

Report Writing and Valuation Analysis

The Kincaid Office Building Case Study

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Report Writing and Valuation Analysis Exam

Examinee (please print)

Home address

City

State

Zip

Social Security Number

I am a course student

I am writing the report but have not attended the course

I am a re-exam

Date Finished
and Submitted

Location

Date

EXAMINATION CERTIFICATION

Having completed the writing of the Appraisal Institute's Report Writing and Valuation Analysis examination, I hereby testify that:

1. I personally and without assistance analyzed the data, formed the conclusions, and prepared the appraisal assignments that constitute the examination for the Appraisal Institute's Report Writing and Valuation Analysis course.
2. The assignments constituting this examination are my own work, and I have not copied or plagiarized any material from any other student attending this course.
3. I will not in any way attempt to destroy the security of this examination by passing information about the property used as an example in the course on to those whom I know have not passed the examination.
4. I have not retained a copy of this examination/report nor any portion of the materials including my worksheets.

Signature (Examinee)

Date

Witness (Proctor)

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If a participant is found to have cheated on an examination, the following will occur:

- The participant will automatically fail the examination,
and
- The matter will be referred to Ethics and Counseling for peer review if the participant is a member.

This examination booklet is the property of the Appraisal Institute and must be returned to the proctor.

Kincaid Office Building Case Study
for
Report Writing and Valuation Analysis

A Self-Contained Appraisal Report
of a Real Property Appraisal

The Kincaid Office Building
4347 North O'Connor Boulevard
Stockton, XX 12345

Prepared for the Appraisal Institute
550 West Van Buren Street
Chicago, Illinois 60607

Effective Date:
April 15, 20XX

Appraisal Ink

1968 Guitar Drive, Motown, XX 12345

April 30, 20XX

Appraisal Institute
875 N. Michigan Avenue
Chicago, IL 60611

Subject: Kincaid Office Building
4347 North O'Connor Boulevard
Stockton, XX 12345

Dear Grader:

As you requested, I have appraised the office property known as the Kincaid Office Building to develop an opinion of the market value of the leased fee interest in the property as of April 15, 20XX.

The accompanying XX-page, Self-Contained Appraisal Report, including exhibits and addenda, describes the valuation procedures I employed. All analyses and conclusions in this report are subject to the Assumptions and Limiting Conditions, the definition of *market value*, and other premises stipulated on pages X through X of this report.

As a result of my analysis of the market data gathered during my investigation and my judgment and experience, I have concluded that the market value of the leased fee interest in the subject, as of April 15, 20XX, is

_____ DOLLARS
\$ _____

Respectfully submitted,

J. Doe

Table of Contents

Certification	1
Summary of Major Conclusions	3
Premises of the Appraisal	
Assumptions and Limiting Conditions	4
Definitions and Concepts	6
Client and Intended User	6
Intended Use	6
Type and Definition of Value	6
Effective Date of Value Opinion	7
Property Rights Appraised	7
Scope of Work	7
Identification of the Subject Property	8
Presentation of Data	
Region and City Analysis	10
Neighborhood Analysis	16
Description of the Subject Property	24
Site	24
Zoning	26
Taxes and Assessed Value	26
Improvements	27

Analysis of the Data and Conclusions

Highest and Best Use	xx
Cost Approach	31
Sales Comparison Approach.....	36
Income Capitalization Approach	42
Reconciliation and Final Value Opinion.....	xx

Addenda	xx
---------------	----

Qualifications of the Appraiser	xx
---------------------------------------	----

Exhibits

1. Map of Northern Fillmore Metropolitan Area	13
2. Map of Stockton.....	18
3. Site Plan of the Subject.....	25
4. Kincaid Office Building Layout.....	30
5. Summary of Site Sales	33
6. Map of Site Sales	34
7. Summary of Improved Sales.....	37
8. Sample Comparable Improved Sale Presentation.....	38
9. Map of Improved Sales	41
10. Summary of Leases	42
11. Income and Expense History	43

I certify that to the best of my knowledge and belief

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this appraisal report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- [for members of the Appraisal Institute] my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- [for nonmembers] my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have not made a personal inspection of the property that is the subject of this report. The Appraisal Institute supplied all data for use in the *Report Writing and Valuation Analysis* course.
- no one provided significant real property appraisal assistance to the person signing this certification.

- [for members of the Appraisal Institute] the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- [for designated members of the Appraisal Institute] as of the date of this report, I have [have not] completed the continuing education program of the Appraisal Institute.

Signature

Summary of Major Conclusions

Property	A multitenanted office property known as Kincaid Office Building 4347 North O'Connor Boulevard Stockton, XX 12345
Site	An 18,000-square-foot rectangle, level and on-grade
Improvements	A 4,640-square-foot (GLA), multitenanted, frame office building
Age	16 years
Property rights appraised	Leased fee interest
Date of value opinion	April 15, 20XX
Highest and best use	As though vacant: Develop for office use As improved: Continue the existing use
Personal property	None
Marketing time	12 months
Site value opinion	\$X,XXX,XXX
Cost approach indication	\$X,XXX,XXX
Sales comparison approach indication	\$X,XXX,XXX
Income capitalization approach indication	\$X,XXX,XXX
Final value opinion	\$X,XXX,XXX

Premises of the Appraisal

All analyses and conclusions in this appraisal are based on the following Assumptions and Limiting Conditions, Definitions and Concepts, and Identification of the Subject Property. Recognizing the premises of the appraisal is vital to this appraisal assignment and to the analyses and conclusions that grow out of these premises.

Assumptions and Limiting Conditions

This appraisal is expressly subject to the following:

1. I assume no responsibility for the legal description provided or for matters pertaining to legal or title considerations. I assume that title to the property is good and marketable unless otherwise stated.
2. I appraised the property free and clear of any and all liens or encumbrances unless otherwise stated.
3. I assume responsible ownership and competent property management.
4. I believe that information furnished by others is reliable, but I give no warranty for its accuracy.
5. I assume that all engineering studies are correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. I assume that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. I assume no responsibility for such conditions or for obtaining the engineering studies that may be required to discover them.
7. In this appraisal assignment, unless otherwise stated in the report, I did not observe any potentially hazardous material used in the construction or maintenance of the building and/or the presence of toxic waste. I do not have any knowledge of the existence of such materials on or in the property. However, I am not qualified to detect such substances. The existence of any potentially hazardous waste material may have an effect on the value of the property. I urge the client to retain an expert in this field if the client believes it is necessary or appropriate. If such hazardous material is present, the value of the property may be adversely affected and re-appraisal at additional cost may be necessary.

8. I assume that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and analyzed in the appraisal report.
9. I assume that all licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinion contained in this report is based.
10. Possession of an original or a copy of this report does not carry with it the right of publication or reproduction, nor may an original or a copy of the report be used for any purpose whatsoever by anyone except the client without the previous written consent of the appraiser and the client. Out-of-context quoting from and partial reprinting of this appraisal report are expressly prohibited. The omission or change of any part of this appraisal report without my written authorization invalidates the entire appraisal. Please note that the report is copyrighted.
11. No part of this report (especially any opinion of value or any reference to the Appraisal Institute or to any of its designations) shall be disseminated to the news media, sales media, or any other public means of communication without my prior written consent and approval.
12. I will appear or give testimony in court in connection with this appraisal on request if I receive adequate advance notice in order to make required preparations and scheduling arrangements. I will specify and make charges in connection with pretrial hearings, conferences, and court testimony in accordance with my usual practice.
13. Neither all nor any part of the contents of this report (especially any opinion of value, my identity, or the firm with which I am connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without my prior written consent and approval.
14. I assume that the use of the land and improvements is confined within the boundaries of the property described and that there is no encroachment or trespass unless noted in the report.
15. Any allocation of the total value opinion in this report between the land and the improvements applies only under the stated program of use. The separate values allocated to the land and improvements

must not be used in conjunction with any other appraisal and are invalid if so used. Any value opinion provided in the report applies to the entire property, and any proration or division of the total into fractional interests will invalidate the value opinion unless such proration or division of interests has been stated in the report.

16. The Americans with Disabilities Act (ADA) became effective January 26, 1992. I have not made a specific compliance survey and analysis of this property to determine whether 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 ADA. If so, this fact could have a negative effect on the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible noncompliance with the requirements of the ADA in developing an opinion of the value of the property.
17. Acceptance and/or use of this appraisal report by the client or any third party constitutes acceptance of the stated Assumptions and Limiting Conditions. My liability extends only to the stated client, not to subsequent parties or users of the report.

Definitions and Concepts

The analyses and conclusions in this report are based on the following definitions and concepts.

Client and Intended User

The client is XXX; the intended user is YYY.

Intended Use

The intended use of the appraisal is to refinance the loan.

Type and Definition of Value

This appraisal is to develop an opinion of the market value of the leased fee interest in the subject property as of April 15, 20XX.

Market value, as used in this report, is defined as follows:¹

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably,

1. (12 C.F.R. Part 34.42 (g); 55 *Federal Register* 34696, August 24, 1990, as amended at 57 *Federal Register* 12202, April 9, 1992; 59 *Federal Register* 29499, June 7, 1994)

and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

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

Effective Date of Value Opinion

The date of the value opinion is April 15, 20XX.

Property Rights Appraised

The property rights appraised are the leased fee interest, defined by *The Dictionary of Real Estate Appraisal*, 4th ed., as follows:

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

Scope of Work

To gather, confirm, and analyze the data, I performed the following steps:

- Reviewed factual information about the subject property and the surrounding neighborhood
- Prepared a highest and best use analysis of the subject site as though vacant and of the subject property as improved
- Collected market information needed to apply the traditional approaches to value: cost approach, sales comparison approach, and income capitalization approach
- Applied the sales comparison approach to the subject site as though vacant
- Applied the cost approach, the sales comparison approach, and the income capitalization approach to the subject property as improved

- Reconciled the indications from the three approaches to value into a final value opinion
- Prepared a Self-Contained Appraisal Report setting forth the conclusions derived in this analysis as well as the information upon which the conclusions are based

None of the traditional approaches to value was excluded from consideration in this analysis. There was no personal property considered in this appraisal, and no extraordinary assumptions or limiting conditions affected the analysis or conclusions.

The subject property was not inspected, and all of the information in this assignment was provided by the Appraisal Institute.

This assignment involved an appraisal of the subject property in accordance with the applicable requirements of the Uniform Standards of Professional Appraisal Practice (USPAP). The report is a Self-Contained Appraisal Report.

Identification of the Subject Property

Property: The Kincaid Office Building, a 4,640-square-foot (GLA), multitenanted office building on a full basement situated on an 18,000-square-foot site

Address: 4347 North O'Connor Boulevard, Stockton, XX 12345

Location: The east side of North O'Connor Boulevard, three blocks south of the Nathaniel Medical Clinic and two blocks north of Kitteridge Boulevard in Stockton

Owner of Record: Marvin Kincaid, 5959 Emery Drive, Lepage, XX

History of Property: The property has been owned by the Kincaid family for more than 25 years. Marvin Kincaid's father, Allen, ran the family insurance business from an old house on the site beginning in the 1950s. Sixteen years ago, the home on the site was razed and the site was redeveloped with the current improvement. Allen Kincaid left Marvin Kincaid the insurance business and the real estate in his will when he died nine years ago. According to public records, there have been no transfers involving the subject property within the past three years.

Legal Description: Lot 7, Block 3, Blanken's Addition to Stockton, being a Subdivision of the Southeast Quarter of the Northeast Quarter of Section 8, Township 44 North, Range 15 West of the Perennial Guideline Meridian, in the City of Stockton.

The legal description above was taken from a copy of an old deed by which Allen Kincaid obtained title in 1954. It was furnished by the owner, and it is assumed to be correct.

Leases:

- Unit A Owner-occupied; used as an insurance office; 1,600 square feet; no lease
- Unit B A vacant, 740-square-foot dental office suite
- Unit C Marcus Moses, a doctor of internal medicine; 1,400 square feet; a 5-year lease with 2 years remaining
- Unit D Dacy Chiropractic Clinic; 900 square feet; a 3-year lease with 2.5 years remaining

Furniture, fixtures, and equipment in these units are owned by the tenants.

Region and City Analysis

Overview

Stockton is one of several northern suburbs of Fillmore, the state's second largest city, with a metropolitan population of 1.5 million. Fillmore is a major agricultural processing, transportation, financial, and federal government center. The region's diverse economic base has maintained steady growth trends, and unemployment has typically been below the national average.

Stockton, incorporated in 1922, is a self-contained community consisting of homes, apartments, office buildings, and retail properties. The residents of Stockton are predominantly white-collar workers, with a high percentage being professionals, technicians, managers, and proprietors. Many are employed by the Internal Revenue Service (IRS), whose regional headquarters office is located in Fillmore, one mile south of Stockton and about four miles from the subject.

Population

The population of Stockton has grown slowly in recent years, as the following table reveals:

20XX Estimate	65,000
2000 Census	62,554
1990 Census	58,649

This slow growth is due in part to Stockton's lack of undeveloped land tracts. The city is virtually surrounded by other suburbs, leaving little room for expansion.

Traditionally, families with above-average incomes have settled in Stockton, primarily because of the city's schools and established residential character. Only one other suburb of comparable size in the metropolitan area has a higher percentage of families with mean incomes greater than those in Stockton.

Housing

The city's predominant housing type is detached, single-family dwellings, built between World War II and the late 1960s in what are now established residential neighborhoods. Many homes built before World War II in the core residential area surrounding Stockton's small central business district have been converted to mixed-use or multifamily properties. Some of these older homes have been razed for townhouse development. Most of the house construction since the late 1960s has been in-fill in existing neighborhoods. Three single-family subdivisions are under development

along the northwest city limit on land annexed to Stockton prior to development. The city has no plans, however, to annex additional unincorporated land along the northwestern boundary.

Prices in Stockton range from \$60,000 for an older home in the core residential district to more than \$500,000 for a house in Roslynn Estates. The average sale price of a detached, single-family home last year was \$178,923, which is higher than average prices in all other suburban communities except Lepage. Townhouse prices range from \$100,000 to \$175,000. Jack Darby, a broker active in the market for 20 years, reports that residential properties have appreciated between 2% and 6% annually over the past several years. Mr. Darby also states that many potential buyers want to live in Stockton, but prices exceed their budgets.

The city's 2,200 apartment units are located near the central business district and along the Kitteridge commercial corridor in northwest Stockton. Monthly rents range from \$700 for one-bedroom units up to \$1,250 for two- and three-bedroom units.

Community Amenities

Stockton has its own police and fire departments and provides municipal water and sewers. All other typical utilities are readily available.

Stockton School District has an excellent reputation locally. The community's relatively slow growth has created no need for new schools and has kept the student-teacher ratios low.

Although Stockton has a public library, a few parks, and a municipal recreation center in Jupiter Park, residents look to Fillmore for most cultural and recreational activities.

The Nathaniel Medical Clinic is located on North O'Connor Boulevard north of Kitteridge Boulevard. It contains some medical office space and a pharmacy, but is best known as an outpatient facility for St. John's Hospital in Fillmore. It is also designated as a secondary trauma center. Its construction 15 years ago spurred much of the professional office development along North O'Connor Boulevard.

The tax base for Stockton is primarily single-family and multifamily residential, retail, and office properties. The recent opening of Roslynn Square mall is viewed as a significant addition to the tax base. Property taxes for the city are in line with those in surrounding communities, and the tax base appears adequate to justify governmental expenditures at the present time.

Transportation

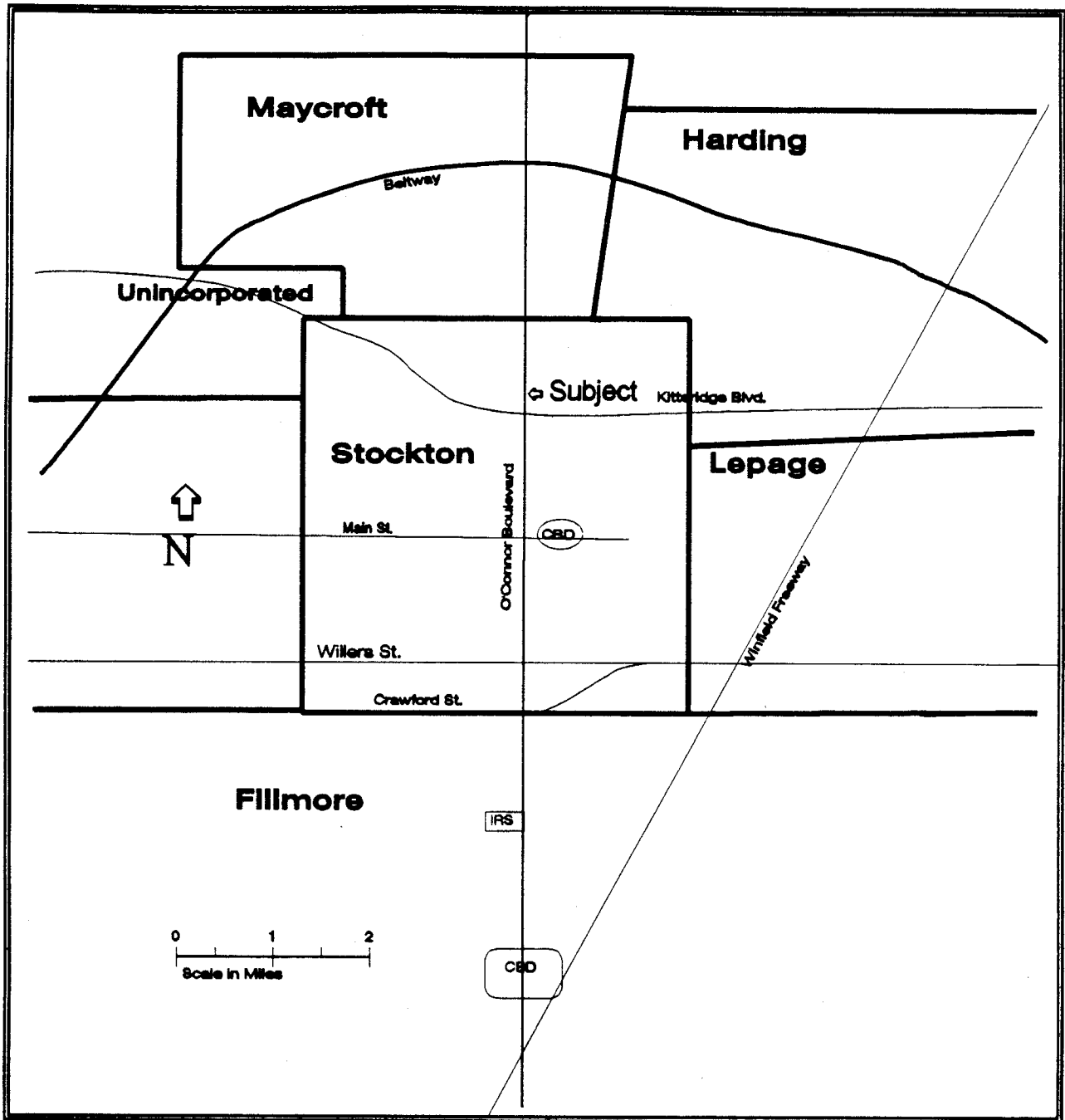
As Exhibit 1 (p. 13), a map of the Northern Fillmore Metropolitan Area, shows, O'Connor Boulevard is the major north-south street of Stockton, leading south to the IRS Center and Fillmore's central business district (CBD), three miles farther south. To the north it connects Stockton to Maycroft and the Beltway.

The two major east-west routes are Crawford Street and Kitteridge Boulevard. Crawford is a major collector street that connects O'Connor with Winfield Freeway, a business route of I-62. This eight-lane freeway has been designated as a strategic regional artery connecting the CBD of Fillmore with the state capital, 125 miles away. Kitteridge intersects O'Connor two blocks south of the subject.

Main Street runs east and west from the CBD, leading to Jupiter Park to the east. West of O'Connor, however, Main becomes a residential collector street.

Most Stockton residents depend on private automobiles for transportation; however, public bus service is provided along O'Connor from downtown Fillmore past the IRS Center, terminating at a commuter parking center at O'Connor and the Beltway in Maycroft.

Exhibit 1
Map of Northern Fillmore Metropolitan Area



Commercial Development

In 1974, the City of Stockton Planning Commission adopted the Stockton Comprehensive Plan, which designates specific areas as commercial corridors. Consequently, nearly all commercial development has occurred in four designated areas: the CBD, North O’Connor, South O’Connor, and Kitteridge.

CBD

Stockton’s small CBD is fully developed, providing municipal services, the city hall, a community theater, a library, fine restaurants, and a few destination shops.

North O’Connor Corridor

This corridor extends along North O’Connor from Main Street to the northern city limits. North of Main, North O’Connor is a four-lane street without a dividing median. The area is a mixture of retail, service, and office development. Most of Stockton’s office buildings are in this corridor, many in the vicinity of the Nathaniel Medical Center.

South O’Connor Corridor

This corridor extends along South O’Connor from Main Street to the southern city limits. South O’Connor is a four-lane street with a landscaped dividing median. Almost fully developed, this corridor consists primarily of retail and service uses with a few small offices, most of which are owner occupied.

Kitteridge Corridor

The Kitteridge corridor extends along Kitteridge Boulevard west of O’Connor to the western city limits. Development here is primarily neighborhood shopping centers and service centers. Most of Stockton’s multifamily residences surround this corridor.

Shopping Malls

Stockton’s only shopping mall is Roslynn Square, a 34-store, upscale mall anchored by Nordstrom. It is near the southeast corner of the city on the south side of Willers Street, just west of Winfield Freeway and two miles from O’Connor.

Several neighborhood shopping centers and malls are in surrounding communities near the beltway, and the closest regional mall (Southside Mall) is 15 miles away, south of Fillmore.

Industry

Stockton has no significant industrial development. The little industrial development that previously existed along North O’Connor has been razed for redevelopment or converted to alternative uses, primarily offices. The region’s major industrial districts are southwest of Fillmore’s CBD, both in Fillmore and in adjacent suburbs. Secondary industrial districts are located near the beltway in the communities of Maycroft and Harding.

**Fillmore
Metropolitan Area**

Coldwell Banker Commercial Division reports that recent average sale prices per square foot of gross leasable area (GLA) for office properties have been as follows:

Year	Sale Price per	
	Sq. Ft. of GLA	Annual % Increase
3 years ago	\$112.00	
2 years ago	\$116.00	+3.57%
1 year ago	\$120.00	+3.45%
Current	\$123.00	+2.50%

Conclusion

Stockton’s established residential character and its proximity to major employment centers in the Fillmore CBD, especially to the IRS Center, have maintained property values and have created a strong demand for property in this community. The region’s diverse economic base should continue to support this demand. Office property values are supported by the demand for professional space. Office properties like the subject should continue to benefit from their proximity to the Nathaniel Medical Center and their exposure along the major north-south commuter route through Stockton.

Notes for a Neighborhood Analysis

Location

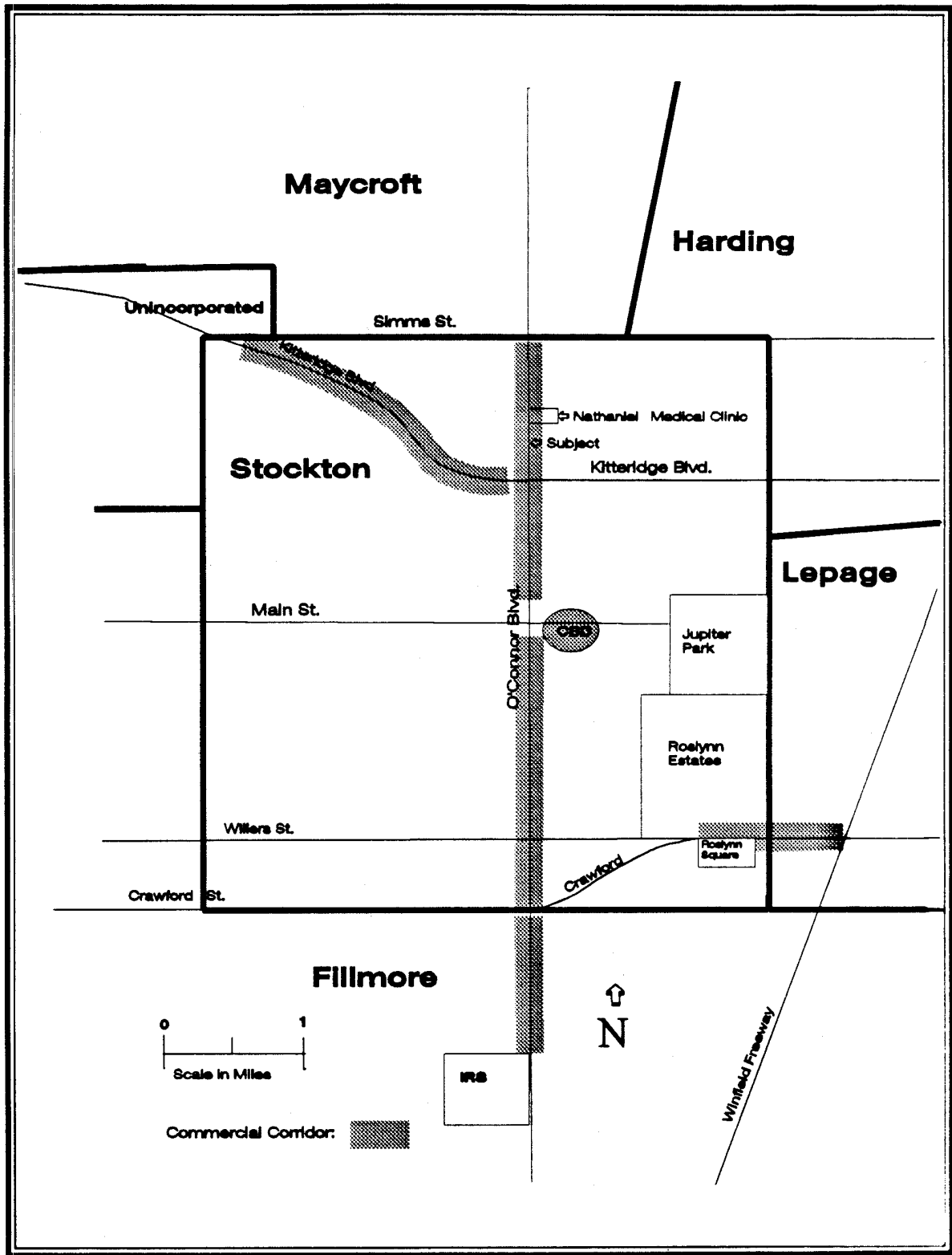
The *Dictionary of Real Estate Appraisal* defines neighborhood as “a group of complementary land uses,” and it defines district as “a type of market area characterized by homogenous land use, e.g., apartment, commercial, industrial, agricultural.” The subject is located in what is known as North O’Connor, an area designated in 1974 by the City of Stockton Planning Commission as the North O’Connor commercial corridor, after an exhaustive 10-year study of land use patterns in Stockton. The North O’Connor corridor extends along North O’Connor from Main Street through Stockton’s northerly city limits into Maycroft, crossing the Beltway in Maycroft. North of Maycroft it becomes a two-lane, country road. The corridor includes all properties abutting either side of North O’Connor Boulevard. Land uses east and west of the commercial properties along North O’Connor Boulevard are residential, except for a few non-residential uses on several side streets. North O’Connor Boulevard becomes South O’Connor Boulevard when it crosses Main Street, and extends along South O’Connor to Crawford Street, the city’s southern boundary, and it includes all properties abutting either side of South O’Connor Boulevard. South of Stockton, however, O’Connor Boulevard leads to Fillmore’s CBD and beyond to Fillmore’s southern suburbs. See the map.

Uses

Virtually no development of office facilities is reported to have been occurring since the middle of the 1980s based on the fact that the plethora of office development is/was occurring in the North O’Connor corridor. Typical uses in the subject neighborhood or subject district include, but are not limited to, offices, medical offices, non-medical offices, automobile servicing service stations and gas stations, small strip centers, and restaurants, which are some sit down type and others non-sit-down, or fast food. Some offices are condominiums, but others are not. Most owner-occupied offices are occupied by owners, but some tenants do rent. There are a wide variety of retail, commercial, and office properties and virtually all properties fronting on either side of North O’Connor Boulevard are office-type facilities. With no exceptions noted and none reported in the appraiser’s inspection of the neighborhood. A great quantity of development of commercial types of facilities had been occurring prior to the 1980’s, and most of the existing stock of offices were in existence by the year 1980. Or were spurned to develop by Nathaniel Medical Center. Development re-commenced in the late 1980’s and early 1990’s, that is to say office-type properties, with new buildings providing space where none were otherwise available. Some of the new construction was on previously undeveloped or vacant sites. There were also too, however, a great amount of this new construction and

development that were occurring on sites which were previously improved with improvements. These sites were redeveloped, converted or razed and reconstructed with newer type facilities. Generally now all uses are considered to be commercial, mostly office, with exceptions noted if appropriate.

Exhibit 2 Map of Stockton



Competitive and Comparable Markets

- The Kitteridge corridor west of North O’Connor Boulevard has less expensive commercial and office development, extensive multifamily residential development, and many older and less modern neighborhood shopping centers.
- Crawford Street has less traffic than O’Connor Boulevard.
- The Stockton CBD is not comparable to or competitive with the North O’Connor corridor.
- The South O’Connor corridor is the primary competitive and comparable market for the North O’Connor corridor. Similar districts exist along O’Connor Boulevard south of Stockton in Fillmore and north of Stockton in Maycroft.
- Kitteridge corridor is a less desirable office location than the O’Connor corridors because it is on a two-lane street with a center turning lane.
- Roslynn commercial district extends from Roslynn Square to the Winfield Freeway in Lepage. It is a more desirable commercial location than either O’Connor corridor because of the influence of Roslynn Square.
- Office rents along North O’Connor Boulevard are usually 5% to 10% less than rents along South O’Connor Boulevard.

Market Conditions

Income Factors

- Most leases are for three to five years with rents level throughout the term.
- Net rent terms prevail.
- Base rent levels for medical office space range from \$10 to \$14 per square foot in the North O’Connor corridor.
- Base rent levels for nonmedical office space range from \$8 to \$11 per square foot in the North O’Connor corridor.
- Renewal options exist, but at renegotiated rates.

- In addition to base rent, tenants pay proportionate shares of real estate taxes, insurance, and common area expenses.
- The minimum acceptable size of an office in the North O'Connor corridor is 750 square feet; property managers report that it is more difficult to rent spaces larger than 2,500 square feet.
- Differences in rents are caused by the same factors that cause differences in sale prices.
- Many office building owners occupy space in their own buildings.
- Medical tenants find offices attractive only if located within one mile of the Nathaniel Medical Center.
- Highly specialized medical office space is more difficult to rent, since finding tenants is virtually impossible. Most owners with this type of space pay to remove the specialized features of the space.

**Expense and
Occupancy
Factors**

- Managers report stable, solid occupancy and level income patterns for existing space with existing tenants.
 - Typically, utilities are separately metered and paid by the tenant.
 - Vacancy rates have averaged 2% to 3% throughout most of the last 10 years.
 - Collection losses and bad debts are minimal.
 - Expenses other than real estate taxes, insurance, and common area maintenance are normally the responsibility of the property owners.
 - The current office vacancy rate in Stockton is 4.5%, mostly in medical space.
 - There is a continuing rumor that St. John's Hospital may discontinue the use of the Nathaniel Medical Center as a secondary trauma center and relocate that function to the hospital in Fillmore. If true, this may greatly increase the vacancies in the medical office space, which currently accounts for almost 35% of the office space in the North O'Connor corridor. Some medical tenants have refused to renew leases and have relocated to the St. John's Medical Arts Building, adjacent to the hospital in Fillmore.
-

**Vacant
Commercial Land
Factors**

- Commercial land prices in the Stockton market range from \$8 to \$20 per square foot, based primarily on location and redevelopment costs.
- The least expensive commercial land is on the extreme west end of Kitteridge Boulevard, where prices range from \$8 to \$9 per square foot.
- The most expensive commercial land lies between Roslynn Square and the Winfield Freeway, where it ranges from \$15 to \$20 per square foot.
- Purchasers who buy older, improved properties for redevelopment pay demolition costs, removal costs, and costs of zoning changes (if any) in addition to acquisition costs.

**Improved Office
Property Factors**

- Sale prices for multitenanted office facilities range from \$90 to more than \$135 per square foot of GLA (gross leasable area).
 - The highest priced offices are newer, medical office buildings; the lowest priced offices are older, nonmedical office buildings or newer office buildings with extraordinary physical or functional problems.
 - Gross leasable area is the typical unit of comparison for this type of property in this market.
 - Differences in sale prices are based on the location, age, and condition of the improvements; tenantry; presence or absence of basements; and lease terms.
-

Financing

The Stockton National Bank reports the following current terms for commercial loans.

- 75% loan-to-value ratios
- 9.5% nominal annual interest rates
- 20-year amortization terms
- Monthly payments
- 2- to 3-year balloons
- 1.20 to 1.25 debt coverage ratios

Typical Construction

- Typical age for office buildings in this neighborhood: 10 to 25 years.
- Typical construction: one-story, frame or masonry exterior walls, plate glass windows and doors, and flat and pitched roofs.
- Separate furnace and air-conditioning system provided for each unit, two-fixture restrooms, and a 200-ampere electrical service entrance.
- Typical parking: paved, striped parking convenient to the buildings. Parking requirements of the zoning ordinance are strictly enforced.
- Tenant interior finish: owners provide an allowance in new construction, but the tenant is responsible for any costs exceeding the allowance. Once space is finished, however, new tenants do not receive an allowance to refinish the space.
- Basements exist in some of the office buildings and are very popular with tenants who need record storage space.
- Because basements cannot be constructed in existing offices without them, spaces without basement storage usually command lower unit rents.
- Site coverage is usually the maximum allowed by zoning.
- Demand exists for both medical and nonmedical space.

- Since office space usually cannot be expanded, different sizes of space usually exist within the same building.
 - Tenants must usually search among several buildings for the proper amount and layout of space.
-

Description of the Subject Property

Site

**Dimensions/
Shape** The rectangular site measures 120 feet by 150 feet, as shown Exhibit 3, Site Plan of the Subject (p. 25).

Area The total site area is 18,000 square feet. The building creates a land-to-building ratio of 3.75:1 and a 26.67% site coverage.

Frontages This interior site has 120 feet of frontage on the east side of North O'Connor Boulevard.

Topography The level site is on-grade with the street and is well drained to a storm sewer system in North O'Connor Boulevard.

**Easements/
Encroachments** A 10-foot-wide utility easement extends north to south along the west site boundary line. This easement contains the lines necessary to serve the subject site. Such easements are typical for the area. My analysis of the plat of survey shows no encroachments.

Utilities All necessary municipal public utilities are available and in service to the parcel.

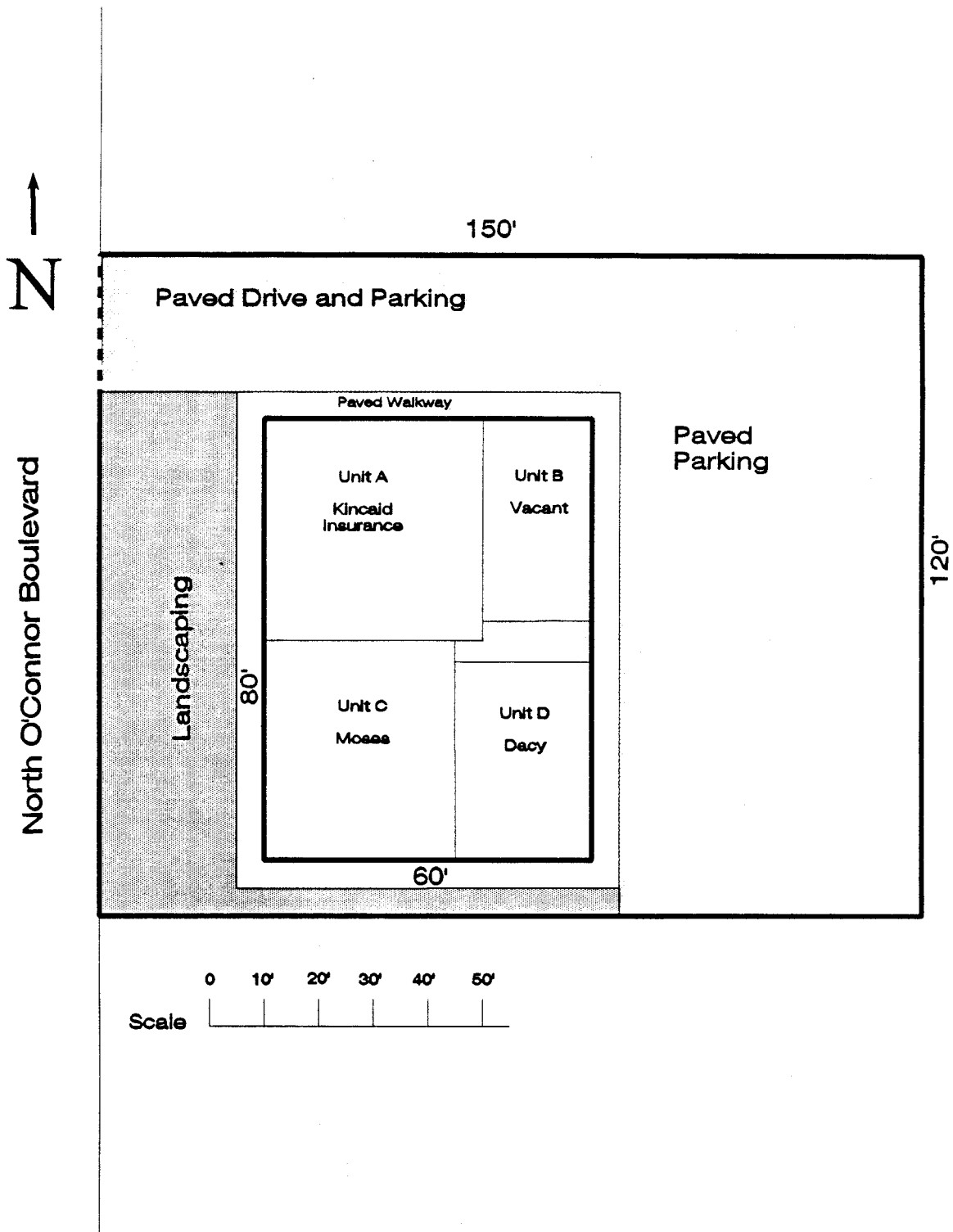
**Street
Improvements** North O'Connor Boulevard is a four-lane commercial arterial without a median, but with a central turning lane; concrete curbs, gutters, and non-integrated concrete sidewalks; and streetscaping.

Floodplain According to the Flood Insurance Rate Map (FIRM), Community Panel number 030024-0120 E, effective date January 3, 1991, the site is located in Zone C, an area of no flooding.

Soils The soil is well-drained Malcom's loam.

Conclusion The site has no physical or functional problems that inhibit its present use as an office site.

Exhibit 3 Site Plan of the Subject



Zoning

The subject site is zoned B-4, Neighborhood Business District, by Stockton. This district allows a wide range of commercial, service, and office uses. The maximum area of the site that can be covered by the building footprint is 30%. O'Connor Boulevard has been zoned B-4 for more than 20 years.

Based on the Stockton Comprehensive Plan's recommended locations for commercial land uses, the city decided to cluster commercial uses in a limited number of activity centers and along corridors. The plan limits the location of new commercial development and recommends a gradual restructuring of the existing patterns into more limited clusters. The subject site is located in one of these clusters, referred to as the North O'Connor corridor. The B-4 zoning district includes all properties in the subject neighborhood that have frontage on O'Connor Boulevard, and because of the range of permitted uses in this district, no zoning changes are needed or anticipated.

The minimum area required to develop a site in the B-4 district is 5,000 square feet, and each zoned lot must have a minimum frontage of 50 feet. The maximum building height is 32 feet, which provides for three-story structures, although to date no buildings with more than two stories have been constructed in this part of Stockton. Interior lot setback requirements are 25 feet from main streets and 5 feet from abutting lot lines. A minimum of 10% of the total site area must be devoted to landscaping. The subject conforms to all of these yard and bulk requirements.

Office parking is required at a ratio of one space for each 240 square feet of gross building area. The subject includes 24 onsite spaces as the parking area is currently configured, including 2 handicap spaces.

The improvements were constructed in conformity with the provisions of the B-4 district zoning, which were in force at the time the project was developed. No changes in these provisions have occurred since the subject office was built.

Taxes and Assessed Value

Jefferson County assesses the subject for real property tax purposes. According to the assessor, the land and building assessments for the current year are shown below:

Land	\$ 33,080
Improvements	<u>98,820</u>
Total	\$131,900

The current mill levy is \$80.741 per \$1,000 of assessed value. The current total property taxes, which were just paid, are \$10,649.74 ($\$131,900 \times 0.080741 = \$10,649.74$). My examination of the tax loads on the nearby competitive office properties shows that these taxes are consistent and uniform, suggesting no need to protest the assessments at this time. There are no special assessments or prior taxes due.

Taxes have been increasing at an annual rate of 3% for the last four years and are projected to continue increasing at this rate.

Improvements

Overview The Kincaid Office Building is a one-story, frame office building on a full basement, configured for four tenants.

Dimensions The building, which measures 80 feet by 60 feet, contains 4,800 square feet of gross building area and 4,640 square feet of gross leasable area.

Exterior The improvement consists of frame construction with vertical cedar siding and brick veneer, a flat, tar-and-gravel roof, aluminum-framed plate glass windows and entry doors to each unit, and a steel rear service door to a central service hallway.

Foundation The foundation is poured reinforced concrete on concrete footings and a concrete slab. The full basement is unfinished; access is by way of an interior stairway off the rear hallway.

Interior Floor finish includes commercial-grade carpeting in all parts of the building except the washrooms and the rear entries, which are ceramic tile. Trim is oak. All walls are painted or wallpapered drywall. Ceiling finish is suspended acoustical tile on a steel grid. All interior doors are hollow core oak except those to the rear hallway, which are solid core.

Mechanical Separate forced-warm-air furnaces with central air conditioning are provided for each unit. Each unit has a 200-ampere electrical service entrance. Lighting throughout the building is fluorescent. All restrooms are ventilated to the outside. Each restroom contains a vanity-recessed lavatory and a water closet. Each examining room in the medical office space contains a counter-recessed sink.

Special Features

The building contains an automatic security and fire alarm system, but is not sprinklered. Specialized equipment in the chiropractor's office belongs to the tenant.

Age, Quality, and Condition

The building was built 16 years ago, has been well maintained, and is in good condition. The effective age and actual age are equivalent. The short-lived building items (itemized in the Cost Approach section) are all original except the furnaces, which were all replaced last year with new, more energy-efficient units, and the carpeting, which was all replaced six years ago.

The only items of deferred maintenance noted are the commercial water heater, which serves the entire building and only works sporadically, and a large fixed-pane window in the chiropractor's office, which has a broken seal and needs to be replaced. A plumber has estimated the cost of replacing the water heater at \$700 (including removal and disposal of the old unit), and the Stockton Glass and Mirror Company has provided an estimate to replace the window for \$2,100. The jobs can be done in a timely manner, and the quotes include all labor, materials, profit, disposal, and all other costs.

Functional Utility

The functional utility of the property for office use is good except for the special features in the vacant office. A former tenant ran a highly specialized orthodontics and oral surgery practice in the space, but died before the equipment and special design features could be removed. The space has been vacant for four months. Three prospective tenants indicated that they would lease the space for \$550 to \$650 per month if the specialized features were removed. None of the prospective tenants was in a medical field. The cost to remove the specialized features and refinish the space will probably be in the range of \$7,000 to \$10,000, according to the estimate of a local remodeling contractor. At the time of his death, the tenant was paying rent of \$1,000 per month.

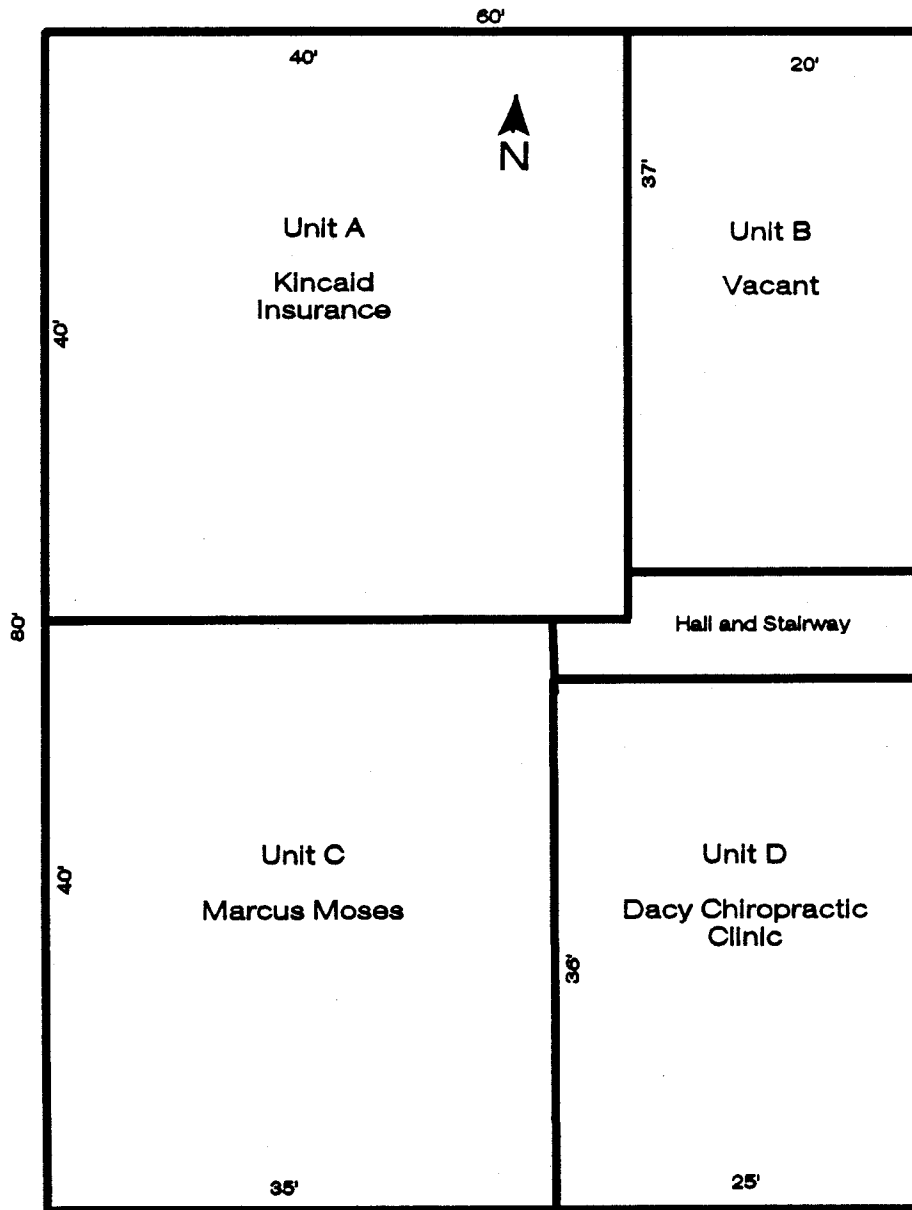
Site Improvements

In addition to the building, the site is improved with a 5-foot concrete sidewalk on all sides of the building, paved parking striped for 24 vehicles (including 2 handicap spaces), and about 2,000 square feet of landscaping with an underground sprinkler system. These improvements are typical for the area.

Conclusion

Overall, the subject is a well-maintained office building of average quality for this market and in average condition. It is functionally well suited to its use. The only functional problem is the specialized design and construction in the vacant office space. The interior layout of the building is shown in Exhibit 4, Kincaid Office Building Layout (p. 30).

Exhibit 4 Kincaid Office Building Layout



Introduction

The cost approach is based on the recognition that market participants relate value to cost. The value of an existing property reflects the costs to develop a similar property, once those costs are adjusted for all forms of applicable depreciation. Like the sales comparison and income capitalization approaches, this approach is based on market-derived data.

The procedures to develop a cost approach estimate involve four major steps.

1. Develop an opinion of the value of the site as though it were vacant and available for development to its highest and best use.
2. Estimate all costs to replace or reproduce the existing improvements, including direct costs, indirect costs, and entrepreneurial incentive.
3. Estimate all forms of depreciation evident in the improvements.
4. Subtract the total estimated depreciation from the total estimated reproduction or replacement costs and add the site value opinion to derive an indication of value from the cost approach.

These procedures are fully described in this section of the report.

Site Value Opinion

The most widely used method of developing an opinion of site value is the sales comparison approach, in which the appraiser analyzes recent sales of comparable vacant sites to form a conclusion of the value of the subject site. This is the best method to use when enough comparable sales are available, as is true in this instance. The procedures used to acquire, verify, analyze, and reconcile the data are the same as those described in the Sales Comparison Approach section.

Few vacant sites remain in Stockton's commercial corridors. However, I found four comparable sales that occurred within the last year: two of vacant sites and two with improvements that the new owners intended to raze. Each site has a highest and best use similar to that of the subject.

Exhibit 5, Summary of Site Sales (p. 33), provides pertinent details about these four sales. Characteristics that are similar to those of the subject or that do not significantly affect these sale prices are not included in the table. Exhibit 6 (p. 34) is a map of the site sales. Sale 1 is one block south of the subject; Sale 2 is five blocks north of the subject; Sale 3 is in the South O'Connor corridor, which is most competitive with the subject neighborhood. Sale 4 is in the Kitteridge corridor, a secondary commercial

and office district where rents and site values are lower than those for sites along O'Connor.

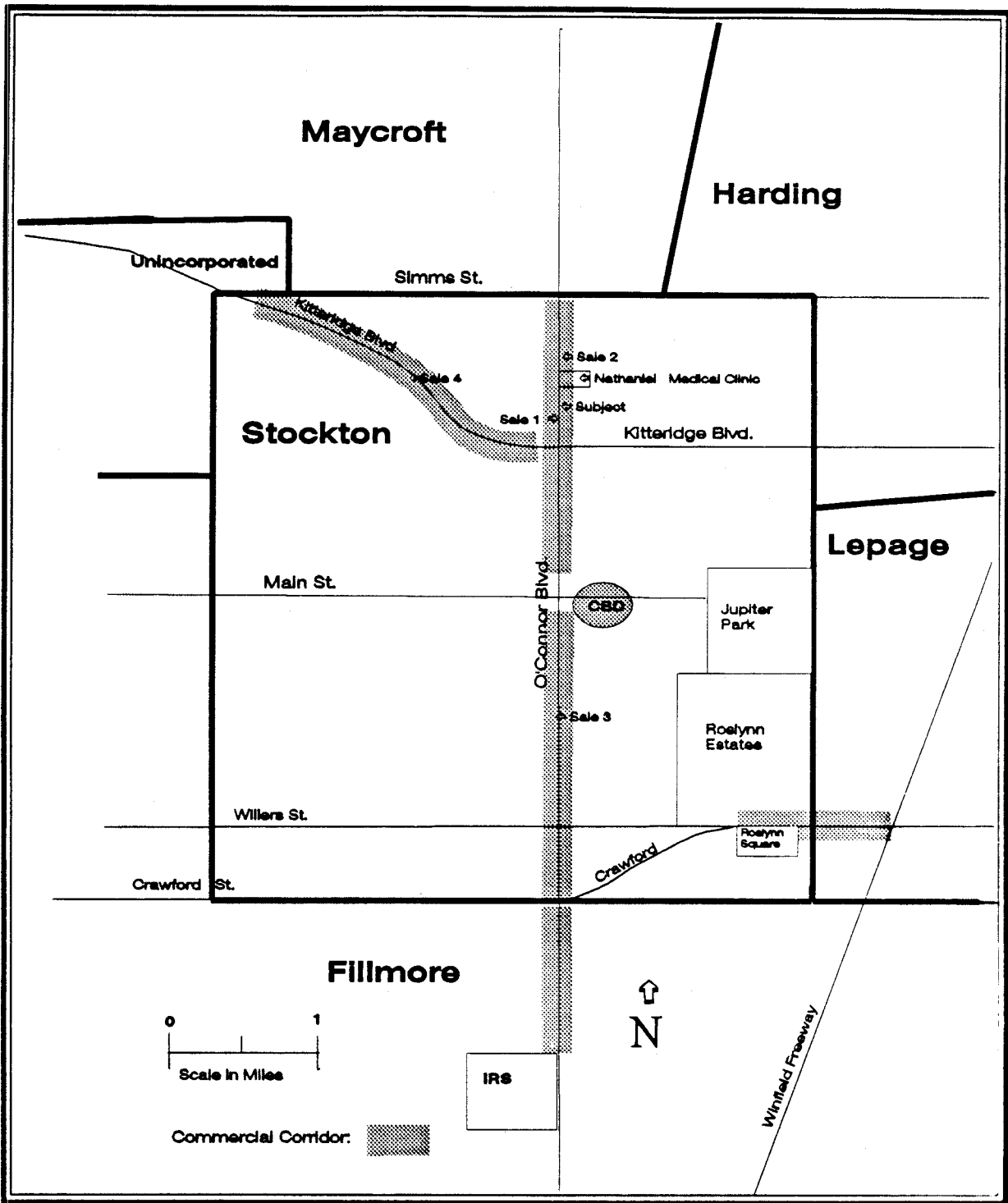
I verified all of the information with a principal in each transaction.

Exhibit 5 Summary of Site Sales

	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale Price	—	\$164,000	\$385,000	\$226,000	\$313,500
Existing Improvements	Assumed vacant	House ¹	Office ²	Vacant	Vacant
Environmental Considerations	None	None	None	Rubble ³	None
Zoning	B-4	B-4	B-4	B-4	R-2 ⁴
Financing	Market	Cash	Cash	Cash	Market
Conditions of Sale	Arm's length	Arm's length	Assemblage ⁵	Arm's length	Arm's length
Date of Sale	Current	4 mos. ago	10 mos. ago	7 mos. ago	Current ⁶
Size	18,000 SF	15,000 SF	33,500 SF	21,000 SF	33,000 SF
Location	North O'Connor	North O'Connor	North O'Connor	South O'Connor	Kitteridge
Corner	No	No	Yes	No	Yes
Intended Use	Office	Office	Office expansion	Unknown	Office condo

1. The cost to demolish the old house was \$5,000.
2. The sale was improved with an office building that was 75% destroyed by fire. The cost to demolish and remove the structure was \$20,000.
3. There was a large pile of rubble on the site, which the buyer felt could be removed for less than \$1,000. However, much of the rubble was found to be environmentally sensitive material that had to be disposed of in a hazardous landfill. The cost to clear the site was \$10,000.
4. The buyer was required to pay \$7,500 to get a zoning change that would allow the site to be developed as an office condominium project.
5. The buyer was an adjacent property owner.
6. This property was purchased one year before for \$295,750, according to the seller, who had also planned on developing the site as an office.

Exhibit 6 Map of Site Sales



Cost

The direct and indirect costs of the improvements on the subject property, including all building and site improvements, according to the published cost manual, are \$457,000. The figure includes all time, location, story height, and perimeter multipliers. It also includes approximately \$17,000 for the specialized features and construction in the vacant office.

Site Sale 1 was developed with a small, multitenanted office after its purchase. The developer was motivated by a 12% entrepreneurial incentive, based on the sum of the direct and indirect costs to construct the project. However, he fell somewhat short of his projections, having received an entrepreneurial profit of only 8.8%. His costs to construct the 4,000-square-foot office with full basement on the site, **excluding profit and site acquisition costs**, were \$380,000. The building was leased to three tenants after its construction.

Short-lived Items

Item	Age	Useful Life	Total Cost to Replace
Roof cover	16	20	\$15,000
HVAC	1	15	\$ 9,000
Carpeting	6	10	\$ 4,800
Parking lot	16	25	\$10,000

Depreciation

Depreciation Comparable A is a 16-year-old, frame and brick, nonmedical office building with six tenants, which was sold recently for \$750,000. At the time of sale, its site value was \$200,000, and its replacement cost was \$925,000.

Depreciation Comparable B is a 16-year-old, frame office building with two medical tenants and two nonmedical tenants, which was sold recently for \$633,000. At the time of sale, its site value was \$119,900, and its replacement cost was \$750,000.

Depreciation Comparable C is a 14-year-old, brick office building with four medical tenants, which was sold recently for \$553,000. At the time of sale, its site value was \$100,000, and its replacement cost was \$600,000.

Note. None of these sales suffers from any extraordinary deferred maintenance or curable functional obsolescence. Because of their locations, these depreciation comparables cannot be used as comparables in the sales comparison approach for this subject property.

Sales Comparison Approach

Introduction

The sales comparison approach reflects the market's perception that the value of a property is directly related to the prices of comparable, competitive properties.

The procedures to develop a sales comparison approach estimate involve four major steps.

1. Research the market to find information about comparable property sales and verify the data.
2. Analyze the comparable sales to derive market-supported adjustments that reflect the significant differences between the sales and the subject.
3. Apply the adjustments to the comparable sale or unit prices.
4. Reconcile the adjusted sale or unit prices into an indication of value for the subject property.

Comparable Sales

In surveying the Stockton market, I discovered sales of four comparable properties, all of which occurred within the past year. Exhibit 9, Map of Improved Sales (p. 41), shows that two of the sales are located on North O'Connor Boulevard north of Kitteridge Boulevard and the other two are located on North O'Connor Boulevard south of Kitteridge Boulevard. Except as noted, each improved sale is a small, multitenanted office building similar to the subject in highest and best use, construction features, interior appointments, and tenantry.

The following pages present details of these four comparable improved sales (Exhibit 7 on p. 37 and Exhibit 8 on p. 38) and a location map (Exhibit 9). I verified all of the information presented in this report with a principal in each transaction.

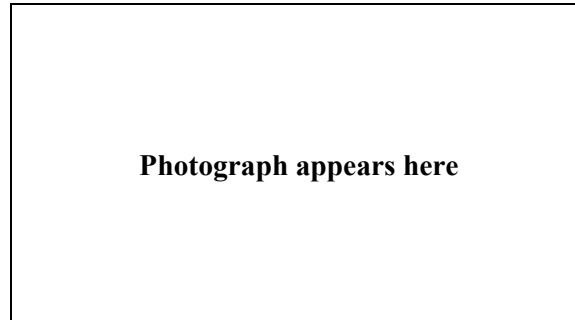
Note. In an effort to present the case material concisely, only one complete sale description (Exhibit 8) is provided as an example. It contains no value-sensitive information not included on the summary table.

Exhibit 7 Summary of Improved Sales

	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale Price	—	\$510,000 ¹	\$535,000	\$625,000	\$512,000
Financing	Market	Market	Cash	Below market ²	Market
Conditions of Sale	Arm's length	Arm's length	Arm's length	Arm's length	Special ³
Date of Sale	Current	6 months ago	1 year ago ⁴	Current	1 year ago
Construction	Frame	Frame	Brick	Frame	Frame
Age (yrs.)	16	20	18	16	14
Basement	Full	None	Full	Full	None
Gross Leasable Area (SF)	4,640	4,500	4,500	4,800	4,600
Site Size	Typical	Typical	Typical	Typical	Excess ⁵
Type of Space	Medical & nonmedical	Medical	Medical	Medical & nonmedical	Medical & nonmedical
Tenantry	34% Owner 66% Tenant	100% Tenant	50% Owner 50% Tenant	40% Owner 60% Tenant	100% Tenant
Occupancy	83%	100%	100%	100%	97% ⁶
Net Operating Income⁷	—	\$47,000	\$50,000	\$54,000 ⁸	\$47,675

1. Immediately after the sale, the purchaser spent \$15,000 putting a new roof on the structure. The buyer was aware of this requirement before purchasing the property, and the sale price reflected it.
2. Owner-financed for 75% of sale price, for 20 years at 6% interest, with monthly payments and a 3-year balloon.
3. Seller offered and buyer accepted a 5% discount for rapid closing.
4. This property sold 1 year prior to the current sale for \$509,750 cash.
5. There is an excess landholding on this sale. An adjoining property owner recently offered the current owner \$35,000 to buy this excess land. However, because the offer was made by a captive purchaser, the current owner wants to hold out for a higher price.
6. The average occupancy rate reported by the seller was 97%, which included estimated rent for the vacant space. One unit was vacant on the date of sale, but was leased shortly after the sale. Terms of the lease were not revealed.
7. The *NOIs* shown were reconstructed by the appraiser, except as noted, and reflect deductions for management, a replacement allowance, and miscellaneous expenses that are contained in the subject's expenses but not in the expenses for the sale properties.
8. *NOI* was obtained from another appraiser, and the specific lease information, rental projections, and expenses used to develop *NOI* were not available. However, rent for the owner-occupied space was projected based on the rent obtained from the tenanted space.

Exhibit 8
Sample Comparable Improved Sale Presentation
Improved Sale 1



Improved Sale 1 viewed from the west. Photograph taken August 25, 20XX.

Identification of the Property

Address	4348 North O'Connor Boulevard Stockton, XX 12345
Proximity to subject	Two blocks north across street
Legal description	Lot 14, Kathy's Subdivision, being a Subdivision of the Southeast Quarter of the Northeast Quarter of Section 22, Township 44 North, Range 15 West of the Perennial Guideline Meridian, in the City of Stockton, according to the Plat of the Subdivision recorded September 19, 1956, as Document AK 92-12345, in Jefferson County, XX.
Tax identification number	0437-820-8264

Site Description

Shape/dimensions	Rectangular: 120 feet along the west side of North O'Connor Boulevard and 150 feet deep
Land area	18,000 square feet
Topography	Generally level and at street grade
Zoning	B-4, Neighborhood Business District
Utilities	All standard utilities available

Improvement Description

Building type	One-story, frame, multitenanted office building
Age	20 years
Condition	Roof was replaced for \$15,000 by the buyer immediately after the purchase; otherwise, in average condition
Construction	Frame with vertical wood siding; gable roof with asphalt shingles; crawl space
Gross leasable area	4,500 square feet
Parking	20 parking spaces; adequate for zoning and market
Additional improvements	None

Sale Data

Date of sale	6 months ago
Property rights conveyed	Leased fee
Document number	BC67-1903
Sale price	\$510,000
Seller	Lars Butzow

Buyer	Daniel Honea Properties
Terms of sale	Financed for 75% of sale price, for 20 years, with monthly payments, at 9.5%, with a balloon in 2 years
Verification	Richard DuBay, Broker
Comments	At the time of sale, half of the property was occupied by Dr. Lars Butzow, the seller, a pediatrician; the other half was leased to Dr. Judy Hensel, an obstetrician/gynecologist. The purchaser was Dr. Daniel Honea, another pediatrician.

Exhibit 9 Map of Improved Sales

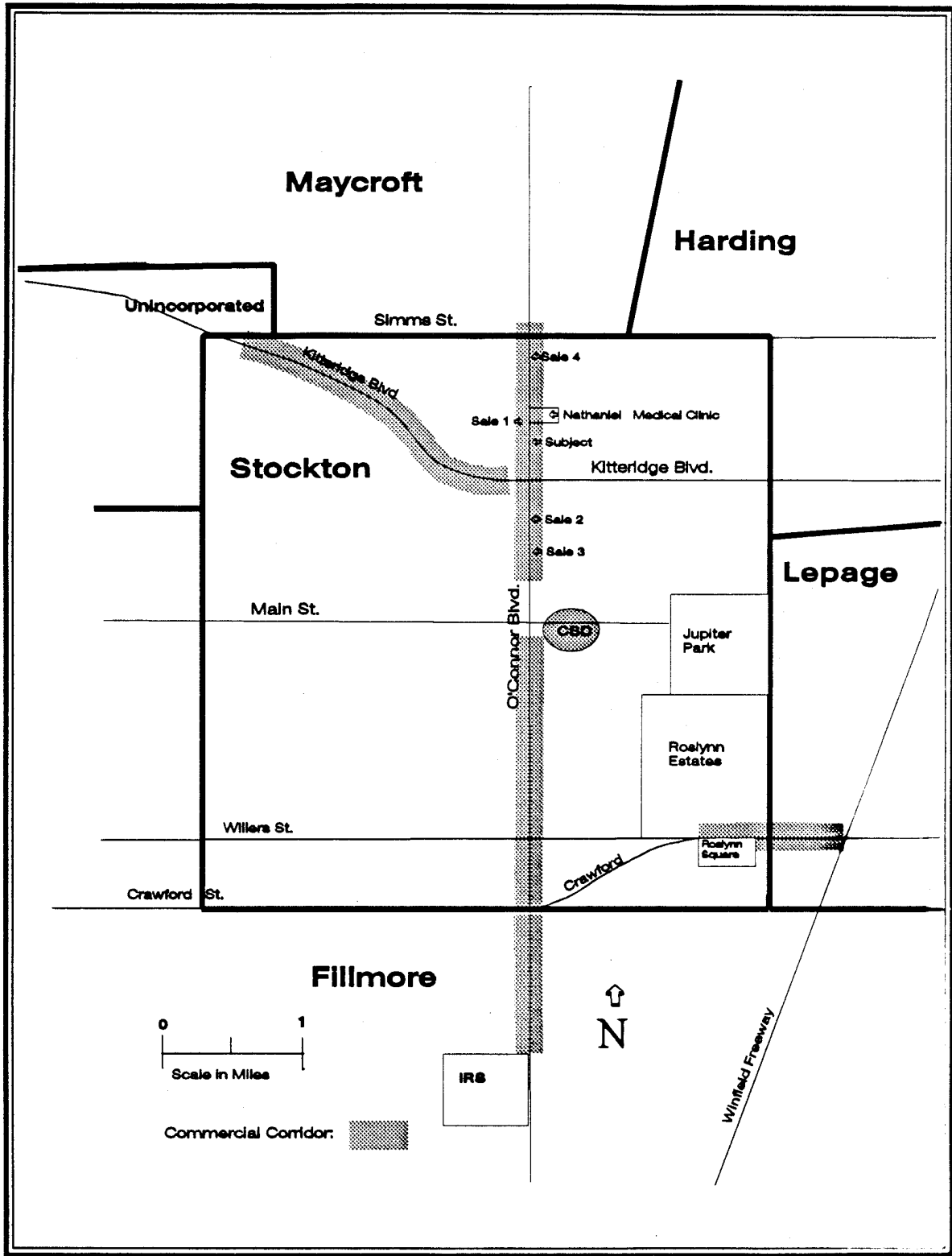


Exhibit 10
Summary of Leases
Kincaid Office Building

Unit	Tenant	Area (SF)	Total Rent/Year	Rent/SF/Year¹
A	Kincaid Insurance ²	1,600	NA	NA
B	Vacant ³	740	\$12,000	\$16.22
C	Marcus Moses ⁴	1,400	17,400	\$12.43
D	Dacy Chiropractic Clinic ⁵	<u>900</u>	<u>9,600</u>	\$10.67
	Totals	4,640 SF	\$39,000	

-
1. All rents in the subject's leases are base rents. Tenants pay all their own utilities. Expenses that are not reimbursed include management (4% of scheduled base rent) and miscellaneous expenses (legal, banking fees, and accounting).
 2. This unit has been owner occupied, without a lease, since its construction.
 3. This unit had been leased for several years to Dr. Arnold Simpson, who ran a highly specialized orthodontics and oral surgery practice in the space, which had been custom designed to his specifications. The last formal lease had expired 5 years ago, and Dr. Simpson had been renting on a month-to-month basis. At the time of his death 4 months ago, he was paying \$1,000 per month in rent. Having been a friend of the owner, he had not paid any reimbursements, but did pay all of his own utilities. Although the space has been actively marketed, its highly specialized features have not attracted any tenants. Gary Rambler, a local leasing expert, has recommended that the space be remodeled into more conventional space, or it is possible that no tenant will be found.
 4. Dr. Moses has occupied the space for many years. His lease was renewed 3 years ago for the current base rent. This tenant pays a prorata share of real estate taxes, insurance, and common area maintenance (CAM).
 5. The lease was renewed just 6 months ago. The Dacy Chiropractic Clinic had occupied the space for the previous 2 years and paid rent of \$760 per month at that time.

Exhibit 11
Income and Expense History
Kincaid Office Building

	Income			
	3 Years Ago	2 Years Ago	Last Year	Current
Scheduled Rent	\$38,160	\$38,520	\$38,760	\$26,760
Collected Rent	\$37,460	\$37,070	\$36,210	Not Available
	Expenses			
Taxes	\$9,751	\$10,043	\$10,329	\$10,650
Insurance	850	1,555	1,185	1,200
CAM¹	1,955	2,577	3,048 ²	2,328
Subtotal	\$12,556	\$14,175	\$14,562	\$14,178
Miscellaneous	250	194	500	150
Total³	\$12,806	\$14,369	\$15,062	\$14,328

-
1. Common area maintenance.
 2. This amount included the \$675 cost of replacing a damaged door.
 3. Excluding management and replacement allowance.

Medical Office Space

Recent rental information is available on three properties. Generally, base rents range from \$10 to \$14 per square foot of GLA for medical office space in the North O'Connor corridor. Some older buildings or units that have long-term tenants rent for less than \$10 per square foot, and some of the highly specialized medical office space rents for more than \$14 per square foot.

Hummel Building

Dr. Steven Daniels, an orthopedic specialist, leases 1,500 square feet of space in the front of the Hummel Building, just north of the subject property. This space has excellent exposure to the traffic on O'Connor Boulevard. The lease is five months old. The base rent of \$12 per square foot remains level throughout the three-year term of the lease.

Dr. James Simpson, a family practitioner, leases 1,200 square feet in the front of the same building. Although the lease was signed recently, Dr. Simpson was a carryover tenant. The base rent of \$12.50 per square foot remains level throughout the three-year term of the lease.

Dr. Lydia Miller, an ophthalmologist, leased 1,400 square feet of space in the rear of the Hummel Building one year ago. This is a two-year lease, with a base rent of \$11.40 per square foot, which remains level throughout the term of the lease.

Each of these units includes a full basement. These tenants pay prorated real estate taxes, insurance, and CAM as additional rent. Professional management fees for this building are 4% of the rent stated in the leases. According to the management, over the past few years, insurance has been averaging about \$0.25 per square foot of gross building area, and CAM has ranged from \$150 to \$200 per month. Real estate taxes on this building are currently \$2.18 per square foot of gross building area. Asking rents range from \$11 to \$14 per square foot, with the primary variants being size of the rented space and location within the building. Units that do not face O'Connor command lower unit rents.

Hawkinson Medical Arts Building

Although no specific lease information was available on this property, the manager was able to provide some general information. This two-story building is located across O'Connor Boulevard from the subject property. It is a fully occupied, 24-unit building without a basement. Bill Ryan, the building manager, has indicated that occasionally a tenant will not rent space because of the lack of a basement, but that is not always the case. Tenants sign three- to five-year leases, and rents remain level throughout the term of the lease.

In addition to base rents, tenants pay prorated shares of real estate taxes, insurance, and CAM. These expenses are currently \$3 per square foot, and have been increasing slightly over the past few years because of increases in real estate taxes. Professional management is 4% of the rents stated in the leases. Spaces in the building range from 500 square feet to 2,500 square feet. Tenants in the smaller units share restrooms and waiting areas.

Richard Douglas Building

Richard Douglas, an allergy specialist, owns an older, four-unit building just south of the subject property. All four units contain 1,000 square feet, and all have access and exposure to North O'Connor Boulevard. Dr. Douglas occupies two of the units. The only information he would share was that one of the units was leased to Delbert Snyder one year ago for a base rent of \$10.50 per square foot and that the other unit was leased to Louis Czarny last month for a base rent of \$11.00 per square foot.

Each unit has a basement area for records storage. The leases were written for three-year terms, with level income throughout the term, and tenants are charged a prorated share of real estate taxes, insurance, and CAM in addition to base rent. Dr. Douglas does not use professional management.

Nonmedical Office Space

Generally, base rent levels range from \$8 to \$11 per square foot of GLA for nonmedical office space in the North O'Connor corridor. Some older buildings or units that have long-term tenants rent for less than \$8 per square foot. The only spaces that rent for more than \$11 per square foot are leased to medical practitioners who require more traditional office space, such as psychiatrists.

Shamrock Building

The Shamrock Building is a two-story, nonmedical office without basement space. Its eight tenants occupy spaces ranging from 800 to 2,000 square feet. Leases are drawn with two- to three-year terms; base rents are level throughout the term of the lease. In addition to base rents, tenants pay prorated shares of real estate taxes, insurance, and CAM. These expenses are reportedly in the \$2.50 to \$3.00 per square foot range. Professional management is used by the building, and the cost is 4% of the rents stated in the leases. Larry Doren, the leasing agent for the space, indicated that occupancy over the past few years has ranged from 95% to 98%, which he believes is typical for office space in the North O'Connor corridor.

Two tenants leased space last year, and a third leased quite recently. Last year, Joe Maltry Industries leased 1,000 square feet of space for \$9.50 per square foot, and Robert Frederick leased 900 square feet of space for \$11.00 per square foot. Although the two spaces are adjacent to each other, the Frederick space was leased at a higher rate because it required specialized wiring to accommodate the computer and telemarketing needs

of the tenant. The most recent lease was to James Feeney, a regional sales representative. He leased 1,000 square feet for \$10.00 per square foot.

Century Title Building

The Century Title Building is a one-story, multitenanted office on North O'Connor Boulevard north of the CBD. Century Title owns the building and occupies approximately 60% of the space, including the entire basement area. Currently, two 800-square-foot units are available. Asking rents are \$600 per month for the unit at the front of the building and \$550 per month for the one at the rear of the building. These units have been on the market for only a short time, and Lucy Haines, the leasing broker, expects them to be leased very soon. Because the units are so small, two-year leases will be drawn with level rents throughout the term. In addition to base rent, tenants pay prorated shares of real estate taxes, insurance, and CAM.

5400 North O'Connor Boulevard

This building is very similar to the subject. It is located on the east side of North O'Connor near the north city limits of Stockton. The building is a 15-year-old structure on a full basement. An owner occupies 50% of the building. However, a 1,550-square-foot space was recently rented for \$1,300 per month, on a three-year lease, with base rent level throughout the term of the lease. The lease called for the tenant to pay a prorated share of real estate taxes, insurance, and CAM.

Site Sales Adjustment Grid

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale price					
Buyer expenditures					
Demolition					
Environmental					
Legal/Zoning					
Adjusted price*					
Property rights adjustment					
Adjusted price**					
Financing adjustment					
Conditions of sale adjustment					
Adjusted price***					
Market conditions adjustment					
Adjusted price ****					
Adjusted sale price per unit					
_____ adjustment					
_____ adjustment					
_____ adjustment					
_____ adjustment					
Final adjusted sale price per unit					

- * Sale price adjusted for buyer expenditures.
- ** Sale price further adjusted for property rights conveyed.
- *** Sale price further adjusted for financing and conditions of sale.
- **** Sale price further adjusted for market conditions.

Site Sales Adjustment Grid

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale price					
Buyer expenditures					
Demolition					
Environmental					
Legal/Zoning					
Adjusted price*					
Property rights adjustment					
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Financing adjustment					
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Adjusted price***					
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- * Sale price adjusted for buyer expenditures.
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- *** Sale price further adjusted for financing and conditions of sale.
- **** Sale price further adjusted for market conditions.

Market-Extracted Depreciation Worksheet

Procedure	Comments	Depreciation Comparables		
		A	B	C
Step 1	Sale price*			
Step 2	Deduct opinion of site value			
Results	Depreciated value of the improvements			
Step 3	Estimate reproduction or replacement cost for the improvement			
Step 4	Deduct depreciated value of the improvements from reproduction or replacement cost			
Results	Total depreciation			
Step 5	Divide total depreciation by reproduction or replacement cost			
Results	Total percentage of depreciation			
Step 6	Divide total percentage of depreciation by actual age			
Results	Annual rate of depreciation			
	Reconcile total depreciation estimate from Step 5 or average annual rate of depreciation by Step 6 to subject			

*Adjusted if needed for financing and/or conditions of sale.

Market-Extracted Depreciation Worksheet

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	Reconcile total depreciation estimate from Step 5 or average annual rate of depreciation by Step 6 to subject			

*Adjusted if needed for financing and/or conditions of sale.

Cost Approach Summary

Reproduction or replacement cost		\$ _____
Depreciation		
Curable physical deterioration	\$ _____	
Incurable physical: short-lived	_____	
Incurable physical: long-lived	_____	
Total physical deterioration		\$ _____
Functional obsolescence		
Curable	\$ _____	
Incurable	_____	
Total functional obsolescence		_____
External obsolescence		_____
Less depreciation		_____
Depreciated value of the improvements		\$ _____
Plus depreciated value of site improvements (if not included in cost estimate)		_____
Plus site value opinion		_____
Indicated value by the cost approach		\$ _____

Cost Approach Summary

Reproduction or replacement cost		\$ _____
Depreciation		
Curable physical deterioration	\$ _____	
Incurable physical: short-lived	_____	
Incurable physical: long-lived	_____	
Total physical deterioration		\$ _____
Functional obsolescence		
Curable	\$ _____	
Incurable	_____	
Total functional obsolescence		_____
External obsolescence		_____
Less depreciation		_____
Depreciated value of the improvements		\$ _____
Plus depreciated value of site improvements (if not included in cost estimate)		_____
Plus site value opinion		_____
Indicated value by the cost approach		\$ _____

Comparable Improved Sales Adjustment Grid

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale price					
Buyer expenditures					
Demolition					
Environmental					
Legal/Zoning					
Deferred maintenance					
Adjusted price*					
Property rights adjustment					
Adjusted price**					
Financing adjustment					
Conditions of sale adjustment					
Adjusted price***					
Market conditions adjustment					
Adjusted price ****					
Adjusted sale price per unit					
_____ adjustment					
_____ adjustment					
_____ adjustment					
_____ adjustment					
Final adjusted sale price per unit					

- * Sale price adjusted for buyer expenditures.
- ** Sale price further adjusted for property rights conveyed.
- *** Sale price further adjusted for financing and conditions of sale.
- **** Sale price further adjusted for market conditions.

Comparable Improved Sales Adjustment Grid

Element	Subject	Sale 1	Sale 2	Sale 3	Sale 4
Sale price					
Buyer expenditures					
Demolition					
Environmental					
Legal/Zoning					
Deferred maintenance					
Adjusted price*					
Property rights adjustment					
Adjusted price**					
Financing adjustment					
Conditions of sale adjustment					
Adjusted price***					
Market conditions adjustment					
Adjusted price ****					
Adjusted sale price per unit					
_____ adjustment					
_____ adjustment					
_____ adjustment					
_____ adjustment					
Final adjusted sale price per unit					

- * Sale price adjusted for buyer expenditures.
- ** Sale price further adjusted for property rights conveyed.
- *** Sale price further adjusted for financing and conditions of sale.
- **** Sale price further adjusted for market conditions.

Reconstructed Operating Statement Kincaid Office Building

Base rent

Unit A - Kincaid Insurance	\$	
Unit B - Vacant Space		
Unit C - Marcus Moses		
Unit D - Dacy Chiropractic Clinic		

Total		\$ <u> </u>
-------	--	--------------------------------

Less vacancy and collection loss allowance

Total		\$ <u> </u>
-------	--	--------------------------------

Plus reimbursements

Real estate taxes	\$	
Insurance		
Common area maintenance		

Total		
-------	--	--

Effective gross income		\$ <u> </u>
------------------------	--	--------------------------------

Less expenses

Real estate taxes	\$	
Insurance		
Common area maintenance		
Management		
Miscellaneous		
Replacement allowance		

Total		
-------	--	--

Net operating income		\$ <u> </u>
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Capitalization rate

Reconstructed Operating Statement Kincaid Office Building

Base rent

Unit A - Kincaid Insurance	\$	
Unit B - Vacant Space		
Unit C - Marcus Moses		
Unit D - Dacy Chiropractic Clinic		

Total		\$ <u> </u>
-------	--	--------------------------------

Less vacancy and collection loss allowance

Total		\$ <u> </u>
-------	--	--------------------------------

Plus reimbursements

Real estate taxes	\$	
Insurance		
Common area maintenance		

Total		
-------	--	--

Effective gross income		\$ <u> </u>
------------------------	--	--------------------------------

Less expenses

Real estate taxes	\$	
Insurance		
Common area maintenance		
Management		
Miscellaneous		
Replacement allowance		

Total		
-------	--	--

Net operating income		\$ <u> </u>
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Capitalization rate

Writing Assignment 1

Three Sections of a Neighborhood Analysis

Insert Writing Assignment 1 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 6 Highest and Best Use Analysis

Insert Writing Assignment 6 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 2

Site Value Opinion

Insert Writing Assignment 2 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 3

Cost Approach

Insert Writing Assignment 3 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 4

Sales Comparison Approach

Insert Writing Assignment 4 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 5

Income Capitalization Approach

Insert Writing Assignment 5 after this page.
For specific directions, see the Course Handbook.

Writing Assignment 7 Reconciliation and Final Value Opinion

Insert Writing Assignment 7 after this page.
For specific directions, see the Course Handbook.



End of Examination