

IMPORTANT!

This is a sample appraisal report that is intended to reflect the typical content and format of reports prepared by Evergreen Valuation Services for multifamily lenders. This sample report does not reflect an appraisal of any specific property, as that would violate client confidentiality. Instead, this report has been assembled from multiple appraisals prepared by EVS. For example, the improvement description may be taken from one appraisal, while the Land Sales Analysis may be from another appraisal, and the Income Approach may be from yet another appraisal. The appraisers have also attempted to disguise the subject properties from the various component reports. Consequently, the reader should not look for consistency between the various sections of this sample report.

A SUMMARY APPRAISAL REPORT OF

*The Market Value of an
Existing 48-unit apartment
Known as Stoneridge
Located at 1234 Main Street
New Richmond, Wisconsin 54017*

*EVS File No. 10-052
Client File No. 46631*

PREPARED FOR

*Number One Client
Fantastic FNMA Lender
12346 Main Street
Suite 2005
Beverly Hills, CA 90210*

EFFECTIVE DATE OF APPRAISAL

September 20, 2010

PREPARED BY

*Evergreen Valuation Services
7062-B Lakeview Haven
Suite 116
Houston, TX 77095*



Evergreen Valuation Services

DENVER • DETROIT • HOUSTON

October 5, 2010

EVS File No.: 10-052

Client File No.: 46631

Number One Client
Fantastic FNMA Lender
12346 Main Street
Suite 2005
Beverly Hills, CA 90210

Re: An appraisal report of the As Is Market Value of a 48-unit apartment, known as Stoneridge, located at 1234 Main Street, New Richmond, Wisconsin.

Dear Number Client:

Per your request, we have made an investigation and analysis of the following described property and the improvements associated with the site:

Refer to the Addenda for lengthy legal descriptions.

The subject appraisal has been prepared in order to estimate the market value as defined subsequently in this report. The subject property was physically inspected on September 20, 2010 and the value reported is based on the date of inspection. This appraisal report has been prepared and reviewed by staff appraisers associated with *Evergreen Valuation Services, Inc.*, each of whom is recognized and acknowledged by individual resume and by signature on the Certificate following the Correlation and Final Value Estimate.

The appraisers are unbiased with respect to the parties involved and have no present nor contemplated future interest in the property appraised. Accordingly, statements of fact are to the best of the appraisers' knowledge correct, and compensation for making the appraisal has in no manner been contingent upon the value conclusions reported herein.

This summary report has been prepared in conformity with FIRREA, the Uniform Standards of Professional Appraisal Practice (USPAP), and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. This report also conforms to Fannie Mae Appraisal Reporting Guidelines.

This report is also subject to the enclosed Statement of Limiting Conditions and Assumptions. Further this report has been prepared at the request, for the benefit, and for the exclusive use of Fantastic FNMA Lender, its successor, affiliates, designates, and assignees, and no other party shall have any right to rely on any services provided by *Evergreen Valuation Services* without written consent.

COMMERCIAL REAL ESTATE APPRAISAL AND CONSULTING

7062-B Lakeview Haven, Suite 116, Houston, Texas 77095

Houston Office (281) 855-9410 • Denver Office (303) 674-8514 • Detroit Office (586) 677-7494

Number One Client

October 5, 2010

Page Two

This report is prepared subject to the "Certification and Final Value Estimate" and certain assumptions and limiting conditions which are delineated within the text of this report.

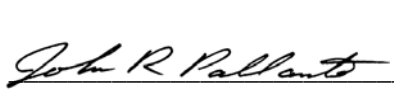
Based on our investigation and analyses, we have derived the following value estimate(s) for the subject's fee simple estate:

	As Is <u>Market Value</u>	Market Value <u>As Repaired</u>
Final Value Estimate	\$1,900,000	N/A
Effective Date	September 20, 2010	N/A

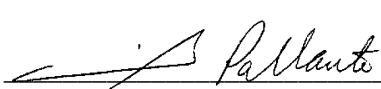
The following report provides an analysis of the subject property and its relationship to the neighborhood and general market conditions. The report also sets forth the methodology and procedures utilized in our analysis.

Respectfully submitted,

EVERGREEN VALUATION SERVICES



John Rocco Pallante
Review Appraiser
State Certified Appraiser
CO-CG40012104



David L. Pallante, MAI
Review Appraiser
State Certified Appraiser
TX-1320347-G



Andrew C. McCloskey
Inspecting Appraiser
State Certified Appraiser
WI Temp: 1195-010

PART I - INTRODUCTION **PAGE**

Summary of Salient Facts & Conclusions 1
Subject Photographs 5
Assumptions & Limiting Conditions 8

PART II - NATURE OF ASSIGNMENT

Property Identification 14
Client and Intended Users of the Appraisal 14
Function and Intended Use of the Appraisal 14
Effective Date(s) 14
Property Rights Appraised 14
Definition of Market Value 14
Scope of The Assignment 15
History of Ownership 17
Real Estate Tax Information 18

PART III - REGIONAL AND NEIGHBORHOOD ANALYSIS

Regional Analysis 22
Neighborhood Analysis 30
Apartment Market Analysis 35

PART IV - SUBJECT PROPERTY DATA

Site Description 43
Description of Improvements 45
Highest and Best Use Analysis 47

PART V - VALUATION AND CONCLUSIONS

The Appraisal Process 49

Cost Approach 51
 Insurable Value 53

Table of Contents

Sales Comparison Approach to Value	54
Comparable Improved Sales	56
Summary and Analysis of Comparable Sales	65
Price Per Unit Analysis	65
Price Per Square Foot Analysis	69
Effective Gross Income Multiplier Analysis	72
Sales Comparison Approach Conclusions	73
Income Approach to Value	74
Comparable Market Rentals	75
Rental Income Analysis	80
Expense Analysis	85
Stabilized Proforma	102
Direct Capitalization	103
Conclusions	105
Final Reconciliation	106
Certification of Value	107
Qualifications of Appraisers	109

ADDENDA

Addendum A - Site & Improvement Exhibits

Addendum B - Rent Roll

Addendum C - Operating Statements

Addendum D - Fee Agreement

PART I
INTRODUCTION

Summary Of Salient Facts

Name:	Stoneridge
Legal Description:	Refer to the Addenda for lengthy legal descriptions.
Property Type:	48-unit apartment
Status (Existing or Proposed):	Existing
Location:	The property is located in the City of New Richmond, Wisconsin, a small community on the east side of the Minneapolis metropolitan area. Specifically, the site is situated along the south side of Main Street, a couple of blocks west of South Wolverine Avenue.
Address:	1234 Main Street
City:	New Richmond
County:	St. Croix
State:	Wisconsin
Zip Code:	54017
Site Description:	The site has a slightly irregular configuration and a generally level topography, with the rear yard gently sloping towards to south. The west side of the property is sometimes referred to as Meadowbrook, and the east side is known as Creekside. These are historical names, as both subject buildings, as well as adjoining buildings to the north, are all jointly operated and marketed as Creekside.
Land Area:	2.503 acres or 109,031 square feet (per survey)
Frontage/Access/Visibility	According to the survey provided, the subject has a total of 540' of frontage along the south side of Main Street, a secondary neighborhood street that terminates near the subject's western property line. Access is provided by two curbcuts, and visibility is adequate for a multifamily development.
Flood Hazard:	According to FEMA, Community Panel #55109C0206E, dated March 16, 2009, the subject is located in Zone X, beyond the limits of the 100-year flood hazard zone.
Utilities:	Water - New Richmond Utilities Sewer - New Richmond Utilities Electric - New Richmond Utilities Natural Gas - Xcel Energy
Zoning:	R-4 (Multiple Family Residence District)

Summary Of Salient Facts

Permitted Uses:	The current zoning permits multifamily development similar to the subject property. In the absence of a formal compliance inspection by New Richmond authorities, the subject is assumed to be a legally conforming use.
Code Violations:	The appraisers are not aware of any building code violations, and it is assumed that none exist.
Easements/Encroachments:	The appraisers are not aware of any adverse easements or encroachments, and it is specifically assumed that none exist.
Improvement Description:	The site is improved two, two-story apartment buildings. The eastern building was constructed in 1973, and the other was added in 1974. Each building contains 24 units, and both featuring wood frame construction, painted stucco exteriors, and units that are accessed via interior hallways. The eastern building has a pitched asphalt shingle roof, while the western has a pitched roof with raised-seam metal covering. HVAC is provided by gas-fired central boilers and thru-wall air conditioners. Units are individually metered for electric, while the property is master-metered for water and gas. Overall, the improvements appear to be in average condition for their age.
Project Amenities:	Project amenities are limited to a laundry rooms.
Unit Amenities:	Unit amenities include standard kitchen appliances, patios (ground floor units) and French balconies with sliding glass doors (second floor units).
Rent/Income Restrictions:	The subject is a market rate property, with no restrictions on rent levels, tenant income, or age.
Condition:	Average
Parking:	96 spaces or 2.0 spaces per unit (per owner)
Covered Parking:	0
Parking Compliance:	For residential properties, the current code requires 2.0 spaces per unit. According to this formula, the subject should have 96 parking spaces. The actual total was reported at 96 spaces (per the owner), which satisfies the current code requirement.
Year Completed:	1973/1974 (per owner)
Economic Life (Years):	50
Overall Effective Age (Years):	20
Average Unit Size:	682 SF
Land to Building Ratio:	3.01 :1
Project Density:	19.2 :units per acre

UNIT MIX

<u>Floorplan</u>	<u>Units</u>	<u>SF*</u>	<u>Total SF</u>	<u>Special Amenities/Comments</u>
1 Bd 1.0 Ba	26	624	16,224	Standard appliances, patio or French balcony
2 Bd 1.0 Ba	22	750	16,500	Standard appliances, patio or French balcony
Total (Mean)	48	682	32,724	

* Unit sizes were provided by the manager and were not measured by the appraisers.

Net Rentable Area (SF):	32,724
Basements (SF):	0
Leasing Office (SF):	0
Commercial Space (SF):	0
Other Common Areas (SF):	3,500 <i>(Estimated)</i>
Gross Building Area (SF):	36,224
Current Occupancy:	94%
Percent Leased:	94%
Stabilized Vacancy/Collection Loss:	7.0%
Current Average Rent/SF:	\$0.79 /SF/month
Quoted Street Rent/SF:	\$0.81 /SF/month
Proposed Gross Potential Rent:	\$0.81 /SF/month
Highest and Best Use - If Vacant:	Hold for future development
Highest and Best Use - As Improved:	Continued use as a 48-unit apartment project
Purpose of the Report:	The purpose of this report is to estimate the <i>As Is Market Value</i> of the subject property
Property Rights Appraised:	Fee Simple
Function of the Appraisal:	This report is intended to provide support for financing decisions.
Deferred Maintenance:	\$0
Lease Up Costs:	\$0
Effective Date of Appraisal:	September 20, 2010 (As Is)
Date of Property Inspection:	September 20, 2010
Date of Report:	October 5, 2010

Stabilized Proforma Operating Statement

	<u>Total</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>% of EGIM</u>
Potential Gross Rental Income:	\$318,480	\$9.73	\$6,635	107.6%
<u>Plus:</u> Other Income	\$3,000	\$0.09	\$63	1.0%
<u>Less:</u> Vacancy/Collection Loss 7.0%	(\$22,294)	(\$0.68)	(\$464)	(7.5)%
<u>Less:</u> Loss to Lease at 1.0%	(\$3,185)	(\$0.10)	(\$66)	(1.1)%
Effective Gross Income:	\$296,002	\$9.05	\$6,167	100.0%
<u>Less:</u> Operating Expenses	(\$139,220)	(\$4.25)	(\$2,900)	(47.0)%
<u>Less:</u> Reserves for Replacement	(\$12,000)	(\$0.37)	(\$250)	(4.1)%
Net Operating Income	\$144,781	\$4.42	\$3,016	48.9%

<u>Value Indications</u>	<u>As Is Market Value</u>	<u>Market Value As Repaired</u>
Cost Approach:	N/A	N/A
Insurable Value:	\$2,290,000	N/A
Sales Comparison Approach:	\$1,950,000	N/A
<u>Income Approach:</u>	<u>\$1,870,000</u>	<u>N/A</u>
Market Value Conclusion:	\$1,900,000	N/A

Units of Comparison (As Repaired/Stabilized Basis if Applicable)

EGIM by Analysis:	6.40	Resulting:	6.42
Stabilized OAR By Analysis:	7.75%	Resulting:	7.62%
Value/SF:	\$58.06		
Value/Unit:	\$39,583		
Appraisers:	Evergreen Valuation Services Andrew Charles McCloskey John Rocco Pallante David L. Pallante, MAI		
EVS File Number:	10-052		
Client File Number:	46631		

Photo 1 - redacted

Photo 2 - redacted

Photo 3 - redacted

Assumptions & Limiting Conditions

This appraisal report is subject to the following assumptions and limiting conditions. These assumptions are considered necessary by the appraisers to make a proper estimate of value in accordance with the appraisal assignment. The first 21 categories reflect standard assumptions and limiting conditions that are applicable to all appraisals performed by *Evergreen Valuation Services (EVS)*. Categories 22 and 23 detail extraordinary conditions or assumptions that are unique to the subject property. The appraisers may also cite specific assumptions and limiting conditions elsewhere throughout the appraisal report.

1. **COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT** - Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical reports remain the property of the appraiser for the use of the client, the fee being for the analytical services only. The report may not be used for any purpose by any person or corporation other than the client and or their assignee. Please be advised that you have the right to assign the appraisal to an investor, and an assignee may rely on the appraisal as though it were addressed to the assignee.

Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations efforts, news, sales or other media, without the written consent and approval of *EVS*, nor may any reference be made in such a public communication to the *Appraisal Institute* or the *MAI* designation.

This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions set forth in the report were prepared by the appraisers whose signatures appear on the appraisal report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the appraisers, and the appraisers and firm shall have no responsibility if any unauthorized change is made.

2. **CONFIDENTIALITY** - The appraisers may not give a copy of the report to anyone other than the client or his designee as specified in writing. Furthermore, the appraisers will not divulge the material contents of the report, either orally or in writing, to anyone other than the client or designee. Exceptions may be made if the report is subpoenaed by a court of law with proper authority, or if requested by the Appraisal Institute to assist in ethics enforcement.
3. **EXHIBITS** - The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if any, are included for the same purpose and are not intended to represent the property in other than actual status, as of the date of the photos.
4. **TRADE SECRETS** - This appraisal consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempt from disclosure under 5 U.S.C. 552 (b)(4). Notify *EVS*, of any request to reproduce this appraisal in whole or in part.

5. **INFORMATION USED** - No responsibility is assumed for accuracy of information furnished by others, including the client, his designees, public records, published data sources, or other real estate professionals. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit, and all are considered appropriate for inclusion to the best of our knowledge and judgment. In some instances, the data may have been verified by associates who may not have worked on this particular appraisal.
6. **COMPONENT VALUES** - The estimated values for the entire property applies only under the current or proposed utilization. The separate value estimates for land and improvements, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
7. **LIMITS OF EXPERTISE (LEGAL, ENGINEERING, HIDDEN COMPONENTS)** - The appraisers assume no responsibility for matters beyond their personal expertise or the scope of the assignment, including all legal issues and items related to architecture, mechanics, engineering, or soil conditions.

No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear of encumbrances, unless otherwise stated in this report. The legal description set forth in this report is assumed to be accurate, but the appraisers make no warranty.

The soils at the subject property appear reasonably firm to the untrained eye; however, the degree of subsidence in the area is not known. The appraisers do not warrant against problems that could arise from soil conditions. The appraisal is based on there being no hidden or unapparent conditions of the property site, subsoil, or structures that would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering required to discover or correct them.

All mechanical components are assumed to be in operable condition and typical of the market and property type. Unless otherwise stated, the condition of heating, cooling, ventilating, electrical and plumbing equipment is considered to be commensurate with the overall condition of the improvements.

8. **TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICES** - The contract for appraisal, consultation or analytical service is fulfilled and the total fee payable upon completion of the report. The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report. Neither the appraisers nor any other employees of *EVS* will be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part. Nobody associated with *EVS* will engage in post-appraisal consultation with the client or third parties except under separate arrangement and at an additional fee.

9. **AUXILIARY AND RELATED STUDIES** - Unless stated within the body of the report, the appraisers have neither prepared nor been provided with auxiliary studies related to the subject property, including an environmental impact study, special market study, highest and best use analysis, or feasibility study. If any such studies are subsequently made available to *EVS*, the appraisers reserve the unlimited right to alter, amend, revise or rescind any of the statements, findings, opinions, value estimates, or conclusions set forth in this appraisal report.
10. **DOLLAR VALUES, PURCHASING POWER** - The Market Value estimated and the costs used are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and price of the dollar as of the date of the value estimate.
11. **THE EXISTENCE OF HAZARDOUS SUBSTANCES** - Unless otherwise stated in this report, the appraiser(s) have no knowledge of the existence of hazardous waste products or any resultant contamination, including, without limitation, asbestos, polychlorinated biphenyl, petroleum leakage, or agricultural chemicals, which may or may not be present on the property. Furthermore, the appraisers are not qualified to test for such substances or conditions. The values derived herein specifically assume no such substances or conditions exist at the property. If evidence to the contrary is subsequently revealed, the appraisers reserve the right to alter any value estimates accordingly. No responsibility is assumed for any such conditions, nor for any expertise or studies required to discover or correct them. The client is urged to retain an expert in the field of environmental conditions and hazards.
12. **LEGALITY OF USE** - Unless otherwise stated in this report, the appraisal is based on the specific assumption that the property is in full compliance with all applicable regulations and laws regarding environmental conditions, zoning, building codes, and use regulations. It is further assumed that all required licenses, consents, or permits from any controlling authority have been or can be obtained or renewed for any use considered in the value estimate.
13. **INCLUSIONS** - The value estimates derived herein consider only the real estate component. Any business value, furnishings, and equipment, except as specifically indicated and typically considered as a part of real estate, have been disregarded
14. **PROPOSED IMPROVEMENTS, CONDITIONAL VALUES** - Any proposed improvements or repairs are assumed to be completed in good and workmanlike manner according to information provided or adopted by the appraisers. In cases of proposed construction, any statements or conclusion are subject to modification upon inspection of the completed property. Any such inspections or modifications will only be performed at an additional fee, unless specifically delineated in the original letter of engagement. Any estimates of value are valid only for the effective dates shown, and subject to stated assumptions regarding the operating levels and extent of completion as of those dates.

15. **VALUE CHANGES, DYNAMIC MARKET INFLUENCES** - Any value estimates presented herein are effective only for the dates indicated and are based on information available at the time the appraisal was prepared. Values can change significantly over time due to a variety of market forces. Furthermore, the value estimates presented herein are no guarantee that the property can actually be sold for a specific amount. Sale prices can be influenced by numerous factors, including exposure, time, promotional effort, terms, motivation, and other conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property in the marketplace, both physically and economically.

In cases of appraisals involving the capitalization of income benefits, the estimate of value is a reflection of the appraisers' estimate of current and/or future income levels, coupled with investor yield requirements and other factors derived from general and specific market information. Such estimates are made as of the date of the estimate of value, and they are subject to change over time due to dynamic market influences.

16. **FACTORS EXCLUDED FROM CONSIDERATION** - Any estimates of value or other conclusions derived by the appraisers are not based in whole or in part upon the race, color, national origin, sexual preference, or familial status of the current owner or occupants of the subject property or any properties in the vicinity of the subject.
17. **THE AMERICANS WITH DISABILITIES ACT (ADA)** - ADA became effective January 26, 1992. The appraisers have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Unless stated elsewhere in this report, the appraisers have no direct evidence of noncompliance, and the value estimate specifically assumes no compliance issues. The client is advised to seek a qualified expert on ADA requirements.
18. **MANAGEMENT OF THE PROPERTY** - It is assumed that the property will be under prudent and competent ownership and management, neither inefficient nor super-efficient.
19. **VALUE CONCLUSION** - The final value conclusion is of the surface estate only. No consideration has been given to value, if any, of the subsurface rights of the subject property.
20. **CONTINUING EDUCATION** - As of the date of this report, all appraisers signing this appraisal are current with continuing education requirements of the various states in which they may be licensed, as well as any industry groups or associations to which they may belong.

21. **ACCEPTANCE OF THE REPORT** - Acceptance of and/or use of this appraisal report constitutes acceptance of all conditions set forth herein.

22. **HYPOTHETICAL CONDITIONS** -

A. None

23. **EXTRAORDINARY ASSUMPTIONS** -

A. None

PART II
NATURE OF THE ASSIGNMENT

Property Identification

The subject site measures 2.503 acres, and it is improved with a 48-unit apartment known as Stoneridge. The property is located in the City of New Richmond, Wisconsin, a small community on the east side of the Minneapolis metropolitan area. Specifically, the site is situated along the south side of Main Street, a couple of blocks west of South Wolverine Avenue. The address is 1234 Main Street, New Richmond, Wisconsin 54017.

Legal Description

The subject property is legally described as follows:

Refer to the Addenda for lengthy legal descriptions.

Purpose of The Appraisal

The purpose of this report is to estimate the As Is Market Value of the subject property.

Client and Intended Users of the Appraisal

Fantastic FNMA Lender, its officers, administrators, employees, and lending participants (if any).

Intended Use of The Appraisal

This report is intended to provide support for financing decisions.

Effective Date(s) of Appraisal

As Is Market Value - September 20, 2010
Upon Completion - 12:00 am

Property Rights Appraised

This report addresses the subject property’s Fee Simple. According to the Dictionary of Real Estate Appraisal (Third Edition, 1993), published by the Appraisal Institute, Fee Simple is defined as follows:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Definition of Market Value

Market Value - is defined as 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, knowledgeably and assuming the price is not affected by undue stimuli. 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 the conditions whereby:

- a. *buyer and seller are typically motivated;*
- b. *both parties are well informed or well advised, and each acting in what they consider their own best interest;*
- c. *a reasonable time is allowed for exposure in the open market;*
- d. *payment is made in terms of cash in U.S. Dollars or in terms of financial arrangements comparable thereto; and*
- e. *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹*

Variations of Market Value Definition

As Is Market Value - is defined as an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.²

Prospective Value Upon Completion - represents the anticipated market value for a property at a point in time when all improvements have been physically constructed, but before reaching stabilized operating levels.

Prospective Value Upon Stabilization - represents the anticipated market value for a property at a point in time when all improvements have been physically constructed and the property has been leased to its optimum level of long term occupancy. At such point, all capital outlays for tenant improvements, leasing commissions, marketing costs, and other carrying charges are assumed to have been absorbed.

Scope of The Assignment

The scope of the appraisal report, as stipulated by the terms of the assignment, is to prepare the appraisal in a format that complies with the Uniform Standards of Professional Appraisal Practice (USPAP). In evaluating the subject, the appraisers have narratively described the general area, neighborhood area, site, zoning and improvement data, if any, in order to analyze the highest and best use of the site as vacant. The following Scope of Investigation more specifically describes the procedures followed in the reporting and the documentation of the collected data.

¹ Federal Regulation, 12 CFR 564, as promulgated by the OTC, effective August 23, 1990

² Statement of Policy 12 CFR 571.27

Scope of Investigation

Area and Neighborhood Analysis: For the Area and Neighborhood Analysis, the appraiser personally inspected the surrounding area and utilized published and non-published data to help draw conclusions about the affect of the area and neighborhood data impacting the subject. Information for this section of the report was published by various private and public entities. Non-published, yet public information, was obtained from the various state and other government related entities. Area real estate brokers, agents and appraisers were also consulted for their opinions of the aforementioned.

Site Description and Analysis: The subject property was visually examined by the appraiser on September 20, 2010. Local governmental bodies and utility suppliers were consulted to secure information regarding utility availability, plat maps, zoning, flood hazards, and tax information.

Property Data Provided by Client/Borrower: The following chart lists the property data provided to the appraisers by the client and/or the owner’s representatives. All other information contained within this report was obtained from third-party sources.

Data Provided to Appraisers

Item	Provided	Comments
Rent Roll	Y	Dated 9/14/10
Historic Operating Statements	Y	2007, 2008, 2009 and August 2010 YTD
Proforma Budget	N	2010 budget
Site Plan/Survey	Y	1974 survey
Floor Plans	Y	Presented in Addenda
Purchase Agreement	N	Not applicable
Land Use Regulatory Agreement	N	Not applicable
Appraisal Questionnaire	Y	Retained in work file
Marketing Package	N	Not applicable

Highest And Best Use: In determining the Highest and Best Use of the subject property as though vacant and/or improved, the appraiser utilized information obtained for, and reported in, the Area and Neighborhood Analyses, and the remaining sections of this appraisal. This information revealed the historic and future significance of the area to the subject, as well as the contribution of the area development in designating a proposed use for the subject. The four criteria examined to establish the Highest and Best Use were; 1) Physically Possible, 2) Legally Permissible, 3) Financially Feasible and 4) Maximally Productive.

Valuation Analysis: The appraisers considered all approaches to valuation that might be appropriate for this property type. The following chart summarizes the appraisers’ rationale for inclusion or exclusion of each approach in this particular analysis.

Approaches to Value

Valuation Approach	Presented	Rationale
Cost Approach	N	Not applicable due to property age and lack of land sales.
Insurable Value	Y	Per the request of the client.
Income Approach	Y	Rent comps were surveyed to estimate market rents. Expense projections supported by historics and expense comps. Direct capitalization applied to stabilized proforma.
Sales Comparison Approach	Y	Actual sale prices reflect the net result of investor evaluations.

Marketing Time Analysis: The marketing time of the subject property is based on the length of time similar type properties were on the market before they sold. A history of any known offers for the subject was also considered, as well as opinions of area real estate brokers, agents, investors and appraisers. Assuming the subject is properly marketed by a qualified real estate broker, a marketing period of **approximately 6-9 months** should be sufficient to sell the subject at or near the market value estimated herein.

History of Ownership

According to tax records, the subject is owned by Big Time Partners, Inc. Stoneridge was purchased on January 18, 2002 for \$832,000, while Stonehenge was purchased on August 15, 2003 for \$996,000. The total acquisition price was \$1,828,000.

The appraisers are not aware of any transactions or offers involving the subject property over the past three years.

In St. Croix County, Wisconsin, the taxable value is calculated at 97.15% of the assessed value, as estimated by the County Assessor. The following summarizes the assessment process.

Timing: Taxes are paid in arrears (i.e. 2009 taxes are due in 2010).

Estimated Fair Market Value: A value calculated by dividing the property's assessed value by the municipality's average assessment ratio. This value may not be the actual market value of a property and is not used in the calculation of taxes. Agricultural property value is based on use, not market, thus the estimated fair market value is not calculated for parcels in the agricultural class.

Assessment Ratio: The assessment ratio is a ratio determined by the Department of Revenue showing the relationship between the assessed value of all taxable property in a municipality regardless of type or location. Assessed value divided by estimated fair market value equals average assessment ratio.

Assessment or Assessed Value: The value that is placed on a property by the municipal assessor for purposes of taxation. The assessed value is used to determine the property tax amount and may be below the current market value of the property.

The subject's 2010 assessed values, as well as the 2009 resultant tax rate and assessment ratio, are summarized in the following table. Since the 2010 tax rate and assessment ratios are not yet known, the appraisers have utilized the 2009 tax rate and the 2009 assessment ratio.

Assessments and Taxes

Parcel	Fair Market Value	Ratio	Assessed Value	Tax Rate / \$100	Taxes
XXX-XX-XXX-XXX	\$994,236	97.15%	\$965,900	\$2.125111	\$20,526
XXX-XX-XXX-XXX	\$889,038	97.15%	\$863,700	\$2.125111	\$18,355
<u>Other</u>					<u>\$0</u>
Total Real Estate	\$1,883,273	97.15%	\$1,829,600	\$2.1251	\$38,881
Other	\$0	97.15%	\$0	\$0.0000	\$0
Total Taxes					\$38,881

As a check on the reasonableness of the total assessment, the appraisers have researched assessments for similar properties, which are summarized in the following chart.

Summary of Tax Comparables

<u>Name</u>	<u>Units</u>	<u>NRA</u>	<u>Avg SF</u>	<u>YOC</u>	<u>Assessment</u>	<u>\$/Unit</u>	<u>\$/SF</u>
345 W 9 th Street	36	30,000	833	1982	\$1,353,989	\$37,611	\$45.13
365 W 9 th Street	24	21,600	900	1982	\$1,030,365	\$42,932	\$47.70
Park Meadows	27	22,214	823	1999	\$788,000	\$29,185	\$35.47
533 Marshall Road	8	3,000	375	1972	\$277,200	\$34,650	\$92.40
Average/Mean	24	19,204	809		\$862,389	\$36,094	\$55.18
Stoneridge	48	32,724	682	1973/1974	\$1,829,600	\$38,117	\$55.91

The subject's assessment is within the range of the comps and fairly close to the value estimated herein. Overall, the current assessment is considered reasonable, and no dramatic changes are anticipated. Assuming no significant change in aggregate tax rates, stabilized taxes are estimated at a rounded **\$39,000**.

PART III
REGIONAL & NEIGHBORHOOD ANALYSES

Regional Map - redacted

Overview

Real estate values reflect the influence of four primary forces that motivate human activity; environmental factors, governmental policies, social trends, and economic conditions. The purpose of the Regional Analysis is to describe and analyze the area within which the interactions of the four major forces influence property uses and values. This section will further analyze past trends for insight into possible future trends, specifically with respect to their influence on the subject property.

Environmental Factors

Geography Definition: The Office of Management and Budget (OMB) reviewed the Metropolitan Area standards in 2000. The new standards replace the Metropolitan Area classification with a Core-Based Statistical Area (CBSA) classification. The new Core-Based Statistical Area (CBSA) consists of a county containing an Incorporated Place or Census Designated Place with a population of at least 10,000 along any adjacent counties that have at least 25% of employed residents of the county who work in the CBSAs core or central county. CBSAs are categorized as being either **Metropolitan** (core population of at least 50,000) or **Micropolitan** (core population between 10,000 and 50,000). This allows common statistics to be collected for less urban areas of the nation. These two county-based CBSA definitions will cover approximately 90% of the U.S. population.

Location: The subject property is located in the City of New Richmond, Wisconsin, which is part of the Minneapolis-St. Paul MN-WI Metropolitan CBSA. As defined by the U.S. Census, the CBSA includes the following counties: Anoka County, MN; Carver County, MN; Chisago County, MN; Dakota County, MN; Hennepin County, MN; Isanti County, MN; Ramsey County, MN; Scott County, MN; Sherburne County, MN; Washington County, MN; Wright County, MN; Pierce County, WI; St. Croix County, WI. The principal cities are: Minneapolis, MN; St. Paul, MN; Bloomington, MN; Plymouth, MN; Eagan, MN; Eden Prairie, MN; Minnetonka, MN

To remind everyone there were actually two cities, people started using the phrase Dual Cities around 1872, which evolved into Twin Cities. Despite the Twin moniker, the two cities are independent municipalities with defined borders and are quite distinct from each other. Minneapolis is somewhat newer, with modern skyscrapers and broad streets. Saint Paul has been likened to a European city with quaint neighborhoods, and a vast collection of well preserved late-Victorian architecture. Also of some note is the differing cultural backgrounds of the two cities: Minneapolis was influenced by its early (and still influential) Scandinavian/Lutheran heritage, while St. Paul was influenced by its early French, Irish and German Catholic roots.

Today, the area is referred to as simply the Cities by those who live nearby the Twin Cities, both within Minnesota and in the greater Midwest. The downtown districts are about 9 miles apart and draw commuters from as far away as Rochester, St. Cloud, Pine City, Albert Lea, Mankato, and Eau Claire, WI.

Topography/Climate: Owing to its northerly latitude and inland location, the Twin Cities experience the coldest climate of any major metropolitan area in the United States. However due to its southern location in the state, the Twin Cities is one of the warmest locations in Minnesota. The average daily high temperatures range from 21.9° in January to 83.3° in July.

Highway Transportation: Interstate 94 comes into the area from the east and heads northwest from Minneapolis. Two spur routes form the I-494/I-694 loop, and I-394 continues west when I-94 turns north. Additionally, Interstate 35 splits in Burnsville in the southern part of the Twin Cities region, bringing I-35E into St. Paul and I-35W into Minneapolis. They join together again to the north in Forest Lake and continue to the highway's terminus in Duluth.

Air Transportation: The main airport in the region is Minneapolis-St. Paul International Airport (MSP), which is a major hub for Delta Air Lines. A number of other smaller airports are also in the area, some of which are owned and operated by the Metropolitan Airports Commission, the same organization that operates MSP.

Public Transportation: Metro Transit, by far the biggest bus service provider in the area, owes its existence to the old streetcar lines that ran in the area. Metro Transit provides about 95% of the public transit rides in the region, although some suburbs have other bus services. The University of Minnesota-Twin Cities operates a free bus system on its campus. This system includes the Campus Connector Bus Rapid Transit line which travels between the Minneapolis and St. Paul Campuses by a dedicated bus line, and throughout the two campuses on normal access roads. The Hiawatha Line light rail corridor, operated by Metro Transit, began regular operations in June 2004.

Recreation and Regional Attractions: There are a number of lakes in the region, and cities in the area have some very extensive park systems for recreation. Organized recreation includes the Great River Energy bicycle festival, the Twin Cities Marathon, and the U.S. pond hockey championships. Professional sports teams include the Minnesota Vikings (NFL), Minnesota Wild (NHL), Minnesota Twins (MLB), and Minnesota Timberwolves (NBA). To avoid favoring either of the Twin Cities, the teams based in the area use only the word Minnesota in their name, rather than Minneapolis or St. Paul.

Governmental Policies

Governmental Bodies: The Minneapolis and St. Paul have each have a mayor-council form of government.

Zoning: As with most areas of the country, local municipalities have comprehensive zoning ordinances to control growth and development within their boundaries. These ordinances are fairly typical and do not adversely impact development trends. The city has continued to grow by annexing surrounding unincorporated areas.

Social Forces

Social trends are best reflected in population growth, household formations, income levels, and education. Each of these factors is addressed in the following paragraphs, based on data obtained from SRC, LLC (www.demographicsnow.com).

Population: The following chart summarizes population trends for the region.

Historical and Projected Population Trends

Region	2000	2009	Growth Rate	Projection	Growth Rate
			2000 - 2009	2014	2009 - 2014
MSP MN-WI CBSA	2,968,747	3,279,023	1.11%	3,442,764	0.98%
City of Minneapolis	382,566	371,133	(0.34)%	377,588	0.35%
City of St. Paul	287,151	278,384	(0.34)%	283,115	0.34%
State of Minnesota	4,919,479	5,278,338	0.79%	5,471,485	0.72%
United States	281,421,906	305,921,712	0.93%	317,062,794	0.72%

Over the past decade, the population of the CBSA has increased at a compounded annual rate of 1.11%. During the same period, the Minnesota growth rate was 0.79% and the national growth rate was 0.93%. Over the next five years, the CBSA population is projected to increase at a compounded annual rate of 0.98%, while the State of Minnesota is projected to grow at a rate of 0.72% and the nation is projected to grow at a rate of 0.93%.

Households: The following chart summarizes trends in household growth for the region.

Historical and Projected Household Trends

Region	2000	2009	Growth Rate	Projection	Growth Rate
			2000 - 2009	2014	2009 - 2014
MSP MN-WI CBSA	1,136,596	1,280,710	1.34%	1,335,466	0.84%
City of Minneapolis	162,324	371,133	9.62%	377,588	0.35%
City of St. Paul	112,109	278,384	10.63%	283,115	0.34%
State of Minnesota	1,895,127	2,112,710	1.21%	2,194,320	0.76%
United States	105,480,101	113,833,591	0.85%	117,644,422	0.66%

As of 2009, the average household size for the CBSA is 2.56 persons, compared to 2.50 for the state and 2.69 for the nation. From 2000 to 2009, the number of households in the CBSA grew at a compounded annual rate of 1.34%, which is slightly greater than the previously noted population growth rate of 1.11%. This suggests a decrease in average household size. By 2014, the average household size for the CBSA is projected to increase to 2.58 persons.

Income Levels: The following chart summarizes trends in median household income levels.

Historical and Projected Trends in Household Income

Region	2000	2009	Growth Rate	Projection	Growth Rate
			2000 - 2009	2014	2009 - 2014
MSP MN-WI CBSA	\$54,656	\$64,939	1.93%	\$69,557	1.38%
City of Minneapolis	\$38,291	\$41,854	0.99%	\$42,894	0.49%
City of St. Paul	\$38,862	\$43,254	1.20%	\$44,413	0.53%
State of Minnesota	\$47,236	\$57,384	2.19%	\$61,303	1.33%
United States	\$42,257	\$53,679	2.69%	\$57,994	1.56%

As of 2009, the median income in the CBSA was \$64,939, which is 13.17% higher than the statewide median of \$57,384, and 20.98% higher than the national median of \$53,679. Over the past 9 years, the median income for the CBSA has grown at a compounded rate of 1.93%, compared to 2.19% for the State of Minnesota and 2.69% for the nation. Over the next 5 years, the median income for the CBSA is projected to grow at a slower rate of 1.38%, compared to 1.33% for the State of Minnesota and 1.56% for the nation. By 2014, the CBSA median income is projected to reach \$69,557, which would be 13.46% higher than the projected statewide median of \$61,303 and 19.94% higher than the projected national median of \$57,994.

Education: As with most areas, public schools are supported primarily by local property taxes and subsidized with state aid. Institutions of higher learning are typically not as vulnerable to economic downswings and help provide an area with a more solid employment base. The area is served by a number of higher education institutions. The largest of these is The University of Minnesota, Twin Cities (U of M or regionally “The U”). UM is a public research university located in Minneapolis and St. Paul. It is the oldest and largest part of the University of Minnesota system, and has the fourth-largest main campus student body in the United States (51,659 students in 2009-2010).

The following chart summarizes educational attainment for the CBSA, the state, and the nation.

Educational Attainment for Adults Over 25

<u>Education Level</u>	<u>CBSA</u>	<u>State</u>	<u>United States</u>
Less than 9 th Grade	2.7%	3.5%	6.2%
9 th - 12 th Grade	4.0%	4.9%	8.8%
High School Graduate	24.5%	28.0%	30.0%
Some College, No Degree	21.6%	22.0%	19.4%
Associate’s Degree	9.3%	10.0%	7.5%
Bachelor’s Degree	25.6%	21.5%	17.6%
Graduate or Prof. Degree	12.3%	10.2%	10.4%

Source: SRC, Inc.

Among adults over 25 years of age, 37.9% have bachelor or graduate degrees, significantly higher than the statewide figure of 31.7% and much higher than the national figure of 28.0%. An additional 9.3% have associates (two-year) degrees, compared to 10.0% for the state and 7.5% for the nation. At the other end of the spectrum, 6.7% of area adults failed to complete high school, which is slightly lower than the statewide figure of 8.4% and much lower than the national figure of 15.1%. Overall, the region has a very well educated population.

Economic Conditions

Overview: The following paragraphs provide an overview of the Minneapolis-St. Paul CBSA, per the June 2010 Moody's Economy.com report, which is the most recent available.

The recession is ending in Minneapolis as most economic indicators point in the right direction. Estimated gross metro product is almost back to pre-recession levels, and industrial output is sharply above its mid-2009 trough. Hiring spikes in services are supplementing steady jobs growth in manufacturing. The improving labor market is lifting personal income, albeit from levels still far below the cyclical peak. The unemployment rate has fallen steadily to near 7% even as the labor force has expanded since the start of 2010.

The leading cause for optimism about the near-term prospects is the buoyancy in manufacturing output and employment as the metro area's manufacturers benefit from the pickup in business investment globally and the vigorous rebound in consumer demand in emerging markets.

The area's manufacturing industries have added jobs at a much faster pace than average in recent months, and job gains will outpace the national average through the remainder of this year. The region's top manufacturing employer, 3M, experienced a big jump during the first quarter in sales of its industrial and transportation goods. A majority of 3M's revenue comes from overseas, and the strong performance last quarter bodes well for future hiring.

Medical equipment, a key metro area industry, is also set to regain its footing. While Medtronic and Boston Scientific are facing some near-term financial and operating challenges, they will remain leading providers of equipment for cutting-edge medical treatment. Longer term, the area will recoup a far greater than average share of the manufacturing jobs lost in the recession because of the high value-added and the beneficial clusters among local industries.

The two pillars of area's services industries, education/healthcare and professional/business, will continue to be major drivers. Business services hiring has already been strong, and job growth will expand into higher-paying technical and management jobs in coming months. Educational attainment and high concentration of corporate headquarters will remain key comparative advantages for sustaining growth in this cluster.

The outlook has also brightened for education/healthcare; area hospitals returned to profitability in 2009 despite cuts in state payments and increases in unpaid bills. This will allow hiring from substantially understaffed levels, a cause of recent unrest among medical workers' unions.

The housing market introduces a note of worry in an otherwise steadily brightening outlook. The Minneapolis Association of Realtors reported a sharp drop in sales and new listings in May, following several months of strongly improving data. This suggests sales will stumble this summer upon expiration of the federal homebuyer tax credit, which likely pulled some home sales forward. However, a serious housing slump with negative consequences for consumer confidence and spending is unlikely. Soaring affordability and rising incomes suggest adequate fundamental strength in the market.

Major Employers: The Minneapolis-St. Paul area has a relatively diversified economic base represented by many types of industries. There 19 Fortune 500 corporations headquarters in this area. The following table summarizes the largest private employers in the region.

TOP EMPLOYERS	
Target Corporation	27,756
Allina Health System	23,653
Wells Fargo & Company	20,884
Fairview Health System	20,148
University of Minnesota	18,470
3M Corporation	16,500
Northwest Airlines Corporation	11,512
HealthPartners	9,980
SuperValu, Inc.	9,841
Hormel Foods Corporation	9,837
U.S. Bancorp	9,800
United Health Group	9,257
Park Nicollet Health Services	8,503
Medtronic, Inc.	7,871
Best Buy Company, Inc.	7,392
HealthEast	7,000
Thompson North American Legal	6,800
Boston Scientific	6,498
Taylor Corporation	6,000
Ameriprise Financial	5,700
<i>Source: Minneapolis-St. Paul Business Journal, 2009 Book of Lists</i>	

Unemployment Rates: Historically, the Minneapolis region has followed the state with respect to unemployment, and has generally outperformed the nation. The following table summarizes recent unemployment trends for the region, as reported by the U.S. Bureau of Labor Statistics (www.bls.gov/eag/).

Unemployment Trends (Minneapolis-St. Paul CBSA)

	8/2010	2009	2008	2007	2006	2005
Civilian Labor Force	1,885,224	1,855,914	1,848,603	1,833,780	1,819,960	1,808,875
Total Employment	<u>1,753,684</u>	<u>1,711,494</u>	<u>1,754,638</u>	<u>1,754,202</u>	<u>1,750,222</u>	<u>1,738,447</u>
Unemployment	131,540	144,420	93,965	79,578	69,738	70,428
Rate	7.0%	7.8%	5.1%	4.3%	3.8%	3.9%
Minnesota	7.0%	7.9%	5.4%	4.6%	4.1%	4.2%
National Rate	9.6%	9.3%	5.8%	4.7%	4.6%	5.1%

Regional Analysis Conclusions

Minneapolis is on course to enter recovery. Output, employment, and incomes will grow on pace with the national average. Employment will fully recover by the end of 2012 as key service industries gain momentum. The unemployment rate has peaked and is set to decline to its pre-recession rate by 2011. The area will be an average performer in long-term output and employment growth but will maintain higher incomes due to its lead in educational attainment and a favorable industrial structure.

Neighborhood Map - redacted

Overview

A neighborhood can be a portion of a city, a community or an entire town. It is usually considered to be an area that exhibits a fairly high degree of homogeneity as to use, tenancy and certain other characteristics.

The following information is presented in summary chart form to give the reader a quick overview of the subject neighborhood and how it compares to other neighborhoods in the Minneapolis-St. Paul area.

Summary of Neighborhood Characteristics

Component (multiple boxes indicate zone of transition):			
Location	<input type="checkbox"/> Urban	<input checked="" type="checkbox"/> Suburban	<input type="checkbox"/> Rural
Built Up	<input checked="" type="checkbox"/> Fully Developed	<input type="checkbox"/> Over 75%	<input type="checkbox"/> 25% to 75%
	<input type="checkbox"/> Under 25%		
Growth Rate	<input type="checkbox"/> Rapid	<input type="checkbox"/> Steady	<input checked="" type="checkbox"/> Slow
Property Values	<input type="checkbox"/> Increasing	<input checked="" type="checkbox"/> Stable ←	<input checked="" type="checkbox"/> Declining
Demand/Supply	<input type="checkbox"/> Shortage	<input checked="" type="checkbox"/> In Balance	<input checked="" type="checkbox"/> Oversupply
Rent Controls	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Likely
Stage of Life-Cycle	<input type="checkbox"/> Growth	<input checked="" type="checkbox"/> Stabilization	<input type="checkbox"/> Decline
			<input type="checkbox"/> Revitalization

Overview

Given the small size of the city, the subject’s neighborhood is considered to be the entire City of New Richmond.

Linkages/Infrastructure/Economic Influences/Employment Centers

The subject is roughly 10 miles north of Interstate 94. St. Paul is roughly a 45 minute drive, while Minneapolis is about an hour drive. Outside of a Bosch facility and Wal-Mart, there are no major employment centers in the immediate vicinity of the subject property. However, with reasonable access to regional highways and the interstate system, many residents of commute to the Minneapolis-St. Paul area.

Land Uses

New Richmond has a traditional small town downtown. Land uses surrounding the subject property include apartments to the north (same owner as the subject), vacant tracks (within the flood plain) to the east and south, and condominiums and a seniors housing facility to the west. The subject conforms well to these surroundings. The following pages present aerial photographs covering the subject neighborhood.

Aerial 1 - Redacted

Aerial 2 - Redacted

Demographics

Population: The following chart summarizes population trends within 1-, 2-, and 3-mile radii of the subject.

Neighborhood Population Trends

	1-Mile	2-Mile	3-Mile	CBSA
2000 Census	4,558	7,195	8,082	2,968,747
2009 Estimate	5,977	9,199	10,620	3,279,023
2014 Projection	7,416	10,968	12,547	3,442,764
2000 -2009 Growth Rate	3.06%	2.77%	3.08%	1.11%
2009 -2014 Growth Rate	4.41%	3.58%	3.39%	0.98%

Over the past 9 years, the population of the subject neighborhood (1-mile-mile radius) has grown at a compounded rate of 3.06%, while the CBSA population has grown at a rate of 1.11%. Over the next 5 years, the population of the subject neighborhood is projected to grow at a compounded rate of 4.41%, while the CBSA population is projected to grow at rate of 0.98%.

Households: The following chart illustrates trends in household formation for the neighborhood.

Neighborhood Household Trends

	1-Mile	2-Mile	3-Mile	CBSA
2000 Census	1,917	2,854	3,155	1,136,596
2009 Estimate	2,609	3,782	4,299	1,280,710
2014 Projection	3,184	4,442	5,002	1,335,466
2000 -2009 Growth Rate	3.48%	3.18%	3.50%	1.34%
2009 -2014 Growth Rate	4.06%	3.27%	3.08%	0.84%

Over the past 9 years, the number of households in the neighborhood has grown at a compounded rate of 3.48%, while the number of households in the CBSA grew at a rate of 1.34%. Over the next 5 years, the number of households in the subject neighborhood is projected to grow at a compounded rate of 4.06%, while the number of households in the CBSA is projected to grow at a rate of 0.84%.

Income Levels: The following chart summarizes income trends for the neighborhood.

Neighborhood Median Household Income Trends

	1-Mile	2-Mile	3-Mile	CBSA
2000 Census	\$43,240	\$44,255	\$44,737	\$54,656
2009 Estimate	\$49,035	\$51,114	\$52,493	\$64,939
2014 Projection	\$50,457	\$52,902	\$54,494	\$69,557
2000 -2009 Growth Rate	1.41%	1.61%	1.79%	1.93%
2009 -2014 Growth Rate	0.57%	0.69%	0.75%	1.38%

As of 2009, the median household income for the neighborhood (1-mile-mile radius) was \$49,035, which is 32.43% less than the CBSA median of \$64,939. Over the 9-year period from 2000 to 2009, median income for the neighborhood has grown at a compounded rate of 1.41%, while the CBSA grew at a greater rate of 1.93%. Over the next five years, income growth is projected at 0.57% for the neighborhood and 1.38% for the CBSA.

Conclusions

The subject property is located in New Richmond, a bedroom community on the eastern fringe of the Minneapolis-St. Paul CBSA. On a percentage basis, population and household growth is projected to far outpace the region as a whole. On an absolute basis, the growth is fairly modest. Income levels are below the regional median. Overall, the neighborhood should be capable of supporting the subject for years to come.

Macro Market Analysis

Overview: This following pages presents an introductory overview of the Minneapolis-St. Paul apartment market per Marcus & Millichap.

INVESTOR INTEREST STRENGTHENS; INVENTORY REMAINS LIMITED

The Minneapolis-St. Paul apartment market has begun to mend, supported by light building activity through the recession and the recent resumption of hiring. Indeed, employment increased during the first half of 2010, following seven consecutive quarters of net job losses, and will continue to rise through year end. With the development pipeline nearly empty and with local employers expected to recoup a quarter of the positions cut during the downturn, absorption activity will strengthen as households “debundle,” or reverse the doubling-up trend that occurred as job losses mounted. Occupancy rates will increase at a faster clip in the Southwest submarket, where inventory additions over the last five years were among the lowest in the metro and where attractive concessions continue to encourage in-migration from residents seeking to live closer to major employers. In communities outside the interstate belt, however, including the outer reaches of the Dakota County, Washington County and West submarkets, owners still face challenges competing for tenants. Subsequently, concession burn-off in these areas will lag the metrowide pace. Throughout the Twin Cities, vacancy rates will start to tighten this year, albeit gradually, allowing owners to decrease concessions and push up rents.

With the local labor force and property metrics stabilizing, area buyers are returning to the market, though few quality investment opportunities exist. Accordingly, sales activity continued to slow through the first half of 2010. Many owners of distressed assets have sold already, while those not under immediate duress continue to hold as revenues improve. With a lack of deeply discounted assets available, investors have targeted well-located, stabilized complexes, specifically those in core areas and near major employers. As buyer competition for these properties intensifies, owners looking to exchange into more passive investment vehicles will list assets, buoying deal flow. In the suburbs, though, fewer stabilized complexes will be listed, keeping marketing times elevated.

2010 ANNUAL APARTMENT FORECAST



Employment: Local employers will expand staffing levels by 1.7 percent this year, or 28,000 employees. During the recession, employers shed 116,000 workers, including more than 80,000 positions in 2009.



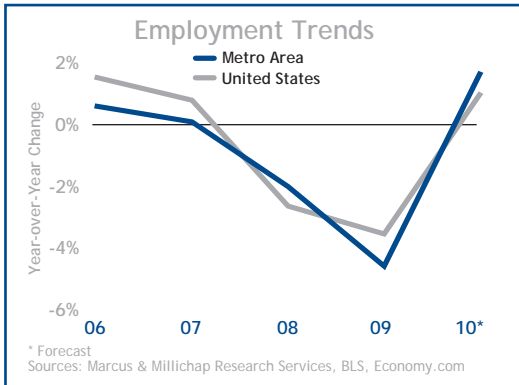
Construction: Following the completion of 688 units last year, developers will deliver roughly 330 units in 2010, a 0.2 percent inventory addition and 52 percent less than the five-year average.



Vacancy: Moderating construction activity and strengthening job growth will drive down vacancy this year. Vacancy will decrease 40 basis points in 2010 to 5 percent, after rising 100 basis points last year.

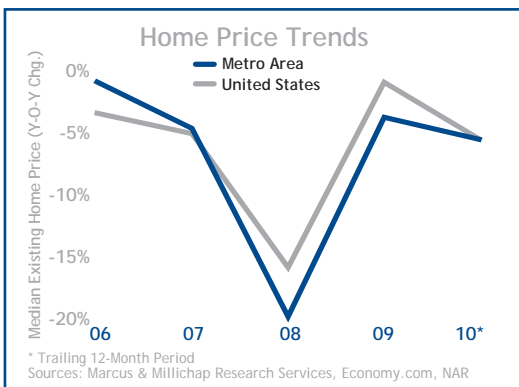


Rents: Owners will continue to utilize concessions, but to a lesser extent than in 2009. This year, asking rents will advance 1.9 percent to \$947 per month, while effective rents will grow 2.4 percent to \$892 per month.



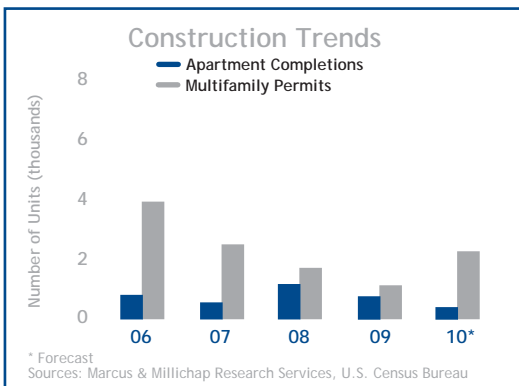
ECONOMY

- ◆ Hiring has resumed in the Twin Cities, with employers adding 18,200 workers in the first half of this year. Measured on a year-over-year basis, however, employment shrank by 0.2 percent, or 3,400 positions.
- ◆ Leisure and hospitality employers lead year-to-date job gains, creating 11,500 jobs in that time. The manufacturing sector has regained its footing since losing 21,700 workers one year ago, expanding by approximately 4,900 workers since the start of this year.
- ◆ After peaking at 8.2 percent in June 2009, the metro's unemployment rate steadily improved to reach 6.6 percent in June of this year, below the national unemployment rate of 9.5 percent. The local unemployment rate has decreased 50 basis points since the start of 2010.
- ◆ **Outlook:** Twin Cities employers will expand staffing levels by 1.7 percent this year, or 28,000 employees. During the recession, employers shed 116,000 workers, including more than 80,000 positions in 2009.



HOUSING AND DEMOGRAPHICS

- ◆ The number of single-family permits pulled during the year ending in the second quarter increased 42 percent to 4,900 units. Still, this total falls nearly 70 percent below the average recorded between 2003 to 2007. Multifamily permit issuance declined 14 percent in the last year to 1,130 units.
- ◆ The median price of a single-family home in the Twin Cities was \$170,900 in the second quarter, down almost 6 percent from one year earlier. In that same span, the metro's median household income grew 0.7 percent to \$56,280 annually, an amount that is \$14,600 higher than the minimum household income needed to purchase a median-priced home.
- ◆ As of the second quarter, the typical mortgage payment, using traditional financing, was \$177 per month less than the average Class A asking rent, up from the \$75 per month disparity recorded during the same quarter in 2009.
- ◆ **Outlook:** Rising home prices will allow Class A operators to increase rents, though strong gains are not expected until well into next year.

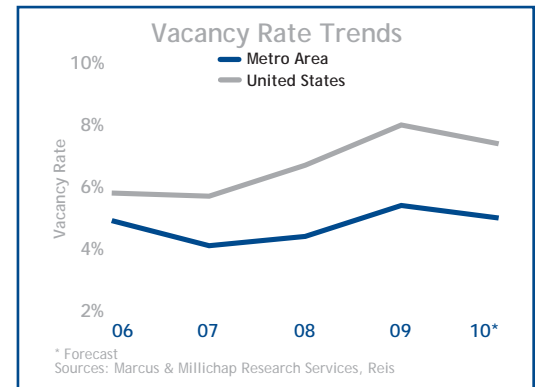


CONSTRUCTION

- ◆ The completion of 170 apartments during the first half of 2010 brought year-over-year deliveries to approximately 790 units, a 0.5 percent inventory increase. One year earlier, builders added nearly 960 rental units.
- ◆ Almost 580 units are being constructed across the metro, 28 percent of which are scheduled for delivery this year. The largest project under way is the second phase of the Uptown at Citywalk, which will add 242 units to the Washington County submarket in late 2011.
- ◆ The planning pipeline contains 6,000 rental units, nearly half of which are located in the Minneapolis submarket.
- ◆ **Outlook:** Following the completion of 688 units in 2009, deliveries will slow to roughly 330 units this year, a mere 0.2 percent inventory addition and 52 percent less than the five-year average.

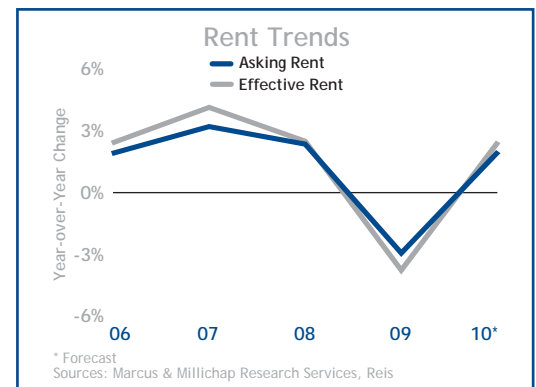
VACANCY

- ◆ Although the vacancy rate in second quarter was up 40 basis points from one year earlier at 5.1 percent, employment growth has strengthened renter demand, pushing down vacancy 30 basis points year to date.
- ◆ Vacancy at Class A complexes was 5.7 percent in the second quarter, up 30 basis points from the same period in 2009. The resumption of job creation, however, improved vacancy by 50 basis points during the first half of 2010.
- ◆ Household formation has contributed to lowering the vacancy rate at Class B/C properties by 20 basis points year to date to 4.6 percent, in line with the sector's five-year annual average.
- ◆ **Outlook:** Slower construction activity and projected job growth will drive down vacancy this year. Vacancy will decrease 40 basis points in 2010 to 5 percent, after rising 100 basis points last year.



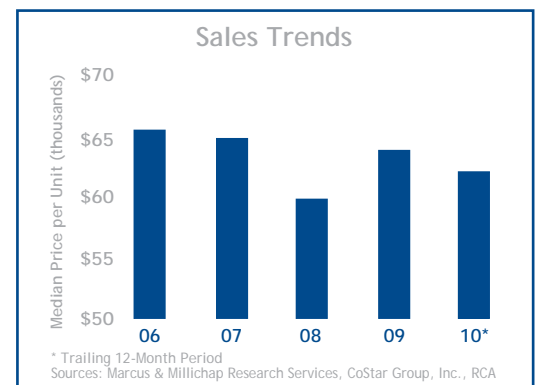
RENTS

- ◆ Over the last year, asking rents slipped 2.2 percent to \$928 per month, and effective rents decreased 1.9 percent to \$872 per month. Stronger operations during the first half of 2010, however, encouraged owners to hold concessions, as asking rents stayed relatively flat and effective rents increased just 0.1 percent.
- ◆ Asking rents among Class A properties fell 0.5 percent during the past two quarters to \$1,105 per month, while Class B/C asking rents edged up 0.3 percent to \$786 per month.
- ◆ With occupancy improving, revenues increased 0.4 percent in the first half of this year, easing the year-over-year rate of decline to 2.3 percent.
- ◆ **Outlook:** Owners will continue to utilize concessions, but to a lesser extent than in 2009. This year, asking rents will advance 1.9 percent to \$947 per month, while effective rents will grow 2.4 percent to \$892 per month.



SALES TRENDS**

- ◆ Transaction velocity decreased 30 percent during the past 12 months, largely due to a lack of quality product on the market.
- ◆ The median price of an apartment property in the Twin Cities held flat at \$62,300 per unit during the past year. In year-to-date closings, however, the median price dropped to \$58,400 per unit due to a higher concentration of sales involving smaller assets.
- ◆ In the last year, cap rates averaged in the low- to mid-8 percent range, up 100 basis points from the prior 12-month average.
- ◆ **Outlook:** As buyer competition increases for the few quality listings and NOIs strengthen, upward movement in cap rates will slow. This year, initial yields for Class C assets will average in the low- to mid-8 percent range, while stabilized, well-located Class A and Class B properties will likely register cap rates in the low- to mid-7 percent area.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:

Linwood C. Thompson

Senior Vice President, Managing Director

National Multi Housing Group

Tel: (678) 808-2700

lthompson@marcusmillichap.com

Marcus & Millichap

Real Estate Investment Services

Prepared and edited by

Michael L. Brown

Research Analyst

Research Services

For information on national
apartment trends, contact

John Chang

Vice President, Research Services

Tel: (602) 687-6700 ext. 6803

john.chang@marcusmillichap.com

Minneapolis Office:

Solomon Poretsky

Regional Manager

sporetsky@marcusmillichap.com

8300 Norman Center Drive

Suite 810

Bloomington, Minnesota 55437

Tel: (952) 852-9700

Fax: (952) 852-9710

Price: \$150

© Marcus & Millichap 2010

www.MarcusMillichap.com

CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.
- ◆ Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.
- ◆ Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.
- ◆ Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

SUBMARKET OVERVIEW

- ◆ The largest tract of developable land in the metro, 430 acres in Arden Hills, is scheduled for auction in the third quarter. Zoning allows for several housing options after environmental cleanup, including apartments, a seniors housing complex and single-family homes.
- ◆ The Minneapolis school board plans to relocate its staff to a \$27 million headquarters in northern Minneapolis upon the facility's scheduled completion in 2012. The relocation of 500 employees to the new site will boost area housing demand.
- ◆ Early in 2011, U.S. Bancorp will move approximately 1,600 jobs from St. Paul to Richfield, located in the Southwest submarket, potentially hindering apartment operations in the already hard-hit St. Paul submarket.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Minneapolis	4.5%	-30	\$1,009	-3.3%
2	Northeast	4.6%	0	\$778	-3.2%
3	Northwest/Anoka County	4.7%	40	\$739	-2.5%
4	Southwest	4.8%	-10	\$892	-0.3%
5	West	5.2%	50	\$921	-1.6%
6	Dakota County	5.7%	80	\$848	-2.0%
7	Washington County	5.8%	-10	\$927	-0.9%
8	St. Paul	6.1%	170	\$850	-0.5%

Submarket Analysis

As a relatively small market, there is no data published on the New Richmond market. In developing this macro market analysis, the appraisers have assembled data from a variety of sources, including the U.S. Census, demographicsnow.com (SRC, LLC), Ersys.com, U.S. Department of Housing and Urban Development, and Reis, Inc.. Some of the census data is only collected for the decennial report, while other data is updated annually. Thus, in some instances, the appraisers may use a number from 2009, but apply to it a percentage derived from the 2000 census.

Supply: The following chart summarizes the distribution of housing units in New Richmond, according to the type of structure:

Distribution of Households by Type

<u>Units in Structure</u>	<u>Percentage</u>	<u>Housing Units</u>
1 - Attached	4.2%	126
1 - Detached	62.9%	1,893
2 Units	5.0%	151
3-4 Units	9.1%	274
5-9 Units	3.9%	117
10-19 Units	5.6%	169
20-49 Units	5.6%	169
50+ Units	0.6%	18
Mobile Home/Trailer	3.1%	93
<u>Other</u>	<u>0.0%</u>	<u>0</u>
Total Units	100.0%	3,010

As of 2010, there were an estimated 3,010 housing units in the City of New Richmond. Of this total, 2,020 units, or 67.1%, are single family homes (attached or detached). Nationwide, 65.9% of all households live in single family homes. Within the city, it was estimated 64.2% of housing units were owner-occupied, with 31.8% renter-occupied and 4.0% vacant.

New Supply/Building Permits: Refer to the following table for building permits issued for New Richmond.

Housing Unit Building Permits - New Richmond

	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD '10
Total Units	118	166	216	119	127	61	61	34	11	9
Units in SF Structures	34	110	127	99	88	56	36	22	11	9
Units in All MF Structures	84	56	89	20	39	5	25	12	0	0
Units in 2-unit MF Structures	24	48	18	6	14	2	18	8	0	0
Units in 3- and 4-unit MF	24	8	15	14	10	3	7	4	0	0
Units in 5+ Unit MF Structures	36	0	56	0	15	0	0	0	0	0

As shown, within the City of New Richmond, 5+ unit multifamily construction has been minimal over the past decade, and this trend is not expected to change significantly going forward.

Micro-Market Analysis

The most direct test of the submarket is a survey of properties that actually compete with the subject property. Following is a summary of the rent comparables detailed later in the Income Approach.

Summary of Rent Comparables

<u>No.</u>	<u>Name</u>	<u>Units</u>	<u>Avg SF</u>	<u>Avg Rent</u>	<u>\$/SF</u>	<u>YOC</u>	<u>Occup</u>
Sub	Stoneridge	48	682	\$553	\$0.81	1973/1974	94%
1	345 & 365 West 9th	60	770	\$534	\$0.69	1982	98%
2	533 Marshall	8	600	\$500	\$0.83	1972	87%
3	Park Meadows	27	823	\$665	\$0.81	1999	98%
Average (Incl. Subject)		36	719	\$563	\$0.79	1986	94.2%
Weighted Average		36	741	\$563	\$0.76	N/A	96.0%

Among the subject and its direct competitors, rental rates range from \$0.69/SF to \$0.83/SF. On a per unit basis, average rents range from \$500/month to \$665/month. Occupancy levels range from 87% to 98%, with an average of 94.2% and a weighted average of 96.0%. The specific relationship between the subject and the comparables is detailed further in the Income Approach section of this report.

PART IV
SUBJECT PROPERTY DATA

Location:	The property is located in the City of New Richmond, Wisconsin, a small community on the east side of the Minneapolis metropolitan area. Specifically, the site is situated along the south side of Main Street, a couple of blocks west of South Wolverine Avenue. The street address is 1234 Main Street, New Richmond, Wisconsin 54017.
Dimensions, Area and Shape:	According to the survey provided, the subject site measures 2.50 acres. The site has a slightly irregular configuration and a generally level topography, with the rear yard gently sloping towards to south. The west side of the property is sometimes referred to as Meadowbrook, and the east side is known as Creekside. These are historical names, as both subject buildings, as well as adjoining buildings to the north, are all jointly operated and marketed as Creekside. The site size and shape do not pose any significant obstacles to development. For a visual representation, please refer to the site exhibits in Addendum A.
Access/Frontage:	According to the survey provided, the subject has a total of 540' of frontage along the south side of Main Street, a secondary neighborhood street that terminates near the subject's western property line. Access is provided by two curbcuts, and visibility is adequate for a multifamily development.
Topography/Drainage/Flood:	According to FEMA, Community Panel #55109C0206E, dated March 16, 2009, the subject is located in Zone X, beyond the limits of the 100-year flood hazard zone.
Easements & Encroachments:	The appraisers are not aware of any adverse easements or encroachments, and it is specifically assumed that none exist.
Surrounding Land Uses:	Land uses surrounding the subject property include apartments to the north (same owner as the subject), vacant tracks (within the flood plain) to the east and south, and condominiums and a seniors housing facility to the west. The subject conforms well to these surroundings. The following pages present aerial photographs covering the subject neighborhood.
Utilities:	Water - New Richmond Utilities Sewer - New Richmond Utilities Electric - New Richmond Utilities Natural Gas - Xcel Energy

Zoning Classification:	R-4 (Multiple Family Residence District)
Permitted Uses:	The current zoning permits multifamily development similar to the subject property. In the absence of a formal compliance inspection by New Richmond authorities, the subject is assumed to be a legally conforming use.
Income/Rent Restrictions:	The subject is a market rate property, with no restrictions on rent levels, tenant income, or age.
Deed Restrictions:	The appraisers are unaware of any deed restrictions that would unduly inhibit or restrict the development of the subject site.
Nuisances and Hazards:	The value estimated in this report is based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions. The appraisers' limited inspection of and inquiries about the subject property did not develop any information that indicated any apparent hazardous substances or environmental conditions that would affect the property negatively. However, it is possible that tests and inspections made by a qualified hazardous substance and environmental expert would reveal the existence of hazardous materials and environmental conditions on or around the property that would negatively affect its value. The client should satisfy themselves regarding the existence of such conditions by employing an expert in this field to conduct a study.

Improvement Description

The site is improved two, two-story apartment buildings. The eastern building was constructed in 1973, and the other was added in 1974. Each building contains 24 units, and both featuring wood frame construction, painted stucco exteriors, and units that are accessed via interior hallways. The eastern building has a pitched asphalt shingle roof, while the western has a pitched roof with raised-seam metal covering. HVAC is provided by gas-fired central boilers and thru-wall air conditioners. Units are individually metered for electric, while the property is master-metered for water and gas. Overall, the improvements appear to be in average condition for their age. The subject has 48 apartment units and the improvements are distributed over the site area of 2.503 acres, indicating a land to building ratio of 3.01:1 and an overall project density of 19.2 units per acre.

Project amenities are limited to a laundry rooms. Unit amenities include standard kitchen appliances, patios (ground floor units) and French balconies with sliding glass doors (second floor units). The following chart summarizes the unit mix for the subject property.

Unit Mix For Stoneridge

<u>Unit Type</u>	<u>Units</u>	<u>SF/Unit</u>	<u>Total SF</u>	<u>Comments / Amenities</u>
1 Bd 1.0 Ba	26	624	16,224	Standard appliances, patio or French balcony
2 Bd 1.0 Ba	22	750	16,500	Standard appliances, patio or French balcony
Total (Mean)	48	682	32,724	

Foundation: The buildings have reinforced concrete foundations of unknown specifications.

Exterior Walls: The buildings have exteriors of painted stucco.

Roofs: The buildings have pitched roofs. Creekside has an asphalt shingle roof, while Meadowbrook has a raised-seam metal roof. Roofs are assumed to be in good working order and free of leaks.

Interior Walls: Wood studs covered with gypsum board that is taped, textured and painted. There is wood trim throughout.

Ceilings: Generally, ceilings are 8 feet high. However, living rooms and/or kitchens feature cathedral ceiling and skylights.

Floors: Ground level units feature concrete slabs, while all upper floors are plywood decking.

Fire Protection: The property is not sprinklered. It is assumed to be in full compliance with all applicable codes regarding smoke detectors and fire suppression equipment.

Improvement Description

Floor Coverings:	Kitchens and baths feature vinyl flooring, while other living areas are carpeted.
Doors:	Insulated metal entry doors have a locking door knob, peep hole, and deadbolt. All interior doors are hollow core wood with wood trim.
Windows:	Windows are double-pane glass in aluminum frames.
Restrooms:	The bathrooms feature steel tubs and ceramic tile or acrylic surrounds, standard toilet, and laminate vanities with drop-in sinks.
Kitchen Equipment:	Stainless steel sink, electric range/oven, frost free refrigerator, wood cabinets, and laminate counters. There are no dishwashers.
HVAC:	HVAC is provided by central gas-fired boilers and thru-wall air conditioners.
Plumbing and Electrical:	The plumbing system and electrical work are assumed to be in accordance with local codes. Hot water is generated by central gas boilers.
Laundry Facilities:	There are two common laundry rooms per building.
Paving/Parking:	There are 96 parking spaces, yielding a parking ratio of 2.00 spaces per unit. For residential properties, the current code requires 2.0 spaces per unit. According to this formula, the subject should have 96 parking spaces. The actual total was reported at 96 spaces (per the owner), which satisfies the current code requirement.
Down/Unrentable Units:	The manager did not report any down units due to flood, fire, mold, etc., and this report specifically assumes all units are rentable.
Economic Life:	According to the <u>Marshall & Swift Valuation Service Guide</u> , properties similar to the subject has an expected economic life of 50 years (average quality, Class "D" construction). Considering the quality of construction and ongoing maintenance, the subject improvements are estimated to have an overall effective age of 20 year(s). Therefore, a remaining economic life of 30 years is projected.
Deferred Maintenance:	The subject appears to be in average condition, and the appraisers have deducted \$0 for deferred maintenance and capital improvements.

A property must be appraised in terms of its Highest and Best Use. According to The Appraisal of Real Estate, Tenth Edition, page 275, Copyright 1992, by the Appraisal Institute. The definition of highest and best use is defined as:

The reasonable probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

This portion of the appraisal process is based on the definition of Highest and Best Use. From this definition, it is obvious that market value of the land or site and of an improved property are both estimated under the assumption that potential purchasers will pay prices that reflect their analysis of the most profitable use of both land, as vacant, and property, as improved.

A use must meet four criteria as follows: (1) Physically Possible; (2) Legally Permissible; (3) Financially Feasible; (4) Maximally Productive.

Highest and Best Use As Vacant

To determine the highest and best use of the subject property, as vacant, the appraisers conducted a thorough analysis. The analysis consisted of an inspection of the property and studies of the neighborhood, region, and trends. The site's physical attributes and surrounding development were also considered. Based on available evidence, the highest and best use, as vacant, is landbanking pending eventual multifamily development, possibly supported by government incentives, with the specific mix of units determined by a detailed market study.

Highest and Best Use, As Improved

The subject site is currently developed with a 48-unit apartment project. The existing improvements are of a design that meets the existing demand of the immediate marketplace, and they are consistent with the highest and best use identified for the site as if vacant. Thus, the highest and best use, as improved, is continued use as a multifamily apartment project.

PART V
VALUATION ANALYSES

This appraisal report is prepared pursuant to and in conformity with, the procedural techniques established by the nationally recognized professional real estate appraisal organizations and the federally imposed guidelines for insured institutions.

Specifically, those procedures include consideration of present market conditions, estimated future conditions, and the financial realities of the subject property and general investment markets which are inclusive of, but not limited to realty.

The appraisal process typically involves the three approaches to value. These approaches are based on the following three facets of value:

1. The current cost of replacing a property less losses in value from deterioration and functional and economic obsolescence (accrued depreciation)(Cost Approach).
2. The value indicated by recent sales of comparable properties in the marketplace (Sales Comparison Approach).
3. The market value that the property's net earning power will support based upon a capitalization of net income, stabilization, and residual equity buildup (Income Approach).

The requisites of the appraisal process call for valuations made independently of each other, specifically an Income Approach, Sales Comparison Approach, and a Cost Approach.

The Cost Approach assumes that a property's value is equivalent to its replacement cost. This falls under the theory of substitution where the rationalization of its support is premise upon the assumption that a property's optimum value cannot exceed the cost of duplicating the property on a similar site.

The Sales Comparison/Market Approach is determined by direct units of comparison where value can be converted to price per square foot, acres, rooms, units, or income multipliers and overall rates. The theory is that a prudent investor would pay no more for a given facility/property than what the typical market purchaser would pay for a comparable facility, all things being equal.

The Income Approach is derived from the rationalization of substitution, where the price one would pay for a property equals the attributable value of its earning ability where measured by the yield an investor will obtain.

The final step in the appraisal process is the reconciliation of value indications. This is the consideration of the indicated value resulting from each of the three approaches. The appraiser considers the relative applicability of each of the three approaches to arrive at the final estimate of defined value.

The individual nature of the real property leads to a question of determining the most appropriate appraisal procedure for valuation. Although this can not be easily answered, the subject is real property, and as such, market value can be estimated.

After examining the range between the value indications, the appraiser places major emphasis on the one, or on those, which appear to produce the most reliable and applicable solution to the specific appraisal task. One takes into account the purpose of the appraisal, the type of property, and the adequacy and relative reliability of the data processed in each of the three approaches. These considerations influence the weight to be given to each approach.

The aforementioned procedures to the appraisal process have been considered and incorporated in this narrative report. In addition, to assist the client with decisions regarding the appropriate level of insurance, the appraisers have estimated the subject's Insurable Value, which is presented within the Cost Approach.

The Cost Approach to Value is predicated on the assumption that investors consider the replacement cost of any improvements, less accrued depreciation, plus the value of the land component as an indicator of market value. A summary of the cost approach is as follows.

The Cost Approach to Value basically consists of four steps:

1. Estimate the value of the land considered as vacant and available for utilization at its highest and best use.
2. Estimate the reproduction or replacement cost new of the improvements as of the date of the appraisal, plus the entrepreneur's profit and any other related development cost.
3. Estimate the contributory value of improvements by deduction of all forms of accrued depreciation. The following are the three major forms of depreciation.
 - A. Physical deterioration, curable and incurable.
 - B. Functional obsolescence, curable and incurable.
 - C. External obsolescence, typically incurable.
4. Add land value to the contributory value of improvements for an indication of market value.

Given the age of the existing improvements and the scarcity of recent land sales, the Cost Approach is not relevant to this analysis and it is not presented herein. However, per the request of the client, the subject's insurable value has been estimated.

Determination of Replacement Cost New: To determine the replacement cost new for the subject structures and components, the calculator method was utilized. Appropriate multipliers were applied to the indicated MVS base cost(s) to account for time and the subject's particular location and shape. As defined by Marshall & Swift, the subject property is considered an average-good Class "D" multiple residence. The following chart summarizes cost estimates for the various components of the subject building(s).

Summary of Base Building Costs

Component	Area (SF)	Base Cost	Multipliers			Total
			Area	Local	Current	
Apartments (NRA)	32,724	\$60.00	1.00	1.17	0.97	\$2,228,308
Balconies/Patios	1,440	\$20.00	1.00	1.17	0.97	\$32,685
Basements	0	\$20.00	1.00	1.17	0.97	\$0
Commercial Space	0	\$60.00	1.00	1.17	0.97	\$0
Office/Leasing	0	\$60.00	1.00	1.17	0.97	\$0
Laundry/Maintenance/Hallway	3,500	\$60.00	1.00	1.17	0.97	\$238,329
Total Base Building Cost						\$2,499,322

Appliances & Amenities: Based on Marshall & Swift data, the appraisers have derived the following cost estimates for the subject's appliances and special amenities.

Appliances and Individual Unit/Clubhouse Amenities

<u>Component</u>	<u>Number</u>	<u>Cost/Unit</u>	<u>Total Cost</u>
Refrigerator	48	\$450	\$21,600
Dishwasher	48	\$350	\$16,800
Microwave	0	\$200	\$0
Oven Range	48	\$400	\$19,200
Total Appliance Cost			\$57,600

Site Improvements: Based on Marshall & Swift data, the appraisers have derived the following cost estimates for the subject's site improvements.

Site Improvements

<u>Component</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total</u>
Surface Parking (Incl. drives, parking, sidewalks)	96	\$900	\$86,400
Garages	0	\$7,000	\$0
Fencing	0	\$0	\$0
Signage	1	\$2,000	\$2,000
Landscaping	1	\$40,000	\$40,000
Pools	0	\$70,000	\$0
Office/Clubhouse/Unit Furnishings	0	\$5,000	\$0
Total Site Improvements			\$128,400

Indirect Costs: The indirect costs not included in the base cost amount obtained from the Marshall Valuation Service manual include such items as property taxes during construction, escrow fees and legal fees associated with the land, interest on the land, discount points and fees paid in connection with interim financing, accounting, appraisal fees, marketing and lease-up costs (inclusive of on site payroll cost for a leasing agent during the pre-leasing and commissions paid to apartment locator companies). Indirect costs for the subject are estimated at 10% of the total hard costs.

Entrepreneurial Profit: Finally, consideration must be given for entrepreneurial profit, which is the anticipated profit required to entice an entrepreneur to invest capital in a project. It is the difference between the total cost of development and marketing and the market value of a property after completion and stabilization. Based on conversations with developers, the appraisers have estimated entrepreneurial profit at 15%.

As outlined in the previous paragraphs, the subject’s replacement cost new may be approximated as follows.

Summary of Replacement Cost New Via Marshall & Swift Method

Component	Cost	\$/Unit	\$/SF NRA
Buildings	\$2,499,322	\$52,069	\$76.38
Appliances	57,600	\$1,200	\$1.76
Site Improvements	<u>128,400</u>	<u>\$2,675</u>	<u>\$3.92</u>
SUB-TOTAL HARD COSTS	\$2,685,322	\$55,944	\$82.06
Soft (Indirect) Costs @ 10%	<u>268,532</u>	<u>\$5,594</u>	<u>\$8.21</u>
SUB-TOTAL HARD AND SOFT COSTS	\$2,953,854	\$61,539	\$90.27
Entrepreneurial Profit @ 15%	<u>443,078</u>	<u>\$9,231</u>	<u>\$13.54</u>
TOTAL ESTIMATED RCN	\$3,396,933	\$70,769	\$103.81
ROUNDED	\$3,400,000	\$70,833	\$103.90

Insurable Value

Refer to the following table for the calculation of the subject’s insurable value.

Insurable Value

Total Replacement Cost	\$3,396,933
Less: Soft Costs	(\$268,532)
Less: Entrepreneurial Profit	(\$443,078)
<u>Less: Site Improvements</u>	<u>(\$128,400)</u>
Net Building Costs	\$2,556,922
Less: Foundations @ 4.5%	(\$115,061)
Less: Architect Fees @ 6.0%	(\$153,415)
Plus: Debris Removal @ 0.0%	<u>\$0</u>
Insurable Value	\$2,288,445
Rounded	\$2,290,000

The appraisers are not builders and claim no specific expertise in construction costs. The cost estimates provided above are based on the appraisers' best interpretation of cost figures published by Marshall Valuation Service (MVS). The MVS figures cover a broad range, and the specific cost figures selected by the appraisers may or may not be reasonable estimates of actual replacement cost for the subject improvements. To determine a more reliable estimate of replacement cost, the client is advised to obtain detailed plans and specifications for the subject building(s) from a qualified engineer. If the improvements are outdated and no longer compliant with building codes, the plans should be modified to reflect the costs of building a code-compliant structure. Once plans and specifications are secured, actual construction bids should be sought from builders who are experienced in building similar properties in the same market. Additionally, any exclusions applied by the appraisers for foundations, site improvements, architect fees, or other factors should be compared to the actual insurance policy for accuracy and consistency. **In conclusion, the appraisers' estimate of Insurable Value is only a "ballpark" figure, and the client is discouraged from relying solely upon this estimate in making any decisions regarding the appropriate level of insurance.**

The Sales Comparison Approach is the method of appraisal in which the value of a property is inferred from sales of comparable properties. It is also known as the comparative or comparable sales approach, the comparison method, or the market data approach to value.

Properties subjected to the comparison process, both subject and comparables, must have at least the potential of a similar, if not identical, highest and best use if a valid value estimate is to result. In other words, all of the properties compared must have the capacity to satisfy the needs and desires of the same buyer. The market approach to value takes different forms, depending upon the type of property being appraised, but the method is essentially the same. This technique can be expressed as follows:

1. Describe and classify asset: The description of the property under appraisal should only cover those attributes that are significant and relevant to value. If the asset is of a diverse nature, it should be divided into value classes.
2. Find sales involving comparable assets: This means finding comparable properties that have been sold recently in the subject community. Verification and documentation of the sales is highly important.
3. Select appropriate units of comparison: The basis of the market approach to value is a comparison of one asset to another. Before a comparison can occur, a unit of comparison must be established. Appropriate units of comparison for the assessment of apartments are established using a per unit and per net rentable square foot value. With improved property, sales are broken down into useful units so that reasonable and logical comparisons can be made. The most common three comparisons are:
 - A. Effective Gross Income Multiplier: This is the sales price divided by the effective gross scheduled income of the investment facility at stabilized occupancy. Abbreviation: EGIM
 - B. Net Operating Income: This is the gross scheduled income less vacancy and less operating expenses, but without consideration to interest, loan amortization, depreciation, or income taxes. Abbreviation: NOI
 - C. Overall Rate: This is a single year's rate between net operating income and total price. It is computed by dividing the NOI by the gross selling price. Abbreviation: OAR
4. Compare each sold asset with the subject property, adjust for differences to indicate market value of the subject asset in each comparison: Every piece of real estate is unique unto itself, so there will never be a sold property that is identical in every respect to the subject property. The appraiser searches for those comparable sales that have the most in common. There will, however, be areas of difference. These areas of difference break down into two categories, namely tangible and intangible.

Intangible differences would include terms, time, and condition of sale. Tangible differences would include location (with regard to streets, visibility, traffic patterns, and volumes, growth trends, etc.), size, zoning, age, nature, quality, and condition of improvements, etc. If a material difference is found

between the sold property and the subject property under appraisal, it is necessary to adjust for the difference.

5. Find central tendency of indicated values: After making the comparisons, each sale will have provided an indicated value for the subject property. From this array of indicated prices, the appraiser must distill a single figure. Judgment is more useful than mathematics in arriving at this conclusion, because some of the comparable sales will carry more weight than others. The value indications must be reconciled into a single indicator of value for the comparative sales approach. Hopefully the value indicators will be within a narrow range. In selecting the single value estimate, it is not proper to simply average the results. Rather, the process is one of reviewing the adjustments made and placing the greatest reliance on the value indicated by the most comparable properties or property.

A location map and several comparable improved sales are detailed on the following pages. These sales are the best comparables that could be confirmed by the appraisers. Several other sales in the area were identified, but they were excluded to variations in project size, unit size, date of sale, age of property, location, or other pertinent factors.

Property Identification

Name:	Cliffview Estates
Address:	2751 Selkirk Drive
City/State:	Burnsville, MN
Proximity to Subject:	40 miles southwest
Date of Sale:	July 30, 2010
Grantor:	David and Barbara Horning
Grantee:	Dokmo Bluffs & Common Bluffs
Financing Terms:	Cash to seller



Price & Adjustments

	<u>Total</u>	<u>\$/Unit</u>	<u>\$/SF</u>	<u>\$/Bed</u>
Nominal Sale Price:	\$2,250,000	\$50,000	\$65.88	\$45,000
Cap Ex / Excess Land:	\$150,000	\$3,333	\$4.39	\$3,000
Net Sale Price:	\$2,400,000	\$53,333	\$70.27	\$48,000
Financing Adjustment:	\$0	\$0	\$0.00	\$0
Adjusted Sale Price:	\$2,400,000	\$53,333	\$70.27	\$48,000
Cap Rate:	7.80%			
Expense Ratio:	50.59%			
EGIM:	6.33			

Unit Mix (Monthly Figures)

<u>Unit Type</u>	<u>Units</u>	<u>SF/Unit</u>	<u>Total SF</u>	<u>Beds</u>	<u>\$/Unit</u>	<u>\$/Bed</u>	<u>\$/SF</u>	<u>Gross Rent</u>
1 Bed 1.0 Bath	40	729	29,160	40	\$725	\$725	\$0.99	\$29,000
2 Bed 1.0 Bath	5	999	4,995	10	\$900	\$450	\$0.90	\$4,500
TOTAL/AVG	45	759	34,155	50	\$744	\$670	\$0.98	\$33,500

Site Description

Land Area (Acres):	1.87	Flood Hazard:	None
Land Area (SF):	81,457	Topography:	Level
Land to Building Ratio:	2.38	Configuration:	Irregular

Description of Improvements

Building Type:	Garden	Occupied at Sale:	76%
YOC:	1971	Basement:	None
Quality/Class:	C+	Covered Parking:	Some detached garages
Condition:	Average (post rehab)	Design & Appeal:	Average
Location Rating:	Good	Site/View:	Average
Amenities:	None	Utilities Included:	Water, heat

Income Analysis

<u>Income/Expense Estimates</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>Pro-Forma Income Statement</u>	<u>Annually</u>
Market Rent:	\$11.77	\$8,933	Gross Potential Rents:	\$402,000
Other Income:	\$0.50	\$380	Other Income:	17,078
Operating Expenses:	\$5.25	\$3,985	Less: Vacancy:	(32,160)
Reserves:	\$0.36	\$275	Less: Loss to Lease:	<u>(8,040)</u>
Total Expenses:	\$5.61	\$4,260	Effective Gross Income:	378,878
Vacancy/Collection:	8.0%		Less: Operating Expenses:	<u>(191,689)</u>
Loss to Lease Factor:	2.0%		Net Operating Income:	7.80% \$187,189

Comments

Immediately after the sale, it was reported roughly \$125,000 was spent on necessary capital improvements. In addition, occupancy was only 76%, so an additional \$25,000 has been estimated as lease-up costs. Income and expenses were projected by the appraisers.

Confirmation Source

Assessor, third party appraiser

Property Identification

Name:	Gray Hawk
Address:	160 Homestead Road
City/State:	Mankato, MN
Proximity to Subject:	95 miles southwest
Date of Sale:	May 21, 2010
Grantor:	Mankato Leased Housing
Grantee:	Gray Hawk Apartments, LLC
Financing Terms:	Cash to seller



Price & Adjustments

	<u>Total</u>	<u>\$/Unit</u>	<u>\$/SF</u>	<u>\$/Bed</u>
Nominal Sale Price:	\$3,500,000	\$48,611	\$53.87	\$22,013
Cap Ex / Excess Land:	\$0	\$0	\$0.00	\$0
Net Sale Price:	\$3,500,000	\$48,611	\$53.87	\$22,013
Financing Adjustment:	\$0	\$0	\$0.00	\$0
Adjusted Sale Price:	\$3,500,000	\$48,611	\$53.87	\$22,013
Cap Rate:	7.40%			
Expense Ratio:	56.98%			
EGIM:	5.82			

Unit Mix (Monthly Figures)

Unit Type	<u>Units</u>	<u>SF/Unit</u>	<u>Total SF</u>	<u>Beds</u>	<u>\$/Unit</u>	<u>\$/Bed</u>	<u>\$/SF</u>	<u>Gross Rent</u>
1 Bed 1.0 Bath	3	623	1,869	3	\$625	\$625	\$1.00	\$1,875
2 Bed 1.0 Bath	18	796	14,328	36	\$665	\$333	\$0.84	\$11,970
2 Bed 1.0 Bath	18	810	14,580	36	\$685	\$343	\$0.85	\$12,330
2 Bed 1.0 Bath	15	870	13,050	30	\$735	\$368	\$0.84	\$11,025
<u>3 Bed 2.0 Bath</u>	<u>18</u>	<u>1,175</u>	<u>21,150</u>	<u>54</u>	<u>\$895</u>	<u>\$298</u>	<u>\$0.76</u>	<u>\$16,110</u>
TOTAL/AVG	72	902	64,977	159	\$740	\$335	\$0.82	\$53,310

Site Description

Land Area (Acres):	37.00	Flood Hazard:	None
Land Area (SF):	1,611,720	Topography:	Level
Land to Building Ratio:	24.80	Configuration:	Irregular

Description of Improvements

Building Type:	Garden	Occupied at Sale:	94%
YOC:	1994	Basement:	None
Quality/Class:	B-	Covered Parking:	Some detached garages
Condition:	Average	Design & Appeal:	Average
Location Rating:	Average	Site/View:	Average
Amenities:	Playground, patio/balcony	Utilities Included:	Water

Income Analysis

<u>Income/Expense Estimates</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>Pro-Forma Income Statement</u>	<u>Annually</u>
Market Rent:	\$9.85	\$8,885	Gross Potential Rents:	\$639,720
Other Income:	\$0.40	\$361	Other Income:	25,991
Operating Expenses:	\$5.00	\$4,512	Less: Vacancy:	(51,178)
Reserves:	\$0.28	\$250	Less: Loss to Lease:	<u>(12,794)</u>
Total Expenses:	\$5.28	\$4,762	Effective Gross Income:	601,739
Vacancy/Collection:	8.0%		Less: Operating Expenses:	<u>(342,885)</u>
Loss to Lease Factor:	2.0%		Net Operating Income:	7.40% \$258,854

Comments

Prior to the sale, the property was operated as a tax credit property. The purchaser had an opportunity to turn the property to market rent and did so. Since market rents are lower than those permitted by the tax credit program, the impact on the sale price was minimal. The income and expenses shown herein were projected by the appraisers.

Confirmation Source

Assessor, confidential third party

Property Identification

Name:	Ridgedale Square
Address:	715 Ridge Avenue NE
City/State:	Hutchinson, MN
Proximity to Subject:	90 miles west
Date of Sale:	June 15, 2010
Grantor:	Hutchinson Leased Housing
Grantee:	Ridgedale Square, LLC
Financing Terms:	Cash to seller



Price & Adjustments

	<u>Total</u>	<u>\$/Unit</u>	<u>\$/SF</u>	<u>\$/Bed</u>
Nominal Sale Price:	\$1,550,000	\$32,292	\$34.82	\$14,623
Cap Ex / Excess Land:	\$0	\$0	\$0.00	\$0
Net Sale Price:	\$1,550,000	\$32,292	\$34.82	\$14,623
Financing Adjustment:	\$0	\$0	\$0.00	\$0
Adjusted Sale Price:	\$1,550,000	\$32,292	\$34.82	\$14,623
Cap Rate:	8.01%			
Expense Ratio:	60.50%			
EGIM:	4.93			

Unit Mix (Monthly Figures)

Unit Type	<u>Units</u>	<u>SF/Unit</u>	<u>Total SF</u>	<u>Beds</u>	<u>\$/Unit</u>	<u>\$/Bed</u>	<u>\$/SF</u>	<u>Gross Rent</u>
1 Bed 1.0 Bath	2	684	1,368	2	\$450	\$450	\$0.66	\$900
2 Bed 1.0 Bath	24	810	19,440	48	\$550	\$275	\$0.68	\$13,200
2 Bed 1.0 Bath	10	912	9,120	20	\$575	\$288	\$0.63	\$5,750
<u>3 Bed 1.0 Bath</u>	<u>12</u>	<u>1,216</u>	<u>14,592</u>	<u>36</u>	<u>\$650</u>	<u>\$217</u>	<u>\$0.53</u>	<u>\$7,800</u>
TOTAL/AVG	48	928	44,520	106	\$576	\$261	\$0.62	\$27,650

Site Description

Land Area (Acres):	7.08	Flood Hazard:	None
Land Area (SF):	308,405	Topography:	Level
Land to Building Ratio:	6.93	Configuration:	Irregular

Description of Improvements

Building Type:	Garden	Occupied at Sale:	100%
YOC:	1994	Basement:	None
Quality/Class:	C+	Covered Parking:	Some detached garages
Condition:	Average-fair	Design & Appeal:	Average
Location Rating:	Poor	Site/View:	Average
Amenities:	Patio/balcony	Utilities Included:	Water, heat

Income Analysis

<u>Income/Expense Estimates</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>Pro-Forma Income Statement</u>	<u>Annually</u>
Market Rent:	\$7.45	\$6,913	Gross Potential Rents:	\$331,800
Other Income:	\$0.20	\$186	Other Income:	8,904
Operating Expenses:	\$4.00	\$3,710	Less: Vacancy:	(19,908)
Reserves:	\$0.27	\$250	Less: Loss to Lease:	<u>(6,636)</u>
Total Expenses:	\$4.27	\$3,960	Effective Gross Income:	314,160
Vacancy/Collection:	6.0%		Less: Operating Expenses:	<u>(190,080)</u>
Loss to Lease Factor:	2.0%		Net Operating Income:	8.01% \$124,080

Comments

Though based on operation prior to sale, income and expenses were projected by the appraisers. Shortly prior to sale the property was converted from a Sec 42 LIHTC to market.

Confirmation Source

Confidential party involved in the transaction

Property Identification

Name:	Western Hills Estates
Address:	1760 Adolphus Street N
City/State:	Maplewood, MN
Proximity to Subject:	30 miles southwest
Date of Sale:	November 6, 2009
Grantor:	Western Hills Apartments, LLC
Grantee:	Adolphus Properties, LLC
Financing Terms:	Cash to seller



Price & Adjustments

	<u>Total</u>	<u>\$/Unit</u>	<u>\$/SF</u>	<u>\$/Bed</u>
Nominal Sale Price:	\$2,610,000	\$48,333	\$56.73	\$24,167
Cap Ex / Excess Land:	\$0	\$0	\$0.00	\$0
Net Sale Price:	\$2,610,000	\$48,333	\$56.73	\$24,167
Financing Adjustment:	\$0	\$0	\$0.00	\$0
Adjusted Sale Price:	\$2,610,000	\$48,333	\$56.73	\$24,167
Cap Rate:	7.70%			
Expense Ratio:	49.55%			
EGIM:	6.55			

Unit Mix (Monthly Figures)

<u>Unit Type</u>	<u>Units</u>	<u>SF/Unit</u>	<u>Total SF</u>	<u>Beds</u>	<u>\$/Unit</u>	<u>\$/Bed</u>	<u>\$/SF</u>	<u>Gross Rent</u>
2 Bed 1.0 Bath	26	852	22,152	52	\$650	\$325	\$0.76	\$16,900
<u>2 Bed 1.0 Bath</u>	<u>28</u>	<u>852</u>	<u>23,856</u>	<u>56</u>	<u>\$650</u>	<u>\$325</u>	<u>\$0.76</u>	<u>\$18,200</u>
TOTAL/AVG	54	852	46,008	108	\$650	\$325	\$0.76	\$35,100

Site Description

Land Area (Acres):	1.74	Flood Hazard:	None
Land Area (SF):	75,794	Topography:	Level
Land to Building Ratio:	1.65	Configuration:	Rectangular

Description of Improvements

Building Type:	Garden	Occupied at Sale:	100%
YOC:	1964	Basement:	None
Quality/Class:	C+	Covered Parking:	None
Condition:	Average	Design & Appeal:	Average
Location Rating:	Average-good	Site/View:	Average
Amenities:	Patio, WDC	Utilities Included:	Water, heat

Income Analysis

<u>Income/Expense Estimates</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>Pro-Forma Income Statement</u>	<u>Annually</u>
Market Rent:	\$9.15	\$7,800	Gross Potential Rents:	\$421,200
Other Income:	\$0.15	\$128	Other Income:	6,901
Operating Expenses:	\$4.00	\$3,408	Less: Vacancy:	(25,272)
Reserves:	\$0.29	\$250	Less: Loss to Lease:	(4,212)
Total Expenses:	\$4.29	\$3,658	Effective Gross Income:	398,617
Vacancy/Collection:	6.0%		Less: Operating Expenses:	(197,532)
Loss to Lease Factor:	1.0%		Net Operating Income:	7.70% \$201,085

Comments

The income and expenses were projected by the appraisers. This list price was \$2,860,000.

Confirmation Source

Assessor, third party appraiser

Map - Redacted

Summary and Analysis of Comparable Sales

As a review, the subject property consists of a 32,724-SF, 48-unit apartment developed in 1973/1974. The improvements are in average condition, and the current occupancy is 94%. The following chart summarizes the pertinent characteristics of the comparables detailed on the preceding pages. When necessary, the prices have been adjusted to reflect financing factors and deferred maintenance or capital expenditures.

Summary of Comparable Improved Sales

#	<u>Date</u>	<u>Units</u>	Average	<u>YOC</u>	Price		<u>EGIM</u>	<u>OAR</u>
			<u>Unit (SF)</u>		<u>\$/Unit</u>	<u>\$/SF</u>		
1	7/30/10	45	759	1971	\$53,333	\$70.27	6.33	7.80%
2	5/21/10	72	902	1994	\$48,611	\$53.87	5.82	7.40%
3	6/15/10	48	928	1994	\$32,292	\$34.82	4.93	8.01%
4	11/6/09	54	852	1964	\$48,333	\$56.73	6.55	7.70%
AVG		55	860		\$45,642	\$53.92	5.91	7.73%
SUBJECT		48	682	1973/1974	N/A	N/A	N/A	

The preceding sales are the best comparables that could be confirmed by the appraisers. Several other sales in the region were identified, but they were excluded due to variations in project size, unit size, date of sale, age of property, location, or other pertinent factors. In examining the various comparables vis-a-vis the subject, the appraisers have employed several different units of comparison, as outlined in the following sections.

Price Per Unit Analysis

The first analysis in this approach will focus on the price per unit. The sale price per unit is derived by dividing the adjusted sale price by the number of units. Among the comparables, unadjusted prices range from \$32,292/unit to \$53,333/unit. The spread in pricing is attributed to various differences between each comparable and the subject.

The adjustment grid on the following page depicts how the comparables compare to the subject with respect to such factors as quality, average unit size, location, age/condition, and amenities. If the comparable is considered inferior to the subject, then a positive adjustment is applied. Conversely, if the property is considered superior to the subject, then a downward adjustment would be indicated.

Improved Sales Adjustment Grid - Per Unit Basis

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Name	Stoneridge	Cliffview Estates	Gray Hawk	Ridgedale Square	Western Hills Estates
City	New Richmond	Burnsville, MN	Mankato, MN	Hutchinson, MN	Maplewood, MN
Nominal Price	N/A	\$50,000	\$48,611	\$32,292	\$48,333
Cap Ex / Excess Land	N/A	\$3,333	\$0	\$0	\$0
Conditions of Sale	Typical	\$0	\$0	\$0	\$0
Financing Terms	Cash Assumed	\$0	\$0	\$0	\$0
Net Cash Price	N/A	\$53,333	\$48,611	\$32,292	\$48,333
Date of Sale/Time		July 30, 2010	May 21, 2010	June 15, 2010	November 6, 2009
		0%	0%	0%	5%
Cash to Present		\$53,333	\$48,611	\$32,292	\$50,750
Property Rights	Fee Simple	Fee simple	Fee simple	Fee simple	Fee simple
		0%	0%	0%	0%
Location	Average	Good	Average	Poor	Average-good
		-10%	0%	20%	-5%
Site/View	Average	Average	Average	Average	Average
		0%	0%	0%	0%
Quality	C+	C+	B-	C+	C+
		0%	-3%	0%	0%
Year Built	1973/1974	1971	1994	1994	1964
		0%	-5%	-5%	0%
Condition	Average	Average (post rehab)	Average	Average-fair	Average
		0%	0%	25%	0%
NRA (SF)	32,724	34,155	64,977	44,520	46,008
		0%	0%	0%	0%
Avg Unit (SF)	682	759	902	928	852
		-5%	-10%	-11%	-10%
Private Basement	None	None	None	None	None
		0%	0%	0%	0%
Covered Parking	None	Some detached garages	Some detached garages	Some detached garages	None
		-3%	-3%	-3%	0%
Amenities	Some patios	None	Playground, patio/balcony	Patio/balcony	Patio, WDC
		0%	-1%	-1%	-2%
Net Adjustment		-18%	-22%	25%	-17%
Adjusted Price		\$43,733	\$37,917	\$40,365	\$42,123
Average		\$41,034			

Economic Adjustment Factors

Property Rights Conveyed: All of the properties were reportedly sold in fee simple ownership (subject to short-term leases). No adjustments are necessary for property rights.

Financing Terms: In accordance with the definition of market value, the appraisers reviewed each of the comparable sales for the effects of any special financing. A typical arrangement that requires adjustment to the sale price is financing by a seller or third party at a below-market interest rate. To the extent that financing adjustments are needed, they are usually calculated based on the present value of the difference in payments between market terms and actual terms. In this instance, all the comparables involved cash equivalent terms, and no financing adjustments were necessary.

Conditions of Sale: Sale transactions can involve unusual conditions that might result in higher or lower prices than would otherwise be expected. The parties may be motivated by the desire to assemble a larger holding, unusual tax considerations, eminent domain proceedings, or other non arm's-length situations. All the comparables presented herein represent arm's length transactions and require no adjustments.

Date of Sale/Time: Market conditions or time adjustments relate to increases or decreases in property value, usually based on the supply/demand ratio of the market. The sales transpired between November 6, 2009 and July 30, 2010. Cap rates fell significantly during the first half of 2010, and the oldest sale is adjusted upward for time.

Physical Adjustment Factors

Improved Sale No. 1, Cliffview Estates, is located in Burnsville, MN, 40 miles southwest of the subject, and is considered to have slightly superior locational attributes. The subject was built in 1973/1974, and Sale 1 was built in 1971. Within this age range, no adjustment is necessary. Sale 1 has an average unit size of 759 SF, while the subject has an average unit size of 682 SF, and the appraisers applied a downward adjustment of 5%. After considering the various attributes summarized in the adjustment grid, the net percentage adjustment applied to Sale 1 for physical factors is -18%. If the unit size adjustment were excluded, the net percentage adjustment would be -13%. After all adjustments, Sale 1 offers an indication of \$43,733/unit.

Improved Sale No. 2, Gray Hawk, is located in Mankato, MN, 95 miles southwest of the subject, and is considered generally similar with respect to location. Sale 2 was built in 1994, and a downward adjustment is appropriate. Sale 2 has an average unit size of 902 SF, significantly larger than the subject's average unit size of 682 SF, and the appraisers applied a downward adjustment of 10%. For the various physical factors considered, the net percentage adjustment applied to Sale 2 is -22%. Excluding the adjustment for average unit size, the net percentage adjustment would be -12%. After all adjustments, Sale 2 offers an indication of \$37,917/unit.

Improved Sale No. 3, Ridgedale Square, is located in Hutchinson, MN, 90 miles west of the subject, and is considered substantially inferior with respect to location. Sale 3 was built in 1994, and a downward adjustment is appropriate. Sale 3 has an average unit size of 928 SF, significantly larger than the subject's average unit size of 682 SF, and the appraisers applied a downward adjustment of 11%. For the various physical factors considered, the net percentage adjustment applied to Sale 3 is 25%. Excluding the

Sales Comparison Approach

adjustment for average unit size, the net percentage adjustment would be 36%. After all adjustments, Sale 3 offers an indication of \$40,365/unit.

Improved Sale No. 4, Western Hills Estates, is located in Maplewood, MN, 30 miles southwest of the subject. Relative to the subject, this location is considered somewhat superior. Sale 4 was built in 1964, and no adjustment is applied. Sale 4 has an average unit size of 852 SF, warranting a downward adjustment of 10%. The net percentage adjustment applied to Sale 4 for physical factors is -17%. Excluding unit size, the net percentage adjustment is -7%. After all adjustments, Sale 4 offers an adjusted value indication of \$42,123/unit.

Conclusion - Per Unit Analysis

After all adjustments, the comparables offer indications ranging from \$37,917/unit to \$43,733/unit, with a mean of \$41,034/unit. All factors considered, the appraisers have concluded a value of \$41,000/unit, applied to the subject as follows:

Price Per Unit Indication

48 Units	x	\$41,000/Unit	=	\$1,968,000
Less: Deferred Maintenance	=			\$0
Less: Lease-Up Costs	=			\$0
Net Value Indication	=			\$1,968,000
		ROUNDED	=	\$1,970,000

Price Per SF Analysis

The comparable sales were previously examined and compared to the subject on a per unit basis. The comparables are now examined on a per square foot basis. On a per square foot basis, the unadjusted prices for the comparables range \$34.82/SF to \$70.27/SF, after adjusting for deferred maintenance and rent loss.

As with the per unit analysis, adjustments are applied to the comparables to reflect differences vis-a-vis the subject. For the most part, the percentage adjustments applied herein are identical to those applied previously in the per unit analysis. The one exception is the size adjustment. On a per unit basis, a comparable with a larger unit size is adjusted downward. On a per square foot basis, however, the larger comparable is adjusted upward, reflecting the inverse relationship between average unit size and price per square foot.

A second adjustment grid evaluating the comparables on a per square foot basis is presented on the following page.

Improved Sales Adjustment Grid - Per Square Foot Basis

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Name	Stoneridge	Cliffview Estates	Gray Hawk	Ridgedale Square	Western Hills Estates
City	New Richmond	Burnsville, MN	Mankato, MN	Hutchinson, MN	Maplewood, MN
Nominal Price	N/A	\$65.88	\$53.87	\$34.82	\$56.73
Conditions of Sale	N/A	\$0.00	\$0.00	\$0.00	\$0.00
Cap Ex / Excess Land	N/A	\$4.39	\$0.00	\$0.00	\$0.00
Financing Terms	Cash Assumed	\$0.00	\$0.00	\$0.00	\$0.00
Net Cash Price	N/A	\$70.27	\$53.87	\$34.82	\$56.73
Date of Sale/Time	September 20, 2010	July 30, 2010	May 21, 2010	June 15, 2010	November 6, 2009
Cash to Present		0%	0%	0%	5%
Property Rights	Fee Simple	Fee simple	Fee simple	Fee simple	Fee simple
Location	Average	Good	Average	Poor	Average-good
Site/View	Average	Average	Average	Average	Average
Quality	C+	C+	B-	C+	C+
Year Built	1973/1974	1971	1994	1994	1964
Condition	Average	Average (post rehab)	Average	Average-fair	Average
NRA (SF)	32,724	34,155	64,977	44,520	46,008
Avg Unit (SF)	682	759	902	928	852
Private Basement	None	None	None	None	None
Covered Parking	None	Some detached garages	Some detached garages	Some detached garages	None
Amenities	Patio (1st floor)/sliding door (2nd floor)	None	Playground, patio/balcony	Patio/balcony	Patio, WDC
Net Adjustment		-7%	6%	56%	7%
Adjusted Price		\$65.48	\$56.91	\$54.19	\$63.51
Average		\$60.02			

Conclusion - Per Square Foot Analysis

After all adjustments, the comparables offer indications ranging from \$54.19/SF to \$65.48/SF, with a mean of \$60.02/SF. Based on the available evidence, the appraisers have concluded a value of \$60.00/SF, applied to the subject as follows:

Price Per Square Foot Indication

32,724 SF	x	\$60.00 /SF	=	\$1,963,440
Less: Deferred Maintenance	=			\$0
Less: Lease-Up Costs	=			\$0
Net Value Indication	=			\$1,963,440
		ROUNDED	=	\$1,960,000

Effective Gross Income Multiplier Analysis

The **effective gross income multiplier** is also indicative of the income/investment nature of a property such as the subject. However, the primary concern of an investor is the net return after expenses as opposed to the gross earning potential. Thus, this method is most useful when the expense character of the property is highly similar to the property being analyzed. The principal advantage of the technique is that the reflection of rental income is direct. Therefore, differences between properties which could necessitate subjective adjustments by the appraiser 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 presumably reflects the extent of this advantage. The following chart summarizes the estimated EGIMs of the comparable sales.

Summary of Comparable EGIMs

Sale #	EGIM	Expense Ratio
1	6.33	50.59%
2	5.82	56.98%
3	4.93	60.50%
4	6.55	49.55%
Average	5.91	54.41%
Subject	6.40	51.09%

The EGIMs of the comparable sales range from 4.93 to 6.55, with an average of 5.91. Effective gross income multipliers are typically correlated with operating expense ratios (OER). As OERs increase, the efficiency of the property's income producing capacity is diminished, so EGIMs decrease. This general trend is demonstrated by the comparables. As detailed later in the Income Approach section of this report, the subject has an operating expense ratio of 51.09%. This is toward the low end of the comparables, suggesting an EGIM toward the high end of the comparables. Considering the evidence, an EGIM of 6.40 is considered appropriate for the subject property, resulting in the following value indication:

EGIM Indication

STABILIZED EGI	x	EGIM	=	VALUE
\$296,002	x	6.40	=	\$1,894,410
Less: Deferred Maintenance			=	\$0
Less: Lease-Up Costs			=	\$0
Net Value Indication			=	\$1,894,410
		ROUNDED	=	\$1,890,000

Sales Comparison Approach Conclusions

The following chart summarizes the value indications derived for the subject property by the various valuation techniques employed in this Sales Comparison Approach analysis:

Summary of Value Indications

<u>Technique</u>	As Is	Market Value
	<u>Market Value</u>	<u>As Repaired</u>
Price Per Unit	\$1,970,000	N/A
Price Per Square Foot	\$1,960,000	N/A
EGIM	\$1,890,000	N/A

The various indications fall into a tight range, with the highest and lowest value indications varying by just 4.2%. Overall, the data supports the following value conclusion(s) via the Sales Comparison Approach:

Sales Comparison Approach Conclusions

<u>Unit of Comparison</u>	As Is	Market Value
	<u>Market Value</u>	<u>As Repaired</u>
Total Value	\$1,950,000	N/A
Value Per Unit	\$40,625	N/A
Value Per Square Foot	\$59.59	N/A

The Income Approach to value assumes a direct relationship between value and income. The two primary methods of estimating value from a property's income are Direct Capitalization and Yield Capitalization (Discounted Cash Flow Analysis).

In Direct Capitalization, value is estimated by deducting all applicable expenses from anticipated gross income to arrive at projected net income for the coming year. This amount is then capitalized at a rate which is commensurate with the risk inherent in the ownership of the property. Direct Capitalization is most appropriate for stabilized income streams where the property being analyzed reflects occupancy rates typical of the market.

With respect to Yield Capitalization or Discounted Cash Flow Analysis, value is estimated by deducting all applicable expenses from anticipated gross income to arrive at projected net income during each year of the projection period, which is then discounted at a rate commensurate with the perceived risk. A reversion value is computed at the end of the projection period, and this amount is also discounted and added to the present value of the annual income streams to derive an estimate of value. The analysis method involves a variety of projections relative to changes in the income stream over time as a result of changes in occupancy and inflationary factors. This method is well suited to properties that are not at stabilized operating levels, or when fluctuating income streams are anticipated.

Gross Income Estimate

The potential gross income estimate is obtained by estimating the market rent for the subject property. Market rent is defined in The Appraisal of Real Estate, Tenth Edition, Copyright 1993, Appraisal Institute as:

"The total income attributable to a real property at 100% occupancy before operating expenses are deducted."

This definition is in reference to the amount of money a property should produce based on actual rents being received from similar properties with comparable amenities located in the same neighborhood or other similar areas. Therefore, research and analysis of lease rates on units considered similar to or competitive with the subject was necessary.

Information was obtained from owners, developers, managers and leasing agents, and/or other knowledgeable persons involved in lease transactions, and data concerning the properties considered generally similar to or competitive with the subject.

In addition to the analysis of the cited rent comparables, current occupancy levels, absorption rates and general market trends were discussed with active real estate professionals in the subject neighborhood. The data presented emphasizes competing facilities in the market with property types most similar to the subject.

Name: Stoneridge
 Address: 1234 Main Street
 Proximity to Subject: Same
 Overview: 48-unit apartment
 Class/Quality: C+
 Year Built/Renovated: 1973/1974
 Occupancy: 94%
 Condition: Average
 Concessions: None
 Utilities Included: Water, heat
 Amenities: Patio (1st floor)/sliding door (2nd floor)
 Private Basements: None
 Covered Parking: None



Comments: The rents shown below are those currently quoted. Rents were last increased in 2008 by \$10. First floor units have patios, while second floor units have sliding glass doors to French balconies (aka false balcony).

Rental Data

<u>Unit Type</u>	<u># Units</u>	<u>Size (SF)</u>	<u>\$/Month</u>	<u>\$/SF</u>	<u>Total SF</u>	<u>Total Rent</u>
1 Bd 1.0 Ba	26	624	\$530	\$0.85	16,224	\$13,780
2 Bd 1.0 Ba	22	750	\$580	\$0.77	16,500	\$12,760
Totals & Means 0.0	48	682	\$553	\$0.81	32,724	\$26,540

Name: 345 & 365 West 9th
 Address: 345 & 365 West 9th Street
 Proximity to Subject: Next door
 Overview: Garden style
 Class/Quality: C+
 Year Built/Renovated: 1982
 Occupancy: 98%
 Condition: Average
 Concessions: None
 Utilities Included: None
 Amenities: Patio/balcony, DW, some W/D
 Private Basements: None
 Covered Parking: Detached garage (\$30)
 Comments: This property is just north of the subject and is also held by the same ownership.



Rental Data

<u>Unit Type</u>	<u># Units</u>	<u>Size (SF)</u>	<u>\$/Month</u>	<u>\$/SF</u>	<u>Total SF</u>	<u>Total Rent</u>
1 Bd 1.0 Ba	12	650	\$510	\$0.78	7,800	\$6,120
2 Bd 1.0 Ba	48	800	\$540	\$0.68	38,400	\$25,920
Totals & Means	60	770	\$534	\$0.69	46,200	\$32,040

Name: 533 Marshall
 Address: 533 Marshall Road
 Proximity to Subject: ½ mile northwest
 Overview: Garden style
 Class/Quality: C+
 Year Built/Renovated: 1972
 Occupancy: 87%
 Condition: Average-fair
 Concessions: ½ month free (2-br units)
 Utilities Included: Water, heat
 Amenities: Patio/balcony
 Private Basements: None
 Covered Parking: None
 Comments: As a small property, one vacant unit, as is currently the case, results in an nominal vacancy rate that appears very high.



Rental Data

Unit Type	# Units	Size (SF)	\$/Month	\$/SF	Total SF	Total Rent
1 Bd 1.0 Ba	4	550	\$450	\$0.82	2,200	\$1,800
2 Bd 1.0 Ba	4	650	\$550	\$0.85	2,600	\$2,200
Totals & Means	8	600	\$500	\$0.83	4,800	\$4,000

Name: Park Meadows
 Address: 700 Hagen Avenue
 Proximity to Subject: 3/4 mile east
 Overview: Garden style
 Class/Quality: C+
 Year Built/Renovated: 1999
 Occupancy: 98%
 Condition: Average
 Concessions: None
 Utilities Included: Water
 Amenities: Playground, DW
 Private Basements: None
 Covered Parking: None



Comments: This is a LIHTC property renting to those who earn 60% or less of AMI. Given income levels, the maximum allowable rents are greater than market rents. As such, given the lack of direct competitive supply, this property is deemed a useful comparable. The unit allocation was estimated by the appraisers.

Rental Data

Unit Type	# Units	Size (SF)	\$/Month	\$/SF	Total SF	Total Rent
1 Bd 1.0 Ba	8	654	\$620	\$0.95	5,232	\$4,960
2 Bd 1.0 Ba	14	868	\$670	\$0.77	12,152	\$9,380
3 Bd 1.0 Ba	5	966	\$725	\$0.75	4,830	\$3,625
Totals & Means	27	823	\$665	\$0.81	22,214	\$17,965

Map - Redacted

Rental Income Analysis

In this portion of the Income Approach, the objective is to determine if the present rental rates for the subject are at market. This is achieved by comparison of the subject’s rents with those found at competing properties. Following is a summary of the rent comparables.

Summary of Rent Comparables

No.	Name	Units	Avg. Unit Size (SF)	Average Monthly Rent		YOC	Occup
				Per Unit	PSF		
Sub	Stoneridge	48	682	\$553	\$0.81	1973/1974	94%
1	345 & 365 West 9th	60	770	\$534	\$0.69	1982	98%
2	533 Marshall	8	600	\$500	\$0.83	1972	87%
3	Park Meadows	27	823	\$665	\$0.81	1999	98%
Average of Comps		32	731	\$566	\$0.78	1986	94%

Among the comparables, quoted rents range from \$0.69/SF to \$0.83/SF, with an average of \$0.78/SF. The subject’s current quoted rents average \$0.81/SF, which is within the range of the comps, albeit at the upper-end. This is due to the subject including heat in the rent, whereas heat is extra at two of the three comps.

In order to determine the reasonableness of current quoted rents, the appraisers have rated each of the comparables in relation to the subject in several categories, including utilities, age/condition, location, and amenities. A separate adjustment grid has been prepared for each unit type at the subject property. For each of the subject’s unit types, the most similar unit at each comparable is selected for comparison. In some instances, a particular comparable may not have any units that correspond to one of the subject’s unit types. In these cases, “N/A” may appear in the adjustment grid.

Rent Comparable Adjustment Grid (One per Subject Unit Type)

	Subject	Rent 1	Rent 2	Rent 3
Property Name	Stoneridge	345 & 365 West 9th	533 Marshall	Park Meadows
Beds/Baths	1/1	1/1	1/1	1/1
Units Size (SF)	624	650	500	654
Average Rent	\$530	\$510	\$450	\$620
Utilities Included	Water, heat	None	Water, heat	Water
		10%	0%	5%
Configuration		0%	0%	0%
Unit Size		-2%	12%	-2%
Age/Condition	1973/1974 / Average	1982 / Average	1972 / Average-fair	1999 / Average
		0%	5%	-15%
Quality	C+	C+	C+	C+
		0%	0%	0%
Location	Average	Average	Average	Average
		0%	0%	0%
Private Basement	None	None	None	None
		0%	0%	0%
Covered Parking	None	Detached garage (\$30)	None	None
		0%	0%	0%
Concessions	None	None	½ month free (2-br units)	None
		0%	0%	0%
Amenities	Patio (1st floor)/sliding door (2nd floor)	Patio/balcony, DW, some W/D	Patio/balcony	Playground, DW
		-3%	-1%	-1%
Net Adjustment		5%	16%	-13%
Indicated Market		\$536	\$522	\$539
Average Rent		\$532		

Rent Comparable Adjustment Grid (One per Subject Unit Type)

	Subject	Rent 1	Rent 2	Rent 3
Property Name	Stoneridge	345 & 365 West 9th	533 Marshall	Park Meadows
Beds/Baths	2/1	2/1	2/1	2/1
Units Size (SF)	750	800	650	868
Average Rent	\$580	\$540	\$550	\$670
Utilities Included	Water, heat	None	Water, heat	Water
		10%	0%	5%
Configuration		0%	0%	0%
Unit Size		-2%	4%	-3%
Age/Condition	1973/1974 / Average	1982 / Average	1972 / Average-fair	1999 / Average
		0%	5%	-15%
Quality	C+	C+	C+	C+
		0%	0%	0%
Location	Average	Average	Average	Average
		0%	0%	0%
Private Basement	None	None	None	None
		0%	0%	0%
Covered Parking	None	Detached garage (\$30)	None	None
		0%	0%	0%
Concessions	None	None	½ month free (2-br units)	None
		0%	0%	0%
Amenities	Patio (1st floor)/sliding door (2nd floor)	Patio/balcony, DW, some W/D	Patio/balcony	Playground, DW
		-3%	-1%	-1%
Net Adjustment		5%	8%	-14%
Indicated Market		\$567	\$594	\$576
Average Rent		\$579		

Income Approach

Based on the actual rents collected and the adjusted comparables, the appraisers are of the opinion the asking rents are at market level. The following chart summarizes actual, quoted, and estimated market rents for the subject units.

Calculation of Potential Gross Rental Income

Unit Type	# of Units	# Vac	Size (SF)	Vac SF	Actual Rents*					Quoted Rent	Estimated Market Rents		
					Total	Low	High	Avg	\$/SF		Monthly	\$/SF	Total/YR
1 Bd 1.0 Ba	26	2	624	1,248	\$12,487	\$400	\$535	\$520	\$0.83	\$530	\$530	\$0.85	\$165,360
2 Bd 1.0 Ba	22	1	750	750	\$11,854	\$549	\$580	\$564	\$0.75	\$580	\$580	\$0.77	\$153,120
Total/Avg	48	3	682	1,998	\$24,341	N/A	N/A	\$541	\$0.79	\$553	\$553	\$0.81	\$318,480

** Vacant units are not included in averages. Discounted employee units, if any, are included at the quoted street rates.*

Other Income

Following is a summary of historic other income, as well as the appraisers' projections.

Historic Other Income

Income Source	2008 Year End	2009 Year End	2010 Annualized	Appraiser's Estimate
<u>Misc & Other Income</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,725</u>	<u>\$3,000</u>
Total Other Income	\$0	\$0	\$2,725	\$3,000
Per Unit	\$0	\$0	\$57	\$63
Per SF	\$0.00	\$0.00	\$0.08	\$0.09

Most properties collect other income due to deposit forfeitures, non-refundable pet deposits, lost key charges, application fees, late charges, NSF charges, other miscellaneous items. The operating statements provided to not include these items, and they are presumably lumped into the reported rental income. In the absence of actual details, the appraisers have projected a relatively modest amount for other income.

Potential Gross Income (PGI)

The subject's potential gross income (PGI) is calculated as follows:

Calculation of Potential Gross Income

	<u>Total</u>	<u>\$/SF</u>	<u>\$/Unit</u>
Potential Gross Rental Income:	\$318,480	\$9.73	\$6,635
<u>Other Income:</u>	<u>\$3,000</u>	<u>\$0.09</u>	<u>\$63</u>
Potential Gross Income:	\$321,480	\$9.82	\$6,698

Vacancy & Collection Loss

L.W. Ellwood, in his Ellwood Tables for Real Estate Appraising and Financing, provides a good example of what a vacancy rate really means. An excerpt from his discussion in this publication is presented below:

A 7% vacancy allowance, for instance, does not mean that exactly 7% of the rent roll will be lost every year by reason of vacancies. A property may enjoy virtually full occupancy for several years, then encounter a period of competition when vacancies amount to 20% or more. Naturally, the net income will be down in such periods, and so will the reversionary value of the property. However, this does not invalidate the projection of the analysis so long as a 7% annual allowance for vacancy is sufficient to cover average occupancy for the projected term.

According to the current rent roll, the subject is currently 93.9% occupied. Among the rent comparables surveyed by the appraisers, current occupancy levels range from 87% to 98%, with an average of 94.3%. According to local managers, New Richmond has a history of stable occupancy. The subject’s average vacancy over the past 12-months is 6.8%. For purposes of this analysis, the appraisers have adopted a stabilized vacancy *and* collection loss allowance of 7.0%.

Vacancy and Collection Loss Calculation

7.0%	x	\$318,480 (PGRI)	=	\$22,294
------	---	------------------	---	----------

Loss To Lease

Based upon the current rent roll, the subject’s actual collected rents average \$541/unit, which equates to \$0.79/SF. These current rents are approximately 2.2% below the estimated market rents. On a *stabilized* basis, taking into account the subject’s low annual turnover, a loss to lease factor of 1.0% is considered reasonable for the subject, resulting in the following adjustment.

Loss to Lease Calculation

1.0%	x	\$318,480 (PGRI)	=	\$3,185
------	---	------------------	---	---------

Effective Gross Income

The following charts summarize the calculation of EGI for the subject, as well as a comparison to historic and/or budgeted figures.

Calculation of Effective Gross Income

Potential Gross Rental Income (PGRI)	\$318,480
<u>Less: Vacancy and Collection Loss @ 7.0%</u>	(\$22,294)
<u>Less: Loss to Lease @ 1.0%</u>	(\$3,185)
Plus: Other Income	<u>\$3,000</u>
Effective Gross Income	\$296,002

Historic (and/or Budgeted) vs. Projected EGI

	2008 Year End	2009 Year End	2010 Annualized	Appraisers' Estimate
Effective Gross Income	\$298,331	\$287,640	\$293,731	\$296,002
% Change	N/A	-3.6%	2.1%	0.8%

According to the rent roll provided, current monthly rents total \$24,341, or \$292,092 annualized. Allowing for other income of \$3,000, an annualized EGI of \$295,092 is indicated. Thus, the appraisers' projected EGI is essentially equal to current annualized levels. Overall, the appraisers are confident the projected EGI is reasonable and attainable.

Expense Analysis

The appraisers were provided with a year-end operating statement for 2007, 2008, 2009, and year-to-date statements through August 2010. The following charts summarize historical operating expenses reported for the subject property, expressed as annual totals, per square foot, and per unit. A summary of several expense comparables is presented subsequently. It is noted that the operating statements provided by the owner do not necessarily reflect the same expense categories used by the appraisers. In some instances, the appraisers have used their best judgment to approximate the actual distribution of some expenses among the various sub-categories.

Historic and/or Budgeted Expenses Stoneridge - Annual Totals

	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>
Net Rental Revenue	\$298,331	\$287,640	\$291,006
Other Income	<u>\$0</u>	<u>\$0</u>	<u>\$2,725</u>
Effective Gross Income	\$298,331	\$287,640	\$293,731
1 Property Taxes	\$36,537	\$69,921	\$39,434
2 Insurance	\$3,023	\$12,810	\$8,375
3 Gas / Fuel	\$0	\$0	\$0
4 Electricity (includes gas & water)	\$31,176	\$30,546	\$25,894
5 Water & Sewer	\$0	\$0	\$0
6 Trash Removal	\$2,768	\$1,736	\$948
7 Maintenance & Repairs	\$16,205	\$11,131	\$11,071
8 Int / Ext Decorating	\$2,158	\$2,936	\$676
9 Cleaning	\$2,952	\$3,633	\$4,334
10 Pool Maintenance	\$0	\$0	\$0
11 Landscaping	\$1,416	\$478	\$2,620
12 Management Fees	\$14,400	\$20,064	\$17,985
13 Office Salaries	\$5,520	\$5,520	\$17,993
14 Employee Apartments	\$0	\$0	\$0
15 Maintenance Salaries	\$0	\$0	\$0
16 Security Salaries	\$0	\$0	\$0
17 Other Salaries	\$0	\$0	\$0
18 Payroll Taxes	\$0	\$0	\$0
19 Advertising	\$6,228	\$5,157	\$6,116
20 Telephone	\$2,296	\$615	\$2,763
21 Legal & Audit	\$0	\$0	\$0
22 Other Admin	(\$644)	(\$59)	\$1,422
<u>23 Reserves</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Operating Expenses</u>	<u>\$124,035</u>	<u>\$164,488</u>	<u>\$139,631</u>
Net Operating Income	\$174,296	\$123,152	\$154,100
Operating Expense Ratio	41.6%	57.2%	47.5%
Total Maintenance (7-11)	\$22,731	\$18,178	\$18,701
Total Payroll (13-18)	\$5,520	\$5,520	\$17,993
Payroll Taxes	0.0%	0.0%	0.0%
Management Fee	4.8%	7.0%	6.1%

Historic and/or Budgeted Expenses for Stoneridge - Per Square Foot

32,724 SF NRA	2008	2009	2010
	<u>Year End</u>	<u>Year End</u>	<u>Annualized</u>
Net Rental Revenue	\$9.12	\$8.79	\$8.89
Other Income	\$0.00	\$0.00	\$0.08
Effective Gross Income	\$9.12	\$8.79	\$8.98
1 Property Taxes	\$1.12	\$2.14	\$1.21
2 Insurance	\$0.09	\$0.39	\$0.26
3 Gas / Fuel	\$0.00	\$0.00	\$0.00
4 Electricity	\$0.95	\$0.93	\$0.79
5 Water & Sewer	\$0.00	\$0.00	\$0.00
6 Trash Removal	\$0.08	\$0.05	\$0.03
7 Maintenance & Repairs	\$0.50	\$0.34	\$0.34
8 Int / Ext Decorating	\$0.07	\$0.09	\$0.02
9 Cleaning	\$0.09	\$0.11	\$0.13
10 Pool Maintenance	\$0.00	\$0.00	\$0.00
11 Landscaping	\$0.04	\$0.01	\$0.08
12 Management Fees	\$0.44	\$0.61	\$0.55
13 Office Salaries	\$0.17	\$0.17	\$0.55
14 Employee Apartments	\$0.00	\$0.00	\$0.00
15 Maintenance Salaries	\$0.00	\$0.00	\$0.00
16 Security Salaries	\$0.00	\$0.00	\$0.00
17 Other Salaries	\$0.00	\$0.00	\$0.00
18 Payroll Taxes	\$0.00	\$0.00	\$0.00
19 Advertising	\$0.19	\$0.16	\$0.19
20 Telephone	\$0.07	\$0.02	\$0.08
21 Legal & Audit	\$0.00	\$0.00	\$0.00
22 Other Admin	(\$0.02)	\$0.00	\$0.04
<u>23 Reserves</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>Total Operating Expenses</u>	<u>\$3.79</u>	<u>\$5.03</u>	<u>\$4.27</u>
Net Operating Income	\$5.33	\$3.76	\$4.71
Operating Expense Ratio	0.0%	0.0%	0.0%
Total Maintenance (7-11)	\$0.69	\$0.56	\$0.57
Total Payroll (13-18)	\$0.17	\$0.17	\$0.55
Payroll Taxes	0.0%	0.0%	0.0%
Management Fee	4.8%	7.0%	6.1%

Historic and/or Budgeted Expenses for Stoneridge - Per Unit

48 Units	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>
Net Rental Revenue	\$6,215	\$5,993	\$6,063
Other Income	\$0	\$0	\$57
Effective Gross Income	\$6,215	\$5,993	\$6,119
1 Property Taxes	\$761	\$1,457	\$822
2 Insurance	\$63	\$267	\$174
3 Gas / Fuel	\$0	\$0	\$0
4 Electricity	\$650	\$636	\$539
5 Water & Sewer	\$0	\$0	\$0
6 Trash Removal	\$58	\$36	\$20
7 Maintenance & Repairs	\$338	\$232	\$231
8 Int / Ext Decorating	\$45	\$61	\$14
9 Cleaning	\$62	\$76	\$90
10 Pool Maintenance	\$0	\$0	\$0
11 Landscaping	\$30	\$10	\$55
12 Management Fees	\$300	\$418	\$375
13 Office Salaries	\$115	\$115	\$375
14 Employee Apartments	\$0	\$0	\$0
15 Maintenance Salaries	\$0	\$0	\$0
16 Security Salaries	\$0	\$0	\$0
17 Other Salaries	\$0	\$0	\$0
18 Payroll Taxes	\$0	\$0	\$0
19 Advertising	\$130	\$107	\$127
20 Telephone	\$48	\$13	\$58
21 Legal & Audit	\$0	\$0	\$0
22 Other Admin	(\$13)	(\$1)	\$30
<u>23 Reserves</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Operating Expenses</u>	<u>\$2,584</u>	<u>\$3,427</u>	<u>\$2,909</u>
Net Operating Income	\$3,631	\$2,566	\$3,210
Operating Expense Ratio	41.6%	57.2%	47.5%
Total Maintenance (7-11)	\$474	\$379	\$390
Total Payroll (13-18)	\$115	\$115	\$375
Payroll Taxes	0.0%	0.0%	0.0%
Management Fee	4.8%	7.0%	6.1%

Expense Comps

	Comps Without Payroll Expenses					Comps With Payroll Expenses				
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7	Comp 8	Comp 9	Comp 10
Units	44	32	40	18	11	38	42	33	60	28
NRA (SF)	38,240	29,000	28,100	15,090	9,500	33,632	41,664	28,500	48,360	20,524
Average Unit SF	869	906	703	838	864	885	992	864	806	733
Year of Data	2010 Budget	2009 Budget	20010 Budget	2008	2008	2008 Budget	2008	2008	2007	2008
Total Annual Amounts										
Net Rental Revenue	\$428,640	\$304,680	\$283,417	\$117,605	\$70,620	\$292,001	\$293,835	\$264,252	\$399,583	\$223,007
Other Income	<u>\$15,000</u>	<u>\$6,000</u>	<u>\$2,500</u>	<u>\$2,551</u>	<u>\$2,200</u>	<u>\$5,000</u>	<u>\$5,682</u>	<u>\$5,685</u>	<u>\$28,925</u>	<u>\$3,459</u>
Effective Gross Income	\$443,640	\$310,680	\$285,917	\$120,156	\$72,820	\$297,001	\$299,517	\$269,937	\$428,508	\$226,466
1 Property Taxes	\$112,000	\$14,553	\$27,048	\$23,819	\$12,182	\$17,000	\$43,168	\$28,141	\$47,750	\$18,576
2 Insurance	\$6,500	\$7,000	\$4,000	\$4,574	\$2,650	\$7,000	\$5,610	\$5,850	\$9,500	\$6,188
3 Gas / Fuel	\$0	\$0	\$0	\$6,090	\$800	\$0	\$1,111	\$0	\$0	\$0
4 Electricity	\$5,500	\$2,300	\$4,600	\$2,610	\$400	\$2,800	\$3,334	\$1,847	\$5,722	\$2,500
5 Water & Sewer	\$18,000	\$6,900	\$22,500	\$4,326	\$2,000	\$1,000	\$14,448	\$26,196	\$18,000	\$6,585
6 Trash Removal	\$3,000	\$4,600	\$6,500	\$1,066	\$420	\$2,500	\$7,334	\$3,967	\$9,000	\$4,000
7 Maintenance & Repairs	\$12,000	\$9,720	\$10,000	\$4,754	\$2,860	\$11,500	\$3,769	\$8,000	\$13,635	\$5,873
8 Int / Ext Decorating	\$5,000	\$4,860	\$4,000	\$2,593	\$1,716	\$2,000	\$1,938	\$4,000	\$6,817	\$2,936
9 Cleaning	\$2,000	\$2,430	\$2,000	\$1,296	\$1,144	\$2,500	\$830	\$2,000	\$3,409	\$1,468
10 Pool Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11 Landscaping	\$6,000	\$7,290	\$6,000	\$2,325	\$2,123	\$3,000	\$5,900	\$4,000	\$6,371	\$3,267
12 Management Fees	\$24,618	\$24,000	\$14,155	\$7,338	\$4,369	\$13,365	\$14,692	\$8,098	\$17,296	\$7,897
13 Office Salaries	\$0	\$0	\$0	\$0	\$0	\$9,000	\$8,981	\$9,040	\$18,031	\$8,400
14 Employee Apartments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15 Maintenance Salaries	\$0	\$0	\$0	\$0	\$0	\$9,000	\$8,981	\$9,040	\$18,031	\$8,400
16 Security Salaries	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17 Other Salaries	\$0	\$0	\$0	\$0	\$0	\$1,000	\$0	\$0	\$0	\$0
18 Payroll Taxes	\$0	\$0	\$0	\$0	\$0	\$3,800	\$3,849	\$3,616	\$7,213	\$2,997
19 Advertising	\$2,000	\$1,200	\$1,000	\$1,000	\$0	\$2,000	\$1,469	\$600	\$527	\$1,293
20 Telephone	\$0	\$900	\$0	\$0	\$0	\$500	\$1,251	\$900	\$1,500	\$600
21 Legal & Audit	\$2,000	\$1,500	\$2,000	\$1,240	\$500	\$2,000	\$2,288	\$2,000	\$2,200	\$1,200
22 Other Admin	<u>\$500</u>	<u>\$1,000</u>	<u>\$2,000</u>	<u>\$725</u>	<u>\$350</u>	<u>\$1,000</u>	<u>\$1,985</u>	<u>\$600</u>	<u>\$453</u>	<u>\$329</u>
Total Operating Expenses	<u>\$199,118</u>	<u>\$88,253</u>	<u>\$105,803</u>	<u>\$63,756</u>	<u>\$31,514</u>	<u>\$90,965</u>	<u>\$130,940</u>	<u>\$117,895</u>	<u>\$185,454</u>	<u>\$82,510</u>
Expense Ratio	44.9%	28.4%	37.0%	53.1%	43.3%	30.6%	43.7%	43.7%	43.3%	36.4%
Total Maintenance (7-11)	\$25,000	\$24,300	\$22,000	\$10,968	\$7,843	\$19,000	\$12,438	\$18,000	\$30,232	\$13,544
Total Payroll (13-18)	N/A	N/A	N/A	N/A	N/A	\$22,800	\$21,811	\$21,696	\$43,274	\$19,797
Payroll Taxes Percent	N/A	N/A	N/A	N/A	N/A	20.0%	21.4%	20.0%	20.0%	17.8%
Management Fee Percent	5.5%	7.7%	5.0%	6.1%	6.0%	4.5%	4.9%	3.0%	4.0%	3.5%

Expense Comps

	Comps Without Payroll Expenses					Comps With Payroll Expenses				
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7	Comp 8	Comp 9	Comp 10
Units	44	32	40	18	11	38	42	33	60	28
NRA (SF)	38,240	29,000	28,100	15,090	9,500	33,632	41,664	28,500	48,360	20,524
Average Unit SF	869	906	703	838	864	885	992	864	806	733
Year of Data	2010 Budget	2009 Budget	20010 Budget	2008	2008	2008 Budget	2008	2008	2007	2008
Per Square Foot Amounts										
Net Rental Revenue	\$11.21	\$10.51	\$10.09	\$7.79	\$7.43	\$8.68	\$7.05	\$9.27	\$8.26	\$10.87
<u>Other Income</u>	<u>\$0.39</u>	<u>\$0.21</u>	<u>\$0.09</u>	<u>\$0.17</u>	<u>\$0.23</u>	<u>\$0.15</u>	<u>\$0.14</u>	<u>\$0.20</u>	<u>\$0.60</u>	<u>\$0.17</u>
Effective Gross Income	\$11.60	\$10.71	\$10.18	\$7.96	\$7.67	\$8.83	\$7.19	\$9.47	\$8.86	\$11.03
1 Property Taxes	\$2.93	\$0.50	\$0.96	\$1.58	\$1.28	\$0.51	\$1.04	\$0.99	\$0.99	\$0.91
2 Insurance	\$0.17	\$0.24	\$0.14	\$0.30	\$0.28	\$0.21	\$0.13	\$0.21	\$0.20	\$0.30
3 Gas / Fuel	\$0.00	\$0.00	\$0.00	\$0.40	\$0.08	\$0.00	\$0.03	\$0.00	\$0.00	\$0.00
4 Electricity	\$0.14	\$0.08	\$0.16	\$0.17	\$0.04	\$0.08	\$0.08	\$0.06	\$0.12	\$0.12
5 Water & Sewer	\$0.47	\$0.24	\$0.80	\$0.29	\$0.21	\$0.03	\$0.35	\$0.92	\$0.37	\$0.32
6 Trash Removal	\$0.08	\$0.16	\$0.23	\$0.07	\$0.04	\$0.07	\$0.18	\$0.14	\$0.19	\$0.19
7 Maintenance & Repairs	\$0.31	\$0.34	\$0.36	\$0.32	\$0.30	\$0.34	\$0.09	\$0.28	\$0.28	\$0.29
8 Int / Ext Decorating	\$0.13	\$0.17	\$0.14	\$0.17	\$0.18	\$0.06	\$0.05	\$0.14	\$0.14	\$0.14
9 Cleaning	\$0.05	\$0.08	\$0.07	\$0.09	\$0.12	\$0.07	\$0.02	\$0.07	\$0.07	\$0.07
10 Pool Maintenance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
11 Landscaping	\$0.16	\$0.25	\$0.21	\$0.15	\$0.22	\$0.09	\$0.14	\$0.14	\$0.13	\$0.16
12 Management Fees	\$0.64	\$0.83	\$0.50	\$0.49	\$0.46	\$0.40	\$0.35	\$0.28	\$0.36	\$0.38
13 Office Salaries	N/A	N/A	N/A	N/A	N/A	\$0.27	\$0.22	\$0.32	\$0.37	\$0.41
14 Employee Apartments	N/A	N/A	N/A	N/A	N/A	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
15 Maintenance Salaries	N/A	N/A	N/A	N/A	N/A	\$0.27	\$0.22	\$0.32	\$0.37	\$0.41
16 Security Salaries	N/A	N/A	N/A	N/A	N/A	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
17 Other Salaries	N/A	N/A	N/A	N/A	N/A	\$0.03	\$0.00	\$0.00	\$0.00	\$0.00
18 Payroll Taxes	N/A	N/A	N/A	N/A	N/A	\$0.11	\$0.09	\$0.13	\$0.15	\$0.15
19 Advertising	\$0.05	\$0.04	\$0.04	\$0.07	\$0.00	\$0.06	\$0.04	\$0.02	\$0.01	\$0.06
20 Telephone	\$0.00	\$0.03	\$0.00	\$0.00	\$0.00	\$0.01	\$0.03	\$0.03	\$0.03	\$0.03
21 Legal & Audit	\$0.05	\$0.05	\$0.07	\$0.08	\$0.05	\$0.06	\$0.05	\$0.07	\$0.05	\$0.06
<u>22 Other Admin</u>	<u>\$0.01</u>	<u>\$0.03</u>	<u>\$0.07</u>	<u>\$0.05</u>	<u>\$0.04</u>	<u>\$0.03</u>	<u>\$0.05</u>	<u>\$0.02</u>	<u>\$0.01</u>	<u>\$0.02</u>
Total Operating Expenses	\$5.21	\$3.04	\$3.77	\$4.23	\$3.32	\$2.70	\$3.14	\$4.14	\$3.83	\$4.02
Operating Expense Ratio	44.9%	28.4%	37.0%	53.1%	43.3%	30.6%	43.7%	43.7%	43.3%	36.4%
Total Maintenance (7-11)	\$0.65	\$0.84	\$0.78	\$0.73	\$0.83	\$0.56	\$0.30	\$0.63	\$0.63	\$0.66
Total Payroll (13-18)	N/A	N/A	N/A	N/A	N/A	\$0.68	\$0.52	\$0.76	\$0.89	\$0.96
Payroll Taxes Percent	N/A	N/A	N/A	N/A	N/A	20.0%	21.4%	20.0%	20.0%	17.8%
Management Fee Percent	5.5%	7.7%	5.0%	6.1%	6.0%	4.5%	4.9%	3.0%	4.0%	3.5%

Expense Comps

	Comps Without Payroll Expenses					Comps With Payroll Expenses				
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7	Comp 8	Comp 9	Comp 10
Units	44	32	40	18	11	38	42	33	60	28
NRA (SF)	38,240	29,000	28,100	15,090	9,500	33,632	41,664	28,500	48,360	20,524
Average Unit SF	869	906	703	838	864	885	992	864	806	733
Year of Data	2010 Budget	2009 Budget	20010 Budget	2008	2008	2008 Budget	2008	2008	2007	2008
Per Unit Amounts										
Net Rental Revenue	\$9,742	\$9,521	\$7,085	\$6,534	\$6,420	\$7,684	\$6,996	\$8,008	\$6,660	\$7,965
<u>Other Income</u>	<u>\$341</u>	<u>\$188</u>	<u>\$63</u>	<u>\$142</u>	<u>\$200</u>	<u>\$132</u>	<u>\$135</u>	<u>\$172</u>	<u>\$482</u>	<u>\$124</u>
Effective Gross Income	\$10,083	\$9,709	\$7,148	\$6,675	\$6,620	\$7,816	\$7,131	\$8,180	\$7,142	\$8,088
1 Property Taxes	\$2,545	\$455	\$676	\$1,323	\$1,107	\$447	\$1,028	\$853	\$796	\$663
2 Insurance	\$148	\$219	\$100	\$254	\$241	\$184	\$134	\$177	\$158	\$221
3 Gas / Fuel	\$0	\$0	\$0	\$338	\$73	\$0	\$26	\$0	\$0	\$0
4 Electricity	\$125	\$72	\$115	\$145	\$36	\$74	\$79	\$56	\$95	\$89
5 Water & Sewer	\$409	\$216	\$563	\$240	\$182	\$26	\$344	\$794	\$300	\$235
6 Trash Removal	\$68	\$144	\$163	\$59	\$38	\$66	\$175	\$120	\$150	\$143
7 Maintenance & Repairs	\$273	\$304	\$250	\$264	\$260	\$303	\$90	\$242	\$227	\$210
8 Int / Ext Decorating	\$114	\$152	\$100	\$144	\$156	\$53	\$46	\$121	\$114	\$105
9 Cleaning	\$45	\$76	\$50	\$72	\$104	\$66	\$20	\$61	\$57	\$52
10 Pool Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11 Landscaping	\$136	\$228	\$150	\$129	\$193	\$79	\$140	\$121	\$106	\$117
12 Management Fees	\$560	\$750	\$354	\$408	\$397	\$352	\$350	\$245	\$288	\$282
13 Office Salaries	N/A	N/A	N/A	N/A	N/A	\$237	\$214	\$274	\$301	\$300
14 Employee Apartments	N/A	N/A	N/A	N/A	N/A	\$0	\$0	\$0	\$0	\$0
15 Maintenance Salaries	N/A	N/A	N/A	N/A	N/A	\$237	\$214	\$274	\$301	\$300
16 Security Salaries	N/A	N/A	N/A	N/A	N/A	\$0	\$0	\$0	\$0	\$0
17 Other Salaries	N/A	N/A	N/A	N/A	N/A	\$26	\$0	\$0	\$0	\$0
18 Payroll Taxes	N/A	N/A	N/A	N/A	N/A	\$100	\$92	\$110	\$120	\$107
19 Advertising	\$45	\$38	\$25	\$56	\$0	\$53	\$35	\$18	\$9	\$46
20 Telephone	\$0	\$28	\$0	\$0	\$0	\$13	\$30	\$27	\$25	\$21
21 Legal & Audit	\$45	\$47	\$50	\$69	\$45	\$53	\$54	\$61	\$37	\$43
<u>22 Other Admin</u>	<u>\$11</u>	<u>\$31</u>	<u>\$50</u>	<u>\$40</u>	<u>\$32</u>	<u>\$26</u>	<u>\$47</u>	<u>\$18</u>	<u>\$8</u>	<u>\$12</u>
Total Operating Expenses	\$4,525	\$2,758	\$2,645	\$3,542	\$2,865	\$2,394	\$3,118	\$3,573	\$3,091	\$2,947
Operating Expense Ratio	44.9%	28.4%	37.0%	53.1%	43.3%	30.6%	43.7%	43.7%	43.3%	36.4%
Total Maintenance (7-11)	\$568	\$759	\$550	\$609	\$713	\$500	\$296	\$545	\$504	\$484
Total Payroll (13-18)	N/A	N/A	N/A	N/A	N/A	\$600	\$519	\$657	\$721	\$707
Payroll Taxes Percent	N/A	N/A	N/A	N/A	N/A	20.0%	21.4%	20.0%	20.0%	17.8%
Management Fee Percent	5.5%	7.7%	5.0%	6.1%	6.0%	4.5%	4.9%	3.0%	4.0%	3.5%

1) Property Taxes: This category includes all taxes assessed on real estate and personal property. The subject's tax expense was fully detailed in the Real Estate Taxes section of this report.

Property Taxes

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$12,182	\$34,424	\$112,000	\$36,537	\$69,921	\$39,434	\$39,000
\$/SF	\$0.50	\$1.17	\$2.93	\$1.12	\$2.14	\$1.21	\$1.19
\$/Unit	\$447	\$989	\$2,545	\$761	\$1,457	\$822	\$813

2) Insurance: This category covers typical hazard, casualty, and liability insurance. Insurance benefits for employees are addressed later as a payroll expense.

Insurance

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$2,650	\$5,887	\$9,500	\$3,023	\$12,810	\$8,375	\$8,500
\$/SF	\$0.13	\$0.22	\$0.30	\$0.09	\$0.39	\$0.26	\$0.26
\$/Unit	\$100	\$184	\$254	\$63	\$267	\$174	\$177

The appraisers were not provided with the actual current premium. A figure near historic levels has been adopted.

Utilities

Utility usage can vary significantly between properties, so historical figures are weighted most heavily whenever possible. Each utility category is addressed in the following paragraphs. **In the case of the subject property, gas, water/sewer, and electricity are all included in the electricity expense category.**

3) Gas / Fuel: This category includes all natural gas or other fuel that may be used to heat the units, common areas, or pools.

Gas

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$800	\$6,090	\$0	\$0	\$0	\$0
\$/SF	\$0.00	\$0.05	\$0.40	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$0	\$44	\$338	\$0	\$0	\$0	\$0

4) Electricity: The subject units are individually metered for electric, so this category covers common areas and vacant units. On the operating statements, gas, water/sewer, and electricity were aggregated, and they are all treated as Electricity for this analysis.

Electricity

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	Appraisers' <u>Projection</u>
Total	\$400	\$3,161	\$5,722	\$31,176	\$30,546	\$25,894	\$31,000
\$/SF	\$0.04	\$0.11	\$0.17	\$0.95	\$0.93	\$0.79	\$0.95
\$/Unit	\$36	\$89	\$145	\$650	\$636	\$539	\$646

5) Water/Sewer: The owner pays all water and sewer expenses, which were lumped together with Electricity above.

Water/Sewer

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	Appraisers' <u>Projection</u>
Total	\$1,000	\$11,996	\$26,196	\$0	\$0	\$0	\$0
\$/SF	\$0.03	\$0.40	\$0.92	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$26	\$331	\$794	\$0	\$0	\$0	\$0

6) Trash Removal: This expense covers regular emptying of the communal dumpsters, as well as recycling services.

Trash Removal

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	Appraisers' <u>Projection</u>
Total	\$420	\$4,239	\$9,000	\$2,768	\$1,736	\$948	\$2,000
\$/SF	\$0.04	\$0.14	\$0.23	\$0.08	\$0.05	\$0.03	\$0.06
\$/Unit	\$38	\$113	\$175	\$58	\$36	\$20	\$42

Maintenance Items

The following chart summarizes total maintenance expenses for the subject and the comparables.

Total Maintenance

	Expense Comps			Subject Actual			Concluded Appraisers' Projection
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	
Total	\$7,843	\$18,332	\$30,232	\$22,731	\$18,178	\$18,701	\$28,000
\$/SF	\$0.30	\$0.66	\$0.84	\$0.69	\$0.56	\$0.57	\$0.86
\$/Unit	\$296	\$553	\$759	\$474	\$379	\$390	\$583

The comparables exhibit a wide range in reported maintenance expenses. This is attributed to variations in ownership decisions regarding the inherent trade-off between maintenance expenses, payroll expense, and management fees. As a rule of thumb, an apartment property needs one full-time management person and one full-time maintenance person for every 100-120 units. If an owner has several small apartment buildings, these employees can service multiple properties, and the payroll costs can be distributed accordingly. However, if an owner has just one or two small properties, it may not be feasible to have salaried employees. If there are no staff employees, then every maintenance function must be outsourced to a third-party contractor, which usually leads to higher maintenance expenses. For example, a simple clogged toilet can be fixed by a staff maintenance person in just a few minutes, and the direct cost would be that employee's hourly wage, perhaps \$15/hour. However, if a plumber must be called to do the same job, the charge may very well be \$75-100. Similar examples may be found for other maintenance functions, as well as management and leasing functions.

By examining expense comps, it becomes clear that there is an inverse relationship between maintenance expenses and payroll expenses. Those properties that have staff employees incur much lower maintenance expenses. As an added twist, it is noted that the management fee is also a factor in this relationship. Properties that do not have staff employees typically pay a higher management fee. Also, some owners will pay an even higher management fee in order to have access to the management company's employees at a more favorable rate than true third-party contractors. Thus, the real test of reasonable "maintenance" expense levels is to combine maintenance, payroll, and management expenses. The following chart illustrates maintenance, payroll, and management expenses for the expense comps, with a distinction made between those comps with payroll expenses and those without.

Expense Comps (Maintenance, Payroll, and Management Only) - Per Unit

	Expense Comps With Employees			Expense Comps Without Employees		
	Low	High	Mean	Low	High	Mean
Maintenance	\$296	\$545	\$466	\$550	\$759	\$640
Payroll	\$519	\$721	\$641	\$0	\$0	\$0
Management	\$245	\$352	\$303	\$354	\$750	\$494
Combined	\$1,165	\$1,513	\$1,401	\$904	\$1,509	\$1,134

Typically, expense comps report a wide range of expenses for maintenance, payroll and management fees. However, when these three categories are combined, the total expenses tend to fall into a tighter range. This usual pattern is not clearly exhibited by the particular batch of expense comps presented herein. Nonetheless, it is well supported by broader data sets.

The subject’s owner controls an adjacent property, and they are jointly operated with shared employees. As a stand-alone property with just 48 units, most owners would not maintain on-site employees at the subject. For this analysis, the appraisers have projected NO payroll expenses for the subject property. Accordingly, all maintenance expense projections reflect this operational structure. In effect, payroll expenses are eliminated, but projected maintenance and management are increased.

Finally, not all apartment operators use the same maintenance sub-categories chosen by the appraisers, and there is room for interpretation as to which expenses are allocated to various sub-categories. Consequently, some individual projections may appear inconsistent with the expense comps, though the total maintenance projection is reasonable and well supported.

7) Maintenance & Repairs: The repairs expense category includes expenses for basic building maintenance, mechanical repairs, windows, doors, locks, drywall, plumbing, and electrical.

Building Maintenance & Repairs

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	
Total	\$2,860	\$8,211	\$13,635	\$16,205	\$11,131	\$11,071	\$13,000
\$/SF	\$0.09	\$0.29	\$0.36	\$0.50	\$0.34	\$0.34	\$0.40
\$/Unit	\$90	\$242	\$304	\$338	\$232	\$231	\$271

8) Interior & Exterior Decorating: This category typically includes painting, carpet, vinyl, window coverings, and miscellaneous items associated with make ready between tenants.

Interior & Exterior Decorating

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	
Total	\$1,716	\$3,586	\$6,817	\$2,158	\$2,936	\$676	\$5,000
\$/SF	\$0.05	\$0.13	\$0.18	\$0.07	\$0.09	\$0.02	\$0.15
\$/Unit	\$46	\$110	\$156	\$45	\$61	\$14	\$104

9) Cleaning: This category typically includes items related to cleaning common areas and individual units between tenants.

Cleaning

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$830	\$1,908	\$3,409	\$2,952	\$3,633	\$4,334	\$4,000
\$/SF	\$0.02	\$0.07	\$0.12	\$0.09	\$0.11	\$0.13	\$0.12
\$/Unit	\$20	\$60	\$104	\$62	\$76	\$90	\$83

10) Pool Maintenance: The category covers pool chemicals and regular cleaning. The subject does not have a pool.

Pool Maintenance

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$/SF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$0	\$0	\$0	\$0	\$0	\$0	\$0

11) Landscaping: This category includes all landscape maintenance, seasonal foliage, and snow removal.

Landscaping

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$2,123	\$4,628	\$7,290	\$1,416	\$478	\$2,620	\$6,000
\$/SF	\$0.09	\$0.17	\$0.25	\$0.04	\$0.01	\$0.08	\$0.18
\$/Unit	\$79	\$140	\$228	\$30	\$10	\$55	\$125

While the subject features modest landscaped and paved areas, the reported expenses appear low. This is likely due to the commingling of these expenses with the adjoining property that is also operated by the subject's owner. For this analysis, a figure closer to the mean of the comps seems reasonable.

12) Management Fee: The management company's duties include bookkeeping, negotiating service contracts, payroll, hiring and firing of employees, and all of the daily matters that fall beyond the scope of on-site personnel. Management expenses are typically calculated as a percentage of effective gross income (EGI), but it is also important to recognize the resultant dollar amount.

Management Fee

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	<u>2008 Year End</u>	<u>2009 Year End</u>	<u>2010 Annualized</u>	<u>Appraisers' Projection</u>
Total	\$4,369	\$13,583	\$24,618	\$14,400	\$20,064	\$17,985	\$20,720
\$/SF	\$0.28	\$0.47	\$0.83	\$0.44	\$0.61	\$0.55	\$0.63
\$/Unit	\$245	\$399	\$750	\$300	\$418	\$375	\$432
%	3.00%	5.03%	7.73%	4.83%	6.98%	6.12%	7.00%

Payroll and Related Expenses

The next ten items addressed are sub-categories of payroll, including salaries, contract labor, employee apartments, payroll taxes, and any other employee benefits. The following chart summarizes total projected payroll expenses for the subject property.

Hypothetical Staffing Scenario

<u>Position</u>	<u>Number</u>	<u>Base Salary</u>	<u>Annual Salary</u>	<u>Housing Allowance</u>
Manager	0.00	\$30,000	\$0	\$0
Assistant Manager	0.00	\$24,000	\$0	\$0
Leasing Agent	0.00	\$18,000	\$0	\$0
Custodian	0.00	\$18,000	\$0	\$0
Lead Maintenance	0.00	\$28,000	\$0	\$0
Maintenance Technician	0.00	\$24,000	\$0	\$0
Make Ready	0.00	\$18,000	\$0	\$0
Security	0.00	\$24,000	\$0	\$0
Bonuses, Temporary Help, etc.			\$0	
Total Salaries			\$0	
Total Housing Allowances			\$0	
Payroll Taxes, Insurance, Benefits @ 25%			\$0	
Total Payroll Expenses			\$0	

The hypothetical scenario presented above offers a reasonable breakdown of appropriate staffing and typical salaries for a property of this size and quality. The following chart illustrates how projected payroll expenses compare to the comparables, as well as the subject's actual historic or budgeted amounts.

Total Payroll Expenses

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$19,797	\$25,876	\$43,274	\$5,520	\$5,520	\$17,993	\$0
\$/SF	\$0.52	\$0.76	\$0.96	\$0.17	\$0.17	\$0.55	\$0.00
\$/Unit	\$519	\$641	\$721	\$115	\$115	\$375	\$0

13) Office Salaries: This category includes salaries and wages for all office personnel, including the manager(s), leasing agent(s), and secretarial help.

Office Salaries

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$8,400	\$10,690	\$18,031	\$5,520	\$5,520	\$17,993	\$0
\$/SF	\$0.22	\$0.32	\$0.41	\$0.17	\$0.17	\$0.55	\$0.00
\$/Unit	\$214	\$265	\$301	\$115	\$115	\$375	\$0

14) Employee Apartments: This category includes all free or reduced rents offered to employees.

Employee Apartments

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$/SF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$0	\$0	\$0	\$0	\$0	\$0	\$0

15) Maintenance Salaries: This category includes salaries and wages for all maintenance personnel, including the lead maintenance person, maintenance technicians, custodians, and porters.

Maintenance Salaries

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$8,400	\$10,690	\$18,031	\$0	\$0	\$0	\$0
\$/SF	\$0.22	\$0.32	\$0.41	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$214	\$265	\$301	\$0	\$0	\$0	\$0

16) Security Salaries: For this analysis, security expenses are treated as a payroll expense, though it is recognized that security patrols are often performed by third-party contractors, rather than employees.

Security Salaries

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$/SF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$0	\$0	\$0	\$0	\$0	\$0	\$0

17) Other Salaries: This category includes bonuses, employee commissions, and temporary employees.

Other Salaries

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$200	\$1,000	\$0	\$0	\$0	\$0
\$/SF	\$0.00	\$0.01	\$0.03	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$0	\$5	\$26	\$0	\$0	\$0	\$0

18) Payroll Taxes: This expense includes payroll taxes for personnel, as well as worker's compensation and insurance benefits. This item is usually calculated as a percentage of salaries.

Payroll Taxes

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$2,997	\$4,295	\$7,213	\$0	\$0	\$0	\$0
\$/SF	\$0.09	\$0.13	\$0.15	\$0.00	\$0.00	\$0.00	\$0.00
\$/Unit	\$92	\$106	\$120	\$0	\$0	\$0	\$0
%	17.84%	19.85%	21.43%	0.00%	0.00%	0.00%	25.00%

19) Advertising: This item includes advertising and promotion costs and includes commissions paid to outside leasing agents, locator fees, tenant referral fees, and tenant relations.

Advertising

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$1,109	\$2,000	\$6,228	\$5,157	\$6,116	\$6,000
\$/SF	\$0.00	\$0.04	\$0.07	\$0.19	\$0.16	\$0.19	\$0.18
\$/Unit	\$0	\$32	\$56	\$130	\$107	\$127	\$125

20) Telephones: This category includes basic telephone service, long distance charges, answering service, pagers, and cell phones.

Telephones

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$0	\$565	\$1,500	\$2,296	\$615	\$2,763	\$0
\$/SF	\$0.00	\$0.02	\$0.03	\$0.07	\$0.02	\$0.08	\$0.00
\$/Unit	\$0	\$14	\$30	\$48	\$13	\$58	\$0

Assuming third-party off-site management, as opposed to the current owner-manager structure, the telephone costs would be included in the management fee.

21) Legal and Audit: This category includes fees associated with legal representation and preparation of tax returns and other reports.

Legal and Audit

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$500	\$1,693	\$2,288	\$0	\$0	\$0	\$3,000
\$/SF	\$0.05	\$0.06	\$0.08	\$0.00	\$0.00	\$0.00	\$0.09
\$/Unit	\$37	\$50	\$69	\$0	\$0	\$0	\$63

In this instance, no historic expenses were reported on the subject's statements. Consequently, the appraisers have relied on the comparables in estimating this expense.

22) Other Administrative: This figure typically includes expenses for office expense, office equipment/supplies, copies and printing, employee recruitment, miscellaneous administrative expense, and travel.

Other Administrative

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	\$329	\$894	\$2,000	(\$644)	(\$59)	\$1,422	\$1,000
\$/SF	\$0.01	\$0.03	\$0.07	(\$0.02)	\$0.00	\$0.04	\$0.03
\$/Unit	\$8	\$28	\$50	(\$13)	(\$1)	\$30	\$21

23) Reserves for Replacement: Reserves for replacements typically average from \$150 to \$350 per unit, depending on number of units and condition of the property. Given the subject's large unit size, wood siding, and attached garages (with automatic door openers), the appraisers have adopted an allowance of **\$250/unit**, or **\$12,000**, which is considered sufficient, if properly invested, to yield the amount necessary for the replacement of items such as appliances, roofs, carpet, and parking areas.

Total Expenses

The following chart summarizes total expenses projected for the subject property (net of reserves).

Total Expenses (Net of Reserves)

	Expense Comps			Subject Actual			Concluded
	<u>Low</u>	<u>Mean</u>	<u>High</u>	2008 <u>Year End</u>	2009 <u>Year End</u>	2010 <u>Annualized</u>	Appraisers' <u>Projection</u>
Total	N/A	N/A	N/A	\$124,035	\$164,488	\$139,631	\$139,220
\$/SF	\$2.70	\$3.74	\$5.21	\$3.79	\$5.03	\$4.27	\$4.25
\$/Unit	\$2,394	\$3,146	\$4,525	\$2,584	\$3,427	\$2,909	\$2,900
% of EGI	28.4%	40.4%	53.1%	41.58%	57.19%	47.54%	47.0%

Net Operating Income

Net operating income (NOI) is the income remaining after all operating expenses have been satisfied, including reserves. This income provides a return to the owner or a means of servicing debt on the subject property. Based on the preceding estimates of income and expenses, the resulting stabilized NOI is **\$144,781**, which equates to **\$4.42/SF** or **\$3,016/unit**. Following is a summary tabulation of the stabilized proforma for the subject property.

Stabilized Proforma

32,724 SF	48 Units	<u>Amount</u>	<u>\$/SF</u>	<u>\$/Unit</u>	<u>% of EGI</u>
Rental Income		\$318,480	\$9.73	\$6,635	107.59%
Other Income		<u>\$3,000</u>	<u>\$0.09</u>	<u>\$63</u>	<u>1.01%</u>
Gross potential Income		\$321,480	\$9.82	\$6,698	108.61%
<u>Less: Vacancy/Collection Loss @ 7.0%</u>		(\$22,294)	(\$0.68)	(\$464)	(7.53)%
<u>Less: Loss to Lease @ 1.0%</u>		<u>(\$3,185)</u>	<u>(\$0.10)</u>	<u>(\$66)</u>	<u>(1.08)%</u>
Effective Gross Income		\$296,002	\$9.05	\$6,167	100.00%
Operating Expenses					
1 Property Taxes		\$39,000	\$1.19	\$813	13.18%
2 Insurance		\$8,500	\$0.26	\$177	2.87%
3 Gas / Fuel		\$0	\$0.00	\$0	0.00%
4 Electricity		\$31,000	\$0.95	\$646	10.47%
5 Water & Sewer		\$0	\$0.00	\$0	0.00%
6 Trash Removal		\$2,000	\$0.06	\$42	0.68%
7 Maintenance & Repairs		\$13,000	\$0.40	\$271	4.39%
8 Interior & Exterior Decorating		\$5,000	\$0.15	\$104	1.69%
9 Cleaning		\$4,000	\$0.12	\$83	1.35%
10 Pool Maintenance		\$0	\$0.00	\$0	0.00%
11 Landscaping		\$6,000	\$0.18	\$125	2.03%
12 Management Fees @ 7.00%		\$20,720	\$0.63	\$432	7.00%
13 Office Salaries		\$0	\$0.00	\$0	0.00%
14 Employee Apartments		\$0	\$0.00	\$0	0.00%
15 Maintenance Salaries		\$0	\$0.00	\$0	0.00%
16 Security Salaries		\$0	\$0.00	\$0	0.00%
17 Other Salaries		\$0	\$0.00	\$0	0.00%
18 Payroll Taxes @ 25.0%		\$0	\$0.00	\$0	0.00%
19 Advertising		\$6,000	\$0.18	\$125	2.03%
20 Telephone		\$0	\$0.00	\$0	0.00%
21 Legal & Audit		\$3,000	\$0.09	\$63	1.01%
22 Other Administrative		\$1,000	\$0.03	\$21	0.34%
23 Reserves for Replacement		<u>\$12,000</u>	<u>\$0.37</u>	<u>\$250</u>	<u>4.05%</u>
Total Operating Expenses		<u>\$151,220</u>	<u>\$4.62</u>	<u>\$3,150</u>	<u>51.09%</u>
NET OPERATING INCOME		\$144,781	\$4.42	\$3,016	48.91%

Direct Capitalization

Three separate methods of deriving overall capitalization rates have been employed. These include rates derived from recent sales of similar properties, published surveys, and the Band of Investment.

Overall Rates Derived From Market Sales

The appraisers have extracted capitalization rates from the sales presented in the Sales Comparison Approach. A summary of the sales is as follows:

Summary of Comparable Improved Sales

<u>#</u>	<u>Date</u>	<u>Units</u>	<u>YOC</u>	<u>Price/Unit</u>	<u>Price/SF</u>	<u>OAR</u>	
1	Cliffview Estates	7/30/10	45	1971	\$53,333	\$70.27	7.80%
2	Gray Hawk	5/21/10	72	1994	\$48,611	\$53.87	7.40%
3	Ridgedale Square	6/15/10	48	1994	\$32,292	\$34.82	8.01%
4	Western Hills Estates	11/6/09	54	1964	\$48,333	\$56.73	7.70%
Average			55		\$45,642	\$53.92	7.73%
Subject			48	1973/1974	N/A	N/A	

Among the improved sales presented, extracted OARs range from 7.40% to 8.01%, with an average of 7.73%. In addition to these sales, the appraisers identified a 24-unit townhome property, which was constructed in 2003, in New Richmond that is currently listed for sale. The list price is \$2,189,000 or \$91,208/unit and the broker quoted cap rate is 7.77%. Overall, the comps suggest a cap rate on the order of 7.75%.

Investment Surveys

The following chart summarizes overall rates (OAR) presented in various noted publications. RERC rates are calculated after reserves. Korpacz does not specify whether reserves are deducted.

Surveyed Overall Rates

Source	Property Type	Low	High	Avg
Korpacz	National Apartment Market	5.00%	11.00%	7.85%
RERC	First Tier Apartments	6.00%	9.50%	7.60%
	Second Tier Apartments	6.30%	10.00%	8.20%
	Third Tier Apartments	7.00%	11.00%	9.10%
Mean Values		5.00%	11.00%	8.19%

Considering the specific attributes of the subject property (i.e., size, age, condition, location, amenities, etc.), the surveys support an OAR for the subject on the order of 7.50-8.00%.

Band of Investment

Another method of selecting the rate is through the band of investment. The overall rate may be divided into the rate that will return cash requirements to a debt investor (lender) and to an equity investor. The net cash flow used in this model does not account for debt service to the lender as an expense. The anticipated debt service is accounted for within the overall rate. The premise behind the band of investment method is the relationship between the loan interest rate and the equity yield rate.

Historically, it was held that the loan interest rate (yield to lender) is the lowest component of the overall yield rate, expressed as follows: $Y_m < Y_o < Y_e$, where Y_m represents the yield to the mortgage, Y_o the overall yield, and Y_e the yield to the equity position. This relationship was true because the overall rate applies to net operating income or net proceeds which are cash flows that include both debt service plus equity cash flows. The equity cash flow is the riskier cash flow, the debt service the safest of the three, and the net income is a sum of the debt and equity cash flows.

For several years, and through 2007, the ready availability of capital resulted in intense competition for properties, driving down cap rates to levels that were often below the mortgage constant. Equity investors were still assuming the riskiest position of the real estate investment, yet they were apparently willing to accept a rate of return that was lower than the lender's return. This is contrary to decades of accepted investment theory, but it was demonstrated on a regular basis. In some of the more desirable markets, the pattern continues to this day.

Given the recent turmoil in the capital markets, and the resultant scarcity of financing for commercial real estate, equity yields, and therefore cap rates, are generally believed to have increased during 2008 and 2009. However, based a limited number of sales, during the first part of 2010 cap rates are generally believed to have leveled off or modestly decreased.

The following assumptions were used to estimate an appropriate overall rate via the band of investment.

Band of Investment Assumptions

Term	30 Years
Mortgage Interest Rate	5.00%
Loan To Value Ratio	75%
Equity Yield Rate	10.00%
Mortgage Constant	6.44%

Band of Investment Calculations

Component	Percentage		Rate		Contribution
Debt-	75%	x	6.44%	=	4.83%
Equity-	25%	x	10.00%	=	2.50%
Indicated OAR					7.33%

Direct Capitalization Conclusions

The following chart summarizes the various rates derived in this analysis:

Summary of Overall Rates

<u>Source</u>	<u>Indicated Rate</u>
Market Sales	7.75%
Published Surveys	7.75%
<u>Band of Investment</u>	<u>7.33%</u>
Mean Rate Derived	7.61%

The mean rate above is 7.61%. Considering the specific attributes of the subject property (size, age, location, stability, etc.), the appraisers have selected an overall rate of 7.75%. This rate is applied to the previously estimated NOI of \$144,781 to arrive at the following value estimate via direct capitalization.

Direct Capitalization Summary

PRO-FORMA NOI ÷ OAR =	VALUE
\$144,781 ÷ 7.75% =	\$1,868,148
Less: Deferred Maintenance =	\$0
Less: Lease-Up Costs =	\$0
Net Value Indication =	\$1,868,148
ROUNDED =	\$1,870,000

Final Reconciliation

The Final Reconciliation is the process whereby the final value estimate is derived from the various indications of value. The procedure evaluates the quantity and quality of available data and draws a conclusion based on the most applicable indicators. The appraisers have considered all three approaches to value and have arrived at the following conclusions:

<u>Valuation Technique</u>	<u>As Is Market Value</u>	<u>Market Value As Repaired</u>
Cost Approach	N/A	N/A
Insurable Value	\$2,290,000	N/A
Sales Comparison Approach	\$1,950,000	N/A
Income Approach	\$1,870,000	N/A

For reasons outlined earlier, the Cost Approach was not developed, though the appraisers did examine construction costs to derive an estimate of Insurable Value at \$2,290,000.

In the Sales Comparison Approach, sales of comparable properties were utilized to derive a value indication for the subject property. In determining value indications via this approach, comparisons were made based upon the sales' physical characteristics relative to the subject's and the Effective Gross Income Multiplier. While none of the comparables were actually in the same city as the subject, they were in similar markets and tended to fall into a fairly tight range of prices.

In the Income Approach, direct capitalization was utilized in deriving a value for the subject property. Income and expense projections are consistent with the subject's historic performance and are further supported by ample market data. Overall, the Income Approach indication of \$1,870,000 is considered a reliable indicator of market value for the subject property.

In deriving the following value estimate(s) for the subject property, the Income Approach is weighted most heavily, with secondary support from the Sales Comparison Approach.

	<u>As Is Market Value</u>	<u>Market Value As Repaired</u>
Final Value Estimate	\$1,900,000	N/A
Effective Date	September 20, 2010	12:00 am

Per Standard Rule 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, 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.
- * Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- * Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- * Andrew Charles McCloskey made a personal inspection of the property that is the subject of this report. David Pallante and John Rocco Pallante did not make a personal inspection of the subject property.
- * 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 and the Appraisal Foundation.
- * No pertinent information has knowingly been withheld. No single item of information was completely 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 on a requested minimum value, or the approval of a loan.
- * This appraisal report is subject to peer review by duly authorized members of the Appraisal Institute.

- * As of the date of appraisal, Andrew Charles McCloskey is certified by the State of Michigan as a General Real Estate Appraiser and has obtained a temporary practice permit from the State of Wisconsin to perform this assignment. John Rocco Pallante is certified by the State of Colorado as a General Real Estate Appraiser. David Pallante is certified by the State of Texas as a General Real Estate Appraiser.

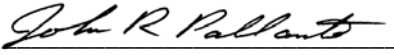
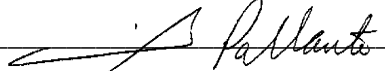

- * No other individual has provided professional assistance to the undersigned.

- * The appraisers have not provided any services involving the subject property over the past three years.

- * Based on our investigation and analyses, we have derived the following value estimate(s) for the subject's fee simple estate:

	As Is <u>Market Value</u>	Market Value <u>As Repaired</u>
Final Value Estimate	\$1,900,000	N/A
Effective Date	September 20, 2010	12:00 am

Evergreen Valuation Services

		
John Rocco Pallante Review Appraiser State Certified Appraiser CO-CG40012104	David L. Pallante, MAI Review Appraiser State Certified Appraiser TX-1320347-G	Andrew C. McCloskey Inspecting Appraiser State Certified Appraiser WI Temp: 1195-010

APPRAISAL EXPERIENCE

I have been continually engaged in the appraisal of commercial real estate since 1997. Apartments account for 75% of my assignments, with the remaining assignments composed of office, retail, vacant land, and special use properties. The apartments have ranged from low-end subsidized housing to trophy assets. Retail properties have included free-standing single-tenant buildings and typical neighborhood/community centers. Offices have included single-tenant buildings, corporate headquarters, and CBD office towers. In 2003, I completed a market study for a Las Vegas Casino that was considered for renovation and repositioning. Subdivision appraisals have included residential, commercial, industrial, and mixed-use developments. Over the years, I have appraised several properties that involved one or more types of government incentives, including historic preservation credits, enterprise zones, abatement programs, low income housing tax credits (LIHTC), bond financing, and various HUD programs. Below is a partial list illustrating the types of assignments I have prepared throughout my career.

- Multifamily: market rate, LIHTC, Section 8, student housing, condominium
- Office: CBD, suburban, corporate headquarters, medical
- Retail: single tenant, strip center, neighborhood center, community center, regional mall
- Industrial: warehouse, manufacturing, flex, mini-storage
- Vacant Land: individual tract, residential subdivision, commercial subdivision
- Special Use: Casino, mixed-use New Urban developments

EDUCATION

- University of Michigan Alfred A. Taubman College of Architecture and Urban Planning, 2002, Master of Urban Planning with a concentration in economic development.
- Oakland University School of Business Administration, 1998, Bachelors of Science with a major in finance and a minor in economics.
- All of the advanced courses offered by the Appraisal Institute
- Numerous continuing education classes in a variety of appraisal and real estate related topics.

PROFESSIONAL MEMBERSHIPS & LICENSING

- State Certified General Real Estate Appraiser - Michigan (No. 1201006817)
- State Certified General Real Estate Appraiser - Georgia (No. 264011)
- State Certified General Real Estate Appraiser - Ohio (No. 2006003428)
- State Certified General Real Estate Appraiser - Texas (No. 1338629)
- State Certified General Real Estate Appraiser - Florida (No. RZ3377)
- Associate Member of the Appraisal Institute
- Member of the Urban Land Institute

PROFESSIONAL EXPERIENCE

- Commercial Real Estate Appraiser, Allen & Associates, Birmingham, MI, 1/97 - 4/02
- Commercial Real Estate Appraiser for Deverick & Associates, Dallas, TX, 4/02 - 6/05
- Regional Vice President for Evergreen Valuation Services, Nationwide, 7/05 - present

APPRAISAL EXPERIENCE

I have been continually engaged in the appraisal of commercial real estate since 1989. Apartments account for 60% of my assignments, ranging from low-income subsidized housing to trophy assets valued in excess of \$100 million. Several of these have involved one or more types of government incentives, including historic preservation credits, enterprise zones, abatement programs, low income housing tax credits (LIHTC), bond financing, and various HUD programs. I have also appraised many office, retail, industrial, and special use properties. These have ranged from small single-user buildings to major trophy assets with values in excess of \$100 million. I have also worked on several complex assignments. In 2001, for example, I appraised a six million square foot office-industrial campus in Rochester, New York that formerly served as the world headquarters for Kodak. This asset encompassed a private power plant leased to the local electric utility, Empire Zone designation by the State of New York, and numerous local government incentives. Since 2003, I have been involved in ongoing market studies and appraisals of Bloomfield Park, a proposed mixed-use development in Bloomfield Hills, Michigan that will epitomize the concept of New Urbanism. As a qualified brownfield redevelopment site, Bloomfield Park was granted more than \$100 million in tax incentives. When fully built out, this development is projected to have a value on the order of \$1.5 billion. Below is a partial list illustrating the types of assignments I have prepared throughout my career.

- Multifamily: market rate, LIHTC, Section 8, student housing, condominium
- Office: CBD, suburban, corporate headquarters, medical
- Retail: single tenant, strip center, neighborhood center, community center, regional mall
- Industrial: warehouse, manufacturing, flex, mini-storage
- Hotel/Motel: limited service, full service, extended stay, luxury, convention hotel
- Vacant Land: individual tract, residential subdivision, commercial subdivision, agricultural
- Special Use: Church, daycare center, restaurant, automotive, convenience store, private utility company, parking facility (airport and CBD)

EDUCATION

- Bachelor of Science with major in finance awarded in 1989 by The University of Texas at Austin
- Numerous continuing education classes in a variety of appraisal and real estate related topics.

PROFESSIONAL MEMBERSHIPS & LICENSING

- State Certified General Real Estate Appraiser - Colorado (No. CG40012104)
- State Certified General Real Estate Appraiser - Washington (No. 1101995)
- State Certified General Real Estate Appraiser - Utah (No. 5510019-CG00)
- Previously certified in Georgia, Alabama, Arizona, New York, Texas, and Wyoming

PROFESSIONAL EXPERIENCE

- Commercial Real Estate Appraiser, Davis Appraisal Systems, Austin, TX, 8/89 - 12/94
- Commercial Real Estate Appraiser for Deverick & Associates, Dallas, TX, 1/95 - 6/05
- Principal with Evergreen Valuation Services, Nationwide, 7/05 - present

APPRAISAL EXPERIENCE

I have been continually engaged in the appraisal of commercial real estate since 1985, and I have been a Member of the Appraisal Institute (MAI) since 1990. I work primarily in the greater Houston area, but I have also prepared many appraisals throughout Texas, as well as New Mexico, Louisiana, Pennsylvania, and Illinois. Apartments account for roughly 75% of my assignments. My particular specialty is Section 42 (LIHTC) projects, for which I have prepared numerous market studies and appraisals. I am approved by the Texas Department of Housing and Community Affairs to prepare Section 42 market studies. Many projects I have appraised also included other types of government incentives, including historic preservation credits, enterprise zones, abatement programs, bond financing, and various HUD programs. Though specializing in apartments, I have also appraised many office, retail, industrial, and special use properties. Below is a partial list illustrating the types of assignments I have prepared throughout my career.

- Multifamily: market rate, LIHTC, Section 8, student housing, condominium
- Office: CBD, suburban, corporate headquarters, medical
- Retail: single tenant, strip center, neighborhood center, community center
- Industrial: warehouse, manufacturing, flex, mini-storage
- Hotel/Motel: limited service, full service, extended stay, luxury, convention hotel
- Vacant Land: individual tract, residential subdivision, commercial subdivision, agricultural

EDUCATION

- Bachelor of Business Administration with major in Finance and concentration in Real Estate, awarded in 1985 by Western Michigan University, Kalamazoo, Michigan
- Numerous continuing education classes in a variety of appraisal and real estate related topics. I am current with all educational requirements of the State of Texas and the Appraisal Institute.

PROFESSIONAL MEMBERSHIPS & LICENSING

- State Certified General Real Estate Appraiser - Texas (No. 1320347-G)
- Licensed Real Estate Broker - Texas (No. 0372759)
- Member of the Appraisal Institute (MAI #8964)

PROFESSIONAL EXPERIENCE

- 5/85 - 5/88: Commercial Real Estate Appraiser, REVAC, Inc., Houston, TX
- 8/88 - 12/91: Commercial Appraisal Manager for Houston Property Consultants, Houston, TX
- 1/92 - Present: Owner and President of David L. Pallante & Associates, LLC, Houston, TX