

SELF-CONTAINED APPRAISAL REPORT
OF

SUBJECT PROPERTY

AS OF
JUNE 25, 2007

PREPARED FOR

CLIENT

PREPARED BY

PJL REALTY ADVISORS, INC.
714 BETHLEHEM PIKE - SUITE 100
ERDENHEIM, PENNSYLVANIA

PREFACE

THIS REPORT HAS BEEN SUBMITTED FOR DEMONSTRATION PURPOSES ONLY; IT IS TO ILLUSTRATE THE REPORT FORMAT USED.

DELETIONS TO THE TEXT HAVE BEEN MADE IN ORDER TO PRESERVE THE CLIENT'S CONFIDENTIAL INFORMATION. THE REPORT IS TO BE CONSIDERED STRICTLY CONFIDENTIAL IN NATURE.

REPRODUCTION OR DISCLOSURE OF THIS REPORT IS NOT PERMITTED WITHOUT THE PRIOR WRITTEN CONSENT FROM **PJL REALTY ADVISORS, INC.**

June 25, 2007

Client

Re: **Subject Building**

Dear Sir or Madam:

In accordance with your request, I have inspected the referenced property for the purpose of estimating the values as presented in the accompanying report. The effective date of this report is June 25, 2007; and the date of inspection was June 25, 2007.

This appraisal has been completed in accordance with the instructions set forth in the Engagement Letter and is a self-contained appraisal report. The subject property has been valued in its fee simple estate. The function of the appraisal is to estimate values for financing purposes.

Site development and building plans have been provided and relied upon. The right is reserved to amend the estimates of value should further information be made available.

No hazardous or potentially hazardous materials have been observed at the subject property; however individuals of this company are not qualified to detect such substances. It is our opinion that an environmental audit be conducted. As the presence of hazardous or potentially hazardous materials may affect the value of the subject property, the right is reserved to amend the value should an audit detect such substances.

Your attention is directed to the accompanying report that describes the subject property, the market data, the results of the investigations and analyses, and the reasoning leading to the conclusions.

This valuation has been made in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation, and the requirements of the Standards of Professional Practice and Code of Professional Ethics of the Appraisal Institute. This valuation has also been written in compliance with FIRREA regulations.

Client

June 25, 2007

PJL Realty Advisors, Inc., 07-1954

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Numerous estimates and assumptions regarding property performance and general and local business conditions are incorporated in this report. It also assumes that no material changes in the market will occur over the projection period. However, some changes will most likely occur, while some assumptions and projections may not materialize. Therefore, actual results achieved during the period covered may differ from those projected and the variance could be substantial.

Thank you for the opportunity to provide professional real estate services. If you should have any questions, please call.

Respectfully submitted,

PJL REALTY ADVISORS, INC.

SAMPLE REPORT

Paul J. Leis, MAI, CRE

President

Pennsylvania General Appraiser

Certificate Number: GA-000324-L

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SAMPLE REPORT

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PHOTOGRAPHS
SUBJECT PROPERTY

SAMPLE REPORT

**CERTIFICATION
- AND -
ASSUMPTIONS, LIMITING CONDITIONS AND CONTINGENCIES**

SAMPLE REPORT

CERTIFICATION

To the best of his knowledge and belief, Paul J. Leis, MAI, CRE, does hereby certify to the following, except as otherwise noted in this report:

Upon request for valuation by **Client**, I have personally inspected the following described subject property:

Subject Property
Township
County, State

2. I am of the opinion that as of June 25, 2007 the as is market value of the fee simple estate of the subject land, as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

Three Hundred Fifty Thousand Dollars
(\$350,000);

I am of the opinion that as of June 1, 2008 the prospective future market value of the fee simple estate of the subject under the extraordinary assumption that construction has been completed as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

One Million Seven Hundred Fifty Thousand Dollars
(\$1,750,000);

Also, I am of the opinion that as of June 1, 2009 the prospective future market value of the fee simple estate of the subject under the extraordinary assumption that construction has been completed and stabilized occupancy has been achieved as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

Two Million Twenty-five Thousand Dollars
(\$2,025,000);

Site development and building plans have been provided and relied upon. The right is reserved to amend the estimates of value should further information be made available.

No hazardous or potentially hazardous substances have been observed at the subject property; however, this company is not qualified to detect such substances. As the presence of hazardous or potentially hazardous materials may affect the value of the subject property, the right is reserved to amend the values should an audit (s) detect such substances;

The preceding as is market value assumes an exposure time of nine months. The preceding as is market value assumes a marketing time of nine months;

3. The statements of fact contained herein are true and correct;
4. I have no present or prospective interest in the property that is the subject of this report, and have no personal interest or bias with respect to the subject matter of this report or the parties involved;
5. The terms of the assignment and reported analyses, opinions, and conclusions are limited only by the reported assumptions, limiting conditions, and contingencies below, and are my personal, unbiased professional analyses, opinions, and conclusions;
6. My compensation is not contingent upon an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report; nor is it contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. The assignment has not been based on a requested minimum valuation, a specific valuation, or the approval of a loan;
7. No one provided significant professional assistance other than Paul J. Leis, MAI, CRE, in preparing the analyses, conclusions, and opinions concerning real estate;
8. The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
9. As of the date of this report, I, Paul J. Leis, MAI, CRE, have completed the requirements under the continuing education program of the Appraisal Institute;
10. No further educational requirements were necessary to comply with the Competency Provision of USPAP;
11. I, Paul J. Leis, MAI, CRE, am currently certified by the states of Pennsylvania (GA-000324-L), New Jersey (RG-00862), and Delaware (X10000075) as a General Appraiser;
12. This valuation has been made in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation, and the requirements of the Standards of Professional Practice and Code of Professional Ethics of the Appraisal Institute. This valuation has also been written in compliance with FIRREA regulations; and

13. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

Paul J. Leis, MAI, CRE
President
PJL Realty Advisors, Inc. 07-1954
Pennsylvania General Appraiser
Certificate Number: GA-000324-L

SAMPLE REPORT

ASSUMPTIONS, LIMITING CONDITIONS AND CONTINGENCIES

The following assumptions, limiting conditions and contingencies apply to this assignment, except as otherwise noted in this report:

1. Information provided by parties not employed by this company is assumed true and correct, and no liability resulting from misinformation is assumed by us;
2. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded;
3. I take no responsibility for events, actions, conditions, or circumstances affecting the subject property or its market value that take place subsequent to either the date of value contained in this report, or to the date of field inspection, whichever occurs first;
4. No responsibility is assumed by me for hidden or unapparent conditions of the subject property, subsoil or structures which would render it more or less valuable, or for engineering which may be required to discover such conditions;
5. To the best of my knowledge, there are no existing judgments or pending or threatened litigation which could affect the value of the property;
6. To the best of my knowledge, the property is in compliance with all applicable building, environmental, zoning, and other federal, state and local laws, regulations and codes;
7. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated;
8. I have made no survey of the property and have assumed no responsibility in connection with such matters. Any sketch or survey of the property included in this report is for illustrative purposes only. The report covers the property as described in this report, and the areas and dimensions set forth are assumed to be correct;
9. No opinion is expressed as to the value of subsurface oil, gas or mineral rights, if any, and I have assumed that the property is not subject to surface entry for the exploration or removal of such materials;
10. No responsibility is accepted by me for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal descriptions and other legal matters; geologic considerations, such as soils and seismic stability; and civil, mechanical, electrical, structural, and other engineering and environmental matters;
11. If the property is subject to one or more leases, any estimate of residual value may be particularly affected by significant changes in the condition of the economy, of the real estate industry, or of the appraised property at the time the lease (s) expire or otherwise terminate;

12. The value conclusion (s) applies to the real estate only, and does not include personal property, machinery and equipment, trade fixtures, business value, goodwill or other non-realty items. Income tax considerations have not been included or valued. I make no representations as to the value increment that may be attributed to such considerations;
13. The analyses necessarily incorporate numerous estimates and assumptions regarding property performance, general and local business and economic conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates, and the variations may be material;
14. The existence of potentially hazardous material used in the construction or maintenance of the improvements, such as the presence of urea formaldehyde foam insulation, asbestos, and/or existence of toxic waste or radon, which may or may not be present on or in the property, was not observed by me, nor do I have any knowledge of the existence of such materials on or in the property. I, however, am not qualified to detect such substances. The existence of these potentially hazardous materials may have an affect on value. The client (s) is urged to retain an expert in this field, if needed and/or desired;
15. In completing the report, it is understood and agreed that this report is not now intended, and will not be used in connection with a Real Estate Syndication or Syndicates. This report and any liability or obligation on the part of me is invalid if used in connection with a syndication;
16. This report is made for valuation purposes only. It is not intended, nor is it to be construed, to be an engineering report. I am not a qualified structural engineer, therefore not qualified to judge the structural integrity of the improvements. Consequently, no warranty, representation or liability is assumed for the structural soundness, quality, adequacy or capacities of said improvements and utility services, including the construction materials, particularly the roof, foundations, and equipment, including the HVAC system. Should there be any question concerning it, it is strongly recommended that an Engineering/Construction inspection be obtained. The value estimate (s) is predicated on the assumption that all improvements, equipment, and building services are structurally sound and suffer no concealed or latent defects or inadequacies;
17. I find no obvious evidence of insect infestation or damage, dry or wet rot. Since a thorough inspection by a competent inspector was not performed for me, the subject is assumed to be free of existing insect infestation, wet rot, dry rot, and any structural damage that may have been caused by pre-existing infestation or rot that was subsequently treated;
18. The client (s) by receipt of this report, shall indemnify and hold harmless this company and/or its individual staff members from and against all damages, expenses, claims, demands and costs, including legal fees incurred in investigating and defending any claims, arising from or in any way connected to the inclusion of the aforesaid reference to this company and/or its individual staff member's opinion (s) of value;

In any event, the maximum damages recoverable from this company or its employees relative to this engagement shall be the amount of the monies actually collected by this company for this assignment and under no circumstances shall any claim for consequential damages be made. In addition, there is no accountability or liability to any third party;

20. The Americans with Disabilities Act (referred to hereafter as the "ADA") became effective on January 26, 1992. The author has not made a specific compliance survey and analysis of the building and/or other improvements erected on the subject property to determine whether or not the appraised property is in conformity with the various detailed requirements of the ADA, or with requirements imposed by state law and local building codes and regulations. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA and state and local regulations, could reveal that the subject property is not in compliance with one or more requirements of the ADA and/or state and local regulations. If the property does not comply with the ADA or with state and local regulations, this fact could have a negative effect upon the value of the property. Since the author has no direct evidence relating to this issue, possible noncompliance with the requirements of the ADA and state and local regulations has not been considered in estimating the value of the property. No responsibility is assumed for any possible noncompliance with the requirements of the ADA or with state and local regulations, or for any expertise or engineering knowledge required to discover such noncompliance.

This report is to be used in whole and not in part. No part of it shall be used in conjunction with any other report.

I assume no responsibility for matters that are of a legal nature, nor is any opinion on the title rendered herewith. Good and marketable title is assumed. Management is assumed to be competent and the ownership to be in responsible hands.

By reason of this report, I am not required to give testimony in court with reference to the property appraised unless arrangements have been previously made therefore. However, I am prepared to give testimony in support of this report provided that arrangements are made before testimony.

Disclosure of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Therefore, except as hereinafter provided, the party for whom this report was prepared, may distribute copies of this report, in its entirety, to such third parties as may be selected by the party for whom this report was prepared; however, selected portions of this report shall not be given to third parties without the prior written consent of the signatory of this report. Further, neither all nor any part of this report shall be disseminated to the general public by the use of advertising media, public relations media, sales media, or other media for public communication (including, without limitation, prospectuses, private offering memoranda, and other offering material provided to prospective investors) without the prior written consent of the signatory of this report, to ensure the accuracy and adequacy of such references to this report.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

SAMPLE REPORT

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

| | |
|-----------------------|---|
| Property Appraised: | Subject Property |
| Type of Report: | Self-contained appraisal report. |
| Property Type: | Class B, multi-tenant, one and partial two story office building to contain 7,525 square feet, gross, and 7,119 square feet of rentable area. |
| Land Area: | Approximately 0.215 acres. |
| Improvements: | Proposed multi-tenant, one and partial two-story office building. |
| Age of Improvements: | Proposed. |
| Ownership: | ... |
| Occupancy: | Not applicable. |
| Zip Code: | ... |
| Census Tract: | ... |
| Flood Insurance Zone: | Zone X. |
| Zoning: | VI. |
| Tax Parcel Numbers: | ... |
| Assessment: | Estimated at \$115,085. |
| Real Estate Taxes: | Estimated at of \$14,448, rounded to \$14,000. |
| Highest and Best Use | |
| As Vacant: | Office development. |
| As Improved: | Vacant. |
| Appraised Interest: | Fee Simple Estate. |
| Date of Valuation: | As is market value of land..... June 25, 2007. Prospective future market value upon construction completion June 1, 2008. Prospective future market value at stabilized occupancy June 1, 2009. |
| Valuation: | As is value of land..... \$350,000. Prospective future market value upon construction completion \$1,750,000. Prospective future market value upon completion and at stabilized occupancy..... \$2,025,000. |
| Land Value: | \$350,000 |

| | As Is Market Value of Land | Prospective Future Market Value At Construction Completion | Prospective Future Value At Stabilized Occupancy |
|--|-------------------------------|--|--|
| Cost Approach: | \$350,000 | \$1,680,000 | \$1,950,000 |
| Direct Sale Comparison Approach: | \$350,000 | \$1,800,000 | \$2,025,000 |
| Income Capitalization/ Development Analysis Approach: | \$360,000 | \$1,750,000 | \$2,050,000 |

Exposure Time: 9 months.

Marketing Time: 9 months.

Hazardous Substances: No hazardous or potentially hazardous substances have been observed at the subject property; however, this company is not qualified to detect such substances. As the presence of hazardous or potentially hazardous materials may affect the value of the subject property, the right is reserved to amend the values should an audit (s) detect such substances.

GENERAL INFORMATION

SAMPLE REPORT

IDENTIFICATION OF SUBJECT PROPERTY

The subject of this appraisal is a proposed Class B multi-tenant, one and partial two-story office building known as Upon completion, the building will contain 7,525 square feet, gross, and 7,119 square feet, rentable. The subject is part of an existing office complex which contains 3 office buildings. This appraisal is for Phase III of the office complex. The site is located ... The subject is situated on a portion of tax parcel number The subject's land area totals 0.2146 acres. No legal description was provided.

PURPOSE AND INTENDED USE OF APPRAISAL

The purpose of this appraisal is to perform a written, self-contained report estimating the as is market value and the prospective future market value of the fee simple interest at completion of construction and at stabilized occupancy of the subject property, as fully described herein. The last date of inspection was June 25, 2007.

Market Value

"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 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: (A) Buyer and seller are typically motivated; (B) both parties are well informed or well advised, and each acting in what he considers his 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

Prospective Future Market Value at Completion of Construction

Prospective future value of a property on the date that construction is completed, based upon market conditions forecast to exist as of that completion date.²

¹Office of the Federal Register, The National Archives of the United States, Code of Federal Regulations, Volume 12, Parts 500-599, Banks and Banking (Washington, D. C.; U. S. Government Printing Office, 1988), 333.

²*Ibid.*, 512.

Prospective Future Market Value at Stabilized Occupancy

The prospective future value of 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.³

Exposure Time

"The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market."⁴

Marketing Time

"The reasonable marketing time is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal."⁵

The intended use of this appraisal is to provide value estimates as defined herein for the subject for financing purposes. The judgements and conclusions herein also pertain to any other function requiring an estimate of market value. **Client** is the intended user and client for this appraisal. Any use of this report by other entities or for other purposes is not intended.

PROPERTY RIGHTS APPRAISED

The property rights appraised consist of the fee simple interest in the land and all improvements only; no business value, trade fixtures, equipment, or chattels have been valued in this appraisal assignment. Also, no consideration has been given to any leasehold interest or interests, if any.

Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.⁶ The four powers of government are taxation, eminent domain, police power, and escheat.

³Office of the Federal Register, The National Archives of the United States, Code of Federal Regulations Volume 12, Parts 500-599, Banks and Banking (Washington, D. C. : U. S. Government Printing Office, 1988), 512.

³Appraisal Standards Board of the Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 1993 Edition.

⁴Statement on Appraisal Standards No. 6 (SMT-6)", (The Appraisal Foundation, 1993), 63.

⁴Ibid, "Advisory Opinion G-7", 83.

⁶American Institute of Real Estate Appraisers, The Dictionary of Real Estate Appraisal, 2nd edition (Chicago: AIREA, 1989), 120.

SCOPE OF APPRAISAL SERVICES

The scope of appraisal services rendered in this appraisal consist of: 1) definition of valuation question, 2) determination of necessary data, 3) subject property inspection, 4) comparable sales inspections, 5) consideration of relevant economic and demographic data, 6) verification with a knowledgeable party of the property and transaction facts involving the comparable data, 7) consideration of zoning and/or other restrictions, 8) highest and best use analysis, 9) application of the appropriate valuation methods, 10) reconciliation of value estimates, and 11) value conclusion for the subject property.

Sources of general information have included various municipal offices and appropriate industry manuals and sources as referenced within the report including a review of the zoning ordinance, county public records, CoStar, Trend Multiple Listing Service, STDBonline demographics, Marshall Valuation Service and census data.

Sources of specific data have included floor plans, site plan, construction cost bids, rent roll for existing buildings in the office complex, and other information as referenced within the report. The cost approach, direct sales comparison approach, and income approach have all been utilized to obtain the requested values.

HISTORY OF SUBJECT PROPERTY

The subject was acquired...

ASSESSMENT AND TAXES

The current total tax rate for ... is \$125.54211 per \$1,000 of assessed value.

The current assessment is \$42,200 for taxes of \$5,298. Upon completion, the building will contain a total of 7,525 square feet. In order to project the tax liability for the subject upon completion of construction, an analysis of existing multi-tenant office buildings in the subject area was derived. The following chart details these assessments on a per square foot basis.

| COMPARATIVE TAX ASSESSMENT CHART ... COUNTY OFFICE BUILDINGS | | | | | | |
|---|-------------------------------|-------------------------|---------------|---------|---------------------------------|------------------------------|
| LOCATION | BUILDING AREA (SQ. FT.) | LAND AREA (ACRES) | YEAR BUILT | STORIES | TOTAL BUILDING ASSESSMENT | ASSESSMENT PER SQ. FT. |
| Building 1 | 51,294 | 4.72 | 1985 | 3 | \$776,560 | \$15.14 |
| Building 2 | 139,400 | 0.61 | 1973 | 8 | \$1,023,960 | \$7.35 |
| Building 3 | 130,000 | 5.92 | 1990 | 4 | \$2,074,600 | \$15.96 |
| Building 4 | 92,859 | 5.85 | 1991 | 4 | \$1,067,720 | \$11.50 |
| Building 5 | 130,060 | 15.48 | 2005 | 3 | \$1,460,060 | \$11.23 |
| Building 6 | 106,250 | 14.41 | 2001 | 3 | \$1,757,680 | \$16.54 |

The comparables result in a range from \$7.35 to \$16.54 per square foot of assessment, for an average assessment of \$12.56 with an average building size of 108,310 square feet. The lowest assessment is for the oldest building. The newest building may be an interim assessment while the building leases up. The subject will be a high end office building thus its assessment will likely fall at the higher end of the range. Also considered are the taxes at the existing 3 buildings at the subject's office complex. Taxes for the 3 buildings total \$116,806 for 60,744 square feet, or \$1.92 per square foot. The projected assessment for the subject is \$15.29 per square foot for the initial year, or the equivalent of \$115,085. Multiplying the total projected assessment by the tax rate, results in a total annual tax liability of \$14,448, rounded to \$14,000. Taxes are deducted during construction.

ECONOMIC AND MARKET ANALYSES

SAMPLE REPORT

AREA ANALYSIS AND TRENDS

Introduction

The subject property is located in Bucks County, which is in the southeastern quadrant of the state of Pennsylvania and is approximately midway along the Boston-Washington Corridor. The Delaware River and the counties of Hunterdon and Mercer in New Jersey border the subject county on the north and east. The Pennsylvania counties of Northampton and Lehigh border the subject county to the north and west, and to the south and west it is bordered by the Pennsylvania counties of Montgomery and Philadelphia.

Containing 610 square miles of land area, Bucks County has 54 municipalities, of which 23 are boroughs and 31 are townships. Bucks County is frequently divided into three geographical areas for purposes of discussion and comparison; namely, Upper, Central, and Lower.

Upper Bucks County consists of 9 boroughs and 12 townships. Its 265 square miles of land area, comprising approximately 43 percent of the total county area, are located in the northwestern section of the county. Lower Bucks County consists of eight boroughs and six townships. Located in the southeastern portion of the county, the 114 square miles of Lower Bucks County comprise less than 20 percent of Bucks County's total land area, although it has the largest population of the three areas.

Population

Bucks County has seen rapid growth in the 20 years following 1940. This growth has been unmatched in Pennsylvania, and approached by only a few counties throughout the United States. Between 1940 and 1950, the population increased 30 percent, and between 1950 and 1960 the population increased 113 percent. An increase of 35 percent occurred between 1960 and 1970. Shown on the following chart are the population changes, divided regionally, in Bucks County.

| POPULATION STUDY AREA ESTIMATES & PROJECTIONS 1980 - 2012 | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| LOCATION | 1990 POPULATION | 2000 POPULATION | 2007 POPULATION | 2012 POPULATION |
| County Total | 541,182 | 597,635 | 638,174 | 667,760 |

Source: STDB Online

Population within county grew 10.4 percent to 597,635 people by 2000. By 2007, the population is estimated to total 638,174, an increase of 6.8 percent. Projections for 2012 indicate an increase in population of 4.6 percent to 667,760 people in the county.

Housing Units and Households

Between 1980 and 2000, the number of housing units in Bucks County increased by 60,060, or 36.3 percent.

BUCKS COUNTY HOUSING UNIT CENSUS FIGURES AND PROJECTIONS 1990 - 2012

| AREA | 1990 | 2000 | 2007 | 2012 |
|---------------|---------|---------|---------|---------|
| Housing Units | 190,510 | 218,725 | 236,126 | 248,543 |
| Households | -- | 225,498 | 242,873 | 255,305 |

Source: STDBonline

These figures indicate a 14.8 percent increase in the number of households in Bucks County from 1990 to 2000 and an 8.0 percent increase from 2000 to 2007. An additional increase of 5.3 percent is projected by 2012, or 12,417 households. The 2000 Census estimated there were 225,498 housing units in 2000 with an estimated 242,873 housing units by 2007, an increase of 7.7 percent. By 2012, there is an estimated 255,305 housing units in the county, an increase of 12,432 units from the previous 5 years.

Income

Per capita, average and median household incomes have consistently increased in the last two decades.

INCOME LEVELS BUCKS COUNTY 1990 - 2012

| INCOME CATEGORY | 1990 (CENSUS) | 2000 (CENSUS) | PERCENT CHANGE 1990 - 2000 | 2007 (ESTIMATED) | 2012 (PROJECTED) | PERCENT CHANGE 2005 - 2010 |
|----------------------|------------------|------------------|----------------------------------|---------------------|---------------------|----------------------------------|
| Per Capita | \$18,292 | \$27,430 | 50.0 | \$37,687 | \$47,564 | 26.2 |
| Average Household | \$51,595 | \$73,983 | 43.4 | \$101,357 | \$127,254 | 25.5 |
| Median Household | \$43,347 | \$59,726 | 37.8 | \$78,883 | \$95,624 | 21.2 |

Source: STDB Online

According to STDB Online the average household income in 1990 was \$51,595 and \$73,983 as of 2000. The estimate for 2007 is an average household income level of \$101,357 with a projected increase to \$127,254 by 2012.

Employment

Employment in Bucks County has been spurred by new development along the major arteries in the northern sections of the county.

BUCKS COUNTY EMPLOYMENT DATA 2000 - 2020

| YEAR | EMPLOYMENT | PERCENT INCREASE |
|------|------------|------------------|
| 2000 | 267,124 | -- |
| 2005 | 274,603 | 2.8 |
| 2010 | 292,453 | 6.5 |
| 2020 | 320,280 | 9.5 |

Source: Delaware Valley Regional Planning Commission, March 2005.

Employment in the county in 2000 was 267,124 with an estimated increase of 2.8 percent to 274,603 by 2005. Estimates for 2010 and 2020 show an additional increase of 6.5 percent and 9.5 percent, respectively. These figures indicated employment within the county is expected to remain strong, a fact that bodes well for the area.

TOP TEN PRIVATE-SECTOR EMPLOYERS AS OF 2004

| | |
|---|----------------------|
| Bucks County..... | Administration |
| Northtec LLC..... | Manufacturing |
| Healthcare Services..... | Admin Support |
| Doylestown Hospital..... | Health Services |
| Central Bucks School District..... | Educational Services |
| St. Mary's Medical Center (hospital)..... | Health Services |
| Pennsbury School District..... | Educational Services |
| The Woods School..... | Health Services |
| Giant Food Stores..... | Retail Supermarket |
| Grand View Hospital..... | Health Services |

Source: PA Dept of Labor and Industry

Construction employment has grown both in absolute numbers and as a percentage of total employment over this same period, reflecting the significant development that has occurred in Bucks County. Manufacturing has declined between 2000 and 2007 from 15.5 percent to 11.5 percent, and its share of total employment has declined. The retail trade; finance, insurance and real estate; and service industries all increased in absolute numbers and share of total employment. Finance, insurance and real estate (F.I.R.E.) more than doubled between 1985 and 1990, while the services industry showed a large gain. From 2000 to 2007, the number of persons in the services industry increased from 40.1 percent to 43.2 percent. Most labor markets have witnessed similar shifts toward a more service-oriented work force and projections for 2012 indicate a continuation of these trends.

Transportation

Bucks County is traversed by transportation arteries of all types that connect it with Northeast urban centers and the rest of the country, as well as neighboring counties in Pennsylvania and New Jersey. Interstate 76 (Pennsylvania Turnpike) crosses the southeastern portion of the county. Interstate 76 connects Bucks County with New Jersey to the east, and Ohio and most of Pennsylvania to the west. Direct access to this toll road is provided by two interchanges in Lower Bucks. Access to the Northeast Extension of the Pennsylvania Turnpike, which connects the northeastern quadrant of the state with the east-west turnpike, is provided by an interchange in the western portion of the county. Interstate 95 provides a north-south, high-speed route through the county. Extending from Maine to Florida, this limited-access roadway connects Bucks County with Mercer County in New Jersey to the north and with Philadelphia to the south. Six interchanges within Bucks County provide direct access to Interstate 95.

Federal and state routes enable access to the surrounding counties. Located in the southeastern portion of the county, U. S. Routes 1 and 13 connect Bucks County with New Jersey to the north, and to Philadelphia to the south. Bisecting the county in a north-south direction is U. S. Route 611. Passing through the county seat of Doylestown, this route connects Bucks County with Northampton County to the north and to Philadelphia to the south where it is known as Broad Street. Bisecting the county in a northeast-southwest direction is U. S. Route 202, which also passes through Doylestown. This route connects the county with the King of Prussia area in Montgomery County to the south, and to Hunterdon County and northern New Jersey to the north. Numerous county roads traverse Bucks County providing excellent access to the municipalities within the county and the immediate surrounding communities.

The U. S. Route 202 Bypass is a long-proposed artery that would facilitate travel between Doylestown, Bucks County and Norristown, Montgomery County. Initiation of this project could come before 2000 and would increase the accessibility of the subject to surrounding areas.

Passenger rail service via the Southeastern Pennsylvania Transit Authority (SEPTA) is available to downtown Philadelphia and bordering points. Amtrak provides intercity passenger service. Passenger bus service is provided by SEPTA and five smaller, private lines. Air service is available via the Philadelphia International Airport, and the North Philadelphia Airport. There are two major general-purpose airports designed for business aircraft and cargo hauling located in Doylestown and Quakertown, as well as five secondary airports that are located throughout the county. Water transportation is served by the ports of Trenton and Philadelphia.

Development**Building Permits
2000 - 4/2007**

| Year | Number of Permits Issued |
|--------|-----------------------------|
| 2000 | 2,768 |
| 2001 | 2,171 |
| 2002 | 2,815 |
| 2003 | 3,215 |
| 2004 | 2,226 |
| 2005 | 2,104 |
| 2006 | 1,552 |
| 4/2007 | 296 |

A general trend toward decreasing residential development is indicated. This decrease is due, in part, to a decline of available land for development and several building moratoriums within various townships. As of April 2007, 296 permits have been issued in the township for a trended total of 888 permits issued for 2007.

Conclusion

Bucks County has experienced substantial growth in population, households and income. All of the amenities required of persons living in an area are present, such as access to employment, good schools, and available shopping areas. Both the short- and long-term outlooks for the county are good.

NEIGHBORHOOD ANALYSIS AND TRENDS

Introduction

The subject property is located in ..., referred to as the "study area". ... is surrounded by Following is a discussion of factors affecting the study area. The 1990 and 2000 figures represent actual census figures; the 2007 figures represent estimates; and the 2012 figures represent projections.

Population

The chart below depicts population trends and projections concerning the study area.

**STUDY AREA POPULATION DATA
1990 - 2012**

| Year | Population | Percent Change |
|------|------------|----------------|
| 1990 | 2,565 | - |
| 2000 | 2,312 | -9.7 |
| 2007 | 2,328 | 0.7 |
| 2012 | 2,448 | 5.2 |

Source: STDB Online

Population in the study area decreased from 1990 to 2000 from 2,565 people to 2,312 people, a decline of almost 10 percent. Estimates for 2007 indicate a minimal population increase of 0.7 percent to 2,328 people with a more substantial increase of 5.2 percent to 2,448 people projected by 2012.

Households

Following is information concerning household and housing unit trends and projections in the study area.

**STUDY AREA HOUSEHOLDS
TRENDS AND PROJECTIONS
1990 - 2012**

| Year | Households | Percent Change |
|------|------------|----------------|
| 1990 | 1,066 | -- |
| 2000 | 920 | -13.7 |
| 2007 | 935 | 1.6 |
| 2012 | 992 | 6.1 |

Source: STDB Online

A 13.7 percent decrease was realized in the borough between 1990 and 2000. By 2007, the number of households is estimated to total 935, an increase of 1.6 percent with a 6.1 percent increase projected by 2012. Housing units in 2000 totaled 936 with an increase of 15 units to 951 estimated by 2007. Projections for 2012 indicate an increase of 58 housing units to 1,009.

Housing Permits

Between 2000 and 2005 there were 8 permits issued in the borough over the 6 year period. During 2006, 52 permits were issued with 12 permits issued as of April 2007.

Income

Presented below are average household income trends and projections for the study area.

STUDY AREA MEDIAN HOUSEHOLD INCOME 1990 - 2012

| Year | Income | Percent Change |
|------|-----------|----------------|
| 1990 | \$36,553 | — |
| 2000 | \$61,523 | 68.3 |
| 2007 | \$83,033 | 35.0 |
| 2012 | \$101,006 | 21.6 |

Source: STDB Online

Median household income levels increased by 68.3 percent between 1990 and 2000 from \$36,553 to \$61,523. Projections for 2012 show a further increase in income of 21.6 percent from the 2007 median income level of \$83,033.

Employment

In a report issued in March 2005, the *Delaware Valley Regional Planning Commission* estimated the 2000 employment within the township totaled 3,609. By 2010, the employment level is estimated to increase to 3,621, a 0.3 percent. Projections for 2020 show 3,722 employed persons, a 2.8 percent increase from the previous decade.

Immediate Neighborhood

The immediate neighborhood consists of...

Conclusion

The outlook for the study area for the subject property is positive with increases in population, households, and average household income levels expected through 2012.

MARKET ANALYSIS

Introduction

The subject property is a proposed Class B, multi-tenant office building within the ... office campus in ... Bucks County. Upon completion, the building will contain 7,525 square feet, gross, and 7,419 square feet of rentable area.

For an overall discussion of the general office market in the subject area, reports via *CoStar* have been utilized. The subject is located in the ... market, and is part of the ... submarket. As of the Second Quarter of 2007, *CoStar* surveyed 552 of the 597 office buildings in the market with 11,024,556 square feet in the ... market. Vacant space totaled 1,830,876 square feet for a vacancy rate of 16.6 percent. Office vacancies remained between 14 and 16 percent between the Second Quarter of 2004 through the Fourth Quarter of 2005. As of the Second Quarter of 2006, the overall vacancy rate dropped to 12 percent. During the First Quarter of 2007, the vacancy rate was just over 16 percent to its current rate of 16.6 percent. Year-to-date net absorption is negative 44,503 square feet and the average quoted office rental rate is \$23.37 per square foot per year. Quoted rates in the First Quarter of 2005 were \$22.36 per square foot per year and increased to \$22.79 per square foot per year in the First Quarter of 2006. No office buildings are reported as proposed by *CoStar*; however, 22 of the above buildings with a total of 202,552 square feet are reported to be under construction.

Finally, the office market within the subject's zip code area was researched. This market reportedly has 85 office buildings of which 78 were surveyed with a total of 1,365,494 square feet, of which 191,413 square feet is vacant, equal to 14.00 percent, with an additional 6,100 square feet available, or 0.04 percent, for sublet. Year-to-date net absorption is equal to 28,203 square feet. Asking rents range from \$19.00 to \$29.55 per square foot of building area, with an average of \$26.38 per square foot of rentable area. In the Third Quarter of 2004, 68 buildings with 1,076,432 square feet were surveyed with a total of 149,758 square feet available. Vacancy increased by 47,755 square feet over the past 10 quarters while 289,062 square feet was added to the market for net absorption of 241,307 square feet, equal to 24,130 square feet per quarter. The existing 197,513 square feet should be absorbed in 8.18 quarters, or 33 months, based upon past absorption.

Office Building Sales

According to *CoStar*, there were 17 office buildings sold in ... between January 2006 and the present in buildings ranging in size from 2,569 square feet to 25,262 square feet. The buildings ranged in unit price from \$183.19 per square foot for a portfolio of five buildings to \$379.53 per square foot for a condominium building with 2,569 square feet. A total of 185,922 square feet was sold with an average price of \$201.96 per square foot of building area.

CoStar lists 36 office units for sale ranging in size from 2,500 square feet to 24,000 square feet, with a total of 207,185 square feet and an average size of 5,755 square feet. Asking prices range from \$183.18 to \$354.52 per square foot of building area, with an average of \$213.85 per square foot of building area. Based upon the amount of space sold during 2006, there is a 14 month supply of office space available for sale.

Subject's Competitive Position

The subject is located within an existing office complex with 3 buildings which are all 100 percent occupied. Tenant spaces range from 315 square feet with a rental rate of \$44.95 per square foot to 11,000 square feet and a rental rate of \$31.40 per square foot, including CAM. The rental rates average \$23.13, \$25.13, and \$30.56 per square foot for the three existing buildings. The highest average of \$30.56 is for the newest building.

Proposed Projects

According to the *Bucks County Planning Commission*, no office space is proposed with the exception of the subject. In nearby ..., there is a 90,600 square foot office park proposed known as ... One developer is proposing office development of 32,000 square feet on 3 parcels. ... Developers is proposing 46,500 square feet of office space also in In general, proposed office space in 2006 increased less than 1 percent from the previous year. More than 430,000 square feet of office space was proposed in 2006, of which 80 percent was located in the central Bucks area. Almost 185,000 square feet was composed of 2 projects in ... and

Absorption

The subject should achieve similar success to the other ... buildings and, as such, its 7,119 square feet of rentable area should be leased within one year with six tenants. Based upon the preceding, it is projected the building should achieve stabilized occupancy within 12 months.

Conclusion

Overall, the subject area has experienced positive absorption over the past several years and should continue to experience positive absorption over the short term. The subject is part of a successful project that is 100 percent occupied. All factors considered the subject should achieve full occupancy in 1 year with three tenants with an average of 2,373 square feet.

PROPERTY DESCRIPTION

SAMPLE REPORT

DESCRIPTION OF SUBJECT SITE

The subject of this appraisal is a proposed a Class B, multi-tenant one and partial two story office building with a total of 7,525 square feet of gross building area (7,119 square feet, rentable). The subject is located within an existing office complex known as The site is located The site is a portion of tax parcel number No legal description has been provided.

From a visual inspection, the subject site is slightly above street grade and level and encompasses 0.2146 acres. The site is improved with a macadam paved parking area and several large trees. There are concrete curbs and sidewalks along Landscaping in the office complex consists of building shrubbery and trees. Public utilities serve the site.

Site development and building plans have been provided and relied upon. The right is reserved to amend the estimates of value should further information be made available.

No hazardous or potentially hazardous substances have been observed at the subject property; however, this company is not qualified to detect such substances. As the presence of hazardous or potentially hazardous materials may affect the value of the subject property, the right is reserved to amend the values should an audit (s) detect such substances.

According to HUD Flood Map Number 42017C0431 F, effective May 18, 1999, the subject is located in Zone X, outside of the 500 year flood potential.

An overall site plan indicates that parking for the subject will be shared with the existing buildings in the complex. One handicap stall will be installed in the front of the building. According to the developer, the parking ratio is 4:1.

Soils on the subject site consist of UfuB. Based on the surroundings, the site appears capable of supporting the proposed improvements.

| | | | | | | |
|------------|------------------------|----------------------|---|-----------------------|--------------|------------------|
| Roadways: | <u>Name of Roadway</u> | <u>Paved</u> | <u>No. of Lanes</u> | <u>Lane Direction</u> | <u>Curbs</u> | <u>Sidewalks</u> |
| | ...Street | Macadam | 2 | North-south | Yes | Yes |
| Frontages: | <u>Frontage Along</u> | <u>Front Footage</u> | <u>Comments</u> | | | |
| | ...Street | None | The subject will be accessed from the existing office complex; the subject has no direct frontage along ... | | | |

Surrounding properties consist of those uses as discussed in the "Neighborhood Analysis and Trends" section of this report. Overall, the subject is compatible with surrounding properties; and, it is functionally adequate and well suited for its proposed use.

ZONING

According to the ... zoning map, the subject site lies in the VI, Village Industrial District. Permitted uses in this district include municipal buildings, professional services, offices, service businesses, banks, eating places, repair shops, utility offices, manufacturing uses, wholesale business, contracting businesses, lumber yards, fuel storage and distribution centers, residential accessory uses, outside storage uses, dwellings in combination with a business, and satellites/antennas. Special exceptions include athletic facilities, service stations, auto repair and car wash uses, utility operating facilities, emergency services, and terminals. Developmental requirements of this district are as follows.

Bulk and Area Regulations

| | With Sewer | With On Lot Sewage Disposal |
|-------------------------------------|--|--------------------------------|
| Minimum Lot Area: | 3,000 SF | 1 acre |
| Minimum Lot Width at Bldg. Setback: | 60 feet | 150 feet |
| Maximum Impervious Coverage: | 0.75:1 | 0.75:1 |
| Maximum Building Height: | 35 feet | 35 feet |
| Minimum Front Yard: | 20 feet | 50 feet |
| Minimum Side Yard: | 6 feet | 30 feet |
| Minimum Rear Yard: | 20 feet | 50 feet |
| Parking: | 1 space per 120 SF of gross floor area plus 1 space for every employee. | |

We are not experts in the interpretation of zoning ordinances, however, the subject appears to be a legal, conforming use as proposed.

DESCRIPTION AND ANALYSIS OF IMPROVEMENTS

The subject of this appraisal is a proposed a Class B, multi-tenant one and partial two story office building with a total of 7,525 square feet in gross building area (7,119 square feet, rentable). The subject is part of an existing office complex known as Site improvements are as described in the "Description of Subject Site" section. The indicated land-to-building ratio upon completion will be 1.245:1; the floor area ratio upon construction completion will be 0.804:1

Site development and building plans have been provided and relied upon. The right is reserved to amend the estimates of value should further information be made available.

An outline of the general specifications of each of the improvements is presented below. It has been assumed that the subject's construction as planned will be completed in a good, timely and workmanlike manner and similar to the information provided.

| | |
|----------------|--|
| Type: | Proposed, one and partial two story office building. |
| Architect: | |
| Developer: | |
| Age: | Proposed. |
| Building Size: | Gross 7,525 square feet. Net Rentable 7,119 square feet. |
| Layout: | <p>The proposed building will be a one and partial two-story office building that will emulate industrial characteristics of the existing office buildings in the ... complex.</p> <p>The layout of the building will consist of two-story glass lobby with tenant areas on either side. Each floor will have 2, two-piece restrooms. The first floor will have a mechanical room, electrical data room, and sprinkler room.</p> <p>The foundation will be concrete slab and footings and a wood frame construction with steel tube columns and girder beams. The exterior will have a stucco façade with fiberglass shingle roof and aluminum fascias and downspouts. The glass entry will have a glass curtain wall system with 1" glazed window panels with the remainder windows aluminum clad casement windows.</p> <p>The interior will feature exposed steel beams, painted gypsum board walls, concrete floors with metal grate panels on the second floor lobby balcony. Tenant areas will be finished per tenant specifications.</p> |

| Interior Finish: | <u>Area</u> | <u>Floor</u> | <u>Ceiling Height</u> |
|------------------|--|---------------------|-----------------------|
| | First Floor Offices | Tenant Finished | 10.0' |
| | Lobby | Concrete | 28.7' (to peak) |
| | Hallways | Carpet/Ceramic Tile | 10.0' |
| | First Floor Restrooms | Ceramic Tile | 10.0' |
| | Second Floor Offices | Tenant Finished | 8.0' |
| Foundation: | 4 1/2" Concrete slab on 6 mil vapor barrier and 4" gravel bed. | | |
| Floor System: | Slab on grade on first floor with T/G plywood on second floor. | | |
| Exterior Walls: | Stucco. | | |
| Framing: | Wood framing with steel tube columns and steel girder beams. | | |
| Column Spacing: | Not available. | | |
| Ceiling Height: | 8.0' to 10.0'. | | |
| Interior Walls: | 5/8" painted gypsum wall board; ceramic tile in bathrooms. | | |
| Roofing: | Fiberglass shingle. | | |
| Trim: | Lobby areas will have metal trim around doors and vinyl base cove. | | |
| Windows: | Two-story lobby will have glass curtain wall system with vertically silicone glazed framing and 1" glazed window panels with the remainder windows aluminum clad casement windows. | | |
| Exterior Doors: | Aluminum and glass. | | |
| Interior Doors: | Solid core wood and clad wood and glass. | | |
| Loading Doors: | None. | | |
| Ceiling: | Suspended acoustical tile panels in metal track and painted gypsum wall board. | | |
| Stairs: | Central stairwell will be folded steel plate treads and risers with glass guards | | |
| Plumbing: | Two, 2 piece restrooms on each floor. | | |

Heating, Ventilation,
And Air Conditioning:

Forced air heating and cooling. Condensor units are located above shed roof with additional units ground based at the back of the buildings. VAV units are proposed for each tenant space located within their demised areas. A separate zone will serve the entrance stairwell and meeting room. Heat furnaces are gas fired.

Electrical:

Adequate.

Lighting:

Decorative surface lights and pendant lights.

Fire and Security Protection:

100 percent wet sprinklered throughout.

Elevators:

None.

Special Features:

Unknown.

ADA Compliance:

The subject will not comply with ADA requirements. In terms of access, ramps will be provided and the doors appear to be of dimensions sufficient to allow wheelchair access.

Condition and
Utility of Improvements

Physical Deterioration: None noted. The improvements will be newly constructed.

Functional Obsolescence: None noted.

External Obsolescence: None noted.

Overall, the subject improvements as designed are of functional design and utility. The presence of any hazardous or potentially hazardous substances has been presented previously in the letter of transmittal and reference is made thereto for a complete discussion.

HIGHEST AND BEST USE

An important factor in any valuation assignment, and the first step in the valuation process, involves the determination of the subject site's highest and best use. As used in this report, highest and best use is defined as:

The reasonably 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.¹

As Vacant

The first consideration in highest and best use is physical suitability. Access and visibility are good with its close proximity to.... With this exposure, the subject would best be utilized for office use. Legal uses of the subject site are as presented in the "Zoning" section. The subject is located within an existing office complex; offices are a permitted use.

In considering the market demand component of highest and best use, the subject's location and surrounding uses have been analyzed. As discussed in the "Market Analysis" section of this report, demand for office space has been increasing and positive absorption of space has been occurring. The surrounding properties are 100 percent occupied.

Considering the preceding factors and the analysis of the subject by the cost and income capitalization approaches, construction of the subject office building will generate a profit to the developer that is sufficient to warrant development. The highest and best use of the subject site as if vacant is considered development with an office building as proposed.

As Improved

The subject site is vacant.

¹American Institute of Real Estate Appraisers, The Dictionary of Real Estate Appraisal, 2nd Edition (Chicago: AIREA, 1989), 149.

VALUATION

SAMPLE REPORT

APPRAISAL PROCESS

The three approaches to value; namely, the cost, direct sales comparison, and income capitalization approaches have each been given consideration in the analysis of the subject property.

The cost approach uses all the physical data regarding the site and the improvements. In this approach, an estimate of site value is derived by comparing recent sales of similar land parcels to the site. An estimate of the cost to replace or reproduce the improvements is also made from which all items of physical, functional, and external obsolescence, if any, are deducted. The resulting depreciated cost new is added to land value to derive an estimate of market value by the cost approach. This approach to value is most useful when appraising new or special-purpose properties. Its reliability is decreased when considerable amounts of depreciation are evident. The cost approach has been developed to estimate the as is land value and the prospective future value of the office building as if constructed and stabilized.

The direct sales comparison approach relies upon transfers of similar properties as a basis for determining market value of the subject property. Inherent in this approach is the principle of substitution that states that a prudent purchaser would pay no more for real property than the cost of acquiring an equally desirable substitute on the open market. The direct sales comparison approach has been developed to estimate the market value of the subject property as is and the prospective future value of the office building as improved and at stabilized occupancy.

The income capitalization approach is concerned with the present worth of the anticipated future benefits of property ownership. Benefits are typically expressed in terms of net operating income after deducting all expenses from all income sources. The income capitalization approach has been developed to estimate the market value of the building as completed and stabilized. Benefits are typically expressed in terms of net operating income after deducting all expenses from all income sources. This process includes estimating the income and expenses and deducting the income to a present value. This approach has been applied to estimate the as is market value and the prospective future value of the office building as improved and at stabilized occupancy.

A number of positive and negative factors have been considered which affect the value of the subject property. The general influence of these factors has been considered in the same manner that it would be considered by buyers and sellers in the market. Among the positive adjustments considered are the following.

1. The subject is situated in an existing office complex.
2. Demand exists for well-located office space in the ... market area.
3. Positive absorption has occurred in the area.

Following are the items considered to affect the subject property negatively.

1. None noted.

COST APPROACH

Introduction

The cost approach is based on the principle of substitution, in that it assumes an informed purchaser would pay no more for a property than the cost to acquire a vacant site and construct an equally desirable building of similar utility, without undue delay. This approach is particularly applicable when the property being appraised involves proposed or relatively new improvements that represent highest and best use of the site.

The cost approach has been used to estimate the prospective future market value of the subject as completed and stabilized.

Wholesale Market Value Improved Site Estimate of Replacement Cost

Replacement cost is "The cost of construction, at current prices, of a building having utility equivalent to the building being appraised but built with modern materials and according to current standards, design, and layout".¹ The total of replacement cost plus land value and entrepreneurial profit usually provide an excellent indication of market value for new properties that do not suffer physical depreciation, functional and/or external obsolescence. The reliability of this approach decreases when such forms of depreciation exist.

In estimating the replacement cost new of the site improvements, information obtained from a national cost service along with estimates supplied by the developer have been utilized. These sources are considered to be reliable and have been used in developing a replacement cost estimate for the site improvements.

Land Value Reconciliation of Comparable Sales Land Sale Analysis

By applying specific percentage or dollar amount adjustments for the preceding factors, the factors have been considered that would be considered by buyers and sellers in the market. Essentially, this is a bracketing process by which a sale exhibiting an inferior characteristic has been adjusted upward, and one that is superior has been adjusted downward. When the characteristic is equivalent to the subject, no adjustment has been applied.

The first three adjustments necessary when comparing the comparables to the subject site are property rights conveyed, special or unusual financing, and conditions of sale.

The initial adjustments pertain to transfer of a whole or partial interest in title; the second adjustment represents special or unusual financing which positively or negatively affects the price paid, such as owner financing, bond money, et cetera, and the third adjustment is based on condition of sale including motivation of the parties, e.g., distressed sales, assemblage purchases, and the like.

¹American Institute of Real Estate Appraisers, The Dictionary of Real Estate Appraisal, 2nd edition (Chicago: AIREA, 1989), 254.

COMPARABLE OFFICE LAND SALES

| Sale # | Location | Sale Date | Consideration | Land Area Acres | Prop Bldg Area SF | Sale Price Per Acre | Sale Price Per SF Bldg | Topography | Land-to-Bldg Ratio |
|---------|----------|-----------|---------------|-----------------|-------------------|---------------------|------------------------|-------------------------|--------------------|
| 1 | Comp 1 | Oct-06 | \$ 650,000 | 1.10 | 8,820 | \$ 589,302 | \$ 73.70 | Sloping Clear | 4.49:1 |
| 2 | Comp 2 | Mar-05 | \$ 3,036,992 | 10.93 | 110,000 | \$ 277,858 | \$ 27.61 | Level at grade | 4.33:1 |
| 3 | Comp 3 | Nov-04 | \$ 6,247,415 | 14.68 | 142,381 | \$ 425,573 | \$ 43.88 | Level at grade | 4.49:1 |
| Subject | | Apr-07 | \$ 200,000 | 0.21 | 7,525 | \$ 931,966 | \$ 26.58 | At grade Upward Sloping | 0.635:1 |

Comparable Sales Analysis

| Comparable | 1 | 2 | 3 | Subject |
|-------------------------|----------|----------|----------|----------|
| Adjustments/ Sale Price | \$ 73.70 | \$ 27.61 | \$ 43.88 | \$ 26.58 |
| Owner Interest | 0% | 0% | 0% | 0% |
| Financing/Motivation | 0% | 0% | 0% | 0% |
| Time | 0% | 6% | 12% | 0% |
| Adjusted Sale Price | \$ 73.70 | \$ 29.27 | \$ 49.14 | \$ 26.58 |
| Location | 5% | 0% | 0% | 0% |
| Size | 0% | 10% | 10% | 0% |
| Zoning | 0% | 0% | 0% | 0% |
| Overall Utility | -5% | -5% | -5% | 0% |
| Land-to-Bldg | 10% | 0% | 0% | 25% |
| Access/Visibility | 0% | 0% | 0% | 0% |
| Topography | -50% | 50% | 0% | 50% |
| Approvals/Improvements | | | | |

Net Adjustments
Adjusted Unit Rate

| | | | |
|----------|----------|----------|----------|
| \$ -40% | \$ 55% | \$ 5% | \$ 75% |
| \$ 44.22 | \$ 45.36 | \$ 51.60 | \$ 46.51 |

Average 47.06

Adjustments for Owner Interest

The subject land is being analyzed as a fee simple interest as are the comparables. No adjustment has been applied.

Adjustments for Financing and Motivation

All the comparables were cash transactions (or the equivalent), and verification indicated no unusual or undue stimulus affecting the motivation of the parties, or special financing.

Adjustments for Time

An upward adjustment has been applied to Comparable Land Sale Numbers Two and Three from the original date of sale.

Adjustments for Location

Comparable Land Sale Number One has a more remote location than the subject and has been adjusted upward. The remaining sales are considered equal.

Adjustments for Size

Larger parcels typically sell for a lesser unit price while the reverse also holds true. For the smaller building size of the subject, Comparable Land Sale Numbers Two and Three have been adjusted upward.

Adjustments for Zoning

The zoning classifications for the comparables all allow for similar development as the subject; no adjustment has been warranted to the comparables.

Adjustments for Overall Utility

Factors considered under overall utility include topography, access/visibility, the land-to-building ratio and any other unusual items.

Comparable Land Sale Number One has a larger land-to-building ratio than the subject; however, the subject is part of a larger project, thus a slight downward adjustment has been applied. The subject has better access to ...; which warrants an upward adjustment for access. This sale included a building that was expanded and a downward adjustment has been applied for the contribution of the existing building.

The land-to-building ratio of Comparable Land Sale Number Two is larger than the subject requiring a downward adjustment. An upward adjustment has been applied to this sale for the building on the site that was demolished.

A downward adjustment has been applied to Comparable Land Sale Number Three for the subject's inferior land ratio. All other factors are considered equal.

**SUMMARY OF COST APPROACH-
REPLACEMENT COST NEW
Construction Completion**

As of June 2007

| | | |
|---|--------------------|--------------------|
| BUILDING COSTS- DIRECT | | |
| Base cost per square foot (1)(3)(4) | Office | Other |
| | \$116.93 | \$0.00 |
| Sprinkler adjustment | \$3.00 | 0 |
| Less: Elevator | \$0.00 | 0 |
| Adjusted base cost per square foot | \$119.93 | \$0.00 |
| Multi-story adjustment | 1.000 | 1.000 |
| Height per story multiplier | 1 | 1 |
| Floor area-Perimeter multiplier | 0.959 | 0 |
| Combined multipliers | 0.959 | 0 |
| Refined cost per square foot | \$115.01 | \$0.00 |
| Current cost multiplier | 1.11 | 0 |
| Local cost multiplier (2) | 1.23 | 0 |
| Final cost per square foot | \$157.03 | \$0.00 |
| Gross Building Area | 7,525 | 0 |
| Total rBuilding building area: | 7,525 | 0 |
| Lump sum adjustments - built-ins | \$0 | |
| Estimated Replacement Cost New - Building | \$1,181,629 | \$0 |
| Direct building costs | \$1,181,629 | |
| Basement Costs | \$0 | |
| Total direct building costs | \$1,181,629 | |
| SITE COSTS- DIRECT | | |
| Paving | \$0 | |
| Landscaping | \$31,407 | |
| Total Direct Costs - building and site | \$1,213,036 | |
| INDIRECT COSTS | 10.0% | \$88,414 |
| TOTAL DIRECT/INDIRECT COSTS | | \$1,301,450 |
| Per square foot | | \$172.95 |
| DEVELOPERS ESTIMATE | | \$1,294,742 |
| RECONCILED ESTIMATE | \$ | 1,330,000 |
| ENTREPRENEURIAL PROFIT | 0.0% | \$0 |
| ESTIMATED REPLACEMENT COST NEW | \$ | 1,330,000 |
| Per square foot | | \$176.74 |
| LESS DEPRECIATION | | |
| Physical - | | \$0 |
| Physical - building | 0.0% | \$0 |
| Physical - site improvements | 0.0% | \$0 |
| Functional | | \$0 |
| External | | \$0 |
| Total depreciation | | \$0 |
| DEPRECIATED COST NEW | | \$1,330,000 |
| PLUS LAND VALUE | | \$350,000 |
| INDICATED VALUE BY COST APPROACH | | \$1,680,000 |
| Rounded | | \$1,680,000 |
| Per sq. foot | | \$223.26 |

NOTES:

- (1) Based on an Average Quality Class C Office Building
 (2) Local multiplier based on Philadelphia, Pennsylvania, current cost from Section 99, page 3.
 (3) Office Section 15, Pages 17, 36, and 37.
 (4) Section 66, page 8
 Source: Marshall Valuation cost book, compiled by P.J.L Realty Advisors

PAVING CALCULATION:

| ITEM | AVERAGE COST/SF |
|-------------------------------|--------------------|
| Cost per square parking space | \$0.00 |
| Current Multiplier | 1.09 |
| Local Multiplier | 1.23 |
| TOTAL | \$0.00 |
| Number of Spaces | 0 |
| TOTAL COST | \$0 |

SECTION 66, PAGE 3

Low cost parking less 15% for number of lots

LANDSCAPING CALCULATION:

| ITEM | AVERAGE COST/SF |
|--------------------------|--------------------|
| Medium Areas | \$4.25 |
| Current Multiplier | 1.09 |
| Local Multiplier | 1.23 |
| TOTAL | \$5.70 |
| TOTAL SQUARE FEET | 5,512 |
| TOTAL COST | \$31,407 |

SECTION 66, PAGE 8

Soil prep., and seeding

The price for the subject is the net land value after selling the existing building on the front portion of the subject parcel. The subject is the rear lot; however since it becomes part of an existing office complex, an upward adjustment has been applied for access. This sale was subdivided from the front parcel, thus the upward adjustment for approvals.

Conclusion Cost Approach Land Value

Resulting from these adjustments is an indicated range in unit prices from \$44.22 to \$51.60 per square foot of building area, with an average of \$47.06 per square foot. . The estimated market value for the subject with a proposed building area of 7,525 square feet is \$46.50 per square foot or the equivalent of \$349,912, rounded to \$350,000.

Improvements Value - Stabilized

In analyzing the cost of the improvements to the subject lots, national cost data as published by *Marshall Valuation Service* has been used and developer's estimates.

Replacement Cost New - Improved Portion

The value of the proposed improvements is estimated utilizing *Marshall Valuation Service*. The value of the land is added to the depreciated replacement cost new of a similar structure.

Estimate of Building Improvements

The next step in this approach is the estimation of the reproduction cost of the improvements.

Estimate of Reproduction Cost

Reproduction cost is "The cost of construction, at current prices, of an exact duplicate, or replica, using the same materials, construction standards, design, layout and quality of workmanship, and embodying all the deficiencies, superadequacies, and obsolescence of the subject building".²

The total of reproduction cost plus land value and entrepreneurial profit usually provide an excellent indication of market value for new properties that do not suffer physical depreciation, functional and/or external obsolescence. The reliability of this approach decreases when such forms of depreciation exist.

In estimating the replacement cost new of the building and site improvements, information has been obtained from the *Marshall Valuation Service* manual and the developer.

Located on a facing page is the estimate of building and site costs derived via the cost manual. As shown, the total direct costs have been estimated at \$1,181,629 for the building and \$31,407 for the site improvements, for a total of \$1,213,036.

The manual's direct building costs are based on a Good Quality, Office Building of Class C construction found in Section 15 of the manual. This type of construction is classified in the manual as having steel framing. The interior features include painted drywall, acoustical tile ceiling, and vinyl composition.

¹ American Institute of Real Estate Appraisers, The Dictionary of Real Estate Appraisal, 2nd edition (Chicago: AIREA, 1989), 254.

SUMMARY OF COST APPROACH-
REPLACEMENT COST NEW
Stabilized Occupancy

As of June 2007

| | |
|---|-----------------|
| BUILDING COSTS- DIRECT | Office |
| Base cost per square foot (1)(3)(4) | \$116.93 |
| Sprinkler adjustment | \$3.00 |
| Less: Elevator | \$0.00 |
| Adjusted base cost per square foot | \$119.93 |

| | |
|---------------------------------|--------------|
| Multi-story adjustment | 1.000 |
| Height per story multiplier | 1 |
| Floor area-Perimeter multiplier | 0.959 |
| Combined multipliers | 0.959 |

| | |
|-------------------------------------|-----------------|
| Refined cost per square foot | \$115.01 |
| Current cost multiplier | 1.11 |
| Local cost multiplier (2) | 1.23 |

| | |
|--|--------------------|
| Final cost per square foot | \$157.03 |
| Gross Building Area | 7,525 |
| Total rBuilding building area: | 7,525 |
| Lump sum adjustments - built-ins | \$0 |
| Estimated Replacement Cost New - Building | \$1,181,629 |

| | |
|------------------------------------|--------------------|
| Direct building costs | \$1,181,629 |
| Basement Costs | \$0 |
| Total direct building costs | \$1,181,629 |

| | |
|---|--------------------|
| SITE COSTS- DIRECT | |
| Paving | \$0 |
| Landscaping | \$31,407 |
| Total Direct Costs - building and site | \$1,213,036 |

| | | |
|------------------------------------|-------|--------------------|
| INDIRECT COSTS | 10.0% | \$121,304 |
| TOTAL DIRECT/INDIRECT COSTS | | \$1,334,340 |
| Per square foot | | \$177.32 |

| | |
|----------------------------|--------------------|
| DEVELOPERS ESTIMATE | \$1,294,742 |
|----------------------------|--------------------|

| | | |
|-------------------------------|-------|-----------|
| RECONCILED ESTIMATE | \$ | 1,330,000 |
| ENTREPRENEURIAL PROFIT | 20.0% | \$266,000 |

| | | |
|---------------------------------------|----|-----------|
| ESTIMATED REPLACEMENT COST NEW | \$ | 1,596,000 |
| Per square foot | | \$212.89 |

| | | |
|------------------------------|------|------------|
| LESS DEPRECIATION | | |
| Physical - | | \$0 |
| Physical - building | 0.0% | \$0 |
| Physical - site improvements | 0.0% | \$0 |
| Functional | | \$0 |
| External | | \$0 |
| Total depreciation | | \$0 |

| | |
|-----------------------------|--------------------|
| DEPRECIATED COST NEW | \$1,596,000 |
| PLUS LAND VALUE | \$350,000 |

| | |
|---|--------------------|
| INDICATED VALUE BY COST APPROACH | \$1,946,000 |
| Rounded | \$1,950,000 |
| Per sq. foot | \$259.14 |

NOTES:

- (1) Based on an Average Quality Class C Office Building
(2) Local multiplier based on Philadelphia, Pennsylvania, current cost from Section 99, page 3.
(3) Office Section 15, Pages 17, 36, and 37.
(4) Section 66, page 8
Source: Marshall Valuation cost book, compiled by P.J.L. Realty Advisors

PAVING CALCULATION:

| ITEM | AVERAGE COST/SF |
|-------------------------------|--------------------|
| Cost per square parking space | \$0.00 |
| Current Multiplier | 1.09 |
| Local Multiplier | 1.23 |
| TOTAL | \$0.00 |
| Number of Spaces | 0 |
| TOTAL COST | \$0 |

SECTION 66, PAGE 3

Low cost parking less 15% for number of lots

LANDSCAPING CALCULATION:

| ITEM | AVERAGE COST/SF |
|--------------------------|--------------------|
| Medium Areas | \$4.25 |
| Current Multiplier | 1.09 |
| Local Multiplier | 1.23 |
| TOTAL | \$5.70 |
| TOTAL SQUARE FEET | 5,512 |
| TOTAL COST | \$31,407 |

SECTION 66, PAGE 8

Soil prep., and seeding

Mechanicals include adequate lighting and fixtures. Adjustments have been applied to reflect the subject's sprinklers and the elevator component. Multipliers have been applied for wall heights and area perimeters to reflect the physical attributes of the subject. Multipliers have also been applied to reflect current costs in the subject's locality. Regarding site costs, estimates of replacement cost new have been derived from Section 66 of the referenced cost manual.

Indirect costs are expenses for items other than labor and materials, and these items are not included in the manual's base costs. Items considered indirect costs include appraisal and professional fees, loan fees, real estate taxes, commissions, and other items. To account for these costs, an indirect cost factor of 10 percent has been applied to the estimated total direct costs. The result is an estimate of indirect costs of \$121,304. The total replacement cost of both the building and site improvements has been estimated at \$1,334,340 for the subject.

Alternatively, the developer supplied three bids with construction cost estimates with an average of \$1,294,742. The reconciled cost is \$1,330,000. This figure includes direct and indirect costs of construction along with site improvements.

Estimate of Entrepreneurial Profit

The next step in the cost approach is the addition of an appropriate entrepreneurial (developer's) profit. The developer has successfully negotiated a long-term lease for the building, secured financing, and will construct the improvements. As a result of these activities, value has been created over and above the cost to construct a building.

Since the greatest value for an investment property is created when a building achieves stabilized occupancy, the estimated profit for the subject is 20 percent.

Estimate of Accrued Depreciation

The final step in the cost approach is to estimate accrued depreciation. The subject building will be newly constructed. The estimated effective age is 0 years. The economic life expectancy of an Average to Good Class C, Office Building is 50 to 55 years; depreciation equates to 0 percent. Site depreciation has been estimated at 0 percent. Total depreciation is \$0.00.

The building has been designed in conformance with the latest area requirements. For this reason, no deductions have been applied for functional obsolescence. Additionally, there were no signs of external obsolescence present in the subject vicinity.

Market Value at Stabilized Occupancy

The indicated total cost new for the subject at stabilized occupancy is \$1,596,000. Adding land value of \$350,000, results in a total indicated market value at stabilized occupancy of \$1,950,000, rounded, or \$259.14 per square foot of gross building area.

Market Value at Construction Completion

The preceding value is for a building at stabilized occupancy. The following analysis considers that a shell building has been constructed and is empty. Indirect have been reduced by \$32,890 to \$88,414 for leasing commissions. Since no tenants have been secured, no profit is added.

The indicated value at construction completion of the building is \$1,330,000. Adding land value of \$350,000, results in a total indicated market value at construction completion of \$1,680,000, or \$223.26 per square foot of gross building area.

Conclusion of Cost Approach

Within this approach the following values for the subject property have been developed. A summary of the indicated values as of the effective dates has been presented below.

| | |
|--|-------------|
| Market Value As is..... | \$350,000 |
| Prospective future market value construction completion..... | \$1,680,000 |
| Prospective future market value stabilized occupancy | \$1,950,000 |

DIRECT SALES COMPARISON APPROACH

Introduction

The direct sales comparison approach is a method of estimating market value which uses recently sold, market derived, comparable sales. This approach to value assumes that the market will determine a price for the property being appraised in the same manner that it determines the price of comparable, competitive properties.

In applying the direct sales comparison approach, the appraiser employs a number of appraisal principles. One of the major principles is that of substitution, which holds that the value of a property, as replaceable in the marketplace, tends to be set by the cost of acquiring an equally desirable substitute property. Other principles inherent in this approach are those of supply and demand, balance, and externalities. The following pages present the development of the direct sales comparison approach.

Analysis of Comparable Sales

In developing the direct sales comparison approach, the market has been investigated for recent sales. From the investigation, data on several comparables that have been considered similar to the subject property has been obtained.

The subject improvements have been compared to the comparables based on the sale price per square foot of rentable building area including land. A detailed description of each sale is presented in the "Addendum".

Reconciliation of Comparable Sales Improved Sales

An analysis was conducted for the subject as completed and stabilized. The following adjustments were required.

Adjustment for Property Rights Conveyed

The subject represents a fee simple interest. The comparables are condominiums with slightly reduced rights and have been adjusted upward.

Adjustment for Financing/Motivation

Verification indicated no special financing. Additionally, all of the sales appear to be arm's-length transactions requiring no adjustment.

Adjustments for Condition of Market

Market data indicates that a resurgence in the Philadelphia PMSA has occurred. The subject is anticipated to achieve stabilized occupancy in 2009, thus upward adjustment has been applied to Comparable Improved Sale Numbers One, Three and Four.

COMPARABLE OFFICE BUILDING SALES

| Sale # | Location | Sale Date | Consideration | Building Area SF | Land Area Acres | Sale Price Per SF | Date Built | Overall Rate | Land-to-Building | Occupancy |
|--------|----------|-----------|---------------|------------------|-----------------|-------------------|------------|--------------|------------------|-------------------------|
| 1 | Comp 1 | Nov-06 | \$ 1,123,200 | 5,824 | 0.39 | \$ 192.86 | 2006 | | 2.94 | Vacant New Construction |
| 2 | Comp 2 | Jan-07 | \$ 543,825 | 2,416 | 0.16 | \$ 225.09 | 2006 | | 2.94 | Vacant New Construction |
| 3 | Comp 3 | Oct-06 | \$ 583,305 | 2,440 | 0.31 | \$ 239.06 | 2005-2006 | | 5.53 | Vacant New Construction |
| 4 | Comp 4 | Mar-06 | \$ 1,534,835 | 7,157 | 1.02 | \$ 214.45 | 2005-2006 | | 6.20 | Vacant New Construction |
| Sub | | Jul-07 | | 7,149 | 0.21 | | 2007 | | 1.31 | Vacant New Construction |

Comparable

Adjustments/ Sale Price

| | | | | | | | | | | |
|----------------------|-----|----|--------|----|--------|----|--------|----|--------|--|
| Property Rights | 5% | | | | | | | | | |
| Financing/Mortgage: | 0% | | | | | | | | | |
| Time | 5% | | | | | | | | | |
| Adjusted Sale Price | | \$ | 212.14 | \$ | 236.35 | \$ | 262.97 | \$ | 246.62 | |
| Location | 0% | | | | | | | | | |
| Size | 0% | | | | -5% | | -5% | | 0% | |
| Design | 15% | | | | 15% | | 15% | | 15% | |
| Overall Utility | | | | | | | | | | |
| Age/Condition | 0% | | | | 0% | | 0% | | 0% | |
| Land Area/topography | 0% | | | | 0% | | -10% | | -10% | |
| Access | 0% | | | | 0% | | 0% | | 0% | |
| Finish | 10% | | | | 10% | | 10% | | 10% | |

Net Adjustments
Adjusted Unit Rate

| | | | | | | | | | |
|---------|-----|--------|----|--------|----|--------|----|--------|--|
| | 25% | | | | | | | | |
| | \$ | 265.18 | \$ | 283.62 | \$ | 289.26 | \$ | 283.61 | |
| Average | \$ | 280.42 | | | | | | | |

Adjustments for Location

The subject and comparables have similar locations. No adjustments have been applied.

Adjustments for Size

Smaller buildings will typically command a higher unit price than otherwise equal, larger buildings. Comparable Improved Sale Numbers Two and Three are smaller than the subject and have been adjusted downward. No difference for size is noted for the remaining sales.

Design

The subject will be a modern, one and partial two story office building designed for multiple tenant occupancy and will be superior to the comparables that have all been adjusted upward.

Adjustments for Overall Utility

Included under this category are the age/condition, land area, access, and finish.

The subject will have superior finish to all the comparables and each has been adjusted upward.

Comparable Improved Sale Numbers Three and Four have higher land-to-building ratios than the subject and have been adjusted downward. The remaining sales are considered equal when the additional phases of the Stocking Works buildings are incorporated with the subject.

The subject and comparables have similar access.

Market Value at Stabilized Occupancy

After adjustment, the resulting range for the subject property is \$265.18 to \$289.62 per square foot of building area, with an average of \$280.42 per square foot. Greatest consideration was placed on Comparable Improved Sale Numbers Two, Three and Four that required the least adjustment.

The reconciled estimated prospective market value at stabilized occupancy is \$285.00 per square foot, or \$2,028,915, rounded to \$2,025,000.

Market Value at Construction Completion

In this analysis the subject is assumed to be constructed and vacant. A vacant building is a riskier investment than a stabilized building thus a deduction of 5.0 percent is applied to the stabilized value for an adjusted value of \$1,923,000, rounded. Deducted from the preceding value is the leasing commissions of \$32,890 and the difference in income of \$84,606 for an indicated value of \$1,805,504, rounded to \$1,800,000.

Market Value As Is

The cost to complete the building, including leasing commission of approximately \$1,362,890 must be deducted from the \$1,923,000. Additionally, the present value of the difference in net income over the lease up period at 10.0 percent must be deducted as follows.

| Stabilized Income | Net Income | Difference | Factor | Present Value |
|-------------------|------------|------------|--------|------------------|
| \$153,889 | \$69,283 | \$84,606 | 0.9090 | \$76,907 |
| \$153,889 | \$(5,298) | \$159,187 | 0.8264 | <u>\$131,552</u> |
| Total | | | | \$208,459 |

The indicated value is \$351,651, rounded to \$350,000.

Conclusion of Direct Sales Comparison Approach

Within this approach, the values for the subject property have been developed and a summary as of the effective dates has been presented below.

| | |
|---|-------------|
| Market Value As Is | \$350,000 |
| Prospective future market value at construction completion..... | \$1,800,000 |
| Prospective future market value at stabilized occupancy..... | \$2,025,000 |

INCOME CAPITALIZATION APPROACH

Introduction

In developing the income capitalization approach to value, the indicated value is considered to be the present worth of the net income the property will produce either during its remaining economic life or during a projected holding period. An income-producing property, by its nature, is typically purchased for investment purposes, and earning power is the most critical element that affects a property's value. An investor is essentially trading a sum of present dollars for the right to receive future dollars. The income capitalization approach to value uses various methods, techniques and mathematical procedures to analyze a property's ability to generate monetary benefits and to convert these benefits into an indication of present value.

Several appraisal principles are important to the income capitalization approach to value including the principles of anticipation and change, supply and demand, substitution, balance and externalities. The principle of anticipation is perhaps the most important as value is created by the expectations of benefits to be derived in the future. All income methods, techniques and procedures represent attempts to quantify expected future benefits.

In developing the income capitalization approach to value, two capitalization techniques are utilized. First, a stabilized income and expense statement for the subject building is estimated and the net operating income is then capitalized at an appropriate overall rate. Secondly, a discounted cash flow analysis is completed by analyzing income and expense trends over a projected holding period. The anticipated cash flows and reversion are discounted to a net present value using a rate considered appropriate for the subject property. This methodology best reflects the changes in income and expenses over the holding period.

Estimate of Gross Income

To estimate the market rent of the subject property, information on several properties that have been considered similar to the subject property have been obtained.

The comparables have been analyzed and compared to the subject property based on the rent per square foot of rentable area. A description of these comparables is presented on a facing page; photographs are presented in the "Addendum".

Reconciliation of Comparable Rentals

In analyzing the comparable rentals, factors such as date of lease, location, access, visibility, age and condition, lease terms and any other discernible differences have been considered. The adjusted unit rentals indicate a range into which the rental of the subject improvements should fall. The characteristics of these rentals in relation to the subject property are discussed below. On a facing page are the comparable leases used as comparison to the subject property.

COMPARABLE OFFICE BUILDING LEASES

| Sale # | Location | Tenant Name | Commence. Date | Term | Building Area S.F. | Rent Per S.F. Annual CPI | Expenses | TI'S |
|--------|----------|-------------|-------------------|------|-----------------------|--------------------------------|---------------|-----------------|
| 1 | Comp 1 | Tenant | Oct-06 | 6 | 780 | \$17.99 Annual CPI | \$8.46 CAM | None |
| 2 | Comp 2 | Tenant | Jan-06 | 4 | 576 | \$22.21 Annual CPI | \$9.38 CAM | None |
| 3 | Comp 3 | Tenant | May-06 | 3 | 1,695 | \$25.03 | Base CPI | Paint Carpet |
| 4 | Comp 4 | Tenant | Jan-06 | 3 | 3,240 | \$15.53 Annual CPI | \$7.96 CAM | As Is |
| Sub | | | | | 7,119 | | | |

Comparable Rental Analysis

| Comparable | 1 | 2 | 3 | 4 | Subject |
|--------------------|----------|----------|-----------|----------|---------|
| Rental Rate | \$ 17.99 | \$ 22.21 | \$ 25.00 | \$ 15.53 | \$ 0.00 |
| Time | 0.10 | \$ 0.25 | \$ 0.25 | \$ 0.25 | \$ - |
| Adjusted Unit Rent | 18.09 | \$ 22.46 | \$ 25.25 | \$ 15.78 | \$ - |
| Location | - | - | - | - | \$ - |
| Access/Visibility | - | - | 2.00 | - | \$ - |
| Size | - | - | 2.00 | 4.00 | \$ - |
| Age/Condition | 2.00 | 2.00 | 2.00 | 2.00 | \$ - |
| Lease Terms | - | - | (7.00) | - | \$ - |
| Net Adjustments | \$ 2.00 | \$ 2.00 | \$ (3.00) | \$ 6.00 | \$ - |
| Adjusted Unit Rate | \$ 20.09 | \$ 24.46 | \$ 22.25 | \$ 21.78 | \$ - |
| Average | \$ 22.14 | | | | |

Adjustments for Time

Asking rents have increased over the past year; upward adjustments have been applied.

Adjustments for Location

All of the comparables are considered to have a similar market location and have not been adjusted.

Adjustments for Access and Visibility

Comparable Rental Number Three has an inferior office visibility. However, as a medical office building this building has excellent location adjacent to a hospital. An upward adjustment has been applied. The remaining comparables are considered equal.

Adjustments for Size

Typically, smaller units rent for a higher square foot rent than otherwise equal, larger spaces. A comparison with Comparable Rental Number Four with Comparable Rental Numbers One and Two appears to indicate that smaller spaces have a higher rent. An upward adjustment has been applied to Comparable Rental Numbers Three and Four.

Adjustment for Age/Condition

The subject will be newly constructed and is considered superior to ... that was occupied by its first tenant in 1989. Building ... that was constructed in 2000 has been leased by larger tenants. The average base rent for the five tenants in this building is \$23.27 per square foot for tenants with an average size of 8,123 square feet. Upward adjustment has been applied to Comparable Rental Numbers One, Two and Four.

Adjustment for Lease Terms

Comparable Rental Number Three includes expenses and has been adjusted downward. The remaining comparables are considered equal.

After completing the analysis, the adjusted rentals range from \$20.09 and \$24.46 per square foot of rentable area, with an average of \$22.14 per square foot of rentable area. The estimated rent for the subject is \$22.00 per square foot of rentable area. Upon construction, the subject will have 7,119 square feet of rentable office area. The building will be designed for small tenants. Six tenants are assumed for the entire building with 4 tenants assumed for the first floor with approximately 1,195 square feet per tenant and 1,170 square feet per tenant space on the second floor for two tenants.

The estimated base rent for the entire building is \$156,618, which at stabilized occupancy increases to \$159,440.

Other Income

In addition to the base rent, the tenant is responsible for reimbursing the owner for operating expenses and for the tenant's share of electric. The indicated increase in the stabilized year is \$47,670.

Vacancy and Collection Loss

All of the rental comparables and the subject have rental terms of 3 to 6 years. Nonetheless, the current vacancy rate in Lower Bucks County is approximately 16.6 percent, with a rate of 14.04 percent for office space in the subject's zip code area. The buildings within the subject's office complex are 100 percent occupied.

As there is always the potential that a tenant will not pay rent, a deduction has been made to account for this possibility. The deduction applied is 2 percent of total projected loss of \$4,143. The effective rental income then becomes \$202,968.

Expenses

The subject building will be leased on a net basis basis. Following is a projection of expenses for the subject property.

Operating Expenses

The annual operating expenses of the subject property are projected in this analysis from a review of known operating statements of similar buildings. Each item of expense has been analyzed individually and an amount that the typically informed investor would consider reasonable has been projected.

In considering the expenses for the subject, recent operating information on other office buildings in the area were considered. The details of this history can be found in our files.

Fixed Expenses

Fixed charges accrue regardless of occupancy and have no direct relationship to revenue. These charges include real estate taxes and insurance.

Real Estate Taxes

Real estate taxes have been estimated previously at \$14,000 after the building is constructed and \$5,298 during construction.

Insurance

The insurance cost for a medical building in Cheltenham Township in 2005 was \$0.22 per square foot of building area. The cost for two office buildings in Jenkintown in 2006 were \$0.28 to \$0.32 per square foot of building area. The insurance cost at the existing Stocking Works buildings were \$0.15 per square foot. The estimate for the subject is \$0.15 per square foot of building area.

Utilities

Common utilities in Building ... were \$0.54 per square foot, with a rate of \$0.44 per square foot at Building ... and \$0.49 per square foot at Building CAM charges have been deducted at a rate of approximately \$0.50 per square foot.

Other Expenses

Additional expenses associated with the operation of the subject property include the following.

Janitorial

Cleaning cost at the two properties in Jenkintown were \$1.25 per square foot of building area. Janitorial and trash removal at Building ... was \$0.47 per square foot of rentable area, with a rate of \$0.11 per square foot at Building ... and \$0.65 per square foot at Building ... The landlord permits the tenant to determine the amount of cleaning that is to be performed in its space. Some tenants are cleaned every day with others once a week. The estimate for the subject building is \$0.47 per square foot.

General and Administrative

Included under this category are legal and accounting fees, office expenses, etc. The comparable exhibited costs of \$556 and \$1,715 per year. The estimate for the subject is \$1,000 per year.

Repairs and Maintenance

Included under this item are administration, landscaping costs, snow removal and parking lot maintenance, service contracts, security plumbing mechanical and roof repairs. The actual expenses at the comparable properties ranged from \$0.69 to \$2.43 per square foot of rentable area. Expenses at the adjoining buildings average \$2.07 per square foot. The estimate for the subject is \$2.10 per square foot of building area.

Management Fees

Included in management fees are collection of rent, preparation of budgets, and supervision of the day-to-day operation of the building. Typical fees are from 3 to 6 percent of effective gross income. The equivalent rate for the subject was 3.8 percent, which is the rate applied for the subject.

Other Costs

Commissions

Commissions are paid on a sliding scale as a percentage of rent at a rate of 6, 5, 4, 3, and 3 percent. Overall, this is equivalent to 4.2 percent on a five-year lease and 3.6 percent on a ten-year lease. However, in order to allow for shared commission with cooperating brokers, a rate of 4.2 percent has been applied.

Alterations

With small tenant areas there is little alteration work required and tenants take space as is. The only expenses during turnover would be painting and new carpet. The estimated cost is \$6.00 per square foot.

Reserves for Replacement

Roofs, parking lots, and mechanical equipment will wear out. An allowance of \$0.15 per square foot of building area has been allocated for this item.

Construction Costs

The estimated construction cost is \$1,330,000

The subsequent income and expenses for the subject reflect an increase between the current cost of expenses and increases that may occur over the construction period.

| For the Years Ending | Year 1 May-2008 | Year 2 May-2009 | Year 3 May-2010 |
|--------------------------------|--------------------|--------------------|--------------------|
| Potential Gross Revenue | | | |
| Base Rental Revenue | | \$89,593 | \$156,618 |
| Absorption & Turnover Vacancy | | | |
| Scheduled Base Rental Revenue | | 89,593 | 156,618 |
| CPI & Other Adjustment Revenue | | 75 | 2,822 |
| Expense Reimbursement Revenue | | 25,253 | 47,670 |
| Total Potential Gross Revenue | | 114,921 | 207,110 |
| Collection Loss | | (2,298) | (4,142) |
| Effective Gross Revenue | | 112,623 | 202,968 |
| Operating Expenses | | | |
| Real Estate Taxes | 5,298 | 14,420 | 14,853 |
| Insurance | | 1,100 | 1,133 |
| Utilities | | 3,666 | 3,776 |
| Janitorial | | 3,446 | 3,550 |
| Administration | | 1,030 | 1,061 |
| Repairs | | 15,398 | 15,860 |
| Management | | 4,280 | 7,713 |
| Total Operating Expenses | 5,298 | 43,340 | 47,946 |
| Net Operating Income | (5,298) | 69,283 | 155,022 |
| Leasing & Capital Costs | | | |
| Tenant Improvements | | | |
| Leasing Commissions | | 32,890 | |
| Reserves | | 1,100 | 1,133 |
| Construction Cost | 1,330,000 | | |
| Total Leasing & Capital Costs | 1,330,000 | 33,990 | 1,133 |
| Cash Flow Before Debt Service | (\$1,335,298) | \$35,293 | \$153,889 |

Capitalization of Stabilized Net Income

According to *The Korpacz* Second Quarter 2007 report for the Philadelphia Office Market investors have target overall rates that range from 5.00 to 11.00 percent, with an average of 8.15 percent. The same source states that National Suburban Office Market investors apply overall rates of 5.00 to 10.50 percent with an average of 7.29 percent.

In addition to published rates, the market for sales of office buildings has been investigated from which overall capitalization rates have been developed. The following chart represents a summary of several sales from which overall rates have been developed.

COMPARABLE OVERALL CAPITALIZATION RATES

| SALE NO. | LOCATION | SALE DATE | SALE PRICE | BUILDING SIZE (SQ. FT.) | OVERALL RATE | OCCUPANCY (PERCENT) |
|----------|----------|-----------|--------------|-------------------------|--------------|---------------------|
| 1 | Sale 1 | 1/05 | 5,449,500 | 30,624 | 7.89% | 100% |
| 2 | Sale 2 | 1/05 | \$31,300,000 | 169,000 | 7.51% | 100% |
| 3 | Sale 3 | 8/05 | \$7,300,000 | 29,500 | 7.37% | 95% |
| 4 | Sale 4 | 4/05 | \$17,772,000 | 81,842 | 7.30% | 98% |
| 5 | Sale 5 | 12/05 | \$25,300,000 | 121,535 | 8.00% | 92% |
| 6 | Sale 6 | 7/06 | \$7,100,000 | 51,384 | 8.40% | N/A |
| 7 | Sale 7 | 3/06 | \$2,873,626 | 14,070 | 8.00% | N/A |
| 8 | Sale 8 | 5/06 | \$815,000 | 3,624 | 6.00% | N/A |

Market Value at Stabilized Occupancy

The overall rates obtained range from 6.00 to 8.4 percent. The lowest rate is for a small office building in Doylestown. The highest rate is for a building in a slightly inferior location to the subject. Positive factors for the subject are that the building is part of a successful office complex. The subject will be newly constructed and in excellent condition. Based on the analysis of these comparables, in tandem with published data, an overall rate for the subject of 7.50 percent has been estimated. Dividing the stabilized net operating income of \$153,889 by the overall rate indicates a prospective future market value at stabilized occupancy of \$2,051,853 rounded to \$2,050,000.

Market Value at Construction Completion

In this analysis the subject is assumed to be constructed and vacant. A vacant building is a riskier investment than a stabilized building thus a higher overall rate of 8.0 percent is applied to the stabilized cash flow for an adjusted value of \$1,923,000 rounded. Deducted from the preceding value is the leasing commissions of \$32,890 and the difference in income of \$84,606 for an indicated value of \$1,805,504, rounded to \$1,800,000.

Market Value As Is

The overall rate applied is 8.0 percent for an indicated value of \$1,923,000. The cost to complete the building, including leasing commission of approximately \$1,362,890 must be deducted from the preceding. Additionally the present value of the difference in net income over the lease up period at 10.0 percent must be deducted as follows.

| Stabilized Income | Net Income | Difference | Factor | Present Value |
|-------------------|------------|------------|--------|------------------|
| \$153,889 | \$69,283 | \$84,606 | 0.9090 | \$76,907 |
| \$153,889 | \$(5,298) | \$159,187 | 0.8264 | <u>\$131,552</u> |
| Total | | | | \$208,459 |

The indicated value is \$351,651, rounded to \$350,000.

Discounted Cash Flow Analysis

The second method used in this approach is the discounted cash flow analysis. In completing this analysis, income and expenses for the subject property over a specific holding period have been projected. The series of net cash flows and anticipated reversions are discounted to a net present value at a rate considered appropriate for the risks involved and the type of property being appraised.

The need to make numerous assumptions is inherent in the development of a discounted cash flow analysis. Presented below are the most pertinent assumptions used in the analysis.

1. A 13-year cash flow projection based on a fiscal year analysis for the subject building can be found on facing page (s). "The "Argus version 12.04" computer software package has been utilized.
2. Contract rent for the first year has been entered at \$22.00 per square foot. Income is entered according to the lease provided.
3. Market rents are projected to increase 3 percent annually.
4. Expenses are projected to increase at a rate of 3 percent per year.
5. Alterations are assumed to be expensed at occupancy. New tenant fit-out is projected as discussed subsequently. These items are trended forward at a rate of 3 percent.
6. Commissions for new tenants are expensed at a decreasing rate of 6, 5, 4, 3, and 3 percent, or an aggregate of 4.2 percent; renewals are expensed at a constant rate of 2 percent.

7. Vacancy is expensed at three months' rent at the then market rent at lease expiration. Collection and rent loss is expensed as noted previously.
8. Space turnover (vacating tenants) is assumed to occur on the probability that upon lease expiration there is a 70.0 percent probability of the tenants renewing.

The preceding assumptions are critical to the development of the discounted cash flow analysis. The final part of the analysis involves estimating the anticipated reversion and applying the appropriate discount rate to the resulting income stream. In estimating the overall capitalization rate applicable to the final year's income, a reversionary capitalization rate of 8.50 percent has been utilized. This rate is then divided into the reversion year's net operating income. From the gross sales price, closing costs of 2 percent have been subtracted. Income is grossed up to a vacancy rate of 10 percent. This results in a net reversion that is added to the 11th year's cash flow for discounting purposes.

Yield Analysis

The Third Quarter 2006 *Korpacz Investor* report states that National Suburban Office investors require yield rates of 7.00 to 12.50 percent, with an average yield of 8.88 percent, depending on the type and location of the investment. Investors in Philadelphia report target rates of 8.00 to 11.00 percent with an average of 9.30 percent. The rate applied for the subject, on a stabilized basis, is 9.0 percent.

Prospective Future Market Value as Stabilized

A cash flow analysis was developed from the completion and stabilization date of June 1, 2009. The prospective future market value at stabilization is \$2,070,071, rounded to \$2,050,000. The resulting overall capitalization rate is 7.50 percent that falls within the range of the comparable sales.

Prospective Future Market Value at Construction Completion

The discount rate is increased to 10.00 percent and the indicated value is \$1,755,519, rounded to \$1,750,000.

Market Value As Is

In this analysis, the starting date is June 1, 2007. The discount rate is 10.00 percent. The indicated value is \$365,778, rounded to \$365,000.

Conclusion of Income Capitalization Approach

Two methods of capitalization, namely, capitalization of a stabilized income at an overall rate, and a discounted cash flow analysis have been developed. The values range as follows. Greater emphasis has been placed upon the discounted cash flow method.

INDICATED VALUE RANGES

| INDICATED VALUE | OVERALL RATE ANALYSIS | DISCOUNTED CASH FLOW ANALYSIS |
|--|-----------------------|-------------------------------|
| Prospective future market value stabilized occupancy | \$2,050,000 | \$2,050,000 |
| Prospective future market value at completion | \$1,800,000 | \$1,750,000 |
| Market value as is | \$350,000 | \$365,000 |

The value for subject has been developed and a summary as of the effective date has been presented below.

| | |
|---|-------------|
| Prospective future market value completion/stabilized occupancy | \$2,050,000 |
| Prospective future market value at completion..... | \$1,750,000 |
| Market value as is | \$360,000 |

RECONCILIATION AND FINAL VALUE ESTIMATES

In the preceding pages of this report, the generally accepted approaches to value have been considered. These approaches are the cost approach, direct sales comparison approach, and the income capitalization approach. Within this approach, the income capitalization approach has been referred to as the development analysis approach. The following summarizes the value indications developed by each of these approaches.

| | As Is Market Value of Land | Prospective Future Market Value At Construction Completion | Prospective Future Value At Stabilized Occupancy |
|-------------------------------------|-------------------------------|--|--|
| Cost Approach: | \$350,000 | \$1,680,000 | \$1,950,000 |
| Direct Sale Comparison Approach: | \$350,000 | \$1,800,000 | \$2,025,000 |
| Income Capitalization Approach: | \$360,000 | \$1,750,000 | \$2,050,000 |

In developing the cost approach, the market value of the subject site based on an analysis of recent comparable land sales located in the subject's market or in competing markets has been estimated. Land value is added to the value of the site improvements to arrive at an indicated cost new. The cost approach is most useful when appraising new or nearly new properties or when appraising special-purpose properties. The subject is proposed for construction and the developer has provided quotes from three buildings which increases the reliability of this approach. This approach typically indicates the lower end of the potential value.

In developing the direct sales comparison approach, the market has been investigated and information obtained on several recent sales of office building sales considered similar to the subject property. The comparable properties have been analyzed based on the price paid per square foot of building area, and have been compared to the subject using these units of comparison. Several adjustments have been made which indicate a range of adjusted unit prices into which the value of the subject property should fall. Sales of existing office buildings have also been located and compared with the subject based upon a price per square foot of rentable area. The direct sales comparison approach is essential to almost every appraisal of real property. The adjustments are within an acceptable range which increases the reliability of this approach.

In developing the income capitalization approach, the gross income that can be obtained from the subject based on an analysis of the rental value of completed buildings and the subject lease. The cost to develop the site and construct the improvements has been deducted as have operating costs. The developer provided rental information and operating expenses for the adjoining properties which increases the reliability of this approach. The resulting net income has been discounted to a present value based upon target rates of developer. This has been considered a reliable indicator of value and supports the value conclusion of the other approaches.

Numerous estimates and assumptions regarding property performance and general and local business conditions are incorporated in this report. It also assumes that no material changes in the market will occur over the projection period. However, some changes will most likely occur, while some assumptions and projections may not materialize. Therefore, actual results achieved during the period covered may differ from those projected and the variance could be substantial.

I am of the opinion that as of June 25, 2007 the as is market value of the fee simple estate of the subject land, as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

Three Hundred Fifty Thousand Dollars
(\$350,000).

I am of the opinion that as of June 1, 2008 the prospective future market value of the fee simple estate of the subject under the extraordinary assumption that construction has been completed as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

One Million Seven Hundred Fifty Thousand Dollars
(\$1,750,000).

Also, I am of the opinion that as of June 1, 2009 the prospective future market value of the fee simple estate of the subject under the extraordinary assumption that construction has been completed and stabilized occupancy has been achieved as fully described herein and subject to the Certification, and the Assumptions, Limiting Conditions and Contingencies is:

Two Million Twenty-five Thousand Dollars
(\$2,025,000).

Site development and building plans have been provided and relied upon. The right is reserved to amend the estimates of value should further information be made available.

No hazardous or potentially hazardous substances have been observed at the subject property; however, this company is not qualified to detect such substances. As the presence of hazardous or potentially hazardous materials may affect the value of the subject property, the right is reserved to amend the values should an audit (s) detect such substances.

MARKETING TIME ANALYSIS

Introduction

The estimated marketing time for the subject property has been analyzed via the comparable sales presented in this report and review of national guidelines.

Analysis by the comparable sales is inconclusive, as marketing times were not available. Regarding national trends for the suburban office market, the *Korpacz* indicates continued interest in suburban office properties by institutional investors. The average marketing time reported for national suburban office properties as of the Second Quarter 2007 is 6.29 months, which is down from 6.65 months one year ago.

The subject property is proposed for construction and will not be completed until June 2008. Its marketing time would not fully compare with national trends.

Conclusion

Based on the preceding, it has been estimated that the subject could be marketed within nine months at the terms reported herein.

ADDENDUM

SAMPLE REPORT