

# Office Building Report

## Reconciliation and Value Sustainability Analysis prepared by Your Name Here

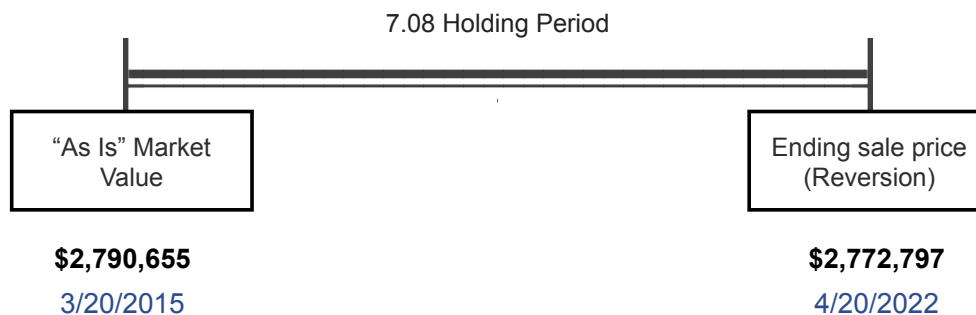
The attached report indicates the subject's "As Is" market value is \$2,790,655 as of 3/20/2015 based on the Income Approach valuation methodology and other applicable methodologies.

This portion of the report will go one step beyond a single-point-in-time value opinion by adding an opinion of the sustainability of this value over a typical holding period. Clients are asking for more than a single-point-in-time estimate. They want something more forward looking to assist them in answering questions like:

- Is now a good time to buy?
- Should I make this loan?
- Is this loan value sustainable?
- What are the current risks in the current market?
- Has the indicated market value entered a bubble phenomenon by drifting significantly away from the property's natural or intrinsic value?
- What are the specific forecasts or "bets" associated with a property's current single-point-in-time market value estimate?

The user of this appraisal report should be aware and agree to the markets forecasts or "bets" that make up the subject's current "As Is" market value of \$2,790,655. The following graphic indicates the user's typical Office Building holding period timeline, of 7.08 years, before the owner sells the property. The reader will note the market value of \$2,790,655 as of the date of appraisal 3/20/2015, and the ending sale price of \$2,772,797 at the end of the holding period 4/20/2022. This ending sale price forecast of \$2,772,797 must occur in order for the subject to have an "As Is" market value of \$2,790,655 as of 3/20/2015.

### Property's Timeline



1. One online article exploring the three approaches to value stated that, if appraisals are done correctly, no speculated bubble can develop. However, that article's author indicated, "The most common thing they [appraiser's] did was to use the market data method, only, and ignored the other two tests. By ignoring fundamental values, prices simply leap frogged sale after sale, up and up and up, into a speculative bubble". -- Ned Bushong, "You're all wrong. Blame the appraisers for the market crisis", Business Insider, April 7, 2010.

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Currently, the property is at stabilized occupancy and stabilized market rents. Consequently, the property's current Stabilized Operating Statement is indicated below:

	3/20/2015
	Period 0
<b>Total Gross Income</b>	\$ 323,460
Less Vacancy & Collections Loss (at stabilized occupancy)	\$ (16,173)
Less Collections Loss (at non stabilized occupancy)	\$ -
<b>Effective Gross Income</b>	\$ 307,287
<b>Operating Expenses</b>	
<b>Fixed</b>	
Real Estate Taxes (Annual Estimate at stabilized)	\$ (15,000)
Fire & Liability (Annual Estimate at stabilized)	\$ (8,500)
Annual Average Fixed Expenses Increase / Decrease	\$ -
<b>Total Fixed Expenses</b>	\$ (23,500)
<b>Variable</b>	
On Site Management (Mgr & Assist. Mgr) Annually	\$ -
Off Site Manager (As % of Effective Gross Income)	\$ (12,291)
Utilities (Paid by Landlord)	\$ (14,400)
Rubbish Removal	\$ (4,200)
Interior Cleaning / Painting	\$ (5,400)
Landscape Maintenance	\$ (5,400)
General Maintenance (As % of Effective Gross Income)	\$ (12,291)
Pool Maintenance	\$ (600)
Pest Control	\$ (5,496)
Advertising	\$ (1,200)
Telephone	\$ (1,200)
Legal & Audit	\$ (1,200)
Other	\$ (600)
Annual Average Variable Expenses Increase / Decrease	\$ -
<b>Total Variable Expenses</b>	\$ (64,279)
<b>Replacement Allowance</b>	
Carpets & Drapes	\$ (1,442)
Disposals	\$ (1)
Refrigerators	\$ (750)
Stoves	\$ (4,615)
Microwaves	\$ (515)
HVAC (Short lived components)	\$ (404)
Roof Cover	\$ (2,035)
Dishwashers	\$ (4,038)
Other	\$ (1,154)
<b>Total Replacement Allowance</b>	\$ (14,953)
<b>Total Operating Expenses</b>	\$ (102,732)
<b>Net Operating Income</b>	\$ 204,555

The reader can see the current Net Operating Income is \$204,554.85 with a Going In Cap Rate of 7.33%. The Total Operating Expense Ratio of Stabilized Effective Gross Income is 32.96%.

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Based on the market's forecasts, the end of the investment holding period in 7.08 indicates an Stabilized Operating Statement as follows:

	SOS (Final Year)
<b>Total Gross Income</b>	\$ 364,268
Less Vacancy & Collections Loss (at stabilized occupancy)	\$ (18,213)
Less Collections Loss (at non stabilized occupancy)	\$ -
<b>Effective Gross Income</b>	\$ 346,055
<b>Operating Expenses</b>	
<b>Fixed</b>	
Real Estate Taxes (Annual Estimate at stabilized)	\$ (15,000)
Fire & Liability (Annual Estimate at stabilized)	\$ (8,500)
Annual Average Fixed Expenses Increase / Decrease	\$ (2,965)
<b>Total Fixed Expenses</b>	\$ (26,465)
<b>Variable</b>	
On Site Management (Mgr & Assist. Mgr) Annually	\$ -
Off Site Manager (As % of Effective Gross Income)	\$ (13,842)
Utilities (Paid by Landlord)	\$ (14,400)
Rubbish Removal	\$ (4,200)
Interior Cleaning / Painting	\$ (5,400)
Landscape Maintenance	\$ (5,400)
General Maintenance (As % of Effective Gross Income)	\$ (13,842)
Pool Maintenance	\$ (600)
Pest Control	\$ (5,496)
Advertising	\$ (1,200)
Telephone	\$ (1,200)
Legal & Audit	\$ (1,200)
Other	\$ (600)
Annual Average Variable Expenses Increase / Decrease	\$ (8,501)
<b>Total Variable Expenses</b>	\$ (75,881)
<b>Replacement Allowance</b>	
Carpets & Drapes	\$ (1,442)
Disposals	\$ (1)
Refrigerators	\$ (750)
Stoves	\$ (4,615)
Microwaves	\$ (515)
HVAC (Short lived components)	\$ (404)
Roof Cover	\$ (2,035)
Dishwashers	\$ (4,038)
Other	\$ (1,154)
<b>Total Replacement Allowance</b>	\$ (14,953)
<b>Total Operating Expenses</b>	\$ (117,299)
<b>Net Operating Income</b>	\$ 228,756

The reader can see the ending Net Operating Income is \$228,755.78 with a Going Out Cap Rate of 8.53%.

## Office Building Report

The following exhibit indicated the various forecasts or "bets" the market is making for the subject property in order to pay the current "As Is" market value of \$2,790,655. Any users of the report that disagree or feel uncomfortable with these market derived forecasts should contact the appraiser and ask how the users personal forecast changes will affect the "As Is" market value estimate of \$2,790,655. The appraiser will be happy to assist any eventual users of this report in inserting the users personal forecast(s) changes into the model to see how these personal forecasts will affect the appraiser's "As Is" market value of \$2,790,655. Any change to this value is called "Investment Value" which is specific to the user as distinguished from "market value" which is impersonal and detached.

# Office Building Report

## Property's Forecasts or "Bets" (Components of Value)

<b>General Information</b>	
Project name	Office Lease Module 5
Address of property (optional)	123 Any Street
City of property (mandatory)	Any Town
State of property (mandatory)	California
Zip code of property (mandatory)	92260
Project type (non-editable)	Office Building
Project sub-type (non-editable)	High Rise
Project class/ quality of construction	Class C
How many office units (all phases)	5
Size of project (all vertical)(sf)	17971
Size of lot Parcel (sf) (Excluding excess land)	50000
Start date (mm/dd/yyyy)	03/20/2015
Number of months to entitle	0
Number of months to construct (all phases)	0
Typical Investment Period (Months)	85
Date of sale (non-editable)	04/20/2022
Date of final entitlement (non-editable)	03/20/2015
Date of final Construction	03/20/2015
Date of final leasing to stabilized	04/20/2022
Prepared by?	Your Name Here
<b>Entitlement Costs</b>	
ENTITLEMENT COST (TOTAL)	\$ -
<b>Construction Costs - Direct Costs</b>	
CONSTRUCTION COSTS - DIRECT COSTS	\$ -
<b>Construction Costs - Indirect Costs</b>	
CONSTRUCTION COSTS - INDIRECT COSTS	\$ -
<b>Construction Costs - Off-Site Costs</b>	
CONSTRUCTION COSTS - OFF-SITE COSTS	\$ -
<b>Construction Costs - On-Site Costs</b>	
CONSTRUCTION COSTS - ON-SITE COSTS	\$ -
<b>Entrepreneurial Profit</b>	
<b>Rental Income At Stabilized Occupancy</b>	
Number of office units in the project	5
Total Units	

## Office Building Report

Total Units	5
Average rent per unit per month	\$ 5,391
Average Rent	
Average Rent	\$ 5,391
Other income per month	\$ -
Detailed	
Parking Income	\$ -
Late Fees Income	\$ -
Other Income	\$ -
Annual Vacancy & Collection Loss (Stabilized)	5.00%
Annual Average monthly rent per unit Increase / Decrease (-)	2.00%
Average monthly free rent or concessions per month	\$ -

### Fixed Expense Estimates

Real Estate Taxes (Annual Estimate at stabilized)	\$ 15,000
Annual property tax paid during Entitlement Phase	\$ -
Annual property tax paid during Construction Phase	\$ -
Annual property tax paid during Leasing Phase	\$ 15,000
Fire & Liability (Annual Estimate at stabilized)	\$ 8,500
Fire & Liability Insurance paid during Entitlement Phase	\$ -
Fire & Liability Insurance paid during Construction Phase	\$ -
Fire & Liability Insurance paid during Leasing Phase	\$ 8,500
Annual fixed expenses Increase / Decrease (-)	2.00%

### Variable Expense Estimates

Variable Expenses	\$ 3,308
On Site Management (Mgr & Assist. Mgr) Annually	\$ -
Off Site Manager (As % of Effective Gross Income)	4.00%
Monthly Utilities (Paid by Landlord) - Gas	\$ 100
Monthly Utilities (Paid by Landlord) - Electricity	\$ 500
Monthly Utilities (Paid by Landlord) - Water	\$ 600
Monthly Rubbish Removal	\$ 350
Monthly Interior Cleaning / Painting	\$ 450
Monthly Landscape Maintenance	\$ 450
General Maintenance (As % of Effective Gross Income)	4.00%
Monthly Water Feature Maintenance	\$ 50
Monthly Elevator Repair / Maintenance	\$ 458
Monthly Advertising	\$ 100
Monthly Administrative	\$ 100
Monthly Legal & Audit	\$ 100
Monthly Other	\$ 50
Annual variable expenses Increase / Decrease (-)	2.00%

### Reserves & Replacement Estimates

## Office Building Report

Cost New Per Unit	
Carpets and Window Coverings (Per unit)	\$ 2,500
Bath / Kitchen Items (Per Unit)	\$ 1
Compressors and Boilers (Total Building)	\$ 6,500
Elevators / Common Baths (Total Building)	\$ 40,000
Driveways and Sidewalks (Total Building)	\$ 9,000
HVAC Short Lived Components (Total Building)	\$ 3,500
Roof Cover (Total Building)	\$ 50,000
Parking Areas / Exterior Painting (Total Building)	\$ 35,000
Other (Total Building)	\$ 10,000
Economic Life	
Carpets and Window Coverings (In years)	8
Bath / Kitchen Items (In years)	8
Compressors and Boilers (In years)	8
Elevators / Common Baths (In years)	8
Driveways and Sidewalks (In years)	15
HVAC Short Lived Components (In years)	8
Roof Cover (In years)	20
Parking Areas / Exterior Painting (In years)	8
Other (In years)	8
Rates And Other Information	
Going out Capitalization Rate	8.25%
Sales Commission Percentage on Ending Sale	6.00%
Annual yield / discount rate (no financing)	7.00%
Safe interest rate or Money Market rate	2.00%
Below The Line Expenses	
Monthly lease agent fees (below the line)	\$ -
Monthly tenant improvements expenses (below the line)	\$ -
Other monthly expenses (below the line)	\$ -
Financial Information	
Yes	
Amount loaned during Entitlement	\$ -
Amount loaned during Construction	\$ 1,500,000
Total Loan Amount (sum of two previous ones)	\$ 1,500,000
Bank Loan Interest rate	6.50%
Loan origination costs	\$ 5,000
Safe interest rate or Money Market rate	2.00%
Optional User Input	
Holding period (in months)	0
Land value	\$ -

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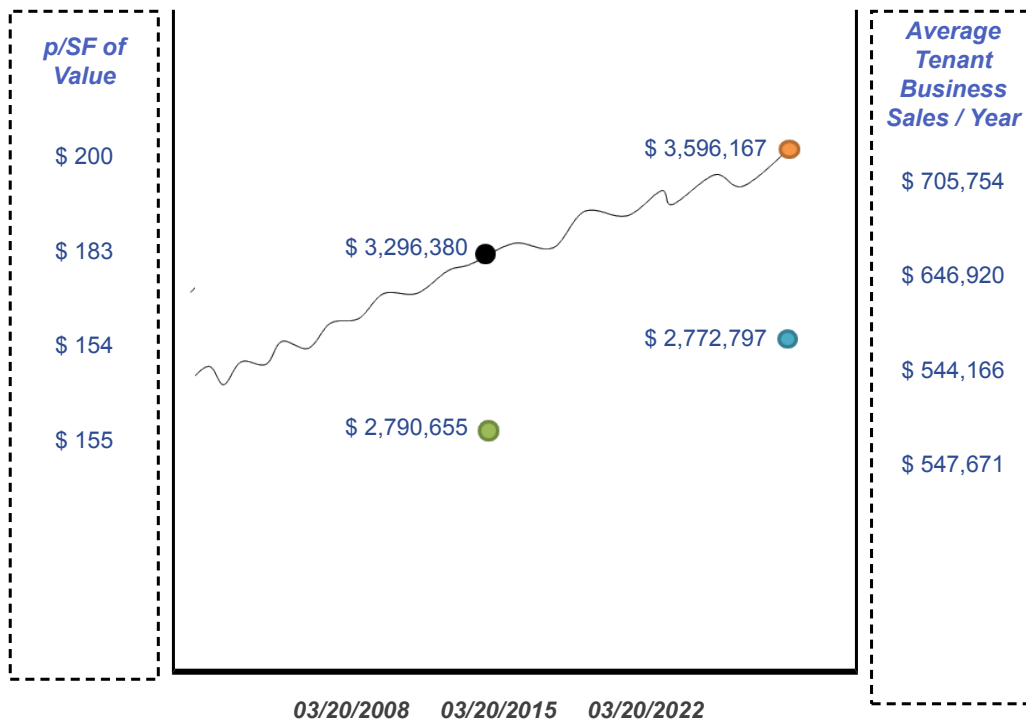
Investment Period for EFG	7
<b>Current Rental Income</b>	
<b>Units Of Comparison</b>	
Going in Capitalization Rate	7.33%
Going Out Capitalization Rate	8.53%
Price per finished unit (Stabilized)	\$ 558,131
Building price per gross SF (Stabilized)	\$ 155
Land price per SF (no excess land)	\$ -
Land price per door (no excess land)	\$ -
Gross Rent multiplier at stabilized	0.11
Debt coverage ratio (if financed)	-209.80%
Loan to Value (if financed)	54.10%
Annual Property Yield (IRR) on Investment at Completion (no financing)	7.00%
Annual Equity Yield (IRR) on Investment through final sale (if financed)	7.54%
Percent detachment from the property's economic fabric	-15.34%
Cash-on-Cash rate (financed)	5.68%
Total Operating Expense Ratio of Stabilized Effective Gross Income	32.96%
Economic Fabric Rent trajectory going forward (Annually)	2.00%
Total Amount of Entrepreneurial Profit (Loss)	\$ -



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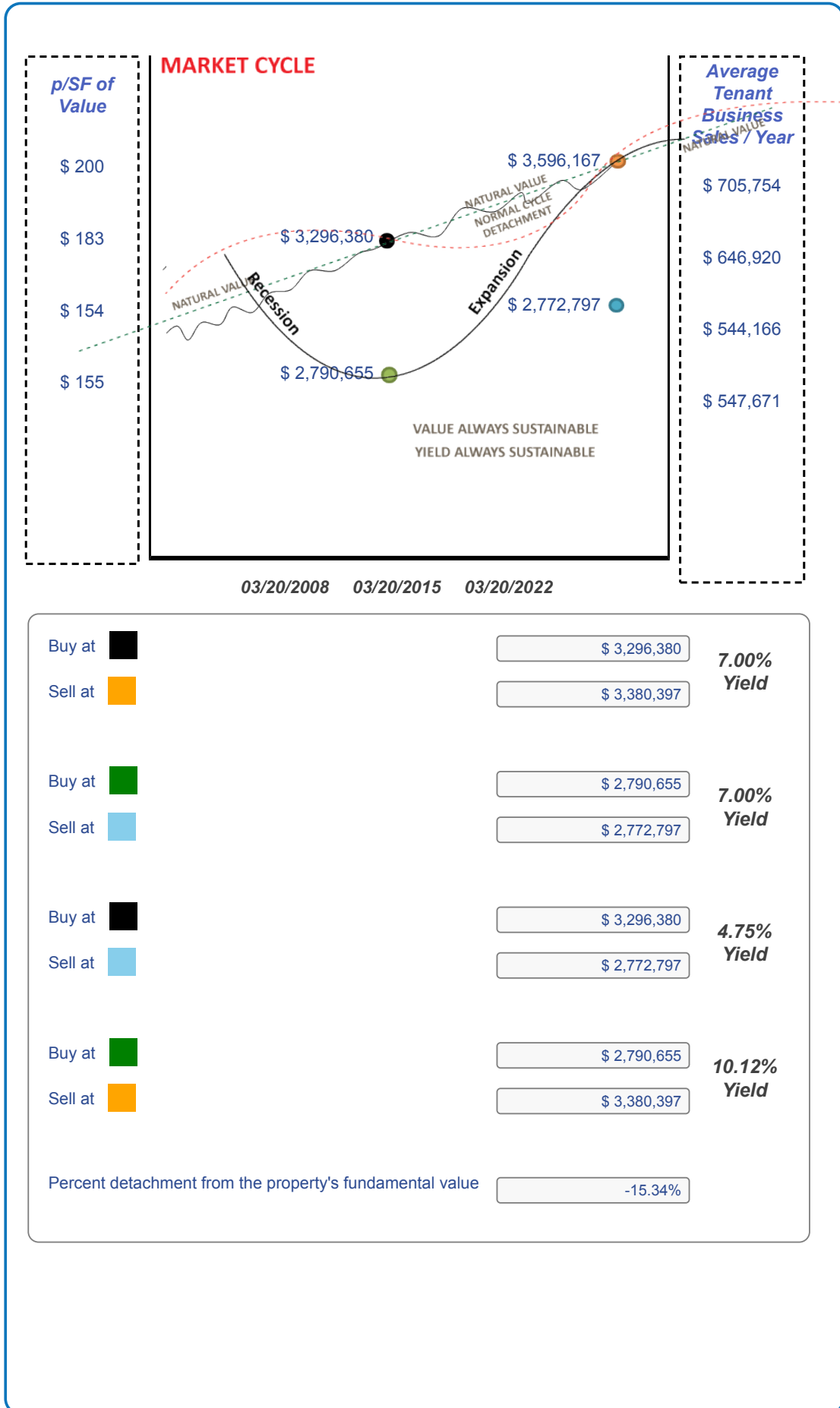
Populating the market's forecasts into a 7.08 years discounted cash flow model indicated the subject property's "As Is" market value of \$2,790,655. The market has determined the annual property yield rate of 7.00% is competitive with other compatible capital investments with similar risk.

Now that the "As Is" market value of \$2,790,655 has been established for the property, the appraiser will estimate where this value lies on the market cycle wave and how sustainable is the \$2,790,655 "As Is" market value opinion, over the holding period.



The subject's natural or intrinsic value (sometimes called fundamental value) is calculated by applying the annual yield rate (used as a discount rate) of 7% to the net income annuity benefits during the property ownership holding period of 7.08 years. In addition, the last years net income benefit is capitalized by same annual yield rate (discount rate) of 7%. Consequently, calculating the present value of the income benefit annuity and the present value of the ending sale price (reversion) of \$3,596,167 indicates the natural or intrinsic value of the subject as of the same date of appraisal 3/20/2015. Any difference in value between the appraiser's "As Is" market value estimate of \$2,790,655 and the natural or intrinsic value of \$3,296,380 is because the market is forecasting different ending sale prices (reversions). The "As Is" market value is forecasting a \$2,772,797 ending sale price and the "As Is" natural or intrinsic value is forecasting a \$3,596,167 ending sale price. Consequently the market is speculating a Higher ending sale price Below the expected annual yield rate of 7%. This ending sale price speculation has moved the subject's "As Is" market value of \$2,790,655 by -15.34% Below the "As Is" natural or intrinsic value of \$3,296,380.

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Buy at	<span style="display: inline-block; width: 15px; height: 15px; background-color: black;"></span>	<input type="text" value="\$ 3,296,380"/>	<b>7.00% Yield</b>
Sell at	<span style="display: inline-block; width: 15px; height: 15px; background-color: orange;"></span>	<input type="text" value="\$ 3,380,397"/>	
Buy at	<span style="display: inline-block; width: 15px; height: 15px; background-color: green;"></span>	<input type="text" value="\$ 2,790,655"/>	<b>7.00% Yield</b>
Sell at	<span style="display: inline-block; width: 15px; height: 15px; background-color: lightblue;"></span>	<input type="text" value="\$ 2,772,797"/>	
Buy at	<span style="display: inline-block; width: 15px; height: 15px; background-color: black;"></span>	<input type="text" value="\$ 3,296,380"/>	<b>4.75% Yield</b>
Sell at	<span style="display: inline-block; width: 15px; height: 15px; background-color: lightblue;"></span>	<input type="text" value="\$ 2,772,797"/>	
Buy at	<span style="display: inline-block; width: 15px; height: 15px; background-color: green;"></span>	<input type="text" value="\$ 2,790,655"/>	<b>10.12% Yield</b>
Sell at	<span style="display: inline-block; width: 15px; height: 15px; background-color: orange;"></span>	<input type="text" value="\$ 3,380,397"/>	
Percent detachment from the property's fundamental value		<input type="text" value="-15.34%"/>	

## Office Building Report

By overlaying the market wave cycle on top of the previously displayed economic fabric graph indicated where the subjects "As Is" market value of \$2,790,655 lies on the market cycle wave graph.

The reader can see the market is forecasting the subject's district rents will increase over the typical holding period for this property. The subject's indicated market value of \$2,790,655 and the \$3,296,380 natural value indicates the market value is within the normal wave graph cycle and this \$2,790,655 market value is expected to remain within this normal cycle throughout the property's holding period. The dynamics of the relationship between the subject's indicated ending sale price or reversion \$2,772,797 and the subject's natural value reversion \$3,596,167 indicates the subject's current \$2,790,655 market value is sustainable over the holding period. It is likely the market's reversion forecast of \$2,772,797 will be achieved at the end of the holding period. However, expected increasing rent for the district results in a \$3,596,167 natural value reversion where subject's value could possibly gravitate during the holding period. This expected slight increase in the subject's reversion could substantially impact the forecasted property's annual yield.







