in Plainview, Texas under a long term lease to a marginal credit tenant. In compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and upon the request of the client, an appraisal has been prepared utilizing the Scope of Work Rule.

The Scope of Work Rule was added to USPAP to emphasize the requirements for problem identification, determining the appropriate scope of work and disclosure of the scope of work that was performed in the appraisal.

The following is the appraiser's scope of work used to produce the appraisal.

- inspected all the interior and exterior of the Subject Property to note the characteristics of the property that are relevant to its valuation;
- investigated available market data for use in the Sales Comparison Approach and Income Capitalization Approach. Due to the age of the property and difficulty estimating depreciation we have omitted the Cost Approach. The omission of the Cost Approach does not lessen the credibility of this appraisal report.
- The appraiser's investigations included research of public records through the use of commercial sources of data such as printed comparable data services and computerized databases. Search parameters such as dates of sales, leases, locations, sizes, types of properties, and distances from the subject started with relatively narrow constraints and, if necessary, expanded until the appraiser had either retrieved data sufficient (in the appraiser's opinion) to estimate market value, or until the appraiser believed that he or she had reasonably exhausted the available pool of data. Researched sales and lease data was reviewed and, if found to be appropriate, efforts were made to verify the data with persons directly involved in the transactions such as buyers, seller, brokers, or agents.
- At the appraiser's discretion, some data was used without personal verification if, in the appraiser's opinion, the data appeared to be correct. In addition, the appraiser considered any appropriate listings or properties found through observation during appraiser's data collection process. The appraiser reported only the data deemed to be pertinent to the valuation problem;
- investigated and analyzed any pertinent easements or restrictions, on the ownership of the subject property. It is the client's responsibility to supply the appraiser with a title report. If a title report is not available, the appraiser will rely on a visual inspection and identify any readily apparent easements or restrictions;
- analyzed the data found and reached conclusions regarding the market value, as defined in the report, of the Subject Property as of the date of value using appropriate valuation approaches identified above;

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- prepared the appraisal in compliance with the Uniform Standards of Professional Appraisal Practice as promulgated by The Appraisal Foundation and the Code of Professional Ethics and Certification Standard of the Appraisal Institute.

- the appraiser is not responsible for ascertaining the existence of any toxic waste or other contamination present on or off the site. The appraiser will, however, report any indications of toxic waste or contaminants that may affect value if they are readily apparent during appraiser's investigations. Appraiser cautions the user of the report that appraiser is not expert in such matters and that appraiser may overlook contamination that might be readily apparent to parties who are experts in such matters.

- prepared an Appraisal Report, as defined in USPAP, which included photographs of the Subject Property, descriptions of the subject neighborhood, the site, any improvements on the site, a description of the zoning, a highest and best use analysis, a summary of the most important sales used in the appraiser's valuation, a reconciliation and conclusion, a map illustrating the sales in relationship to the subject property, and other data deemed by the appraiser to be relevant to the assignment. Pertinent data and analyses not included in the report may be retained in appraiser's files.

- A summary of regional area and neighborhood characteristics.

- A physical inspection of the Subject Property as to its condition and characteristics.

- A search of public records pertaining to the Subject - i.e., zoning regulations, real estate tax and assessment information, sales history, easements, public and/or private deed restrictions, etc.

- Analysis of physically possible uses, legally permissible uses, financially practical uses and maximally productive uses of the Subject Property to estimate the Highest and Best Use.

- Research of improved sales through sources such as county deed records, conversations with local real estate brokers and appraisers in addition to the buyers and sellers of real property.

- Analysis of the Subject Property's market segment with the underlying supply and demand factors for comparable properties.

- An inspection of most of sale comparables and rent comparables was made. Some were located too far from the Subject and were not inspected but we viewed the area via Google aerial photographs. We also examined the surrounding neighborhood.

- Produce a narrative appraisal report as described in the Appraisal Procedure.

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### Competency Statement

The appraiser has valued numerous similar NNN restaurants in the region over the past twenty years. In order to become more competent in the immediate area, the Subject Property and commercial market conditions were discussed with local appraisers, brokers, managers, and investors. For these reasons, the appraiser has the professional competency required to appraise the Subject Property.

Ron Dunham is a designated a Member of the Appraisal Institute (MAI) and is State Certified in the State of Texas. As a result of the experience and expertise, Mr. Dunham possesses the professional competency required to conclude a reliable opinion of value.

### **MARKET VALUE DEFINITION**

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. 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 sale.<sup>1</sup>

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<sup>1</sup> Federal Reserve System, 12CFR, \*Subpart G Section 225.62f

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## Exposure Time

The Market Value estimate is based on the assumption that a reasonable time is allowed for exposure in the open market. A reasonable exposure time was estimated based upon market evidence including actual exposure times for restaurants and the projected marketing time required to sell a property similar to the Subject.

Exposure time is defined as:

*“ The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal” (TO, Statement 6).*

Due to the lack of similar comparables in the immediate area, the market value estimated in this appraisal specifically relates to the sale of similar restaurants in the region. The preferred method for estimating exposure time is considered the actual exposure time required to market and sell similar properties. Conversations with local brokers have indicated that if properly priced and aggressively marketed vacant land will typically require a 6 to 12 month marketing period. Obviously, properties in locations where growth has occurred and where demand for property exists will command the shortest marketing periods. Other factors include the size and price of the property. There are typically fewer buyers for larger properties and thus the marketing period would need to be extended. On the other hand, a larger property in an area with proven need could have in excess of its cost, and thus a short marketing period, as it typically requires several years to plan and develop such a property. As mentioned in the area analysis, the area has experienced considerable growth during the last ten years. As more people move into the area, demand for property similar to the subject will increase. Therefore, it would appear as if a 6-12 month exposure period would be reasonable for the Subject facility.

## Marketing Time

The projected marketing time required to market and sell a property(s) similar to the Subject was estimated by interviews with brokers active in the market. Marketing Time is defined as:

*An estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal” (TO, Advisory Opinion G-7).*

Our research indicates the typical scenario for the sale of improved properties similar to the Subject via open market (real estate broker) or direct (per principal) transactions between organizations. Therefore, we interviewed several brokers involved in the sales of NNN properties to determine the marketing time required to sell a property similar to the subject. The brokers interviewed indicated the marketing time would primarily depend on the asking price and the price a seller would be willing to accept. Other factors obviously include demand for similar type properties, the areas future growth pattern, the marketing plan and even the planned uses possible for the facility.

For the same reasons we discussed in the previous paragraph under Exposure Time, the typical marketing time is also estimated at 6-12 months from the date of appraisal.

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**PART TWO**  
**FACTUAL DESCRIPTIONS**



### **HISTORY OF THE SUBJECT PROPERTY**

In accordance with standard rule 1-5 (b), of the "Standards of Professional Practice" of the Appraisal Institute, a three-year sales history for the Subject property shall be included for all non-residential properties.

Gretta May, LLC has owned the Subject since November 15, 2010. The property is not known to be under contract or for sale. No other information was available.

### **IDENTIFICATION OF PROPERTY**

According to the Hale County Appraisal District, the legal description is as follows:

Westridge Plv Unit 2, Lot 1B

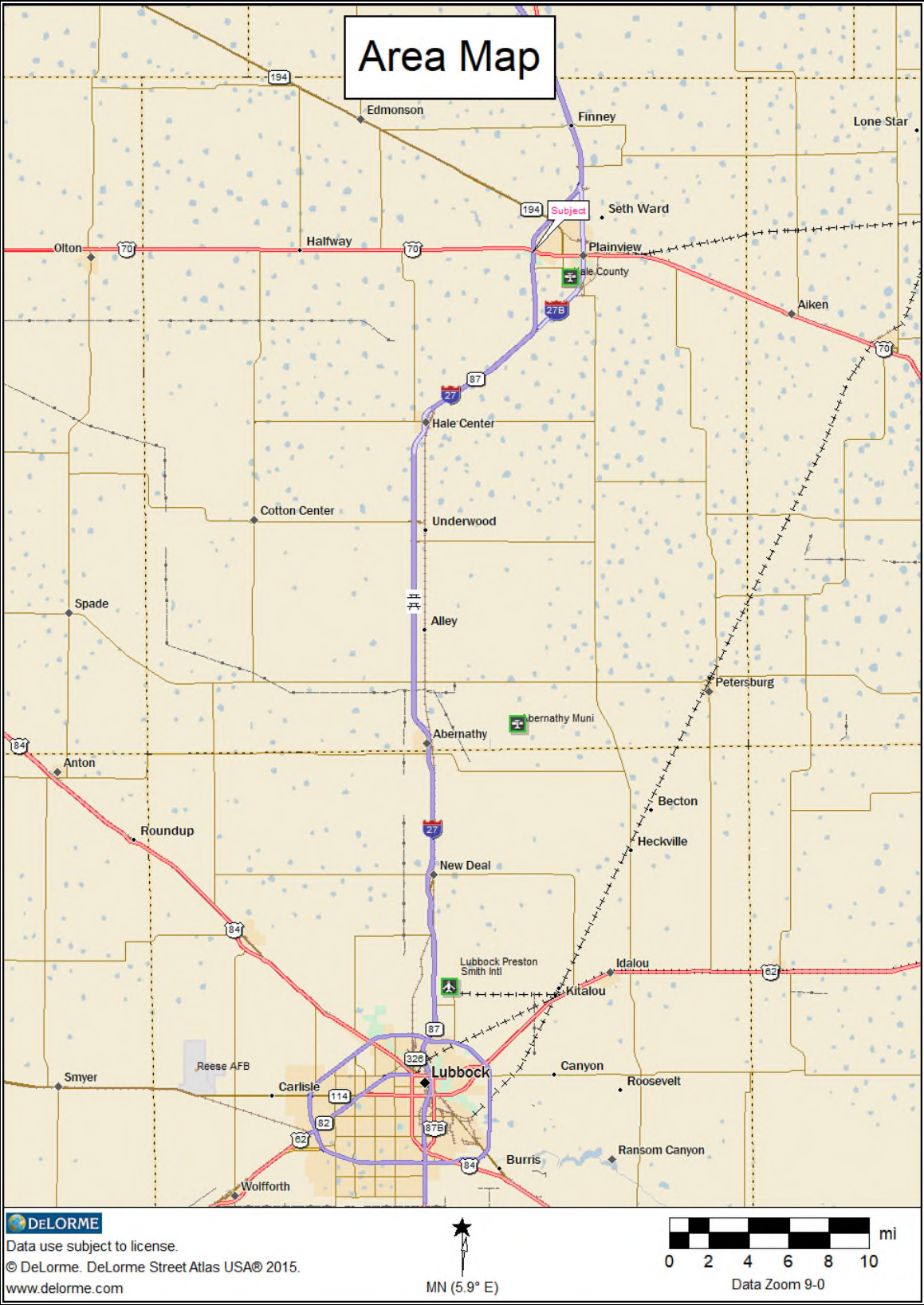
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### Hale County

Hale County is on the Llano Estacado in northwest Texas, bounded on the east by Floyd County, on the south by Lubbock County, on the west by Lamb County, and on the north by Swisher and Castro counties.

There is a considerable supply of underground water from the vast Ogallala Aquifer. Running Water Draw cuts southeastward across the county through Plainview, and Black Water Draw touches the southwestern part of the county.

Plainview is the county seat of Hale County.

Hale County comprises the Plainview, Texas Micropolitan Statistical Area.

The following shows the location of Hale County within Texas:



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The following shows the historical population of Hale County:

Census	Pop.	%±
1890	721	—
1900	1,680	133.0%
1910	7,566	350.4%
1920	10,104	33.5%
1930	20,189	99.8%
1940	18,813	-6.8%
1950	28,211	50.0%
1960	36,798	30.4%
1970	34,137	-7.2%
1980	37,592	10.1%
1990	34,671	-7.8%
2000	36,602	5.6%
2010	36,273	-0.9%

The 2016 population was estimated 34,263 and the 2017 estimate was 34,134.

#### Economy:

Plainview has an aggressive and supportive business climate, low taxes, inexpensive energy and enviable logistics make the Plainview/Hale County Community worthy of serious consideration for your business and industry expansion.

Azteca Milling is the largest corn milling operation of its kind in the world, producing maseca used in making tortilla and corn chips.

Companies in Plainview and Hale County enjoy electric and natural gas rates that are among the lowest in the nation.

Most common industries in 2016 for males in Plainview:

- Retail trade (16%)
- Manufacturing (15%)
- Construction (14%)
- Educational services (8%)
- Public administration (7%)
- Agriculture, forestry, fishing and hunting (7%)
- Transportation and warehousing (5%)

Most common industries in 2016 for females in

- Construction and extraction occupations (13%)
- Production occupations (10%)
- Office and administrative support occupations (9%)
- Installation, maintenance, and repair occupations (7%)

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Material moving occupations (7%)  
Sales and related occupations (7%)  
Management occupations (6%)

The following is from Lubbockonline as of May 2018:

Xcel Energy is bringing more jobs to Hale County with the development of the Hale Wind Project, which received verbal approval from the Public Utility Commission of Texas last week.

Construction on the 478-megawatt project is scheduled to begin in June, according to a news release from Xcel Energy. The wind farm will create 300 jobs during development and between 17 and 22 full-time positions once the facility is operational.

The wind farm news comes a week after another economic development was announced in Plainview. The 140-acre Plainview-Hale County Business Park will announce its first tenant in the commercial and industrial area next week.

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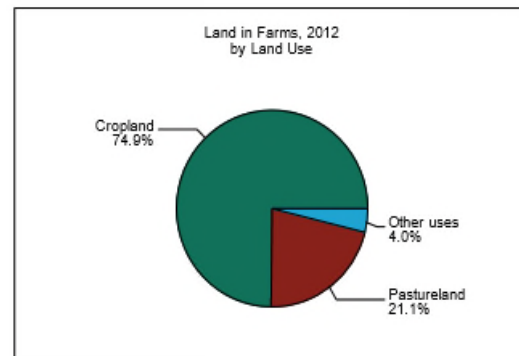
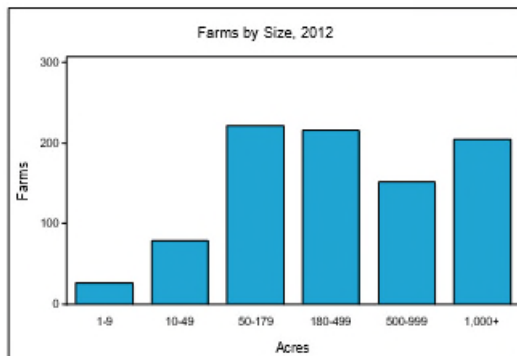
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The following is from the 2012 Census of Agriculture (most recent) for Hale County:

	2012	2007	% change
<b>Number of Farms</b>	899	957	- 6
<b>Land in Farms</b>	640,609 acres	588,724 acres	+ 9
<b>Average Size of Farm</b>	713 acres	615 acres	+ 16
<b>Market Value of Products Sold</b>	\$409,930,000	\$364,436,000	+ 12
Crop Sales \$129,176,000 (32 percent)			
Livestock Sales \$280,754,000 (68 percent)			
<b>Average Per Farm</b>	\$455,985	\$380,811	+ 20
<b>Government Payments</b>	\$15,250,000	\$21,470,000	- 29
<b>Average Per Farm Receiving Payments</b>	\$19,857	\$27,561	- 28

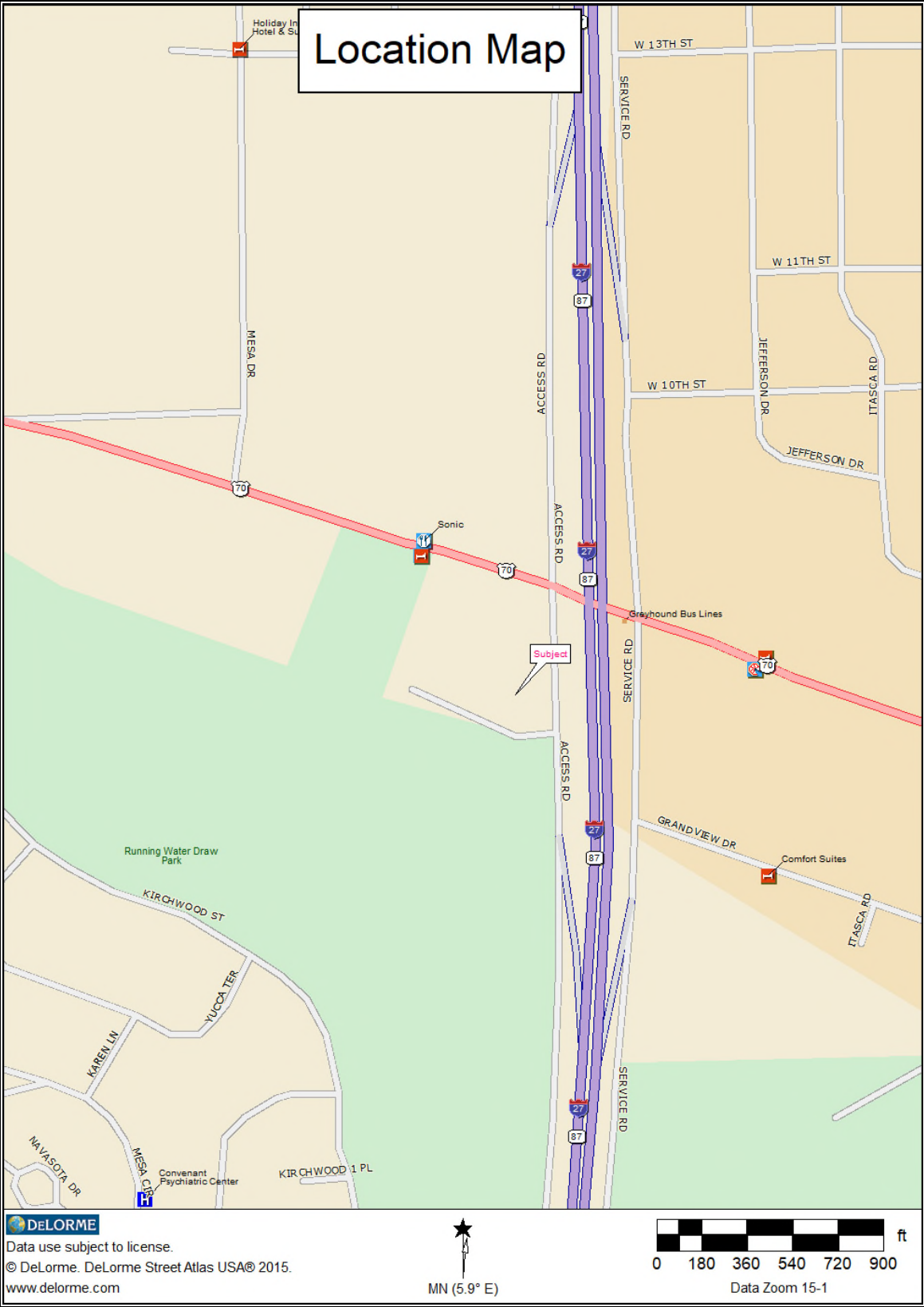


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## NEIGHBORHOOD ANALYSIS

A property is an integral part of its surroundings and must not be treated as an entity separate and apart from its surroundings. The value of a property is not found exclusively in its physical characteristics. Physical, economic, political and sociological forces in the area interact to give value to a property. In order to determine the degree of influence extended by these forces on a property, their past and probable future trends must be analyzed in depth. Therefore, in order to determine the value of a property, a careful analysis must be made of the area which the property under study is found. This area is referred to as a neighborhood.

A neighborhood can be a portion of a city, a community or an entire town. It is usually considered to be an area which exhibits a fairly high degree of homogeneity as to use, tenancy and certain other characteristics. Homogeneity is a state of uniform structure or composition throughout. Therefore, in real estate terminology, a homogeneous neighborhood is one in which the property types and uses are similar. A neighborhood is more or less a unified area with somewhat definite boundaries. As a neighborhood's boundaries serve to limit the physical area that exerts germane influences on a property's value, the boundaries may indeed run concurrent with variations in prevailing land uses or physical characteristics.

The neighborhood is considered to be bounded by US 70 (Olton Road) to the north, Running Water Draw Park to the south, Andy Road to the west, and Ennis Street to the east. The Subject is located in the central portion of the Neighborhood and approximately four miles west of the Plainview CBD.

## GENERAL NEIGHBORHOOD CHARACTERISTICS

<b>LOCATION</b>		URBAN		SUBURBAN	X	RURAL
<b>% DEVELOPED</b>	X	OVER 75%		25%-75%		UNDER 25%
<b>GROWTH RATE</b>		RAPID		STABLE	X	MODERATE
<b>SUPPLY</b>		SHORTAGE	X	IN BALANCE		OVERSUPPLY
<b>MARKETING TIME</b>		< 6 MONTHS	X	6-12 MONTHS		OVER 1 YEAR
<b>% MULTIFAMILY</b>		OVER 75%		25%-50%	X	UNDER 25%
<b>VALUES</b>		INCREASING	X	STABLE		DECLINING

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**SUBJECT NEIGHBORHOOD COMPARED TO OTHER NEIGHBORHOODS**

	<b>GOOD</b>	<b>AVG</b>	<b>FAIR</b>	<b>POOR</b>
<b>ACCESS TO:</b>				
<b>NEIGHBORHOOD:</b>		<b>X</b>		
<b>EMPLOYMENT:</b>		<b>X</b>		
<b>RETAIL CENTERS:</b>		<b>X</b>		
<b>STREET PATTERNS AND UPKEEP:</b>		<b>X</b>		
<b>PROPERTY COMPATIBILITY:</b>		<b>X</b>		
<b>POPULATION DENSITY:</b>		<b>X</b>		
<b>EXTENT OF OCCUPANT OWNERSHIP:</b>		<b>X</b>		
<b>SCHOOLS:</b>		<b>X</b>		
<b>INCOME LEVELS:</b>		<b>X</b>		
<b>RENT LEVELS:</b>		<b>X</b>		
<b>VALUE LEVELS:</b>		<b>X</b>		
<b>VACANCY LEVELS:</b>		<b>X</b>		
<b>TAX BURDEN:</b>		<b>X</b>		
<b>FLOOD HAZARDS:</b>		<b>X</b>		
<b>WATER AND SEWER AVAILABILITY:</b>		<b>X</b>		

**STAGE OF LIFE CYCLE**

<b>GROWTH</b>	
<b>STABILITY</b>	<b>X</b>
<b>DECLINE</b>	
<b>REVITALIZATION</b>	

The Subject is located on the south section of town, just inside city limits. It is located in the southwestern quadrant of US 70 (Olton Road) and the I 27 access road. This intersection has commercial uses at the four corners. The Subject is near a convenience store/gas station along with a Super 8 Motel. More commercial uses are to the north, including several fast food restaurants and gas stations.

There are residential uses to the southwest of the Subject. Approximately seven of these homes are for sale according to Trulia.com. They range in asking prices to the low \$200,000 to upwards of \$700,000. They were built from the 1960s to the 1990s.

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The Subject is north of Running Water Draw Park, a recreational park with walking trails.

The Subject is also adjacent to ag land. There are ag uses to the south and west.

The Subject benefits from its location at a busy intersection at the south end of town.

#### Transportation

Primary access to the neighborhood is provided by I 27, which is a north/south primary thoroughfare that provides access to Lubbock to the south and Amarillo to the north. US 70(Olton Road) is an east/west primary thoroughfare that provides access from US 385 to the west and US 62 to the east.

#### **Conclusion**

Access to the neighborhood is considered good via thoroughfares such as I 27 and US 70. All necessary neighborhood services and conveniences are available to provide an adequate high standard of living and good quality of life for the area residents. The neighborhood is considered to be in a stable life stage. Most of the improvements are in the early to middle stages of their life cycle.

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### REAL ESTATE TAXES

The Subject is located within the taxing jurisdictions listed below. The 2017 mill levy was 89.668. The 2018 rates per \$1,000 of assessed valuation for the respective tax districts are listed in the following table.

Taxing Authority	Assessment Ratio	2017 Tax Rate
Hale County		0.595200
Farm to Market		0.000300
Plainview ISD		1.170000
City of Plainview		0.831800
High Plains Water District		0.006700
Total	100%	2.604000

Year	Property ID	AV Land	AV Improvements	Total
2018	28632	\$77,481	\$538,965	\$616,446

Tax Summary of Subject	
Ownership Name	Gretta May, LLC
Appraised Value	\$616,446
Total 2018 Taxes	$\$616,446 \times 2.604000 = \$16,052.26$

Taxes are current.

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## ZONING ANALYSIS

The Subject is zoned “C-3” Commercial General Business District by the City of Plainview. The purpose of this district is to provide for heavy retail and wholesale commercial uses which serve a city-wide or regional area. Such districts should have frontage on regional thoroughfares such as State or Federal highways or should be located in the central business district. Because of the heavy commercial nature of the permitted uses, compatibility with adjacent residential areas should be carefully considered.

A variety of commercial uses are allowed including restaurant, retail, office, personal use, and supply.

Area, Setback, Height, Coverage, and Density Minimum Requirements:

No minimum lot area or minimum lot width at front of building.

Minimum lot depth:	80'
Front setback:	25/35' (linear feet)
Side setback:	10/15'
Height limit:	45:
Maximum ground coverage:	None
Maximum density per acre:	N/A

Parking:

One parking space for every 100 square feet of floor area.

Parking is sufficient.

According to the above, the Subject is a legal and conforming use.

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## SITE ANALYSIS

The Subject consists of 1.1858 acres or 51,654 SF of land located at 701 N. Interstate 27 in Plainview, Hale County, Texas 79072.

### Access

Access into the site is good from the access road for I 27. There are two curb cuts.

### Abutting and Vicinity Uses

The Subject is surrounded by retail uses to the north, south and east. Ag uses are to the west.

### Topography/Flood Zone

The topography of the site is basically level. The Subject is in FEMA flood plain map 48189C0205D, dated February 18, 2018 and located in Zone AE, , a Special Flood Hazard Area (SFHA). SFHA are defined as the area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The 1-percent annual chance flood is also referred to as the base flood or 100-year flood.

### Utilities/City Services

The Subject has all available utilities and services.

### Zoning

The site is zoned "C-3" Commercial General Business District. The Subject is a legal conforming use.

### Easements/Deed Restrictions

A title policy is not available to us in order to determine the existence of all easements affecting the property. Easements for access, utilities and drainage are assumed to be on and about the subject site. To our knowledge, no deed restrictions affect or limit the use of the property. However, this should not be considered as a guaranty or warranty that no such restrictions exist. Deed restrictions are a legal matter, and normally only a title search by a title attorney discovers any restrictions. Thus, it is recommended that a title search and survey be made if any questions regarding deed restrictions/easements arise.

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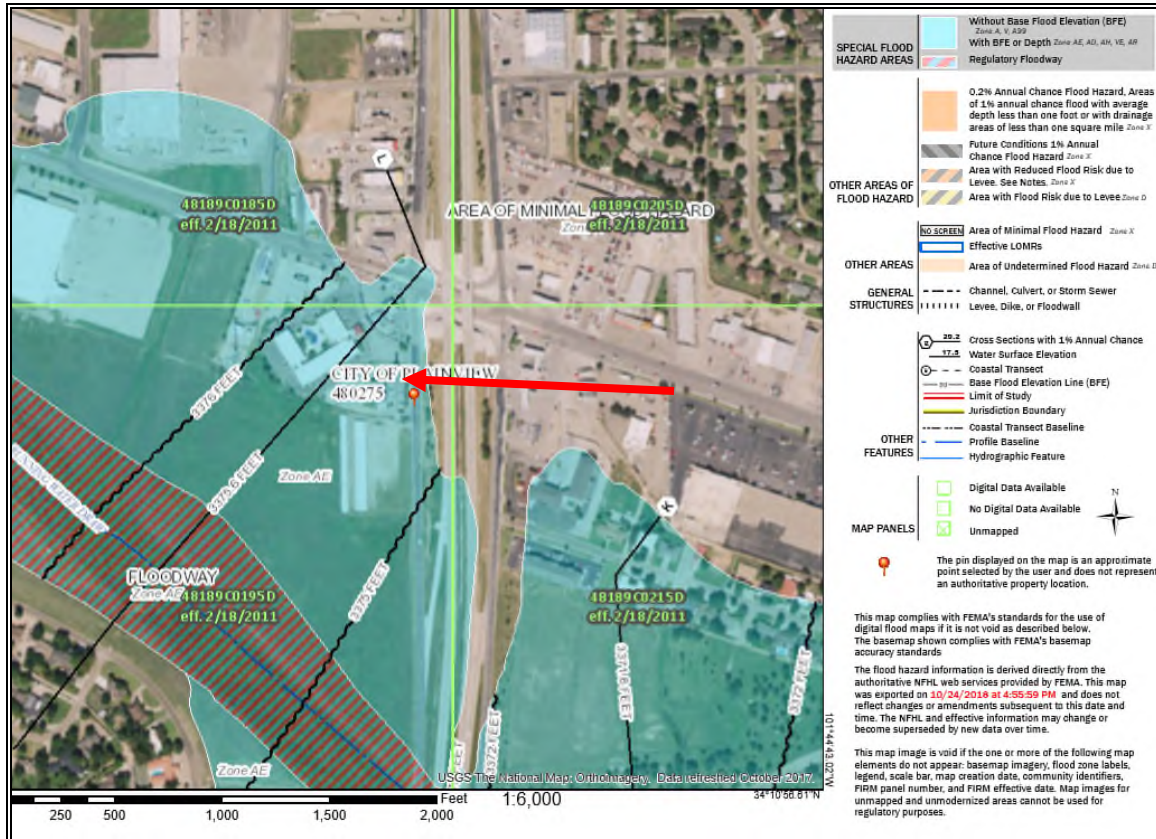
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## Environmental Hazards

An environmental study of the Subject is not available. Based on our inspection no environmental hazards appeared to be present (but we are not environmental experts). Therefore, we recommend an environmental survey.

## Conclusion

The site is well located and well suited for its current use. No environmental hazards were noted.



FEMA Map

## NET LEASE APPRAISALS

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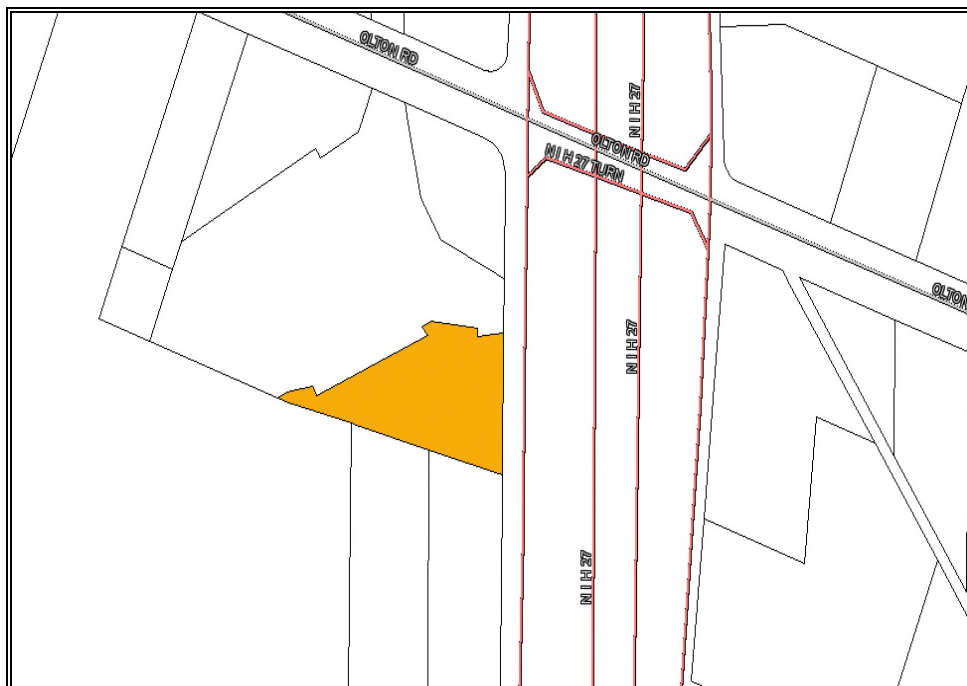
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Plat maps



## IMPROVEMENTS DESCRIPTION

The Subject is located at 701 N. Interstate 27 in Plainview, Hale County, Texas 79072. The property was built in 2006 and is of average quality "Class D" construction. According to the appraisal district the Subject consists of a 4,836 square foot restaurant and a 1.1858 acre (51,654 SF) site. The floor area ratio is 0.09 to 1. The site is zoned "C-3" Commercial General Business District by the City of Plainview and is in FEMA flood Zone AE, a Special Flood Hazard Area (SFHA).

The 4,836 square foot restaurant has one level. The building consists of a kitchen, restaurant, and bathrooms. The interior finish is average.

The floors are engineered hardwoods and tile and the walls are painted gypsum board. The ceilings are lowered acoustic tile with fluorescent lighting. Air conditioning and heating are via a central unit.

## FURNITURE, FIXTURES, AND EQUIPMENT

The Subject is composed of a restaurant which features seating, cooking equipment, walk-in cooler/freezer as well as condiment area and drink dispensers. Although requested, the Subject's management did not provide information regarding the F, F, & E. Should additional information be provided we reserve the right to amend our conclusions.

## SITE IMPROVEMENTS

Additional site improvements include approximately 63± paved parking spaces and landscaping. Landscaping is minimal.

## CONCLUSION

The improvements are of average quality construction and are designed for retail use. The improvements have an effective age of 10 years and a remaining economic life of 35 years. Thus, depreciation is estimated to be 22%.

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**PART THREE**  
**ANALYSIS AND CONCLUSIONS**

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## HIGHEST AND BEST USE

One of the basic elements of real estate valuation is the theory of highest, best and most profitable use.

As quoted from The Dictionary of Real Estate Appraisal, highest and best use is defined as that reasonable and probable use that supports the highest present value of vacant land or improved property, as defined, as of the effective date of the appraisal.

Or, as defined in the Appraisal of Real Estate, the reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and which results in highest land value.

These definitions recognize that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

Because the use of land can be limited by the presence of improvements, highest and best use is determined separately for the land or site as though vacant and available to be put to its highest and best use, and for the property as improved.

In appraisal practice, highest and best use analysis not only identifies the use of the property expected to produce the maximum net present value, but also helps the appraiser select comparable properties.

Four basic criteria are examined in estimating the Highest and Best Use of a property both as vacant and as improved. These stages of analysis are as follows:

- a) Possible Use - the uses to which it is physically possible to put on the site in question.
- b) Permissible Use (Legal) - the uses that are permitted by zoning and deed restrictions on the site in question.
- c) Feasible Use - the possible and permissible uses that will produce any net return to the owner of the site.
- d) Highest and Best Use - among the feasible uses, the use that will produce the highest net return on the highest present worth.

The highest and best use of a specific parcel of land is not determined through subjective analysis by the property owner, the developer, or the appraiser; rather, highest and best use is shaped by the competitive forces within the market where the property is located. Therefore, the analysis and interpretation of highest and best use is an economic study of market forces focused on the subject property.

Market forces also shape market value, so the general data that are collected and analyzed to derive an opinion of market value are also used to formulate an opinion of the property's highest and best use as of the appraisal date.

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## **SITE AS VACANT**

The Subject consists of 1.1858 acres or 51,654 SF of land located at 701 N. Interstate 27 in Plainview, Hale County, Texas 79072, and is located in Zone AE, a special flood hazard area..

### **Physically Possible**

In arriving at our opinion of highest and best use for the improved subject site, it was first necessary to determine if the physical characteristics of the site - such as soil conditions, topography, shape, and frontage were favorable for development. No differential settlement was observed which would indicate unusually unstable soil-bearing capacities in the surrounding area. The tract is of sufficient size to be economically adaptable for development and benefits from adequate frontage and accessibility. The topography imposes no discernible problem for development. Thus, the physical characteristics impose no insurmountable limitations to permissible development.

### **Legally Permissible**

This parcel is zoned "C-3" Commercial General Business District by the City of Plainview. The purpose of this district is to provide for heavy retail and wholesale commercial uses which serve a city-wide or regional area. Such districts should have frontage on regional thoroughfares such as State or Federal highways or should be located in the central business district.

### **Financially Feasible**

The surrounding properties and land uses are considered for compatibility in determination of feasible use. The immediate area is mostly developed with commercial/retail uses and surrounded by single family residential uses. Based on the location and amount of new and newer construction and location along the I 27 corridor it appears the new retail construction is feasible.

### **Maximally Productive**

The financially feasible use of the Subject site would be for development of a retail use similar to the current use. Therefore, it is our opinion that the maximally productive use of the Subject site as vacant is for *retail (most likely convenience retail or a restaurant) development as the market dictates.*

## **HIGHEST AND BEST USE AS IMPROVED**

### ***Physically Possible***

As indicated by their existence, the subject improvements are the most appropriate physical use of the site.

### ***Legally Permissible***

As discussed above, the legally permissible uses for the site includes the current use.

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***Economically Feasible***

The value of the existing improvements would exceed the value of the land, demolition costs and construction costs of any alternate use. The value of the Subject improvements as concluded herein exceeds the value of the land.

***Maximally Productive***

The current use would be the maximally feasible use of the Subject.

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## DISCUSSION OF THE APPRAISAL PROCESS

For the purpose of estimating the market value of the property, the appraisers will employ three traditional approaches in the valuation process: the Cost Approach, the Income Capitalization Approach, and the Sales Comparison Approach.

In the Cost Approach, the cost to replace the improvements is estimated. A deduction is made for any depreciation, and the result is combined with the estimated value of the underlying land. The approach is applicable when each component is independently measurable, and then the sum of all components is believed to reflect market value.

The Sales Comparison Approach will be the second approach employed in the valuation process. A search of the local market will be conducted by the appraisers for recent sales of comparable commercial condominiums. Upon gathering such information, an analysis of the data will be made to relate the subject's unique characteristics to those of the comparable sales. A reconciliation of the data will direct the appraisers to an estimate of value via the Sales Comparison Approach.

In the Income Capitalization Approach, the appraisers will ascertain the property's capability of producing income and analyze fixed and variable operating expenses to estimate the net operating income. The potential income and expenses will be projected.

The appraisers will then consider the importance and influence of each approach in relation to the reactions of typical users and investors in the NNN market. The approaches will then be reconciled into a final value conclusion.

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## THE COST APPROACH

The cost approach is primarily based on the principle of substitution. The principle of substitution states that a person is not justified in paying more for a property than that amount by which an investor can obtain, by purchase of a site and construction of a structure, without undue delay, a property of equal desirability and utility.

When the property represents a proper improvement, meeting the definition of Highest and Best Use, then this approach is based upon the assumption that the replacement cost is the upper limit of value.

The cost approach consists of four distinct steps:

1. Valuation of the site as if vacant.
2. Estimation of replacement cost new of the existing structures and/or improvements.
3. An estimate of accrued depreciation found in the improvements. The various types of depreciation and how each relates to the subject will be accounted for in this section. The total depreciation present in the improvements is deducted from its replacement cost new to indicate a depreciated value of the improvements.
4. The addition of the site value and the depreciated cost of the structures and improvements to a value estimate.

The technique involved in estimating the value of the site utilizes the principle of substitution as the basis for analysis, and the methodology includes an analysis of properties in the area that have sold. The value of the site, therefore, is derived from sales of comparable properties in the area. It is necessary to evaluate such factors as conditions of sale, financing, market conditions (time), location, physical characteristics, and other items when making adjustments.

Since the property was built for and leased to a IHOP franchisee in the “Leased Fee Estate” the value of the property is mainly determined by the income generated by the lease and the strength of the tenant’s credit. Thus, we have omitted the Cost Approach. The omission of the Cost Approach does not lessen the credibility of this report.

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## SALES COMPARISON APPROACH

The sales comparison approach involves a direct comparison of the Property being appraised to similar properties for which value indications are available in similar markets in order to derive a value indication for the Property. Carefully verified and analyzed market data is considered to be a good reflection of value when it represents typical actions and reactions of buyers, sellers, users, and investors. While all approaches are market oriented with respect to the information utilized in each, this approach involves the comparison of the Property with other similar properties. As a result, this approach is considered to be an interpretation of what is taking place within the market.

This approach, like the cost approach, is based on the principle of substitution, which implies that a prudent person will not pay more to buy a property than it would cost to buy a comparable substitute property. One method of valuation by this approach is a comparison based on the sales price per square foot of building area. This is a simplistic comparison, and it can be affected by numerous characteristics of each property, such as age, condition, construction quality, and deferred maintenance, as well as the basic dissimilarities between the properties. Another method of valuation is the Potential Gross Income Multiplier (PGIM) technique. A PGIM is a number that expresses the ratio between the sales price of a property and its potential gross income. We will use sales price per square foot of building area method.

The improved comparables are presented on the following pages.

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**IMPROVED SALE 1**

Name: IHOP Restaurant

Address: 4103 S. Carrier Parkway, Grand Prairie

Grantor: Preferred Associates, LLC  
Grantee: Lightson Investments, LLC

Date of Sale: July 19, 2017

Consideration: \$3,876,000  
Financing: Cash to Seller  
Cash Equivalent Price: \$3,876,000

**Property Description:**

Land Area: 1.150 Acres (50,094 SF)  
YOC: 2001  
Construction: Class D  
Net Rentable Area: 4,800 SF  
Occupancy at Sale: 100.0%  
Land to Building Ratio: 6.21  
Condition: Good

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**Sale 1 continued**

<b>Income Data</b>	<b>Total</b>	<b>Per SF</b>	<b>% of EGI</b>
Potential Gross Income	\$220,944	\$46.03	
Less: Vacancy & Collection @ 0.0%	\$0	\$0.00	
Effective Gross Income	\$220,944	\$46.03	100.0%
Less: Expenses	\$4,419	\$0.92	2.0%
Net Operating Income	\$216,525	\$45.11	98.0%
<b>Units of Comparison</b>	<b>Actual</b>		
Price/SF:	\$807.50		
EGIM:	17.54x		
OER:	2.0%		
Overall Rate (Ro):	5.59%		

Comments: The rent was \$220,938 at time of sale and is subject to 10 percent rental escalations in March of 2018 and every five years thereafter. In addition to the primary term, the tenant has three, five-year tenant renewal options.

**IMPROVED SALE 2**

Name: McAlister's Restaurant  
 Address: 205 East Hall Of Fame Avenue, Stillwater  
 Grantor: VJC Investments, LLC  
 Grantee: Saxton Group, LLC  
 Date of Sale: August 7, 2018  
 Consideration: \$2,637,000  
 Financing: Cash to Seller  
 Cash Equivalent Price: \$2,637,000

**Property Description:**

Land Area: 1.100 Acres (47,916 SF)  
 YOC: 1994  
 Construction: Class D  
 Net Rentable Area: 4,914 SF  
 Occupancy at Sale: 100.0%  
 Land to Building Ratio: 5.11  
 Number of Stories: 1 Stories  
 Condition: Good

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**Sale 2 continued**

<b>Income Data</b>	<b>Total</b>	<b>Per SF</b>	<b>% of EGI</b>
Potential Gross Income	\$148,157	\$30.15	
Less: Vacancy & Collection @ 0.0%	\$0	\$0.00	
Effective Gross Income	\$148,157	\$30.15	100.0%
Less: Expenses	-\$2,963	-\$0.60	2.0%
Net Operating Income	\$145,194	\$29.55	98.0%
<b>Units of Comparison</b>	<b>Estimated</b>		
Price/SF:	\$536.63		
EGIM:	17.80x		
OER:	2.0%		
Overall Rate (Ro):	5.51%		

Comments: 5% rental increases every five years.

**IMPROVED SALE 3**

Name: Johnnie's Charcoal Broiler  
 Address: 2305 S Telephone Road, Moore  
 Grantor: HPI JCB Moore, LP.  
 Grantee: Michael Folb, A TRT  
 Date of Sale: September 14, 2018  
 Consideration: \$3,000,000  
 Financing: Cash to Seller  
 Cash Equivalent Price: \$3,000,000

**Property Description:**

Land Area: 1.160 Acres (50,530 SF)  
 YOC: 2018  
 Construction: Class D  
 Net Rentable Area: 5,345 SF  
 Occupancy at Sale: 100.0%  
 Land to Building Ratio: 6.11  
 Number of Stories: 1 Stories  
 Condition: Good

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**Improved Sale 3 (continued)**

<b>Income Data</b>	<b>Total</b>	<b>Per SF</b>	<b>% of EGI</b>
Potential Gross Income	\$218,611	\$40.90	
Less: Vacancy & Collection @ 0.0%	\$0	\$0.00	
Effective Gross Income	\$218,611	\$40.90	100.0%
Less: Expenses	-\$4,372	-\$0.82	2.0%
Net Operating Income	\$214,238	\$40.08	98.0%
<b>Units of Comparison</b>	<b>Estimated</b>		
Price/SF:	\$561.27		
EGIM:	13.72x		
OER:	2.0%		
Overall Rate (Ro):	7.14%		

**Comments:** First year of 25 year lease.

**IMPROVED SALE 4**

Name: IHOP Restaurant  
 Address: 2234 N. Main Street, Cleburne  
 Grantor: NA  
 Grantee: Norma & Mitchell Jakubowski Trust  
 Date of Sale: January 18, 2016  
 Consideration: \$2,477,900  
 Financing: Cash to Seller  
 Cash Equivalent Price: \$2,477,900

**Property Description:**

Land Area: 0.970 Acres (42,253 SF)  
 YOC: 2014  
 Construction: Class D  
 Net Rentable Area: 4,500 SF  
 Occupancy at Sale: 100.0%  
 Land to Building Ratio: 8.91  
 Number of Stories: 1 Stories  
 Condition: Good

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**Sale 4 continued**

<b>Income Data</b>	<b>Total</b>	<b>Per SF</b>	<b>% of EGI</b>
Potential Gross Income	\$141,750	\$31.50	
Less: Vacancy & Collection @ 0.0%	\$0	\$0.00	
Effective Gross Income	\$141,750	\$31.50	100.0%
Less: Expenses	-\$2,835	-\$0.63	2.0%
Net Operating Income	\$138,915	\$30.87	98.0%
<b>Units of Comparison</b>	<b>Actual</b>		
Price/SF:	\$550.64		
EGIM:	17.48x		
OER:	2.0%		
Overall Rate (Ro):	5.61%		

**Comments:** Fourteen years remaining on lease.



**IMPROVED SALE 5**

Name:	IHOP Restaurant
Address:	2612 S. Highway 77, Kingsville
Date of Sale:	Listing
Consideration:	\$2,027,413
Financing:	Cash to Seller
Cash Equivalent Price:	\$2,027,413

**Property Description:**

Land Area:	1.580 Acres (68,825 SF)
YOC:	2007
Construction:	Class D
Net Rentable Area:	5,163 SF
Occupancy at Sale:	100.0%
Land to Building Ratio:	7.76
Number of Stories:	1 Stories
Condition:	Good

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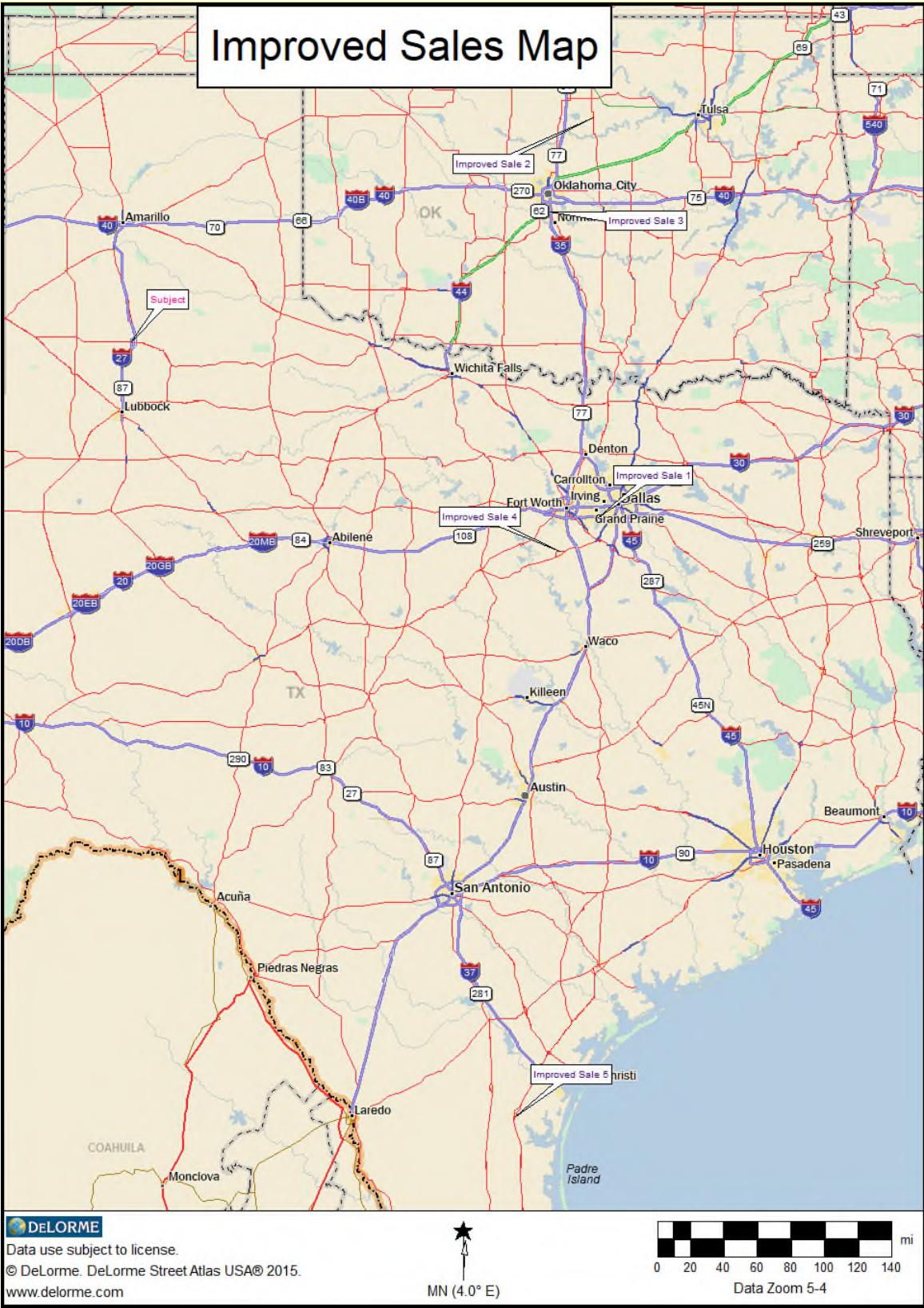
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**Sale 5 continued**

<b>Income Data</b>	<b>Total</b>	<b>Per SF</b>	<b>% of EGI</b>
Potential Gross Income	\$129,075	\$25.00	
Less: Vacancy & Collection @ 0.0%	\$0	\$0.00	
Effective Gross Income	\$129,075	\$25.00	100.0%
Less: Expenses	-\$2,582	-\$0.50	2.0%
Net Operating Income	\$126,494	\$24.50	98.0%
<b>Units of Comparison</b>	<b>Actual</b>		
Price/SF:	\$392.68		
EGIM:	15.71x		
OER:	2.0%		
Overall Rate (Ro):	6.24%		

**Comments:** 15 year lease with three 5 year options.



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The following chart summarizes the comparable sales utilized, regarding the physical characteristics of each. The price per square foot is based upon the cash equivalent sales price of each sale, adjusted for favorable financing or other miscellaneous items, where applicable.

Sale	Property	YOC	Date	Size SF	LTB	Price/SF
1	4103 S. Carrier Parkway, Grand Prairie	2001	7/19/2017	4,800	6.81	\$807.50
2	205 East Hall of Fame Avenue, Stillwater	1994	8/7/2018	4,914	5.11	\$536.63
3	2305 S Telephone Road, Moore	2018	9/14/2018	5,345	6.11	\$561.27
4	2234 N. Main Street, Cleburne	2014	1/18/2016	4,500	8.91	\$550.64
5	2612 S. Highway 77, Kingsville	2007	Listing	5,163	9.96	\$392.68
Subject	701 N Interstate 27, Plainview	2007		4,836	10.68	

The Subject consists of a 4,836 SF retail building located on 1.1858 acres (51,654 SF) of land located at 701 N. Interstate 27, Plainview, Hale County, Texas 79072. The property was built in 2007 and is of average quality "Class D" construction. The floor area ratio is 0.09 to 1 and the land to building ratio is 10.68 to 1.

#### Physical Comparisons - Price Per Unit

From the previous discussions, it is evident that the variance in sale prices warrant some considerations in order to better reflect the attributes of the subject property. These adjustments are derived from paired comparisons wherever possible in order to get market derived indications of adjustment. Ideally, a pure pairing of sales that are similar in all but one respect can be compared to isolate how that one difference affects price. In actual practice however, secondary pairing where several differences are adjusted to isolate the effect of a single characteristic are often necessary. In cases where this technique was not viable, we must rely on historical data and judgment from past experience.

**Terms:** All of the sales indicated a cash equivalent sales price. Thus, no adjustments were required for terms of sale.

**Conditions of Sale:** This adjustment category represents the circumstances surrounding the purchase of the comparable sales. If the comparable sales utilized did not meet the requirements of an arm's length transaction, adjustments would be appropriate in this category. All of the sales were considered to be arm's length transactions, thus no adjustments were required for conditions of sale. Where applicable, the sales have been adjusted for any deferred maintenance items.

**Market Conditions:** All of the comparable sales occurred between March 2017 and a current listing. No adjustments for market conditions were required. Sale 5 received a downward adjustment to allow for sales negotiations.

**Location:** The Subject is located at 701 N. Interstate 27 in Plainview, Texas. The immediate area surrounding the subject is primarily dominated with commercial/retail and residential land uses. The property also fronts IH 27.

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Since we did not inspect the comparables locational adjustments are difficult. However, all of the sales seem to fit the demographic profile for IHOP subjective adjustments were applied. See chart for adjustments.

**Age:** The age adjustment is intended to adjust the age of the comparable to the age of the subject to the comparables. The estimated chronological life of a retail building similar to the subject and the comparables is 50 years. The Subject was built in 2007 and all the comparables were built from 1994 through 2018. Sales 1 and 2 are older than the Subject requiring varying upward adjustments. Sales 3 and 4 are newer than the Subject requiring minor downward adjustments. Sale 5 required no adjustment. See chart for adjustments.

**Condition:** The Subject is in good condition with no deferred maintenance. All of the comparables are in good/new condition and do not require an adjustment.

**Size:** The size adjustments are based on the premise that, in general, the larger the tract, the less its selling price on a per unit basis. Typically, through experience with similar properties, a 5%-15% adjustment for each doubling/halving (100%) in size is considered adequate. The Comparables are similar in size. No adjustments were required.

**Quality:** The subject and the comparables are all of similar quality. No adjustments are required.

**Land to Building Ratio:** The Subject and the Comparables all have adequate parking. No land to building ratio adjustments were applied.

The following chart outlines the adjustments.

Sales Price Per Square Foot					
Sale	1	2	3	4	5
Price/SF	\$807.50	\$536.63	\$561.27	\$550.64	\$392.68
Sale Conditions	0.00%	0.00%	0.00%	0.00%	0.00%
Market Conditions	0.00%	0.00%	0.00%	0.00%	-10.00%
Adj. Price/SF	\$807.50	\$536.63	\$561.27	\$550.64	\$412.32
Location	-25%	0%	0%	0%	30%
Age	5%	10%	-10%	-5%	0%
Condition	0%	0%	0%	0%	0%
Size	0%	0%	0%	0%	0%
Quality	0%	0%	0%	0%	0%
LTB:R	0%	0%	0%	0%	0%
Net Adj.	-20%	10%	-10%	-5%	30%
Adj. Price/SF	<b>\$646.00</b>	<b>\$590.29</b>	<b>\$505.14</b>	<b>\$523.11</b>	<b>\$536.01</b>

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The adjusted sales prices range from \$505.14 to \$646/SF. As a result of our research, we will utilize [REDACTED] per square foot in valuing the retail building. Based on 4,836 square feet this equates to [REDACTED], rounded.

### Economic Units of Comparison

The Effective Gross Income Multiplier (EGIM) is defined as: *"the ratio between sale price or value and effective gross income; a single year's EGI expectancy or an annual average of several years' EGI expectancies ( $EGIM = V/EGI$ )*.<sup>1</sup>

The principal advantage of the technique is that the reflection of rental income is direct. Therefore, differences between properties which could involve adjustments, based on judgment estimates, have been resolved by the free action of the rental market. If the comparable properties have some advantage over the subject in age, condition, accessibility, location or physical characteristics, the difference in actual rental presumable reflects the extent of this advantage.

Implicit in the above explanation is the utilization of market transactions of comparable properties similar in terms of physical, economical and investment characteristics.

Typically, a direct relationship should exist between the expense ratio and the EGIM. This implies that the more cost efficient or profitable a property is, the higher the EGIM. This relation was indicated by the sales. The subject's expense ratio, as shown in the Income Capitalization Approach, equates to **2.00%**.

<u>Sale #</u>	<u>-</u> <u>EGIM (x)</u>	<u>Operating</u> <u>Expenses /</u> <u>Effective Gross</u> <u>Income</u>
1	17.54x	2.0%
2	17.80x	2.0%
3	13.72x	2.0%
4	17.48x	2.0%
5	15.71x	2.0%
Subject		2.00%

The comparables exhibit expense ratios of 2.0% and an EGIM range from 13.72x to 17.80x. We estimate an EGIM of 16.25x for the Subject.

<sup>1</sup> Appraisal Institute, The Dictionary of Real Estate Appraisal, Third ed. (Chicago: Appraisal Institute, 1993), p. 113

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Based on the EGIMs indicated by the comparable sales along with the estimate derived from the above model, we are of the opinion that an appropriate EGIM for the subject is 16.25x.

Effective Gross Income <sup>10</sup>		
Multiplier	x	16.25
Indicated Value Estimate		
	<b>Rounded</b>	

### Value Conclusion

Based on the preceding analyses, the indicated values of the subject by the applied techniques are summarized in the following chart.

Price Per Square Foot	
EGIM	

Based on the previous information and giving equal emphasis to EGIM technique, we have concluded the value for the subject, by the Sales Comparison Approach is as follows:

“As Is” Sales Comparison Approach Value Estimate	
Estimated Value	

## INCOME CAPITALIZATION APPROACH

The valuation technique utilized in this portion of the Appraisal is referred to as direct capitalization. Direct capitalization is a technique whereby the stabilized net annual income estimate is divided by an overall rate. When occupancies are at or near stabilization, and a project has normal wear and tear, this technique can be very useful. This capitalization method will be utilized in the valuation of the Property and will be presented following the estimation of market rent and expenses.

Income-producing property is typically purchased for investment purposes. Estimating and valuing the projected income stream is the critical factor affecting a property's market value. An investor purchasing income-producing real estate is, in effect, spending a sum of present dollars for the right to a stream of future dollars. There is a relationship between the two, and the connecting link is a rate (overall), which reflects the necessary return to attract investment capital. This process is called direct capitalization.

On the following page are the regional credit tenant market comparable rentals.

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**RENT COMPARABLE NO. 1**

Name	IHOP Restaurant
Location	4103 S. Carrier Parkway, Grand Prairie
Building Description	
Number of Buildings	One
Number of Stories	One
Gross Building Area	4,800 SF
Net Rentable Area	4,800 SF
Year of Construction	2001
Exterior	Class D
Parking	Open, concrete
Lease Data	
Rental Rates	\$46.03/SF
Expenses	NNN
Occupancy	100%
Term	Ten year remaining.

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RENT COMPARABLE NO. 2



Name	McAlister's
Location	205 East Hall of Fame, Stillwater
Building Description	
Number of Buildings	One
Number of Stories	One
Gross Building Area	4,914 SF
Net Rentable Area	4,914 SF
Year of Construction	1994
Exterior	Class D
Parking	Open, concrete
Lease Data	
Rental Rates	30.15/SF
Expenses	NNN
Occupancy	100%
Term	20 years

**RENT COMPARABLE NO. 3**

Name	Johnnie's Charcoal Broiler
Location	2305 S Telephone Road, Moore
Building Description	
Number of Buildings	One
Number of Stories	One
Gross Building Area	5,345 SF
Net Rentable Area	5,345 SF
Year of Construction	2018
Exterior	Class D
Parking	Open, concrete
Lease Data	
Rental Rates	\$40.90/SF
Expenses	NNN
Occupancy	100%
Term	25 years
Comments	1 <sup>st</sup> year of lease.

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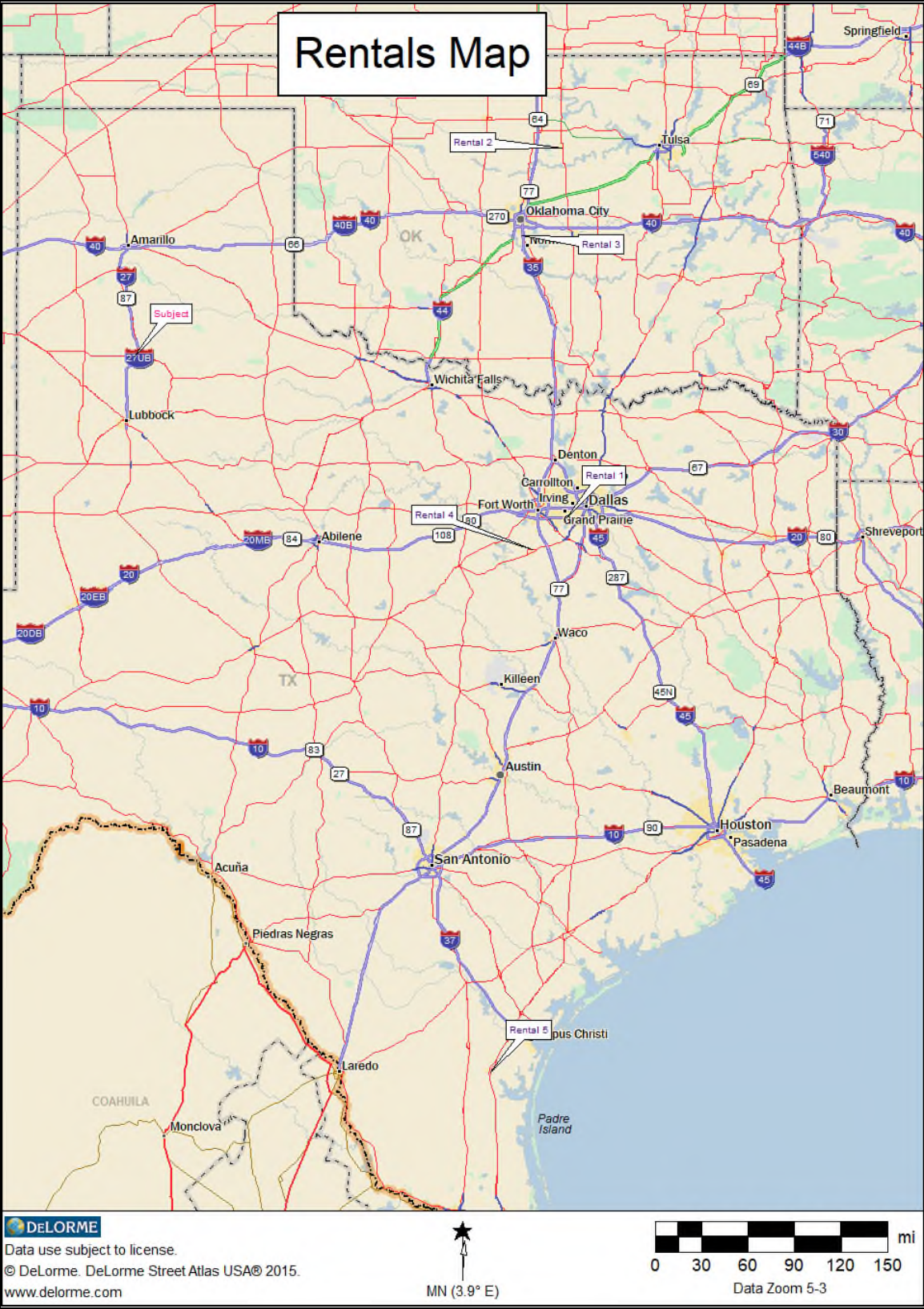
**RENT COMPARABLE NO. 4**

Name	IHOP Restaurant
Location	2234 N. Main Street, Cleburne
Building Description	
Number of Buildings	One
Number of Stories	One
Gross Building Area	4,500 SF
Net Rentable Area	4,500 SF
Year of Construction	2014
Exterior	Class D
Parking	Open, concrete
Lease Data	
Rental Rates	\$31.50/SF
Expenses	NNN
Occupancy	100%
Term	20 years

**RENT COMPARABLE NO. 5**

Name	IHOP Restaurant
Location	2612 S. Highway 77, Kingsville
Building Description	
Number of Buildings	One
Number of Stories	One
Gross Building Area	5,163 SF
Net Rentable Area	5,163 SF
Year of Construction	2007
Exterior	Class D
Parking	Open, concrete
Lease Data	
Rental Rates	\$25.00/SF
Expenses	NNN
Occupancy	100%
Term	20 years
Comments	15 years remaining.





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## Market Conclusions

The IHOP restaurants in the survey are of similar quality as compared to the Subject and are in somewhat demographically similar regions offering a competitive product. The surveyed properties are viable alternatives to the Subject to anyone seeking NNN properties as an investment. The following chart summarizes the aforementioned rent comparables.

Summary of Comparable Rentals					
Rental No.	Location	Space Type	Year Built	Lease Rate/SF	Lease Basis
1	4103 S. Carrier Pkwy	IHOP	2001	\$46.03	NNN
2	205 East Hall of Fame	McAlister's	1994	\$30.15	NNN
3	2305 S. Telephone Road	Johnnie's	2018	\$40.90	NNN
4	2234 N. Main Street	IHOP	2014	\$31.50	NNN
5	2612 S. Highway 77	IHOP	2007	\$25.00	NNN

Rental rates for the Comparables range from \$25.00 to \$46.03/SF.

## Rental Rate

Below are the terms of the lease for the Subject.

IHOP Lease

Location: Plainview, Texas  
 Landlord: BLRG Plainview, Ltd.  
 Tenant: Plainview-2048, Ltd.  
 Begin Date: August 1, 2010  
 End Date: 11/20/2026  
 Rental Rates:

		Monthly	Annual	Price/SF
Years:	1-4			
	<b>5-9</b>			
	10-13			
	14-11/5/26			
	Option:			
	17-19	\$20,741.42	\$248,897.04	\$51.47
	20-23	\$22,201.00	\$273,786.70	\$56.61
	24-26	\$24,673.90	\$301,165.37	\$62.28

The current rate is \$ per square foot, NNN. We will utilize that amount in the upcoming proforma but it should be noted that the lease increases to in August of 2019.

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## Vacancy and Credit Loss

Vacancy loss and loss due to lease defaults are typically expressed as a percentage of potential gross income and then converted into a dollar amount. In order to estimate anticipated vacancy and credit loss for the subject, relevant market data sources have been researched and the operating experience of the subject and comparable properties have been analyzed. The specific characteristics of the subject are taken into consideration regarding its competitive position in the marketplace. For purposes of this appraisal, since the lease has a remaining term of seven plus years no vacancy has been utilized. In other words, if the rent continues to be abated it is unlikely that the property will suffer from any vacancy over the remaining term of the lease.

## ESTIMATE OF NET OPERATING INCOME

### Expense Reimbursement

Recovered expenses are those that a building owner recaptures in whole or in part, typically through a pass-through stipulation in the lease contract. The comparables are leased on a NN or NNN basis with the tenant reimbursing the landlord for all of the expenses. We will estimate the lease structure of the Subject on a NNN basis since that is the way the lease is structured.

Management typically ranges from 1% to 5% depending on the services provided. Considering the subject's single tenancy and small size, a 2% management fee will be utilized.

The stabilized revenue and expense proforma is presented in the following chart.

<b>Stabilized Proforma</b>			
<b>IHOP Restaurant</b>	4,836	NRA (SF)	
<b>Plainview, Texas</b>			
<b>Gross Potential Rental Income</b>	<b>Actual</b>	<b>Per SF</b>	
<b>Total Income</b>			
<b>Less: Vacancy &amp; Collection @ 0.0%</b>	<b>\$0</b>	<b>\$0.00</b>	
<b>Effective Gross Income</b>			
<b>Operating Expenses</b>			
	Actual	PSF	EGI %
Management Fee	\$3,740	\$0.77	2.00%
<b>Total Operating Expenses</b>	<b>\$3,740</b>	<b>\$0.77</b>	<b>2.00%</b>
<b>NOI</b>			

The rates for the four sales utilized ranged from 5.59% to 7.14%.

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Sale	Property	YOC	Date	OAR
1	IHOP, Grand Prairie, TX	2001	7/19/2017	5.59%
2	McAllister's, Stillwater, OK	1994	8/7/2018	5.51%
3	Johnnie's, Moore, OK	2018	9/14/2018	7.14%
4	IHOP, Cleburne	2014	1/18/2016	5.61%
5	IHOP, Kingsville	2007	Listing	6.24%

We also looked at rates derived from Korpacz 1<sup>st</sup> Quarter 2018 as displayed in the chart on the following chart.

<b>Table 31</b> <b>NATIONAL NET LEASE MARKET</b> First Quarter 2018					
	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>DISCOUNT RATE (IRR)*</b>					
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%	6.00% – 9.00%	7.00% – 9.00%
Average	8.13%	7.92%	8.00%	7.69%	7.83%
Change (Basis Points)		+ 21	+ 13	+ 44	+ 30
<b>OVERALL CAP RATE (OAR)*</b>					
Range	5.00% – 8.50%	5.50% – 8.50%	5.25% – 9.00%	6.00% – 8.50%	6.00% – 8.75%
Average	6.60%	6.80%	6.75%	6.93%	7.15%
Change (Basis Points)		- 20	- 15	- 33	- 55
<b>RESIDUAL CAP RATE</b>					
Range	6.00% – 9.00%	6.00% – 9.00%	6.00% – 9.00%	7.00% – 9.00%	7.00% – 9.00%
Average	7.53%	7.41%	7.63%	7.81%	8.13%
Change (Basis Points)		+ 12	- 10	- 28	- 60
<b>MARKET RENT CHANGE*</b>					
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.00%	1.90%	1.70%	1.85%	1.35%
Change (Basis Points)		+ 10	+ 30	+ 15	+ 65
<b>EXPENSE CHANGE*</b>					
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	1.90%	1.60%	1.40%	2.15%	1.90%
Change (Basis Points)		+ 30	+ 50	- 25	0
<b>MARKETING TIME*</b>					
Range	2 – 12	2 – 12	2 – 12	2 – 12	1 – 12
Average	5.8	5.7	4.9	4.5	4.3
Change (▼, ▲, =)		▲	▲	▲	▲

a. Rate on unleveraged, all-cash transactions    b. Initial rate of change    c. In months

Current Capitalization Rates range from 5.0% to 8.5% and average 6.60% for the national net leased market.

The Sales suggest a rate between 5.59% to 7.14% and Korpacz 6.0% to 8.5%. Since the Subject's rental rate will increase next year and there are over ten years remaining on the lease will utilize 6% rate.

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The net operating statement and subsequent value conclusion via the Direct Capitalization Technique are following.

**AS IS**

**Net Operating Income:**

██████████

**Indicated Cap. Rate:**

**6%**

**Indicated Value:**

██████████

**Rounded:**

██████████

## CORRELATION

In the preceding sections of this Appraisal, value estimates have been derived based upon three separate appraisal approaches. As a result of our analysis of the Property, the indications of value for each approach are:

<b>COST APPROACH</b>	<b>N/A</b>
<b>SALES COMPARISON APPROACH</b>	<b>[REDACTED]</b>
<b>INCOME CAPITALIZATION APPROACH</b>	<b>[REDACTED]</b>

The cost approach is considered a fairly reliable indicator of value for properties upon which the improvements are new. This is especially true when the improvements represent the highest and best use of the site. However, variations in construction techniques, construction specifications, construction management ability, materials prices, and weather conditions play an important role in the costs of improvement construction. Further, estimating depreciation is generally unreliable. It is recognized that cost is not equivalent to market value and that market prices do not follow the costs of reproduction or replacement. In this instance, we have omitted the Cost Approach.

In using the sales comparison approach, care was exercised to locate data on the sales of IHOP restaurants as comparable as possible to the Property. Of the sales discovered, research was conducted regarding underlying motivations of buyer and seller and details of the property history and physical characteristics in order to obtain a more precise translation of the indication evident for the Property. Market data is the best way to interpret investor behavior, although the complexity of current sales data makes direct sales comparisons more difficult than in the past. However, the comparables are recent sales of similar properties. Because the market is investor oriented relying on the income of the property we have given the sales comparison approach less weight.

Investments such as the subject compete in the market not only among other real estate investments but with alternative investment vehicles. Every effort has been made to provide market support for the income approach assumptions. Our confidence in the income approach is largely an outgrowth of current market conditions, which have seen a steadily improving market with continued increases in occupancies and rental rates. Primary weight has been placed upon the value indication as derived via the income capitalization approach.

### “AS IS” MARKET VALUE

Based upon our analysis of the Subject and the NNN market, the "as is" market value of the Leased Fee Estate, as of October 15, 2018, inclusive of F, F & E, is considered to be:

**[REDACTED]**

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## CERTIFICATION OF VALUE

Per SR 2-3

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 analysis, opinions, and conclusions.
- \* We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias 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.
- \* Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- \* Ronald E. Dunham has made a personal inspection of the property that is the subject of this report. No other person provided significant professional assistance in preparing this report.
- \* This appraisal report has been made in conformity with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.
- \* No pertinent information has knowingly been withheld. No single item of information was reportedly relied upon to the exclusion of the other information and all data was analyzed within the framework of our judgment, knowledge, and experience.

- \* This appraisal was not based upon a requested minimum value, a specific valuation, or the approval of a loan.
- \* This appraisal is subject to peer review by an authorized committee of the Appraisal Institute. The Appraisal Institute conducts a program of continuing education for its designated members. As of the date of this report, Ronald E. Dunham has completed the requirements of the continuing education program of the Appraisal Institute.
- \* We have previously appraised this property or done any other work on it.

Ronald E. Dunham, MAI  
Appraisal Institute Membership #12265  
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