The preceding comparable rentals are summarized as follows:

Rental No.	Location	Rentable (Sq. Ft.)	NNN Rental Rate per Sq. Ft.
1	1051 South 23rd Street	10,550	$3.50
2	2815 Taylor Street	32,536	$1.95
3	4518 "F" Street	25,757	$2.72
4	3618 "D" Street	24,000	$4.15

Rental 1 is rated as being:

- Superior with respect to size;
- Slightly superior with respect to location;
- Similar in terms of all other factors;
- Superior in terms of overall comparison.

Rental 2 is rated as being:

- Similar with respect to size;
- Inferior with respect to location;
- Similar in terms of all other factors;
- Inferior in terms of overall comparison.

Rental 3 is rated as being:

- Similar with respect to size;
- Superior with respect to location;
- Superior with respect to construction quality;
- Inferior with respect to economic characteristics (i.e. first year tenant lease discount);
- Similar in terms of overall comparison.

Rental 4 is rated as being:

- Similar with respect to size;
- Superior with respect to location;
- Similar with respect to all other factors;
- Superior in terms of overall comparison.

Based on these comparison applicable market rent for the subject can be summarized as follows:

Rental 2 < Applicable Subject Rent < Rentals 1, 4
Or
$1.95 < Applicable Subject Rent < $3.50

Rental 3 is rated as being similar in terms of overall characteristics. This rental had an associated rental rate of $2.72 per square foot. This is midpoint within the range established as being applicable for the subject by the preceding analysis.

Considering all factors, economic market rent of $2.75 per square foot is estimated as being applicable for the subject property as of the effective date of this report. Rent is estimated on a triple-net basis.

Potential Gross Income

Based on the concluded market rent, potential gross income applicable for the subject is calculated as follows:

Building Sq. Ft.	x	Rent per Sq. Ft.	=	Potential Annual Rent
35,380	x	$2.75	=	$97,295

Vacancy & Collection Loss – In the income capitalization approach, a stabilized income level is estimated. A stabilized income level refers to the cash revenues that the property is *likely* to generate over a specified period, rather than what it *could* produce if it were 100% occupied and rent was being paid in full and on time by all tenants.

According to the market analysis provided earlier, industrial vacancy for the Omaha area is at 3% while the subject's submarket is at 2.4%. While these rates reflect occupancy, they do not reflect the risk of collection loss associated with lower quality tenants.

After analyzing the Omaha market as a whole and taking into consideration the demand in the subject's immediate area, it is our conclusion that a long-term stabilized vacancy and collection loss rate of 5% is applicable for the subject property.

Operating Expenses – To estimate the net income applicable for the subject, expenses that are to be paid by the owner must be deducted from the gross income estimate. In a triple-net lease agreement the owner is responsible for expenses associated with leasing commissions, structural repairs and maintenance, reserves for replacements, and pass through expenses during periods of vacancy. The tenant is responsible for real estate taxes, building insurance, management, utilities, interior maintenance, and grounds maintenance. Expenses paid by the owner are explained in the following paragraphs.

Leasing Commissions – A leasing commission expense will be incurred by the lessor leasing and releasing space in the building. Leasing commissions are negotiable but are typically paid based on a percentage of the total rent to be collected over the term of the lease. According to property managers in the Omaha area, releasing commissions of 2% to 6% are common. In situations where tenants extend their leases from the original lease term, the original leasing agent ordinarily receives only a small fraction of the original commission percentage. In some instances, leasing commissions are not paid at all if the tenant renews the lease. Based on the characteristics of the subject and the trends in the area, we have estimated a stabilized leasing commission expense of 1% of effective gross income.

Structural Repairs and Maintenance/Reserves – The subject building features masonry construction with low-pitched roof structures. While the actual structural system will require nominal short and long-term maintenance, significant reserves may be required for future roof replacements. In addition to ongoing maintenance costs for structural repairs, funds must also be set aside for future replacement of the short-lived items (i.e. heating and cooling systems, floor coverings, and remodeling between tenants, etc.). Considering the overall condition of the property and giving consideration to those items that will eventually need to be replaced, an annual repairs and maintenance/reserves expense of 8% of effective gross income is estimated for the subject (5% repairs and maintenance + 3% reserves for replacements = 8%.).

Expenses During Vacancy – At periods of vacancy the lessor will incur operating expenses that are normally paid by the tenant when the building is fully occupied. This expense category includes taxes, insurance, utilities, and exterior/interior property maintenance. Taxes and insurance are fixed expenditures that are ongoing whether the building is occupied or not. Utility and maintenance expenses are variable expenses which will be much lower during periods of vacancy. As such, expenses for utilities and maintenance are estimated at a fraction of what would apply to the building under normal occupancy. Expenses during vacancy for the subject are estimated based on historical costs and expenses associated with similar properties in the area. These expenses are estimated and summarized as follows:

Expenses	Amount/Sq. Ft.
Real Estate Taxes	$0.30
Building Insurance	$0.30
Utilities	$0.50
Grounds & Interior M & R	$0.50
Total Expenses	$1.60

Based on a stabilized vacancy of 5% for the building, landlord expenses during vacancy are estimated at $2,830 annually (35,380 sq. ft. x 5% vacancy x $1.60/sq. ft. = $2,830).

Based on the preceding income and expense analyses, pro forma net income attributable to the subject property is calculated as follows:

Pro Forma Operating Statement		
Income		
Potential Gross Income	$97,295	
Less Stabilized Vacancy & Collection Losses at 5%	($4,865)	
Total Effective Gross Income		$92,430
Less Expenses		
Leasing Commissions, 1% of EGI	$924	
Structural Repairs, Maint. & Reserves, 8% of EGI	$7,394	
Expenses to Owner During Vacancy	$2,830	
Total Operating Expenses		($11,148)
Estimated Net Operating Income		$81,282

Capitalization of Net Income

The next step in the income capitalization approach is to estimate an overall capitalization rate. To achieve this I have utilized the following direct capitalization analysis.

Direct Capitalization Analysis

The next method used to estimate an overall capitalization rate is the direct capitalization technique. In the sales comparison approach section of this report several sales were analyzed and net income was estimated for each of the comparable market transactions in order to calculate an overall rate from the sales. The overall rate is calculated by dividing the estimated net operating income by the sale price. The indicated overall rates for each of the transactions are summarized as follows:

Sale	Date Sold	Overall Rate
1	07/08/2014	11.21%
2	10/17/2014	10.04%
3	11/04/2015	12.87%
4	05/17/2015	8.25%
5	05/29/2016	13.53%

The overall capitalization rates for the comparable sales indicate a range of 8.25% to 13.53%. Sale 4 is clearly outside the range established by the remaining four sales and is given little weight when correlating an applicable overall rate for the subject. Giving primary weight to Sales 1, 2, 3, and 5 an overall rate of 12.00% is selected as being applicable for the subject by the direction capitalization method.

Value Conclusion – Income Capitalization Approach

The final procedure required to estimate the value of the subject via the income capitalization approach is to capitalize the net income by the correlated overall capitalization rate. The resulting value of the subject based on the income capitalization approach is calculated as follows:

Net Operating Income	÷	Overall Capitalization Rate	=	Value
$81,282	÷	.1200	=	$677,350
			Called	**$680,000**

Indicated Value by the Income Capitalization Approach.................. $680,000

Reconciliation and Conclusion

From the previous analyses, the following indications of value for the subject property are obtained:

Method of Valuation	Indicated Value
Cost Approach	Not Applicable
Sales Comparison Approach	$670,000
Income Capitalization Approach	$680,000

For reasons earlier explained, the cost approach is not considered applicable in the valuation of the property and was therefore excluded from this appraisal report.

The sales comparison approach is most appropriate for properties in which active buying and selling occur. When accurate, reliable sales information is available, this method seems to be the most appropriate indicator of property value. The sales comparison approach is considered least accurate in a slow or dormant real estate market and also for special purpose type properties which seldom sell under arm's length conditions.

In the sales comparison approach several recent sales of industrial buildings having similar characteristics as the subject were included and analyzed. Despite the fact that all sales required adjustments for various factors a relatively narrow adjusted unit value range was revealed by the sales. As used in this appraisal the sales comparison approach is rated as being a good and primary indicator of value for the subject.

The income capitalization approach is most reliable when valuing tenant occupied income producing properties. It is least reliable when valuing properties that are predominantly owner occupied. To be used accurately and for its results to be defensible, accurate and current rental information must be obtained.

In developing the income capitalization approach, market rent was estimated based on a comparison of other leased properties to the subject. Stabilized expenses were estimated based on a combination of actual and estimated market derived information. From this information, an indication of stabilized net operating income was derived for the subject property. An overall capitalization rate was estimated based on two methods of analysis. As used in this appraisal, the income capitalization approach is rated as being a reliable but nonetheless secondary indicator of value for the subject.

Based on the analysis contained herein, the fee simple "before" market value of the subject property as of June 1, 2017 is concluded to be:

Six Hundred Seventy Five Thousand Dollars
($675,000)

ADDENDA

Valuation Services
5408 North 99th Street, Suite A
Omaha, Nebraska 68134
Phone: 402-397-8080

curriculum vitaé

Kevin S. Kroeger, MAI

Current Affiliations:

The Appraisal Institute

Omaha Area Board of Realtors

Credentials:

Certified General Appraiser, State of Nebraska - 1992 – Present

Licensed Real Estate Appraiser – State of Nebraska – 1986-1992

Certified General Appraiser, State of Iowa - 1992 - Present

Licensed Real Estate Broker - State of Nebraska - 1986 – Present

MAI Member – The Appraisal Institute – 2013 - Present

Education

University of Nebraska at Omaha – B.S.B.A. in Business Administration with specialization in Real Estate – 1986

The Appraisal Institute:

- Real Estate Appraisal Principles
- Basic Valuation Procedures
- Capitalization Theory & Techniques - Parts A & B
- Case Studies in Real Estate Valuation
- Report Writing & Analysis
- Standards of Professional Practice
- Highest and Best Use and Market Analysis
- Advanced Case Studies in Real Estate
- Capstone Program

Experience:

Prior appraisal experience includes valuation of:

- Single and multiple tenant office buildings
- Manufacturing, Warehouse, and Distribution Facilities
- Commercial and residential subdivisions, including bulk value analysis
- Restaurants, full service and fast food
- Religious Institutions
- Banking facilities
- Mixed use retail, office, and residential centers
- Utility corridors
- Apartments – market rate and low-income housing

Curriculum Vitaé – Kevin S. Kroeger, MAI (Page 2)

Appraisal Applications: Prior appraisal applications include valuations of property for:

- Financing
- Bank-owned real estate asset valuation
- Divorce
- Eminent Domain
- Property assessment and equalization

Partial List of Clients:

- First National Bank of Omaha
- State of Nebraska
- Pinnacle Bank
- Enterprise Bank
- Security National Bank
- Cushman Wakefield
- The University of Nebraka Medical Center
- Wells Fargo Bank
- City of Omaha
- Alegent Health Systems
- American National Bank
- Omaha Public Power District
- Papio-Missouri River NRD
- Premier Bank

Professional:

- Engaged in appraisal of real property on full-time basis since 1986
- Founding member of Certified Appraisal Services (established in 1990), which through prior merger is now known as Valuation Services
- Qualified as an expert witness in County and District Court in multiple jurisdictions for real estate valuation issues. Representation includes both public agencies with condemning authority and private property owners.
- Served as coordinator and/or referee for multiple County Boards of Equalization in Nebraska
- Served on Nebraska Real Property Appraiser Board (2004-2006)
- Presented seminars on real estate related issues to various groups including brokers, students, and other real estate professionals.
- Has met the "recommended" continuing education requirement for designated members of The Appraisal Institute – Valid through December 2018

State of Nebraska

Real Property Appraiser Board

Hereby certifies that **KEVIN S. KROEGER**
VALUATION SERVICES
5408 N 99TH ST STE A
OMAHA, NE 68134-1530

Is credentialed in the State of Nebraska as a:

Certified General Real Property Appraiser

Holding credential number: **CG920195**

Issued on: **Jan 01, 2017** *Set to expire on:* **Dec 31, 2017**

Nebraska Real Property Appraiser Board Director: ______________________

All address changes, business or residence must be reported to the Real Property Appraiser Board immediately.

This Pocket Card is proof that such person is credentialed under the Real Property Appraiser Act unless credential has been canceled, surrendered, suspended, or revoked.

Nebraska Real Property Appraiser Board
301 Centennial Mall South, LL PO Box 94963
Lincoln, Nebraska 68509-4963
Phone: 402-471-9015 Fax: 402-471-9017 www.appraiser.ne.gov

Administrative Identification Number:	6171-2017	*Registration Fee Paid:*	$275.00
Random Fingerprint Audit Program Fee Paid:	$5.00	*Federal Registry Fee Paid:*	$40.00

End of Report