MARKET VALUE APPRAISAL

of the

GRAIN BELT OFFICE BUILDING

located at

1215 Marshall Street Northeast
Minneapolis, MN 55413

© 2005 by Nicollet Partners

NICOLLET PARTNERS

Mr. Luther N. Frank
Chief Appraiser
Community Planning Economic Development
City of Minneapolis
Crown Roller Mill – Suite 600
105 Fifth Avenue South
Minneapolis, MN 55401

May 26th, 2005

In re: **Market Value Appraisal of the**
Grain Belt Office Building Property
1215 Marshall Street NE,
Minneapolis, MN 55413

Dear Mr. Frank:

Pursuant to your request, we have made an inspection and analysis of the above referenced property for the purpose of estimating the market value of the fee simple interest in it as of May 2nd, 2005. It is understood that the opinion of value evolved will be used to assist the City of Minneapolis in selling the subject property.

Market value is defined within the body of the report and is subject to a few ***hypothetical conditions*** and ***extraordinary assumptions***. A hypothetical condition is an assumption that is contrary to what currently exists. Extraordinary assumptions presume as fact, otherwise uncertain information that if found to be false, could alter the opinion of value First, a hypothetical condition has been made that assumes the subject property is subdivided from its existing larger parcel, and an extraordinary assumption was made that resulted in a subdivided land area of the subject parcel of approximately 20,000 square feet with 100' of lineal street frontage along Marshall Street NE and one curb cut to be used for loading purposes only. Secondly, the items outlined in the Grain Belt Housing Redevelopment Project, dated March 31, 2005 resulted in the following two additional hypothetical conditions/extraordinary assumptions:

a.) the subject property has 21 dedicated parking stalls on the adjacent property of which 14 are covered, and
b.) there is an underground tunnel connection from the parking ramp to the basement of the subject building.

© 2005 by Nicollet Partners

Mr. Luther Frank, Chief Appraiser
Community Planning Economic Development
City of Minneapolis

This appraisal report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute, and prepared to meet the Uniform Standards of Professional Practice (USPAP) as established by The Appraisal Foundation.

The scope of this assignment included an inspection of the subject property on May 2nd, 2005. This opinion of value was based upon the development of the Sales Comparison and Income Approaches to value. Due to the age of the subject property, the Cost Approach was not fully developed. Components of the Cost Approach were developed in order to estimate the renovation costs of the subject property (i.e. deferred maintenance items were identified). This report represents a complete appraisal, and the value conclusion reflects all known information about the subject property, market conditions, and available data. This appraisal is conveyed in a summary report format.

Based on the market evidence and the valuation reasoning provided in this appraisal, it is our opinion that as of May 2nd, 2005 the fee simple market value of the subject property, subject to the ***hypothetical conditions*** and ***extraordinary assumptions*** identified, was:

SIX HUNDRED FIFTY THOUSAND DOLLARS ***$650,000***

This opinion of market value is based upon an estimated exposure time of less than one year and a marketing period of less than one year. In addition, the appraised market value of this real estate excludes personal property such as furniture, moveable fixtures, and movable equipment (FF&E).

Upon your review of the report, we would be happy to discuss the contents with you.

Sincerely,
NICOLLET PARTNERS, INC.

Robert G. Lunz, CRE, MAI
Principal
Certified General Real Property Appraiser
MN License No. 4000843

Darren L. Browen
Senior Associate Appraiser
Certified General Real Property Appraiser
MN License No. 20306483

© 2005 by Nicollet Partners

PART ONE – INTRODUCTION

© 2005 by Nicollet Partners

MARKET VALUE APPRAISAL
as of May 2nd, 2005

of the

GRAIN BELT OFFICE BUILDING PROPERTY
located at
1215 Marshall Street NE
Minneapolis, MN 55413

Prepared for:

Mr. Luther N. Frank
Chief Appraiser
Community Planning Economic Development
City of Minneapolis
Crown Roller Mill – Suite 600
105 Fifth Avenue South
Minneapolis, MN 55401

Prepared by:

Nicollet Partners, Inc.

Robert G. Lunz, CRE, MAI
Principal

and

Darren L. Browen
Senior Associate Appraiser

TABLE OF CONTENTS

© 2005 by Nicollet Partners

TABLE OF CONTENTS

SUBJECT PHOTOGRAPH

GRAIN BELT OFFICE BUILDING PROPERTY
located at
1215 Marshall Street NE
Minneapolis, MN 55413

Additional photographs of the subject property are located in the *Addenda* as Exhibit A

SUMMARY OF SALIENT FACTS

The Property	**GRAIN BELT OFFICE BUILDING PROPERTY** **1215 Marshall Street NE** **Minneapolis, MN 55413**
Tax Parcel ID No.	Part of 15-029-24-14-0097 (i.e. new PID will be assigned upon the subdivision of the property)
Property Rights Being Appraised	Fee Simple Estate Interest
Valuation Date	May 2, 2005
Date of Inspection	May 2, 2005
Site Description	
Land Area	±20,000 square feet, or 0.46 acre
Shape and Topography	Rectangular / The subject site is generally level with street grade. There are retaining walls along the south and east sides of the property.
Street Frontage	100 lineal feet along Marshall Street Northeast
Curb Cuts	One along Marshall Street Northeast (loading only) and one along 13th Avenue via a parking agreement/easement to access the surface and undergound parking stalls.
Traffic Volume	Marshall Street - 9,900 vehicles per day in 2003
Zoning	I-1, Light Industrial District
Flood Zone	Zone X; Map Panel 27053-C0357-E; Map Date: 9/2/2004
Census Tract No.	27053-0024.00-3
Neighborhood Summary	The subject property is located in Northeast Minneapolis. This area has gained in popularity over the past few years due to the influx of artists, office tenants and its proxmity to Downtown Minneapolis The neighborhood is currently experiencing a period of revitalization and increasing property values

© 2005 by Nicollet Partners

SUMMARY OF SALIENT FACTS

Improvement Description	
Gross Building Area (GBA)	18,507 square feet (includes garden level / basement area)
GBA Breakdown	1st Floor 7,817 square feet or 42% of total area 2nd Floor 3,209 square feet or 17% of total area Garden Level 3,919 square feet or 21% of total area Basement 3,562 square feet or 19% of total area Totals 18,507 100%
Rentable Area (RA)	10,397 square feet (includes 2,818 square feet of garden level area)
Building Efficiency	69.6%
Year Built	1892 with a subsequent addition at an unknown date; partially renovated in the early 1990's
Number of Stories	Two stories plus a basement/lower level that is partially at garden grade.
Construction	The building has an assumed wood frame with a brick exterior.
Ceiling Heights	The first and second floor clear spans range from 12' to approximately 16', while the garden level (rear) portion of the basement has a 9' clear, and the remaining (front) part of the basement has a 7' clear span.
Condition	Fair
Land to Building Ratio	1.34 to 1.0 (based on Above Ground and Garden Level GBA)
Land Coverage	39% (based on 1st floor GBA)
Parking	21 stalls of which 14 will be covered and connected to a new adjacent parking garage via a tunnel to the garden level of the building; the property's parking ratio is 1 space per 495 square feet of rentable area (above ground and garden level)
Highest and Best Use	
As Vacant	To be assembled with the adjacent parcels for a residential or mixed-use type of development
As Improved	Continued use as an office building after repairing deferred maintenance items
Value Conclusions	
Cost Approach	Not appicable due to age of improvements and lack of comparable land sales
Sales Comparison Approach	$710,000 or, $68.29 /sq. ft. of RA
Income Approach	$550,000 or, $52.90 /sq. ft. of RA
Final Value Estimate	**$650,000 or, $62.52 /sq. ft. of RA**

CERTIFICATION

The undersigned hereby certifies that, except as otherwise noted in this appraisal report:

1. They have made a careful, personal and thorough inspection of the subject property.

2. No one other than the person(s) signing this report have provided significant professional assistance to the analyses, conclusions and opinions set forth herein except as otherwise noted in the report.

3. Neither the employment nor compensation for this appraisal assignment is contingent upon an action or event resulting from the analyses, opinions, or conclusions in, or use of, this report. The appraisal assignment was not based on a requested minimum value, a specific value, or the approval of a loan.

4. The appraisers have no present or contemplated interest in the subject property, and has no personal interest or bias with respect to the parties involved.

5. To the best of the appraisers' knowledge and belief, the statements of fact contained in this report are true and correct. The reported analyses, opinions and conclusions are limited only by the assumptions and limiting conditions set forth in the report and are the appraisers' personal, unbiased professional analyses, opinions, and conclusions.

6. The analyses, opinions, and conclusions were developed in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The undersigned further certifies that the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.

7. The valuation conducted herein has complied with Generally Accepted Valuation Principles (GAVP) as advanced by the International Valuation Standards Committee.

8. The Appraisal Institute conducts a formal program of continuing education for its designated members. As of the date of this report, Robert G. Lunz has completed the requirements under the continuing education program of the Appraisal Institute. Robert G. Lunz and Darren L. Browen are also licensed Certified General Real Property Appraisers by the State of Minnesota.

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

10. The appraisers have acquired the knowledge and experience to complete this appraisal assignment and have previously appraised this type of property.

CERTIFICATION

11. The appraisers have not been sued by a regulatory agency or financial institution for fraud or negligence involving an appraisal report

To the best of the appraisers' knowledge and belief, based on the foregoing analyses and subject to the general assumptions and limiting conditions, as well as the identified ***hypothetical conditions*** and ***extraordinary assumptions*** of this report, it is our opinion that as of May 2nd, 2005 the fee simple market value of the Grain Belt Office Building Property was:

SIX HUNDRED FIFTY THOUSAND DOLLARS ***$650,000***

Sincerely,
NICOLLET PARTNERS, INC.

Robert G. Lunz, CRE, MAI
Principal
Certified General Real Property Appraiser
MN License No. 4000843

Darren L. Browen
Senior Associate Appraiser
Certified General Real Property Appraiser
MN License No. 20306483

PROFESSIONAL COMPENDIUM - ROBERT G. LUNZ

I **PROFESSIONAL EXPERIENCE**

A. Principal and Shareholder of **Nicollet Partners**, since September 2001.
B. Principal and Shareholder of Lunz Massopust Reid & DeCaster, Inc., (LMRD), March 1991 through August 2001.
C. Employed by The Towle Real Estate Company, Minneapolis from September 1975 to March 1991 with the final position of Senior Vice President, Appraisal/Consultation Division
D. Employed by The Minnesota (Mutual) Life Insurance Company, St. Paul from June 1970 to June 1975, in the Mortgage and Real Estate Division of the Investment Department with the position of mortgage and real estate investment analyst.
E. Resident of and active in the Twin Cities real estate market since June 1970.
F. 1994 and 1996-2001 Board of Assessment Review, City of Bloomington, Minnesota (1994 and 1997 Chair)
G. Member, Appraisal Institute – MAI and Counselor of Real Estate – CRE
H. Appointed as a Hennepin County District Court Condemnation Commissioner

II **EDUCATIONAL BACKGROUND**

A. Graduate of Gustavus Adolphus College, St. Peter, Minnesota, 1970, Bachelor of Liberal Arts degree with a major in the study of economics
B. Completion of the entire regimen of required course work for the MAI designation.
C. The appraiser regularly attends investment economics and real estate valuation oriented seminars and courses
D. The appraiser is certified under the Appraisal Institute's continuing education program through December 2008

III **MEMBERSHIPS/PROFESSIONAL AFFILIATIONS AND LICENSES**

A. Appraisal Institute
  - -1994 Metro/Minnesota Chapter President
  - -1995 & 1997-99 Nat'l Board of Directors
  - -2000 National Nominating Committee
  - -1999-00 National Finance Committee

B. The Counselors of Real Estate – 1995-99 Chapter Vice Chair
C. Minneapolis Area Association of Realtors
D. Minnesota Shopping Center Association
E. National Association of Industrial and Office Parks (NAIOP)
F. Organization of Commercial Realtors
G. Licensed Minnesota Real Estate Appraiser – Certified General Real Property Appraiser #4000843
H. Licensed Real Estate Broker (License #461490), State of Minnesota.

IV **CLIENTS** – Consultation/Valuation Studies and Appraisal Reports have been completed for the following institutions and corporations:

AmericanExpressFinancial/IDS
Associated Banks
Boise Cascade Corporation
CBS (WCCO) - Radio/TV
CitiCorp Real Estate
City of Bloomington
Commerce Bank
Hennepin County
Land O'Lakes
Liberty Property Trust
The McClatchy Co (Mpls. Star/Tribune)
Metropolitan Airports Commission
Metropolitan Sports Facilities Commission
M & I Bank
The Minneapolis Club
Minneapolis Community Planning & Economic Dev. Dept. (CPED)
Gov't Services Administration
Minnesota Life (Mutual)
North Oaks Company
Principal Life
Rouse Company
Ryan Companies
Saint Paul Pioneer Press
Saint Paul Port Authority
Soo Line Railroad
SuperValu
Target Stores
Teachers Insurance & Annuity Association (TIAA-CREF)
Radisson Hotels/Carlson Cos
Thrivent Insurance/Lutherans
US Bank-Minneapolis
Union Pacific Railroad
United Properties
Wells Fargo Bank Corporation
Prudential Realty Group (PRISA)
Walgreen's Corporation

PROFESSIONAL COMPENDIUM – DARREN L. BROWEN

I. **PROFESSIONAL EXPERIENCE**

A. Appraiser, Nicollet Partners, May 2003 - Present
B. Appraiser, Appraisal Group, October 2001 - April 2003
C. Financial Analyst, Optical Solutions, January 2000 - September 2001
D. Senior Auditor, Deloitte & Touche, January 1998 - January 2000

II. **EDUCATIONAL BACKGROUND**

A. Bachelor of Arts Degree in Accounting, minor in Chemistry- St. John's University
B. *Successfully completed the following courses offered by Pro Source.*
   1. Appraisal 100-Introduction to Construction Principles
   2. Appraisal 101- Introduction to Appraisal Principles I
   3. Appraisal 102- Introduction to Appraisal Principles II
   4. Appraisal 103- Introduction to Appraisal Practices I
   5. Appraisal 104- Introduction to Appraisal Practices II
   6. Appraisal 105- Introduction to Appraisal Standards and Ethics
C. *Successfully completed the following courses offered by the Appraisal Institute*
   1. Course 410 - Standards of Professional Practice, Part A (USPAP)
   2. Course 420 - Standards of Professional Practice, Part B (USPAP)
   3. Course 310 - Basic Income Capitalization
   4. Course 510 - Advanced Income Capitalization
   5. Course 520 - Highest and Best Use
   6. Course 530 – Advanced Sales Comparison & Cost Approaches
   7. Course 540 - Report Writing
   8. Course 550 - Advance Applications
D. *Attended the following seminars:*
   1. Valuation for Financial Reporting Purposes (2003)
   2. The Real Estate Outlook for 2004 (2003)
   3. Annual RERC-Industry Forecast: 2005 (2005)

III. **MEMBERSHIPS/PROFESSIONAL AFFILIATIONS AND LICENSES**

A. Minnesota Real Estate Appraiser – Certified General Appraisal License #20306483
B. Associate Member of the Appraisal Institute
C. Appraisal Institute MN Metro Chapter Director (2005-2008)

IV. **EXPERIENCE**

Appraisal Experience has included full-time independent fee appraising and consulting. Appraisal experience has included valuations of leasehold interests, leased fee interests, partial takings, and the following types of real estate.

A. Single and multiple tenant industrial and office buildings
B. Medical office buildings
C. Apartments (General occupancy, subsidized, and assisted living facilities)
D. Various commercial/retail buildings
E. Restaurants
F. Land development projects
G. Parking lots and ramps

V. **CLIENTS**

Available upon request

PART TWO – PREMISES OF THE APPRAISAL

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

The certification of the appraiser(s) appearing in this appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth in this report:

1. The appraisers assume no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor do the appraisers render any opinion as to the title, which is assumed to be good and marketable. The property is valued as though under responsible ownership and management. Existing liens or encumbrances have been disregarded, and the property has been appraised as though free and clear of existing indebtedness, unless otherwise stated and discussed in the report

2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The appraisers assume no responsibility for its accuracy. The appraisers have made no survey of the property. The legal description used in this report is assumed to be correct.

3. The appraiser(s) were not aware of the presence of soil contamination on the subject property, unless otherwise noted in this appraisal report. The effect upon market value due to contamination was not considered in this appraisal, unless otherwise stated. The appraisers were not aware of the presence of asbestos or other toxic contaminants in the building(s) or land(s), unless otherwise noted in this report. The effect upon market value, due to contamination was not considered in this appraisal, unless otherwise stated. Unless otherwise stated in this report, the existence of hazardous materials, that may or may not be present on the property, were not observed by the appraiser. The appraisers have no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

4. Information, estimates, and opinions furnished to the appraisers, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, responsibility for accuracy of such items cannot be assured by the appraiser(s).

5. Disclosure of the contents of the Appraisal report is governed by the Bylaws and Regulations of the Appraisal Institute or other professional appraisal organizations with which the appraiser(s) are affiliated.

6. On all appraisals involving proposed construction subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the proposed improvements in a workmanlike manner substantially in accordance with the plans and specifications submitted for review to the appraiser(s).

7. The valuers are not required to give testimony or appear in any litigation proceeding because of having made this appraisal, unless arrangements have been previously made for such additional services.

8. The market value estimated in this report is based on economic and market conditions, prevailing as of the stated effective date of valuation. This market value may be the same, but also may vary at a prior, or later date due to changed market or economic conditions. It is the appraisers' opinion that the subject property would sell in an appropriate time period should it be offered on the open real estate market at the date of appraisal at a price consistent with the value conclusion evolved herein. A guarantee of such a sale is not implied or warranted.

9. Neither all, nor any part of, the contents of the report, or a copy thereof (including conclusions as to the property value, the identity of the appraisers, professional designations, reference to any professional appraisal organizations, or Nicollet Partners, Inc.) shall be used for any purposes by anyone but the client specified in the report, the borrower if an appraisal fee was paid by the same, the mortgagee or its successors and assigns, mortgage insurers, consultants, professional appraisal organizations, any state or federally approved financial institution, any department, agency, or instrumentality, without the written consent of the appraiser(s). Nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, without the written consent and approval of the appraiser(s).

10. This appraisal report and its contents must be regarded as a whole and any excerpts from this appraisal cannot be used separately. If used separately, the valuation conclusion(s) are invalid. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

11. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.

12. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in the appraisal report.

13. It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

14. It is assumed that the utilization of the land is within the boundaries or property lines of the property described, and that there is no encroachment or trespass unless noted within the report.

15. No environmental impact studies were either requested or made in conjunction with this appraisal, and the appraiser(s) hereby reserve the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.

© 2005 by Nicollet Partners

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

16. The Americans with Disabilities Act of 1990 (ADA) is effective as of January 26, 1992, and is a federal civil rights law for individuals with disabilities, prohibiting discriminatory practices in the design and operation of places of business. Owners, landlords, tenants, and operators of business property are jointly and severally responsible for compliance, and should undertake audits to determine the extent to which facilities are affected by Title III. To the best of the appraiser's knowledge, an ADA audit has not been completed for the subject improvements. If such an audit was conducted, there may be significant costs necessary to comply with ADA. The appraiser(s), however, are not qualified to detect any such non-compliance items, if present, which may negatively affect the value of the subject property. This value estimate is predicated upon the assumption that there is no such ADA non-compliance items on, in, or potentially affecting the subject property that would cause a loss in value. No responsibility is assumed for any such non-compliance conditions, or for any expertise or engineering knowledge required to discover ADA non-compliance conditions. The client or subsequent users of this report are urged to retain experts in this field if desired or concerned about these issues.

17. The reliance and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions.

18. There may be other assumptions and limiting conditions not mentioned in items Nos. 1-17, which are detailed herein.

PURPOSE AND INTENDED USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the fee simple market value of the subject property conforming to the market value definition and subject to the hypothetical conditions /extraordinary assumptions, as defined and identified on the next page.

It is understood that the opinion of value evolved will be used to assist the City of Minneapolis in selling the subject property. This report is not to be used by any other entity for any purpose without the written consent of the appraisers. The appraisers are not responsible for unauthorized distribution and/or use of this report.

PROPERTY RIGHTS BEING APPRAISED

The real property rights to be considered in this appraisal are those of the fee simple estate ownership interest in the real estate. For purposes of this analysis, the 'fee simple estate interest', is as defined in The Dictionary of Real Estate Appraisal, Fourth Edition, published by the Appraisal Institute, 2002, as:

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

DEFINITION OF VALUE

"Market Value" as used in this report, is as defined under FIRREA Appraisal Standards in the Federal Register, Vol. 55, No. 165, August 24, 1990, "Rules and Regulations", 34.42 as below:

> *"Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably 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 good title from seller to buyer under conditions whereby:*
>
> 1) *Buyer and seller are typically motivated,*
> 2) *Both parties are well informed or well advised and acting in what they consider their own best interest;*
> 3) *A reasonable time is allowed for exposure in the open market,*
> 4) *Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
> 5) *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, or other special or creative terms, services, fees, costs or credits involved in the transaction."*

HYPOTHETICAL CONDITIONS AND EXTRAORDINARY ASSUMPTIONS

The subject property is being valued subject to a few hypothetical conditions and extraordinary assumptions which are defined in The Dictionary of Real Estate Appraisal, Fourth Edition, published by the Appraisal Institute, 2002, as:

> ***Hypothetical Condition*** - *"That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."*
>
> ***Extraordinary Assumption*** - *"An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis."*

With regards to the subject property, one hypothetical condition is that the subject property is subdivided from the existing larger parcel, and an extraordinary assumption tied to this was made that resulted in a subdivided land area of the subject parcel of roughly 20,000 square feet with 100' of lineal street frontage along Marshall Street NE, and one curb cut intended for loading purposes only. In addition, the items outlined in the Grain Belt Housing Redevelopment Project resulted in the following two hypothetical conditions and extraordinary assumptions: a.) the subject property has 21 dedicated parking stalls on the adjacent property of which 14 are covered and, b.) there is an underground tunnel connection from the parking ramp to the basement of the subject building. A copy of the development agreement for the Grain Belt Housing Redevelopment Project is located in the *Addenda* has Exhibit B.

VALUATION DATE

This appraisal has an effective date of value of May 2nd, 2005 and is based upon current market conditions. The subject land and site improvements, as described in the following appraisal report, were inspected on May 2nd, 2005.

EXPOSURE AND MARKETING TIME

According to the Standards of Professional Appraisal Practice of the Appraisal Institute, reasonable exposure time is one of a series of conditions in most market value definitions. Exposure Time is defined as follows:

> *"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."*

Exposure time may be different for various types of real estate depending upon market conditions for that specific property type. The concept of exposure not only encompasses reasonable time, but also assumes adequate, sufficient and reasonable effort. For purposes of this appraisal, exposure time was estimated to be less than one year.

Marketing Period in valuation practice is defined as follows:

> *"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."*

For the subject property, a marketing period of less than one year is considered reasonable if the property were to be marketed at a price consistent with the value conclusion of this appraisal.

COMPETENCY PROVISION

Robert G. Lunz and Darren L. Browen have performed numerous appraisals of commercial properties throughout the Twin Cities Metro Area (TCMA). The appraisers have considerable experience in valuing older, urban office properties. They are familiar with the nuances of this market and the supply and demand factors relating to this property type. The appraisers believe that they have the appropriate education and experience to complete the assignment in a competent manner.

© 2005 by Nicollet Partners

SCOPE OF WORK

The scope of this appraisal assignment involved researching general market conditions and interviewing market participants. The specific real estate information researched included comparable older office building sales and rentals located in urban neighborhoods within the Twin Cities Metro Area (TCMA). In addition, renovation costs of older office buildings were also researched. The appraisers were able to analyze a large amount of data that was available through a regional appraiser-sharing database. This database contains comparable information reported by appraisers outside of Nicollet Partners, Inc. In addition, this database has most of the Certificates of Real Estate Value (CREV's) recently filed in the TCMA for sale transactions. In addition, Nicollet Partners has a large in-house database of comparables that was referenced and relied upon. The appraisers either directly or indirectly verified all of the comparables and data analyzed in this report. The results of this research indicated there was an adequate amount of data to produce a credible value conclusion.

All of the information researched was then used in determining the highest and best use of the property and the full development of two of the three standard approaches to value: the Sales Comparison and Income Approaches. The value indications evolved from each of these approaches were then reconciled to a single Final Value Estimate.

The Cost Approach was not considered applicable due to the age of the improvements and the difficulty in estimating the contributory value of the existing improvements (i.e. a depreciation estimate is very subjective). In addition, due to the lack of comparable general office property sales in the immediate neighborhood, and the lack of general land sales subject to parking agreements with an adjacent property, the land value was also not estimated. The subject improvements do provide an additional value to the underlying land, thus omitting this approach does not affect the credibility of the value conclusion, and the valuation procedure is still considered a complete appraisal. Components of the Cost Approach were developed in order to estimate the renovation costs of the subject property (i.e. deferred maintenance items were identified).

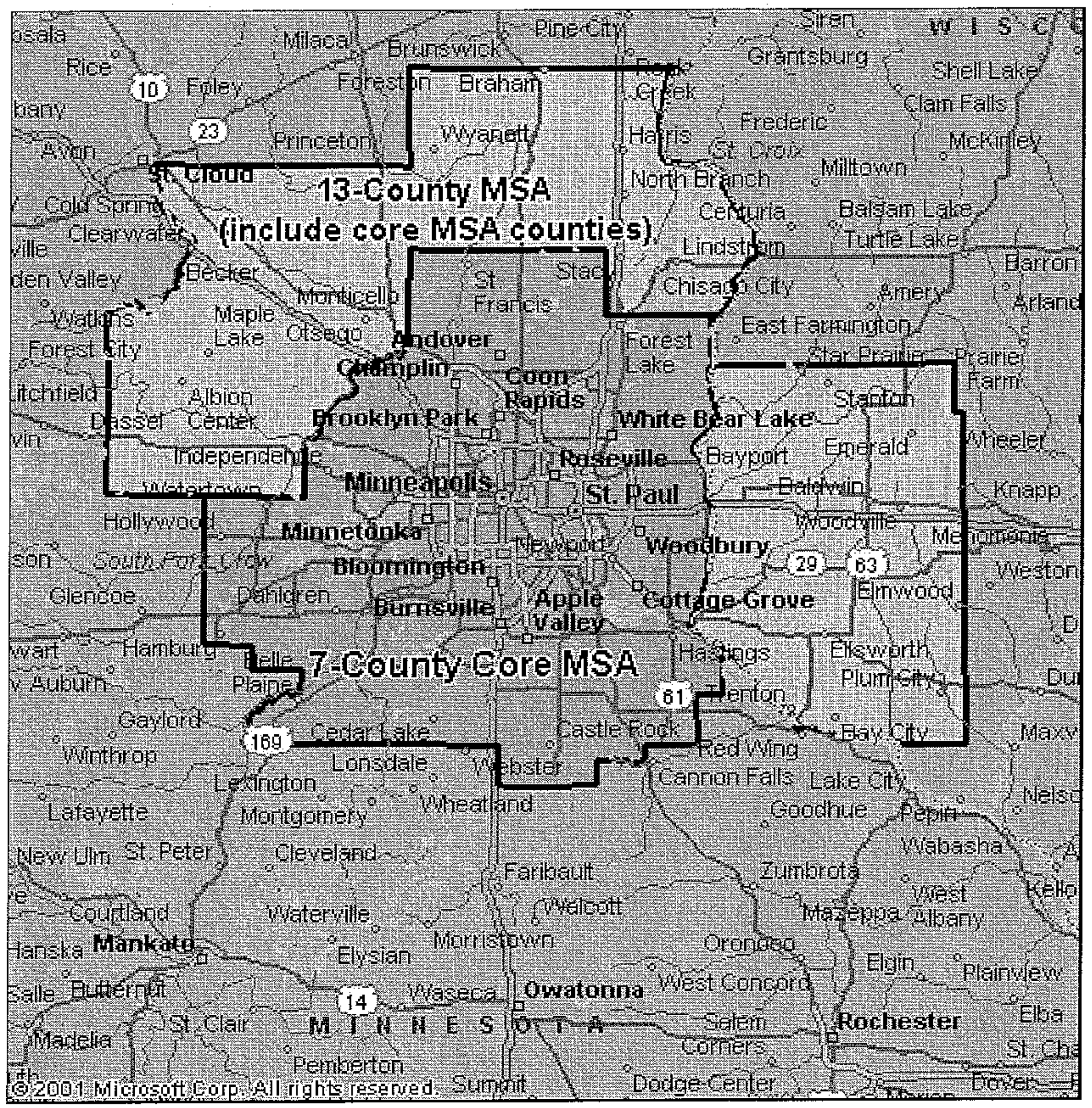
PART THREE – REGIONAL AND CITY ANALYSIS

© 2005 by Nicollet Partners

REGIONAL DESCRIPTION

TWIN CITIES METROPOLITAN AREA (TCMA) OVERVIEW

The subject property is located in the thirteen-county Minneapolis/St. Paul Twin Cities Metropolitan Statistical Area (MSA). Of the thirteen counties that make up the MSA, eleven are located in Minnesota and two in Wisconsin. The core of the MSA consists of a seven-county area that will be referred to as the Twin City Metropolitan Area (TCMA). The map below illustrates the core seven-county area (shaded pink) and the other six counties (shaded yellow) that make up the thirteen-county Minneapolis/St. Paul Twin Cities Metropolitan Statistical Area (MSA). The following narrative, tables, and maps mainly relate to this seven-county core area



REGIONAL DESCRIPTION

The Twin Cities have a mature, self-sufficient economy, providing goods and services to the surrounding regions, the rest of the United States and the world. The TCMA functions as both an economic and cultural center for a vast geographic area.

The TCMA has a diversified employment base that fosters economic prosperity and has had historical unemployment rates consistently below the national average. TCMA employees reportedly possess one of the nation's lowest absentee records, approximately one-half of the national average. Their credit ratings are among the highest in the nation. Minnesotans rank near the top in the United States in the number of school years completed and has a high school graduation rate that was second in the nation in 2000. These characteristics lend themselves to a productive workforce and an attractive place for a business to locate.

The TCMA offers many cultural experiences, including the Minnesota Orchestra, St. Paul Chamber Orchestra, Minnesota Opera, Guthrie Theater, Children's Theater Company, Ordway Music Theater, Minneapolis Institute of Arts, Minnesota Museum of Art, Minnesota Zoo, Como Zoo and Conservatory, Bell Museum of Natural History, Children's Museum, Science Museum of Minnesota, Minnesota History Center, Camp Snoopy in the Mall of America and Valley Fair. Minnesota is also home to five professional sports teams: Vikings (football), Twins (baseball), Wild (hockey), Timberwolves (men's basketball) and the Lynx (women's basketball). The University of Minnesota also has teams competing in virtually all of the major inter-collegiate athletic sports.

Minnesota has 124 state parks and forests, one national park, two national forests, over 15,000 lakes of 10 acres or more in size and numerous scenic river areas that provide opportunities for outdoor activities as well. With 4.7 acres of state parkland per 100 residents in 2000, Minnesota ranks eighth in the country and second in the Midwest. Some of these recreational lands are located within the TCMA, with the majority of them within a two to three hour drive from the TCMA.

Some of the TCMA's assets are its geographic location and commercial transportation services. Minneapolis/St. Paul has a strategic location at the head of navigation on the Mississippi River. As the distribution hub for the upper-midwestern states, the TCMA comprises the nation's seventh largest distribution center in the nation. The Minneapolis/St. Paul International Airport, anchored to Northwest Airlines, serves over twelve million passengers each year, and ranks as one of the busiest airports in the nation.

Economic disincentive factors to the TCMA would be the consistently high commercial/industrial real estate taxes, high personal income taxes and a high worker's compensation tax to corporations. These higher taxes have caused some manufacturers to move less skilled manufacturing jobs out of the state. Because of this, there has been a political resolve to change the state's taxing policies. This political lobbying has resulted in the lowering of commercial, industrial, and multi-family real estate tax rates each year since 1996. Despite these recent reductions, current tax rates are still among the highest in the country. Despite the high tax rates, the TCMA has experienced strong growth, in excess of what state planners had expected.

REGIONAL DESCRIPTION

The seven-county Metropolitan Area contains nearly 200 communities and townships, each having their own unit of government. The Metropolitan Council, however, controls comprehensive planning in the TCMA by coordinating activities to minimize waste and duplication. The Metropolitan Council oversees areas such as land use planning, regional transportation planning, sanitary sewer, criminal justice and waste control. One of the objectives of the Metropolitan Council is to curb urban sprawl and encourage redevelopment of areas within the seven county-core TCMA. According to the Metropolitan Council, the cost to provide the infrastructure for water and sewer systems can be greatly reduced by creating higher density residential uses in the core TCMA that make the most use of existing infrastructure. This cost savings is largely due to the under-utilization of the existing water and sewer system in the core TCMA as it can handle a greater number of residential units. In addition, higher density developments have a lower impact on the environment, as less undeveloped agricultural and natural land is lost.

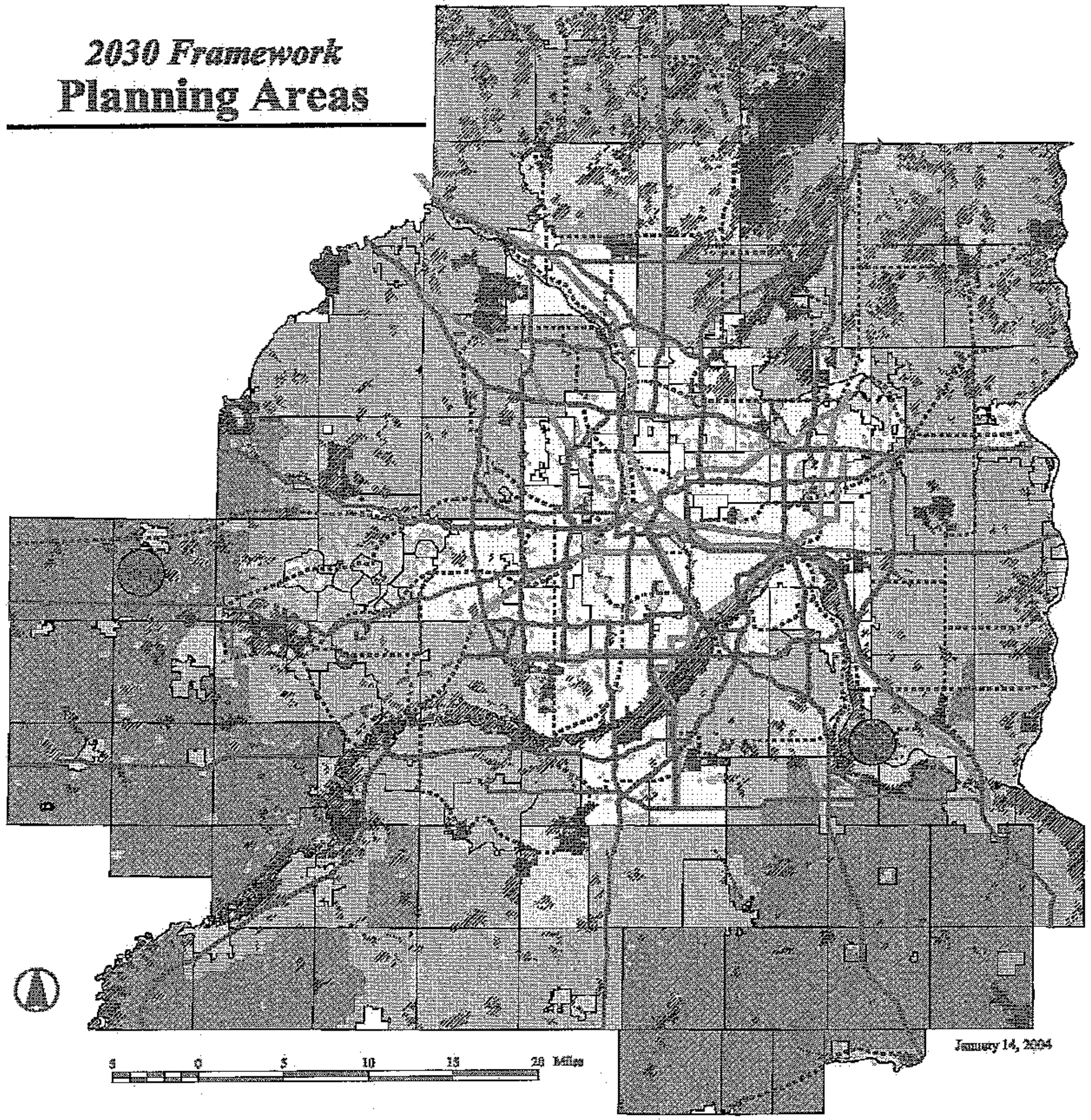
The Metropolitan Urban Services Area (MUSA) boundary is the main method used to control residential growth. Only those properties located within the MUSA boundary have access to public water and sewer systems. The Metropolitan Council uses its political influence to provide funding sources for water and sewer systems for those communities located within the MUSA boundary.

Another major undertaking by the Metropolitan Council is to shape the future of mass transit in the area. This is one of the major challenges facing the region. The current transit system is generally functional, however, the average commuter travel time for Twin Cities' residents has steadily increased since 1990. The map on the next page shows the proposed framework for a future mass transit system consisting of light rail, commuter rail and bus corridor systems. The Hiawatha Line, the first phase of the light rail (LRT) system, opened in April 2004, and provides service from Downtown Minneapolis to Fort Snelling. The second phase was completed in December 2004 and it provides extended service from Fort Snelling to the Minneapolis-St. Paul International Airport and the Mall of America. This is an important step that will lay the groundwork for future mass transit services throughout the Twin Cities. The Hiawatha Line has had higher than projected ridership and has already stimulated redevelopment in those areas close to the rail line with higher density uses. The proposed Northstar Commuter rail line, which is still waiting for public funding, will ultimately link St. Cloud, Minneapolis, St. Paul and Rochester, and also the Hiawatha Line. For detailed discussions of the future of each of the proposed mass transit lines go to www.mplstmo.org/index.htm . It should be noted that these plans are in the preliminary stages of development and the driving force behind the timing or type of mass transit line will ultimately be determined by the availability of public funding to be decided by the Minnesota State Legislature in its 2005 session.

Much of the data in the following sections is from reports compiled by the Metropolitan Council staff. The map on the next page was published by the Metropolitan Council and illustrates the anticipated growth areas in the TCMA and the related long-term transportation framework. The MUSA boundary is generally along the outer edge of the developing areas, shaded light brown on the map on the following page.

A discussion of population, households, employment and household income trends for the TCMA are also presented on following pages

2030 Framework
Planning Areas



NOTE: Please refer to the Comprehensive Plans Composite map or the Regional Systems maps for the most recent information. These maps are available at the Metropolitan Council Data Center (651) 602-1140.

Geographic Planning Areas		Additional Information	
Urban Planning Areas	**Rural Planning Areas**	Regional Natural Resource Areas (includes Terrestrial and Wetland Areas) SOURCE: Metro DNR in coordination with the Metropolitan Council	Regional Trail
Developing Area	Rural Center	Regional Park	Transit 2025 Corridor
Developed Area	Agricultural	Proposed Regional Park	Principal Arterial
	Diversified Rural		Open Water
	Rural Residential		

Metropolitan Council

© 2005 by Nicollet Partners

REGIONAL DESCRIPTION

POPULATION TRENDS

The table below shows population trends for the seven-county area for 1980, 1990 and 2000, as well as population estimates for 2003 and projections for 2010. The TCMA ranked 15th nationally in population among the U.S. metropolitan areas in 2000. It is evident by the statistics that area growth continues to move away from the core cities of Minneapolis and St. Paul (Hennepin and Ramsey Counties) to suburban sectors.

Population Trends									
	U.S. Census Bureau			Metropolitan Council		Annual Population Change			
County	1980 Census	1990 Census	2000 Census	2003 Estimate	2010 Forecast	1980-'90 %/Year	1990-'00 %/Year	2000-'03 %/Year	2000-'10 %/Year
Anoka	196,998	243,641	298,084	313,197	357,670	2 37%	2 23%	1 69%	2 00%
Carver	37,046	47,915	70,205	78,444	99,640	2 93%	4 65%	3 91%	4 19%
Dakota	194,279	275,227	355,904	375,642	413,510	4 17%	2 93%	1 85%	1 62%
Hennepin	941,411	1,032,431	1,116,200	1,139,837	1,202,160	0 97%	0 81%	0 71%	0 77%
Ramsey	459,784	485,765	511,035	515,274	540,600	0 57%	0 52%	0 28%	0 58%
Scott	43,784	57,846	89,498	105 196	145,770	3 21%	5 47%	5 85%	6 29%
Washington	113,571	145,896	201,130	213,395	245,920	2.85%	3.79%	2.03%	2.23%
TCMA TOTAL	**1,986,873**	**2,288,721**	**2,642,056**	**2,740,985**	**3,005,270**	**1.52%**	**1.54%**	**1.25%**	**1.37%**
Source: U.S. Census Bureau and Metropolitan Council									

In 2005, the US Census Bureau released statistics indicating that Minnesota will be the fastest growing state in the Upper-Midwest, even above Illinois. Much of this growth is expected to occur in the 13-County MSA. Over the next 25 years, Minnesota is expected to be the 20th fastest-growing state. This population growth will play a significant role in the political arena, as Minnesota will gain more seats in Congress while surrounding states will lose some representation. For the first time, Minnesota is projected to have a larger population than neighboring Wisconsin.

HOUSEHOLD TRENDS

The table below shows household trends for the seven-county area for 1980, 1990 and 2000, as well as household trend estimates for 2003 and projections for 2010. From this data, the average household size was calculated by dividing the population by the number of households shown in the table below.

Household Trends									
	U.S. Census Bureau			Metropolitan Council		Annual Household Change			
County	1980 Census	1990 Census	2000 Census	2003 Estimate	2010 Forecast	1980-'90 %/Year	1990-'00 %/Year	2000-'03 %/Year	2000-'10 %/Year
Anoka	60,716	82,437	106,428	112,627	135,300	3 58%	2 91%	1 94%	2 71%
Carver	12,011	16,601	24 356	28,096	37,030	3 82%	4 67%	5 12%	5 20%
Dakota	64,087	98,293	131 151	139,966	160,260	5 34%	3 34%	2 24%	2 22%
Hennepin	365,536	419,060	456,129	467,760	500,960	1 46%	0 88%	0 85%	0 98%
Ramsey	170,505	190,500	201,236	204,059	216,890	1 17%	0 56%	0 47%	0 78%
Scott	13,501	19,367	30,692	37,489	53,820	4 34%	5 85%	7 38%	7 54%
Washington	35,001	49,246	71,462	77,456	93,320	4.07%	4.51%	2.80%	3.06%
TCMA TOTAL	**721,357**	**875,504**	**1,021,454**	**1,067,453**	**1,197,580**	2.14%	1.67%	1.50%	1.72%
Average Household Size (Population divided by number of households)									
TCMA TOTAL	**2.75**	**2.61**	**2.59**	**2.57**	**2.51**	**-0.51%**	**-0.11%**	-0.24%	**-0.30%**
Source. U.S. Census Bureau and Metropolitan Council									

© 2005 by Nicollet Partners

EMPLOYMENT TRENDS

In general, the TCMA has become a technical/professional center with computers and medical instrument technology as leading industries. The concentration of research and technology organizations in Minnesota is four times above the national average. Other principal industries of the trade area include machinery, fabricated metal products, paper and allied products, printing and publishing, electronic products and food products.

This economic diversity has contributed to the Metropolitan Area's overall growth and historical unemployment rates that have been lower than the national average. No one manufacturer, or single industry, dominates the local economy. The area's two largest firms employ only about 3% of the total employment, and the 95 largest firms together account for about 20% of total employment. Public organizations are the largest employers. The University of Minnesota is the largest public employer, with the federal and state governments ranked second and third, respectively.

Adding to the breadth of the employment base are the 17 *Fortune 500* companies that are headquartered in the TCMA (see table below). Well known firms such as 3M, General Mills, Target, Best Buy, Northwest Airlines and Medtronic all have their headquarters in the Twin Cities. Privately owned companies such as Cargill (the U.S.'s largest at 2004 revenues of $59.9 billion), Carlson Companies and Anderson Windows also have their corporate headquarters in the TCMA. Minneapolis is also the headquarters for the Ninth Federal Reserve District Bank. Additionally, the TCMA is one of the country's leading financial centers being home to American Express Financial Services (formally IDS), TCF Bank and U.S. Bancorp.

Minnesota Fortune 500 Companies

2004 Rank	Company	Location (Headquarters)	2003 Rank	2004 Revenue (Billions)
27	Target	Minneapolis	23	$49,934
40	United Health Group	Minnetonka	54	$37,218
77	Best Buy	Richfield	78	$24,901
85	St. Paul Travelers Cos.	St. Paul	227	$22,934
104	Supervalu	Eden Prairie	99	$20,210
105	3M	St. Paul	105	$20,011
143	U.S. Bancorp	Minneapolis	133	$14,706
190	Northwest Airlines	Eagan	207	$11,279
197	General Mills	Minneapolis	186	$11,070
198	Cenex Harvest States (CHS)	Inver Grove Heights	212	$11,051
246	Medtronic	Minneapolis	263	$9,087
256	Xcel Energy	Minneapolis	254	$8,506
279	Land O' Lakes	Arden Hills	308	$7,742
319	Thrivent Financial for Lutherans	Minneapolis	284	$6,445
402	Hormel Foods	Austin (1)	411	$4,780
442	C.H. Robinson Worldwide	Eden Prairie	467	$4,342
455	Ecolab	St. Paul	451	$4,185
476	Nash Finch	Minneapolis	433	$3,897

(1) Located outside of the 7-County Twin Cities Metro Area

Source: Fortune

© 2005 by Nicollet Partners

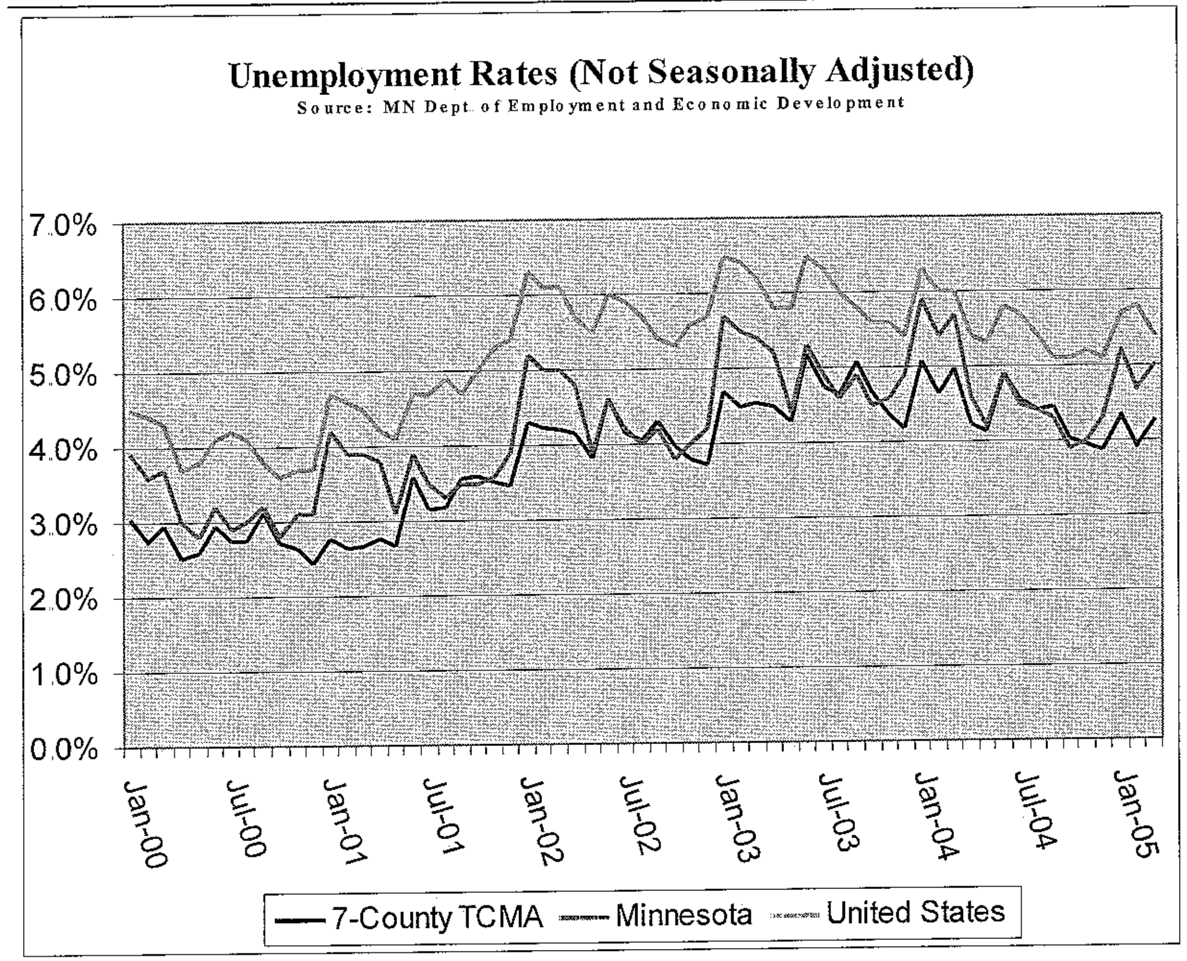
The table below shows employment trends for the seven-county area from 1980, 1990 and 2000. It also shows employment projections for the years 2010 and 2020. Employment figures are based on "covered workers" which includes employees covered by Minnesota's Unemployment Insurance statue. Consequently, the data excludes about 3 percent of the non-agricultural wage and salary employees and all self-employed people.

Employment Trends									
	MN Dept. of Economic Security			Metropolitan Council		Annual Employment Change			
	1980	1990	2000	2010	2020	1980-'90	1990-'00	2000-'10	2010-'20
County	Census	Census	Census	Forecast	Forecast	%/Year	%/Year	%/Year	%/Year
Anoka	63,317	81,132	106,814	125,190	137,210	2 81%	3 17%	1 72%	0.96%
Carver	11,193	18,014	26,657	38,970	47,460	6 09%	4 80%	4 62%	2 18%
Dakota	62 134	106,029	148,261	179 360	199,290	7 06%	3 98%	2 10%	1 11%
Hennepin	590,288	723 105	856 838	969,740	1,045,610	2 25%	1 85%	1 32%	0 78%
Ramsey	271,647	286,835	329,145	370 330	402,380	0 56%	1 48%	1 25%	0 87%
Scott	13,537	18,554	32,009	44 810	53,780	3 71%	7 25%	4 00%	2 00%
Washington	27,884	39,104	63,521	87,315	104,755	4.02%	6.24%	3.75%	2.00%
TCMA TOTAL	**1,040,000**	**1,272,773**	**1,563,245**	**1,815,715**	**1,990,485**	2.24%	2.28%	1.62%	0.96%
Workforce Participation - All Ages (Population divided by employment)									
TCMA TOTAL	**52.3%**	**55.6%**	**59.2%**	**67.0%**	**66.2%**	**0.62%**	**0.64%**	**1.33%**	**-0.12%**
Source. Minnesota Department of Economic Security and Metropolitan Council									

The statistics above illustrate the strong employment growth experienced and projected in the TCMA. This employment growth is a direct function of a well-diversified employment base. Hennepin and Ramsey Counties encompass the majority of the industrial and business applications located in the TCMA, and the two counties serve as the processing and distribution point for the large Upper Midwest agricultural region.

The population of the Twin Cities area is characterized by having high participation rates in the labor force. In fact, it had the highest participation rate in the nation in 2000 compared to other Metropolitan Statistical Areas (MSA's). This has resulted in the area having an unemployment rate consistently below that of other MSA's and the nation as a whole. This is illustrated in the table below and graph on the next page. Tables on following pages compare the Minneapolis-St. Paul MSA to many other major MSA's.

Unemployment Rate (Not Seasonally Adjusted)								
	Year-end Average							Month-end
	1980	1990	2000	2001	2002	2003	2004	Mar. '05
TCMA (7 County)	n/a	n/a	2 8%	3.1%	4 1%	4 6%	4 4%	4 3%
Minnesota	5.9%	4.9%	3.3%	3.7%	4.4%	5 0%	4 7%	5 0%
United States	7.1%	5.6%	4.0%	4.7%	5.8%	6.0%	5.6%	5.4%
Source. MN Department of Trade & Economic Development								



The unemployment rate grew steadily between 2001 and mid-2003 in the TCMA. This relates to the overall slow down in the United States economy dating back to a period that many economists believe started in early 2001 and was amplified by national and worldwide security concerns as a result of the terrorist attacks on September 11, 2001 on the World Trade Towers in New York. This slow down in the economy was short-lived as there were indications that the economy, as a whole, began to grow again by late 2001/early 2002. However, much of this growth is the result of increased productivity, and has not created additional jobs. Thus it has been termed the "jobless" recovery. In recent months the overall economic outlook appears much healthier as many companies are taking healthy earnings gained by productivity increases and reinvesting them back into the economy. This has created significant additional jobs from July 2004 through November 2004. There was slight decline in job growth in December 2004 and January 2005. Modest growth continued in February and March 2005. The TCMA should continue to trend below the United States unemployment rate due to the education of the workforce and the diversity of employment opportunities.

The table on the next page compares the Twin Cites Metropolitan Area to other major MSA's in the United States. These numbers illustrate the high labor force participation rate, as well as the degree of diversification among different occupations and industry sectors.

Metropolitan Area Comparison Table: 2000 Work Force Data

Metropolitan Area (Arranged by Employed persons, 16 and over)	Employed persons, 16 and over	Labor Force Participation			Unemploy. Rate	Occupations		Selected Industry Sectors		
		Total	Female	Male		Mgmt, profess., & related occupations	Sales and office occupations	Mfg.	Prof, scientific, mgmt, admin and waste mgmt services	Edu., health and social services
Minneapolis-St. Paul MSA (13 County) Rank	14	1	1	1	25	5	12	4	14	10
New York-Northern New Jersey-Long Island CMSA	9,520,481	61.9%	55.2%	69.4%	6.7%	38.6%	27.9%	9.6%	11.8%	22.2%
Los Angeles-Riverside-Orange County CMSA	6,904,719	61.5%	54.0%	69.3%	7.4%	34.0%	27.7%	14.8%	11.1%	18.1%
Chicago-Gary-Kenosha CMSA	4,287,747	66.0%	59.1%	73.3%	6.3%	35.5%	28.4%	15.9%	11.6%	18.3%
Washington-Baltimore CMSA	3,843,329	69.4%	64.0%	75.4%	4.5%	45.4%	25.3%	5.8%	15.1%	18.6%
San Francisco-Oakland-San Jose CMSA	3,495,883	66.1%	59.5%	72.9%	4.5%	43.6%	25.6%	14.6%	15.0%	17.1%
Boston-Worcester-Lawrence CMSA	2,952,632	67.6%	61.6%	74.1%	4.3%	42.1%	26.1%	13.5%	12.2%	22.6%
Philadelphia-Wilmington-Atlantic City CMSA	2,865,306	64.0%	58.3%	70.4%	6.3%	36.9%	28.6%	11.9%	10.9%	22.2%
Dallas-Fort Worth CMSA	2,573,740	69.2%	61.3%	77.3%	4.8%	36.0%	28.9%	13.1%	11.5%	15.6%
Detroit-Ann Arbor-Flint CMSA	2,538,924	64.6%	57.8%	72.1%	5.8%	33.8%	26.2%	22.8%	9.8%	19.2%
Houston-Galveston-Brazoria CMSA	2,121,615	65.4%	57.4%	73.8%	6.2%	35.2%	27.3%	12.1%	11.8%	17.7%
Atlanta MSA	2,092,994	70.6%	63.6%	77.9%	5.0%	37.5%	28.7%	11.1%	12.6%	15.6%
Seattle-Tacoma-Bremerton CMSA	1,771,070	68.8%	62.0%	75.8%	5.1%	38.4%	26.4%	13.0%	10.9%	18.4%
Miami-Fort Lauderdale CMSA	1,680,147	59.7%	53.4%	66.6%	7.2%	31.6%	31.0%	6.9%	11.6%	17.9%
Minneapolis-St. Paul MSA (13 County)	**1,619,473**	**74.3%**	**69.0%**	**79.9%**	**3.5%**	**38.9%**	**28.0%**	**15.9%**	**11.2%**	**19.1%**
Phoenix-Mesa MSA	1,488,583	63.7%	56.4%	71.0%	4.9%	33.4%	29.5%	11.6%	11.3%	16.1%
Cleveland-Akron CMSA	1,401,208	64.8%	58.4%	71.9%	5.2%	32.8%	27.7%	19.4%	8.9%	20.2%
Denver-Boulder-Greeley CMSA	1,366,635	71.7%	65.0%	78.5%	4.1%	39.4%	28.0%	9.3%	13.2%	16.1%
St. Louis MSA	1,252,570	66.7%	60.7%	73.5%	5.5%	34.4%	28.1%	14.3%	9.4%	20.6%
San Diego MSA	1,241,258	65.0%	57.0%	73.1%	5.9%	37.7%	27.2%	11.0%	13.3%	19.3%
Portland-Salem CMSA	1,123,043	68.4%	61.2%	75.9%	5.9%	34.5%	27.1%	15.3%	9.9%	17.9%
Tampa-St. Petersburg-Clearwater MSA	1,079,627	59.2%	53.5%	65.6%	5.0%	32.8%	31.1%	8.3%	11.7%	18.4%
Pittsburgh MSA	1,074,663	60.3%	53.3%	68.3%	5.8%	33.9%	27.7%	12.3%	9.3%	22.8%
Cincinnati-Hamilton CMSA	968,170	66.9%	60.2%	74.1%	4.3%	33.9%	28.0%	17.3%	9.9%	18.7%
Kansas City MSA	891,182	68.9%	62.7%	75.7%	4.3%	35.8%	28.9%	11.2%	10.3%	18.4%
Sacramento-Yolo CMSA	815,041	64.0%	58.4%	70.0%	6.2%	37.3%	28.6%	7.5%	10.3%	19.3%
Median		**66.0%**	**59.1%**	**73.3%**	**5.2%**	**35.8%**	**28.0%**	**12.3%**	**11.3%**	**18.4%**

Note: Ranks are based on descending values
Source: US Census 2000

HOUSEHOLD INCOME TRENDS

Household income trends are a good indication of the overall economic health of the TCMA and are related to the previous unemployment and labor force participation discussion. The median household income in the 7-County TCMA was $54,332 in 2000, ranking the TCMA third best among the MSA's in the United States. This is largely attributable to the employment rates that are the highest among all MSA's. This would tend to indicate the average household has multiple income earners. The table below illustrates the household income levels for 1980, 1990, and 2000 for the TCMA, Minnesota and the United States.

Median Household Income					
	1980	1990	2000	% Change 1980-1990	% Change 1990-2000
Anoka County	$39,201	$40,076	$57,754	2 2%	44 1%
Carver County	$34,303	$39,188	$65,540	14 2%	67 2%
Dakota County	$39,525	$42,218	$61,863	6 8%	46 5%
Hennepin County	$33,643	$35,659	$51,711	6 0%	45 0%
Ramsey County	$31,736	$32,043	$45,722	1 0%	42 7%
Scott County	$37,650	$40,798	$66,612	8 4%	63 3%
Washington County	$40,647	$44,122	$66,305	8.5%	50.3%
TCMA (7-County)	$34,610	$36,678	$54,332	6.0%	48.1%
Minnesota	$17,761	$30,909	$47,111	74.0%	52.4%
United States	$16,841	$30,056	$41,994	78.5%	39.7%
Source: US Census Bureau					

Another indication of economic stability in the area is the average cost of residential land and homes. These trends in the TCMA are discussed below.

RESIDENTIAL REAL ESTATE MARKET TRENDS

The Minneapolis Area Association of Realtors is the best source of housing value information since local realtor's process most housing sales through the Multiple Listing Service (MLS). The statistical table on the following page presents area home sales data for the period 1995 through 2004 (10 years) including sales volume and average sale prices. The analysis of this data clearly indicates the following:

1. The 97,737 residential listings in 2004 resulted in the closed sales of 58,223 homes. This is a 59.57% sale to list ratio, slightly below that of the annual average sales list ratio of 69.7% from 1995 through 2004. Overall, the 2004 sales ratio is an indication that the area's economy and housing market is beginning to stabilize and return to levels similar to those prior to 1998.

2. The inventory of listings remained fairly level in the 1990's. However, over the last four years, the number of listings processed has increased significantly. As indicated in the table below, housing prices have experienced consistently strong annual appreciation rates that surpass the CPI index, thus allowing the supply of houses for sale to catch up with demand. The large increase in listings in 2003 and 2004 was likely tied to an aging population moving into lower maintenance housing combined with historically low interest rates, thereby causing many homeowners to upgrade their housing.

3. The average sale price has increased every year since 1995, resulting in a +8.67% annual average increase. From 2003 to 2004 the average sale price of a single-family home increased +7.5%. The rate of increase has decreased slightly over the past two years, also indicating that the area's economy and housing market is beginning to stabilize. A recently released report from MLS published in the January 12, 2005 issue of the Star Tribune newspaper showed a total of 58,233 unit sales in 2004, a slight increase from 2003. The median 2004 sale price was $215,900, an 8% increase over 2003. Below is the average sale price data for the last ten years in the TCMA:

10-Year Review of Average TCMA Area Home Sale Prices						
Year	**Listings Processed**	**Unit Sales**	**Sales to List Ratio**	**Residential Total Dollar Volume**	**Average Sale Price**	**Sale Price% Increase Over Prior Year**
1995	64,556	42,310	65.54%	$4,941,765,241	$117,053	4.69%
1996	73,433	46,949	63.93%	$5,818,898,453	$124,022	5.95%
1997	63,189	41,441	65.58%	$5,680,945,013	$137,085	10.53%
1998	64,280	47,836	74.42%	$7,048,446,631	$147,346	7.49%
1999	57,573	46,675	81.07%	$7,620,974,435	$163,277	10.81%
2000	59,618	48,208	80.86%	$8,754,809,444	$181,605	11.23%
2001	71,861	50,298	69.99%	$10,217,347,550	$203,136	11.86%
2002	73,940	52,231	70.64%	$11,331,943,390	$221,275	8.93%
2003	86,378	56,528	65.44%	$13,478,897,819	$238,446	7.76%
2004	97,737	58,233	59.58%	$14,922,306,738	$256,252	7.47%
10-yr Average	71,257	49,071	69.71%	$8,981,633,471	$178,950	8.67%
Source. Minneapolis Area Association of Realtors						

In 2004, construction activity trends at the county level for the TCMA were slightly below the 2003 levels for single-family units and slightly above the 2003 levels for multifamily units, as shown on the table on the following page. The biggest net gain for single-family permits was in Washington County where building permits for new units were up 399 units. The biggest gain for multi-family permits was in Ramsey County where permits for new units were up 476 permits. Overall, the 2004 building permits showed a 2.56% decrease from 2003 levels for single-family permits and a 3.49% increase over 2003 levels for multifamily permits. Increasing interest rates could likely dampen demand in the near future, however, the current interest rates are still very low compared to historical standards. Nationwide, building permits were up roughly 6% in 2004 compared to the prior year.

REGIONAL DESCRIPTION

The following table compares residential permits issued for 2001, 2002, 2003, and the first nine months of 2004 in the seven metropolitan counties.

Building Permits Issued by Year							
	Single Family				*% Increase*	*% Increase*	*% Increase*
County	***2001***	***2002***	***2003***	***2004***	***2001-02***	***2002-03***	***2003-04***
Anoka	2,024	2,239	2,752	2,887	10 62%	22.91%	4.91%
Carver	826	1,097	873	840	32.81%	-20.42%	-3.78%
Dakota	2,224	2,185	2,704	2,169	-1.75%	23 75%	-19 79%
Hennepin	2,720	2,660	3,059	2,670	-2.21%	15 00%	-12 72%
Ramsey	540	424	422	587	-21 48%	-0 47%	39.10%
Scott	1,772	1,722	1,893	1,800	-2.82%	9.93%	-4 91%
Washington	1,466	1,281	2,024	2,423	-12.62%	58.00%	19.71%
Total	**11,572**	**11,608**	**13,727**	**13,376**	**0.31%**	**18.25%**	**-2.56%**
	Multi-Family				*% Increase*	*% Increase*	*% Increase*
County	***2001***	***2002***	***2003***	***2004***	***2001-02***	***2002-03***	***2003-04***
Anoka	309	140	66	422	-54 69%	-52.86%	539 39%
Carver	334	370	497	298	10.78%	34 32%	-40 04%
Dakota	897	1,309	1,464	1,372	45 93%	11 84%	-6 28%
Hennepin	1,823	3,828	2,448	2,361	109.98%	-36 05%	-3 55%
Ramsey	437	795	1,145	1,621	81 92%	44.03%	41.57%
Scott	234	347	418	117	48 29%	20.46%	-72.01%
Washington	503	397	200	265	-21.07%	-49.62%	32.50%
Total	**4,537**	**7,186**	**6,238**	**6,456**	**58.39%**	**-13.19%**	**3.49%**
Source: Metropolitan Council							

On the city level, Woodbury, located southeast of the region's core cities, moved into the top ranking for 2004 by approving permits for 1,053 single-family homes. However, other suburban communities including Blaine, Shakopee, Ramsey, Lakeville, Brooklyn Park, and Rosemount were also issuers of building permits for over 400 single-family homes. For multi-family projects, St. Paul was the leader, issuing building permits for 1,465 units closely followed by Minneapolis with 1,450 units. Lakeville led the suburbs with building permits for 378 units followed closely by Maple Grove and Inver Grove Heights. These statistics are illustrated in the table on the next page.

Top 10 Cities Issuing New Residential Building Permits January - December 2004			
Single Family Leaders		**Multi-Family Leaders**	
City	**# of units**	**City**	**# of units**
Woodbury	1,053	St. Paul	1,465
Blaine	985	Minneapolis	1,450
Shakopee	739	Lakeville	378
Ramsey	542	Maple Grove	314
Lakeville	541	Inver Grove Heights	307
Brooklyn Park	503	Chaska	241
Rosemount	411	Woodbury	234
Maple Grove	365	Apple Valley	194
Cottage Grove	307	Burnsville	169
Savage	299	Minnetonka	164
Source: Metropolitan Council			

REGIONAL CONCLUSION

The TCMA continues to have strong economic prosperity, with its overall population and employment growth expected to be among the nation's leaders over the next five years due largely to its well-educated work force, consistently low unemployment (high work force participation rate), and a diverse employer base. These factors will have a positive influence on area's real estate markets.

Regional factors that directly affect housing demand include population growth patterns and corresponding employment growth. The low apartment vacancy levels found in the TCMA during the late 1990's and early 2000 and 2001 reflected this demand. As a result, multifamily development rapidly increased during this time. This increase in supply, coupled with lower interest rates, resulted in increasing apartment vacancy rates throughout the Metro Area during 2002 and 2003. However, according to Apartment Profiles, the overall vacancy rate in the TCMA as of March 2005 is at 5.4%, still a relatively low level.

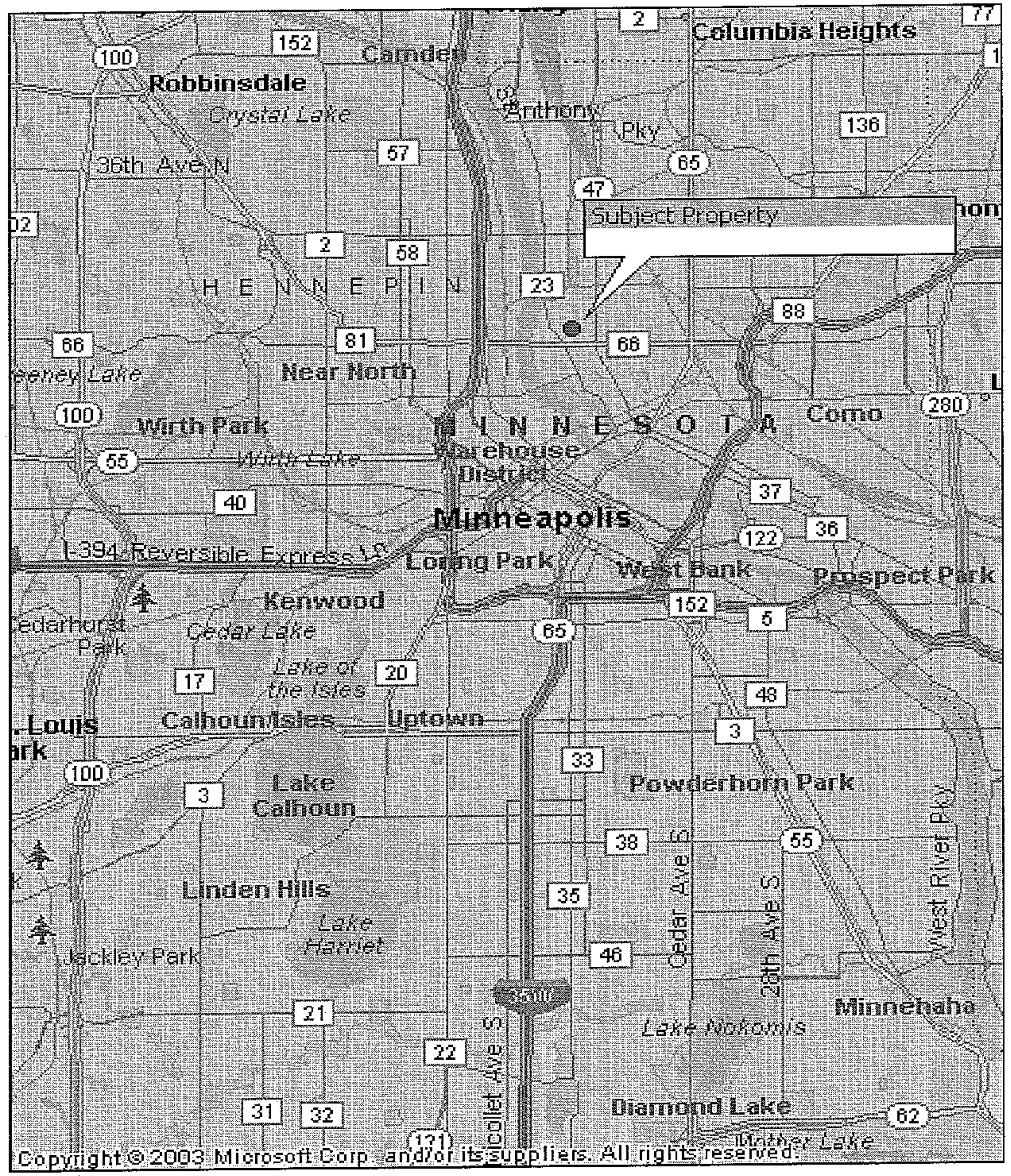
Although the Twin Cities' economy is improving, the commercial real estate market remains fairly soft as is evidenced by double-digit vacancies in the office and industrial markets which has resulted in flattening rents and the return of concessions. Many real estate observers now believe that the bottom of the cycle was reached in late 2001 and early 2002, and that overall activity has improved since then. Several market participants noted that institutional demand has returned despite the perception that markets continue to remain soft. These institutional players may sense that the market is improving and are trying to capitalize on the current perceptions.

From discussions with buyers, advisors to buyers and asset managers, the Twin Cities market is generally considered one of the most desirable real estate markets. Most cite a strong economy, a well-educated work force, low unemployment rates, and a diverse employer base as the Region's primary attributes.

© 2005 by Nicollet Partners

CITY DESCRIPTION

The subject property lies in the city of Minneapolis, Hennepin County, Minnesota. A map depicting the surrounding communities and the subject's location within the city is shown below:



City Map **N**

CITY DESCRIPTION

Located along the Mississippi River in eastern Hennepin County, Minneapolis was founded in the late 1840's because of its proximity to the Falls of St. Anthony – a short steep drop of the Mississippi River that provided an abundance of waterpower. Capitalizing on this power source, enterprising industrialists and businessmen turned Minneapolis into the flour-milling center of the country by the end of the century.

Growing from this industrial base on the western shoreline of the Mississippi, Minneapolis not only expanded rapidly to the west, but also absorbed the original village of St. Anthony on the eastern shoreline. Today, Minneapolis comprises 37,331 acres of land area, or about 58 square miles. About one quarter of the city lies east of the Mississippi River, while the remainder is to the west.

Minneapolis has excellent accessibility to the remainder of the greater metropolitan area, the rest of Minnesota and the entire Midwest region. Major roads leading to and from the City consist of:

- The north/south running Interstate 35W.
- The northwest/southeast running Interstate 94 traveling roughly parallel with the Mississippi River through the north part of Minneapolis and connecting easterly to the City of St. Paul.
- Interstate 394 extending west from Downtown to the suburbs of Minnetonka, St. Louis Park, Golden Valley, and Wayzata.
- State Highway 55 leading west and southeast from Minneapolis.
- State Highway 65, a major state highway, leading north from Minneapolis.

The Minneapolis/St. Paul International Airport is adjacent to the southeast corner of the city and is a major hub for Northwest Airlines. Over 700 commercial flights a day originate from this airport.

POPULATION TRENDS

Minneapolis and St. Paul are the central cities and core of the metropolitan region. Similar to other older, large central cities in the country, Minneapolis experienced a generally declining population since the highs experienced in the 1960's. As living standards increased, the completion of the interstate highways allowed a major exodus of people to the surrounding suburbs in search of newer, bigger and better housing. As more people moved to the suburbs, more industry and service employers moved with them. Minneapolis, with almost no vacant land for development, experienced a 17% population loss from 1970 through 1998. However, the 2000 Census indicated a slight population increase in the City of Minneapolis to 382,618, which is a 0.39% annual increase since the 1990 census. Likewise, St. Paul experienced a population increase of 0.54% per year over the last decade. These increases are mainly due to new multifamily developments in or on the fringe of the Downtown areas.

Population changes, including 2003 estimates and year 2010 projections, by the Metropolitan Council for Minneapolis, St. Paul, Hennepin County, Ramsey County and the seven-county metropolitan area are shown in the table on the next page.

CITY DESCRIPTION

Population Trends									
	U.S. Census Bureau			Metropolitan Council		Annual Population Change			
City/County	1980 Census	1990 Census	2000 Census	2003 Estimate	2010 Forecast	1980-'90 %/Year	1990-'00 %/Year	2000-'03 %/Year	2000-'10 %/Year
Minneapolis	**370,951**	**368,383**	**382,618**	**382,295**	**402,000**	**-0.07%**	**0.39%**	**-0.03%**	**0.51%**
St. Paul	270,230	272,235	286,840	287,604	305,000	0.07%	0.54%	0.09%	0.63%
Hennepin County	941,411	1,032,431	1,116,200	1,139,837	1,202,160	0.97%	0.81%	0.71%	0.77%
Ramsey County	459,784	485,765	511,035	515,274	540,600	0.57%	0.52%	0.28%	0.58%
7-County Metro	1,985,873	2,288,721	2,642,056	2,740,985	3,005,270	1.53%	1.54%	1.25%	1.37%
Source: U.S. Census Bureau and Metropolitan Council									

HOUSEHOLD TRENDS

The 2003 estimates by the Metropolitan Council indicate 162,505 households within the city - a 1.21% per year decrease from the 2000 Census count The Metropolitan Council forecasts a 0.20% per year increase in households, to 172,000, from 2000 to 2010. This increase is reflective of the increasing interest among residential developers for the central city, much of it through the redevelopment of older, obsolete properties. Changes in the number of households are shown in the table below.

Household Trends									
	U.S. Census Bureau			Metropolitan Council		Annual Household Change			
City/County	1980 Census	1990 Census	2000 Census	2003 Estimate	2010 Forecast	1980-'90 %/Year	1990-'00 %/Year	2000-'03 %/Year	2000-'10 %/Year
Minneapolis	**168,828**	**172,666**	**168,606**	**162,505**	**172,000**	**0.23%**	**-0.24%**	**-1.21%**	**0.20%**
St. Paul	106,223	110,249	112,109	112,668	120,000	0.38%	0.17%	0.17%	0.70%
Hennepin County	365,536	419,060	456,129	467,760	500,960	1.46%	0.88%	0.85%	0.98%
Ramsey County	170,505	190,500	201,236	204,059	216,890	1.17%	0.56%	0.47%	0.78%
7-County Metro	721,444	875,504	1,021,454	1,053,853	1,197,580	2.14%	1.67%	1.06%	1.72%
Average Household Size (Population divided by number of households)									
Minneapolis	**2.20**	**2.13**	**2.27**	**2.35**	**2.34**	**-0.29%**	**0.64%**	**1.22%**	**0.30%**
Source: U.S. Census Bureau and Metropolitan Council									

EMPLOYMENT TRENDS

Although the city lags behind the metro area in median household income and has been losing population, Minneapolis still remains the economic hub of the metro area.

From the mid-1970's onward, city leaders have focused on revitalizing Downtown Minneapolis, and, this effort has been extremely successful. The Downtown area remains the largest concentrated area of office space in the metro area. Over 39% of all office space in the seven county metro-area is in Downtown Minneapolis (per CB Richard Ellis). Additionally, Minneapolis comprises the following:

- Over 12% of the total industrial square footage in the seven county metro area
- Almost 22% of the total retail sales in Hennepin County
- About 9% of the total retail sales in the 13-county metro area

CITY DESCRIPTION

Despite heavy losses in manufacturing employment (over 20,000 jobs from 1980 through 2000), Minneapolis employment has increased over 10% from 1980 through 2000. In that same time period, two industries – Finance/Insurance and Real Estate/Services – increased significantly, mostly in downtown Minneapolis.

Employment Trends							
City/County	1990 Actual	2000 Actual	2010 Forecast	2020 Forecast	1990-'00 %/Year	2000-'10 %/Year	2010-'20 %/Year
Minneapolis	**278,438**	**301,826**	**317,000**	**332,500**	**0.84%**	**0.50%**	**0.49%**
St. Paul	172,578	184,589	196,600	210,000	0.70%	0.65%	0.68%
Hennepin County	723,105	856,838	969,740	1,045,610	1.85%	1.32%	0.78%
Ramsey County	286,835	329,145	370,330	402,380	1.48%	1.25%	0.87%
7-County Metro	1,272,773	1,563,245	1,815,715	1,990,485	2.28%	1.62%	0.96%
Source: Metropolitan Council							

The major employers in Minneapolis are presented below:

Minneapolis Major Employers		
Employer	**Products/Services**	**# of Employees**
University of Minnesota	Colleges, Universities, & Professional Schools	34,317
Dayton Hudson Corporation	Department Stores	22,600
First Bank System, Inc.	Management of Companies & Enterprises	14,725
County of Hennepin	Executive & Legislative Government Support	10,472
Norwest Corporation	Management of Companies & Enterprises	10,250
Grand Metropolitan, Inc	Beer, Wine, & Distilled Alcoh Bev. Merchants	7,700
Honeywell, Inc	Navig., Meas., Electromedical & Control Mfg.	7,500
City of Minneapolis	Executive & Legislative Government Support	7,500
Northern States Power Company	Electric Power Generation, Transmission	7,362
Hennepin County Medical Center	General Medical & Surgical Hospitals	4,000
US Post Office - Main	Postal Service	4,000
Star Tribune	Newspaper, Periodical, Book, & Directory Pub.	2,814
US West Communications	Wired Telecommunications Carriers	2,100
CP Wainman Pioneers - America	Civic & Social Organizations	2,000
Norwest Bank MN NA	Depository Credit Intermediation	2,000
Source: Minnesota Department of Employment and Economic Development		

HOUSEHOLD INCOME TRENDS

Typical of central cities across the nation, household income in Minneapolis is significantly less than that of the metro area in general. Because Minneapolis' housing stock is much older than that of the surrounding suburbs, the city attracts lower income households that cannot afford new housing. Median household effective buying income (EBI), estimated by Sales and Marketing Management (SMM) is shown in the following tables. As measured by SMM, EBI is defined as "money income" roughly equal to after-tax, disposable income. Note that the metropolitan estimate is based on the greater 13-county metro area and not the locally recognized seven-county region.

Median Household Income Trends					
City/County	1980	1990	2000	% Change 1980-1990	% Change 1990-2000
Minneapolis	**$24,048**	**$25,324**	**$37,974**	**5.3%**	**50.0%**
St. Paul	$26,860	$26,498	$38,774	-1.3%	46.3%
Hennepin County	$33,643	$35,659	$51,711	6.0%	45.0%
Ramsey County	$31,736	$32,043	$45,722	1.0%	42.7%
7-County Metro (Region 11)	$34,610	$41,721	$63,536	20.5%	52.3%
Source. US Census Bureau					

Although the data from SMM shows a considerable difference in EBI between Minneapolis and Hennepin County, Minneapolis has affluent neighborhoods, especially in the western part of the City near the chain of lakes (Cedar Lake, Lake of the Isles, Lake Calhoun, Lake Harriet) that gives Minneapolis its nickname – City of Lakes.

Percent of Households by EBI Group As of 2004			
City/County	$20,000 to $34,999	$35,000 to $49,999	$50,000 +
Minneapolis	**26.5%**	**18.3%**	**30.4%**
St. Paul	27.1%	19.0%	29.7%
Hennepin County	21.5%	18.7%	44.4%
Ramsey County	24.3%	19.5%	37.1%
13-County Metro Area	20.5%	19.9%	45.5%
Source: Sales and Marketing Management 2004 Survey of Buying Power			

AREA HOUSING VALUES

The Minneapolis Area Association of Realtors is the best source of housing value information since the local realtor's process most of the area wide housing sales through the Multiple Listing Service (MLS). Average home prices for Minneapolis, St. Paul and the thirteen-county metro area have increased from 8.7% to 11.6% annually from 2001 to 2004 and from 4.9% to 7.8% from 2003 to 2004 as shown in the following table:

Average Home Sale Prices						
MLS District	2001	2002	2003	2004	%/Year 2001-2004	%/Year 2003-2004
Minneapolis	**$181,288**	**$206,734**	**$226,652**	**$244,368**	**11.6%**	**7.8%**
St. Paul	$161,213	$181,938	$198,126	$207,913	9.7%	4.9%
13-County Metro Area	$203,136	$221,275	$238,446	$256,252	8.7%	7.5%
Source: The Realtor						

CONCLUSION

Minneapolis, a city over 140 years old, faces the same problems almost all other large Midwestern and Eastern cities face:

- An aging housing stock
- An increased demand for services from an aging and less affluent population
- A lack of available vacant land to spur new development

However, Minneapolis has fared much better than many of these other cities. The Downtown area remains a vital business/retail/entertainment and cultural center, the public infrastructure remains in good condition and employment actually increased in the 1980's. Also, population increased in Minneapolis during the 1990's after sharp declines in previous decades. More recently, civic leaders in the City have begun looking at a total re-structuring of the City's government to a 'strong mayor' form, rather than the generally perceived to be less efficient, and at times, ill-functioning strong council system that has been in place for decades.

During the past five years, city leaders have started to devote more attention to revitalization of neighborhoods and communities within the City along with the Downtown. If community leaders approach the problem of neighborhood revitalization with the same energy and resources applied to the Downtown, Minneapolis will remain among the most desirable large cities in the United States - both as a place of residence and a place of employment.

PART FOUR – SUBJECT DATA PRESENTATION

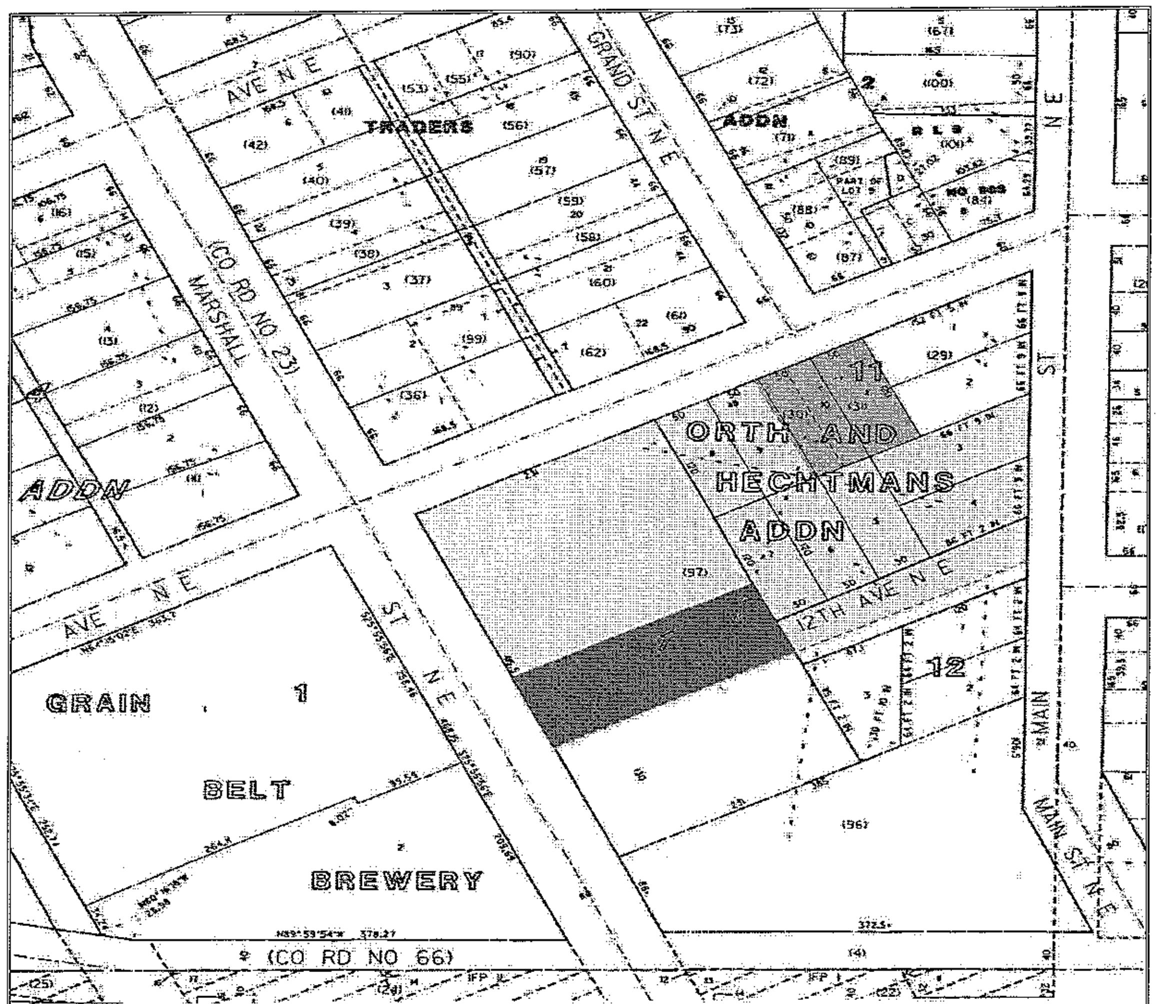
© 2005 by Nicollet Partners

IDENTIFICATION OF THE PROPERTY

The subject property is specifically located at 1215 Marshall Street NE, Minneapolis, Minnesota, and it will be referred to in this report as either the "subject property", or "subject", or the "Grain Belt Office Building Property."

Photographs of the subject are located in the *Addenda* of the report as Exhibit A. A plat map is located below and the subject parcel, assuming its subdivision as an extraordinary assumption, is shaded orange and is located in the southwest corner of an existing larger parcel of land that comprises the orange and yellow shaded areas. The approximate dimensions of the subdivided subject parcel are 100' x 200' with 100' lineal feet along Marshall Street NE. The blue shaded area is being assembled with the yellow shaded area for the Grain Belt Housing Redevelopment Project, which is further described in the upcoming *Property History* section of the report. The subject office building is situated on the orange shaded parcel delineated below.

PLAT MAP



For Illustration PurposesOnly (not drawn to scale)

PLAT MAP *N*↑

LEGAL DESCRIPTION

A copy of the legal description was not available as it represents a small portion of an existing larger parcel of land. It is assumed the actual legal description of the subject property, once written, will correspond with the property identified on the previous page.

TAXES AND ASSESSMENTS

The subject's property is part of a larger parcel that currently has a tax code identification number (PID) of 15-029-24-14-0097. The property currently has a tax-exempt status as it is owned by the City of Minneapolis.

ZONING

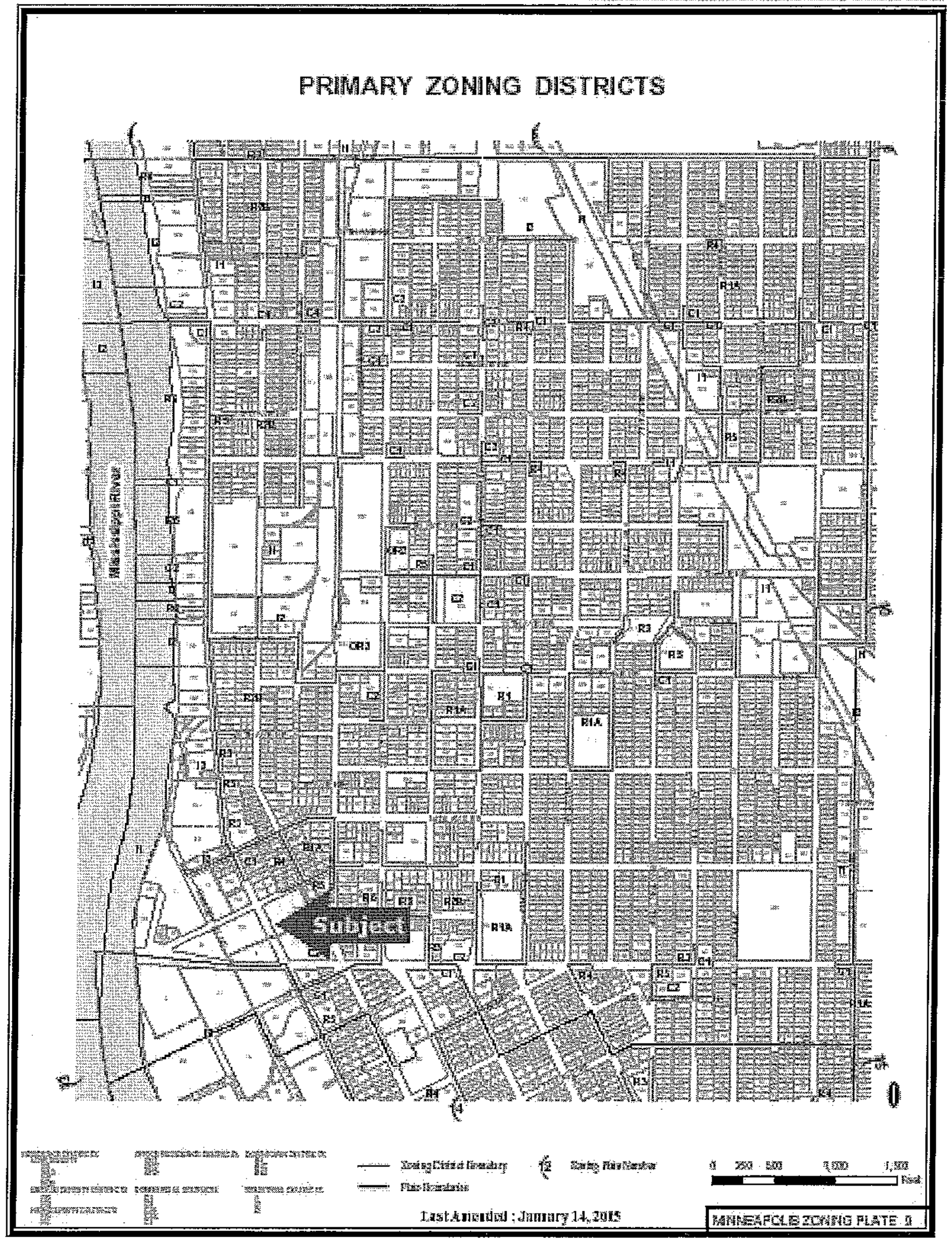
The subject is zoned I-1, Light Industrial District. The purpose of this district is to provide clean, attractive locations for low impact and technology-based light industrial uses, research and development, and similar uses which produce little or no noise, odor, vibration, glare or other objectionable influences, and have little or no adverse effect on surrounding properties.

The following is a summary of the I-1, Light Industrial District:

Minimum Lot Size:	2 acres for industrial uses; 12,000 square feet for other permitted office and retail sales/service uses
Minimum Lot Width:	None for industrial uses; 100 feet for other permitted office and retail sales/service uses
Setback Requirements:	None specified for a site that is surrounded by industrial uses
Open Yard/Space:	None specified
Floor to Area Ratio:	Maximum of 2.7 for all structures
Height Restrictions:	4 stories or 56 feet, whichever is less
Parking Requirements:	1 space per 1,000 square feet of gross floor area (GFA) up to 20,000 square feet, plus 1 space per 2,000 square feet of GFA in excess of 20,000 square feet
Permitted Uses:	Various light industrial, office, retail sales/service uses including restaurants

A copy of the zoning map is presented on the next page. A full copy of the zoning code ordinance is located on the City of Minneapolis website located at www.ci.minneapolis.mn.us .

© 2005 by Nicollet Partners


PRIMARY ZONING DISTRICTS
Mississippi River
Subject
Last Amended : January 14, 2015
MINNEAPOLIS ZONING PLATE 9

ZONING MAP *N↑*

PROPERTY HISTORY

The subject property is part of a larger parcel of land, as previously identified, that is owned by the Minneapolis Community Development Agency (MCDA). The MCDA has been recently renamed Community Planning Economic Development (CPED), and is a department of the City of Minneapolis. This larger parcel of land, along with two small residential parcels, is part of Grain Belt Housing Redevelopment Project. The current concept plan shows the new construction of 177 condominium units and 4,000 square feet of retail space in four detached buildings with an underground parking ramp. The redevelopment plan allows for up to 7,000 square of retail space in addition to the 177 condominium units. The area in the northwest corner of the development parcel near the intersection of Marshall Street and 13th Avenue NE is a historically designated site that contains the foundation of the Orth Brewery that dates back to the 1850's. No improvements can be constructed upon the historically designated portion of the site, and the redevelopment plan intends to establish a public park/plaza in this area. The former Casswell Manufacturing building is situated in the northeast part of the parcel, and it will be razed as part of the new development. The City of Minneapolis selected Sheridan Development Company, LLC as the developer of the site. Approximately $2 million in public funding is being provided for this development, including $450,000 for the construction of 35 parking spaces to service the new retail space and the subject property.

As part of the overall redevelopment plan, the subject office building will be preserved, and be provided with 21 dedicated parking stalls on the adjacent property of which 14 are covered. The owner of the subject office building will be responsible for the prorated share of the operating expenses associated with the parking spaces. In addition, there will be an underground tunnel connection from the parking ramp to the basement of the subject building. Sheridan Development Company, LLC has a purchase option on the subject office building that expires on May 31, 2005. The purchase price shall be the 'fair market value', which will be determined by an MAI-certified appraiser.

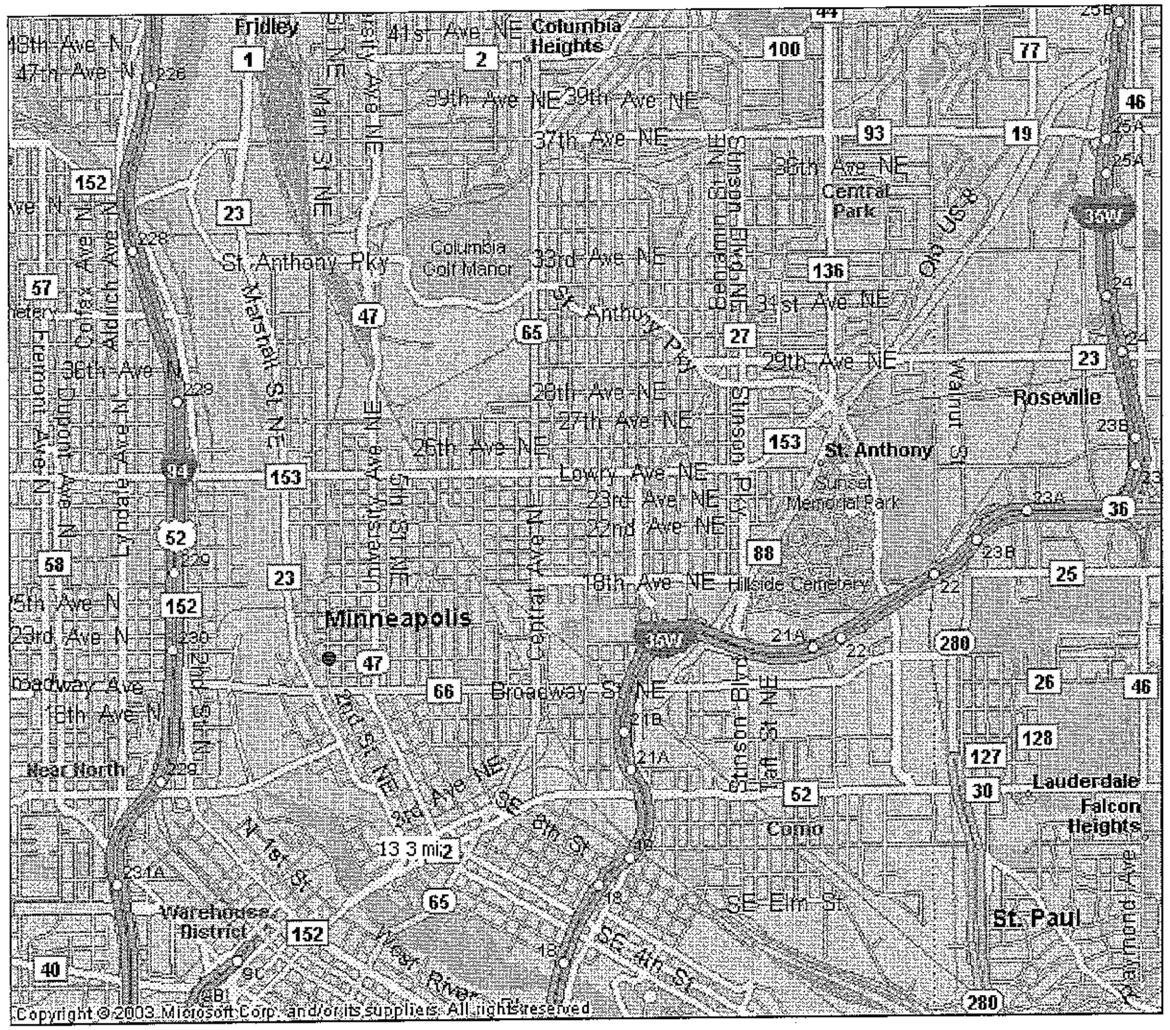
A copy of the Redevelopment Contract and the Concept Plan is presented in the *Addenda* as Exhibit B and C, respectively.

The subject office building was constructed in 1892 as part of the surrounding Grain Belt brewery campus. The building has been vacant for approximately 7 years. The City of Minneapolis has heated the building during the winter months, and it is assumed that significant replacement of the plumbing system is not needed. In addition, it is assumed the sprinkler system for fire protection is functioning and adequate. Prior to being vacated in approximately 1998, the building was used as an office facility for the MCDA. The MCDA acquired the property around 1991, and at that time, they did asbestos removal, installed a sprinkler system for fire protection, installed two new boilers, networked most of the building, and added handicap accessible bathrooms on the first floor. However, the building still does suffer from deferred maintenance, and a more extensive discussion of these items is located in the *Description of the Improvements* section of the report.

The property has not traded or been publicly available for sale over the past three-year period.

NEIGHBORHOOD DESCRIPTION

The subject property is located in the part of Minneapolis known as Northeast, (Nordeast, colloquially). Northeast is composed of 13 neighborhoods, and the subject is located in the Sheridan neighborhood. For the purposes of this analysis, the subject's neighborhood is considered the entire Northeast section of Minneapolis The neighborhood boundaries are illustrated in the map below:



For this analysis, a neighborhood has been defined by The Dictionary of Real Estate Appraisal, Fourth Edition, page 193, as "*....a group of complementary land uses, a congruous grouping of inhabitants, buildings, or business enterprises*". The subject neighborhood is believed to meet the definition, as most of the properties are residential and residential convenience/service in nature. There are also numerous, smaller complementary retail, restaurant/bar, and office uses. There is also a large retail development known as the Quarry on the eastern border of the neighborhood with Home Depot, Rainbow Foods, Target, and Old Navy serving as the major tenants. There are also older, industrial properties along the eastern bank of the Mississippi River. However, the majority of these properties have since been converted to artists' spaces and some of them are planned to be razed in the future. In general, there is no longer a presence of heavy industrial activity properties.

NEIGHBORHOOD DESCRIPTION

Access to and through the subject neighborhood is considered to be good via Interstate 94, a major north/south thoroughfare on the west side of the neighborhood, and Interstate 35W, a major north-south corridor on the east side of the neighborhood. Central Avenue, University Avenue, and Marshall Street are major collector streets that are located between I-94 and I-35W that travel in a north/south direction and provide good access into Downtown Minneapolis. Broadway Avenue is the major east/west collector street in an east/west orientation. It connects I-94 to I-35W, and also contains one of the few bridges in the area that crosses the Mississippi River. Lowery Avenue is also an east/west collector street that crosses the Mississippi River, however, this street lacks an access ramp to I-94. A traffic volume map is presented on an upcoming page that illustrates the traffic flow patterns in the subject's neighborhood.

The subject's neighborhood has a long history with the majority of the homes being developed prior to the 1940's. The area was originally known for its industrial and immigrant heritage. In the early days, Polish, Ukrainian, Lebanese and German immigrants anchored the population in Northeast. The presence of these cultures is still present in area establishments such as restaurants and grocery stores that have been around for decades.

In terms of life cycle, the subject neighborhood is clearly in a stage of revitalization. This is evident based on a number of factors. First, the single-family home values have steadily increased over the past five years and have out paced the 5-year growth rate of the TCMA as a whole. This is largely attributable to the area gaining in popularity with young families, artists, professionals, and immigrants. Below is a table showing the growth rate in single-family and condo/townhomes home values over the past five years.

Average Price of Single-Family and Condo/Townhomes

Year	Northeast Minneapolis	TCMA
2000	$128,335	$181,605
2001	$148,796	$203,136
2002	$168,561	$221,275
2003	$187,518	$238,446
2004	$200,452	$256,252
1-Year Growth Rate	6.9%	7.5%
5-Year Growth Rate	56.2%	41.1%
Average Annual Growth Rate	11.2%	8.2%

Source: The Realtor (Minneapolis Area Association of Realtors)

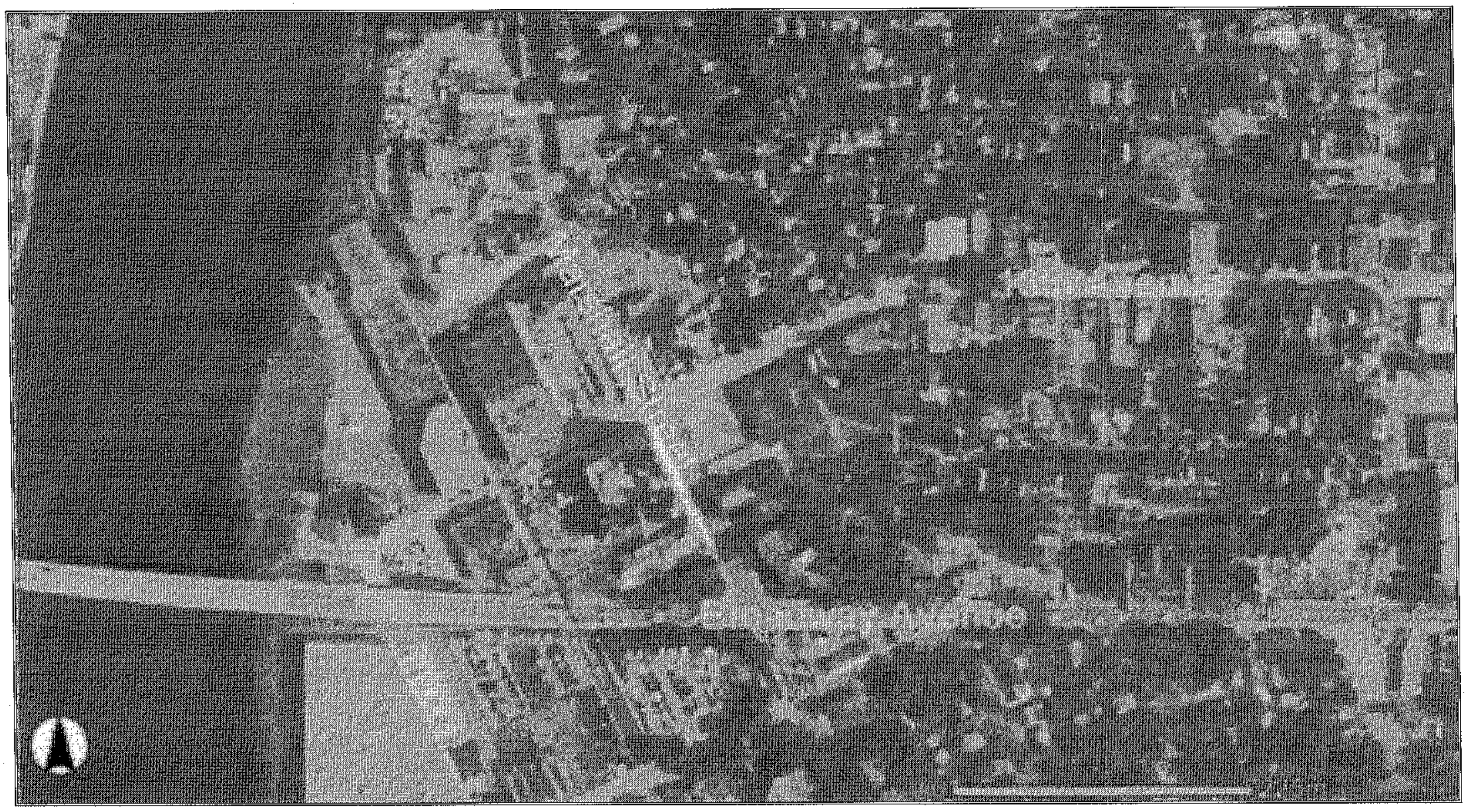
The influx of artists to the area is believed to have had the greatest overall positive impact on home values. According to www.villageprofile.com, Northeast Minneapolis is the center of the visual arts scene in Minneapolis with more than 400 independent artists who live or work in the area. These artists have largely been the driving force behind the renovation of several of the older properties in the neighborhood from large industrial buildings such the California Building and those located on the Grain Belt Brewery complex to small mixed-use neighborhood buildings. With these renovations, the neighborhood has become more visually appealing and popularity of the area has steadily grown attracting small business entrepreneurs that have started new restaurants/bars, coffee shops, artist galleries, and opened professional offices. The area is expected to continue to have increasing housing values, as well as increasing values of the renovated commercial properties.

NEIGHBORHOOD DESCRIPTION

There are three new developments planned in the immediate vicinity of the subject: the Grain Belt Housing Development, Marshall River Run, and Crescent Trace. The Grain Belt Housing Development situated adjacent to the subject will consist of 4,000 square feet of retail space and 177 condominium units priced between $190,000 and $265,000. Marshall River Run will consist of 74-unit rental apartment building and 11 ownership townhomes. Crescent Trace will consist of two retail bays, a first floor restaurant, and 56 condominium units priced from $190,000 to $300,000 on floors two through five.

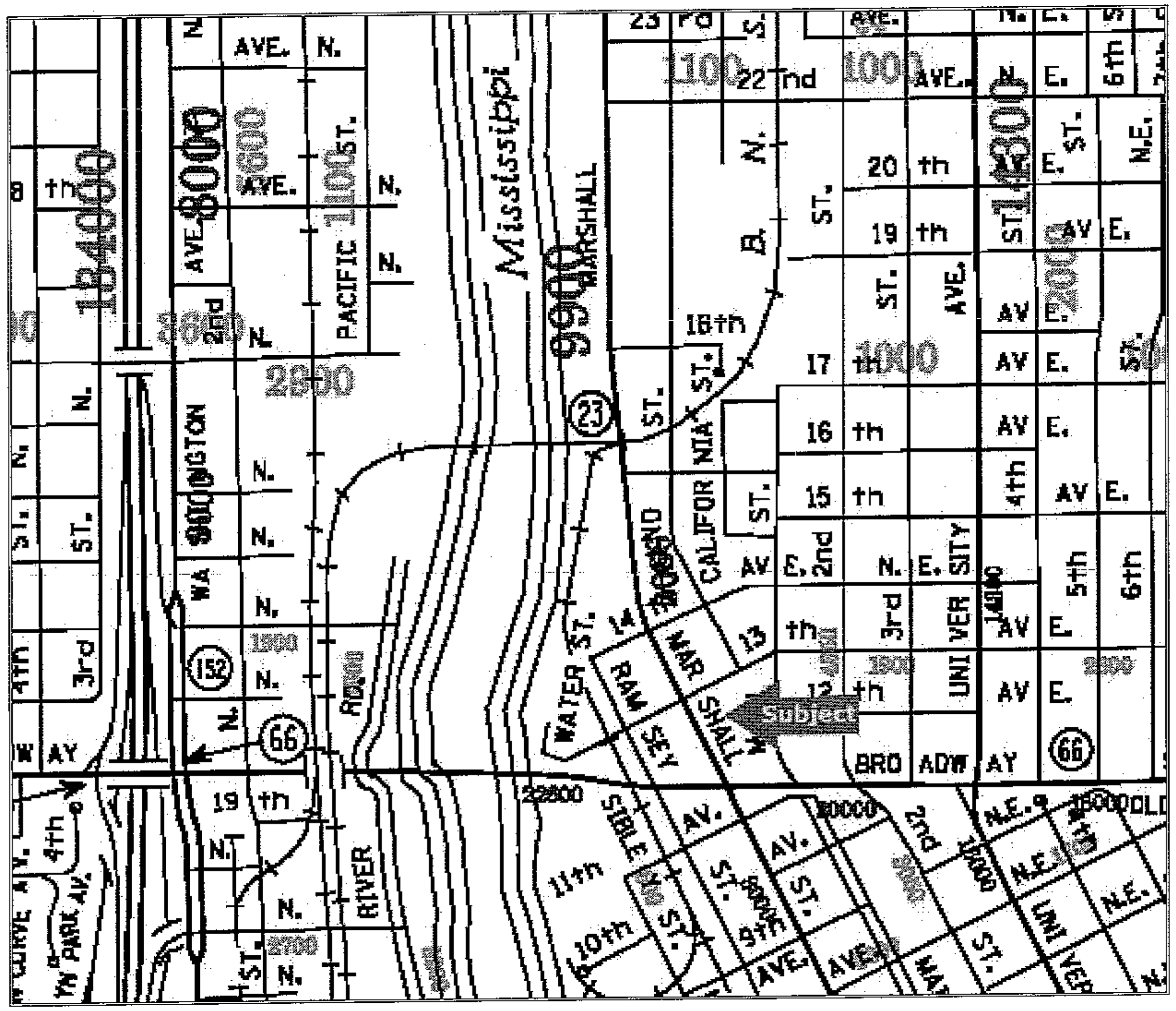
Market expectations are for continued revitalization and the growth of more small businesses from additional restaurants/bars to professional offices. This generally isn't an area that will attract new large corporate users due to the lack of available land for development. However, it will attract professionals that operate small businesses requiring office space, including architects, accountants, lawyers, psychiatrists, physical therapists, real estate related professionals, insurance agents, dentists, engineers, software programmers, web developers, etc., who desire the character of an older inner city neighborhood location.

NEIGHBORHOOD 2003 AERIAL PHOTOGRAPH



2003 AERIAL PHOTOGRAPH *N↑*

TRAFFIC VOLUME MAP



TRAFFIC VOLUME MAP (2003 MnDOT Data) *N*↑

DESCRIPTION OF THE LAND

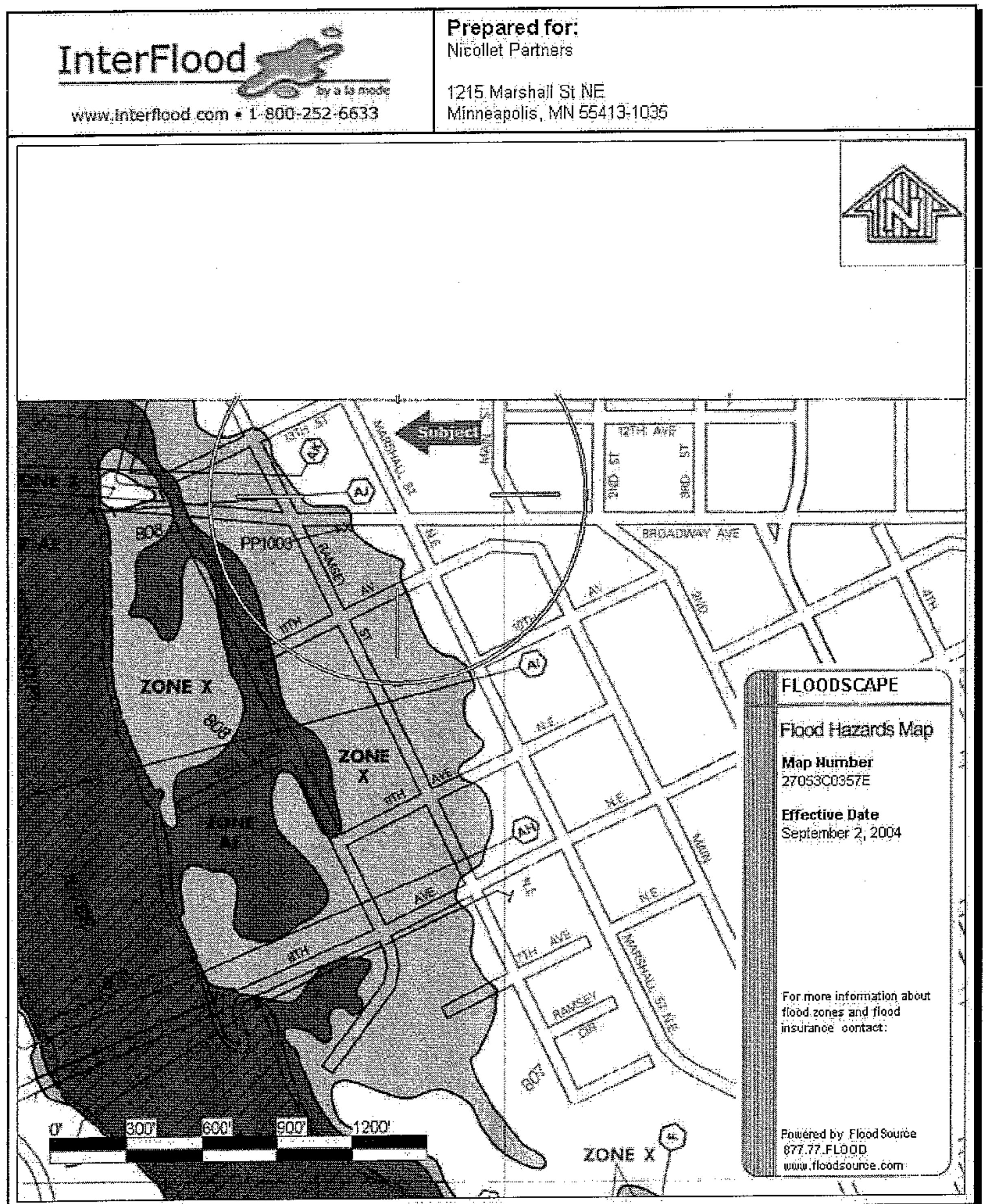
The property is situated on an interior lot with approximately 100' of lineal frontage along Marshall Street Northeast. The subject site is a half block north of Broadway Street NE and approximately three blocks east of the Mississippi River. The subject site is located in a historic district that was the former Grain Belt Brewery campus. Marshall Street Northeast is a north/south running collector street that has two lanes of traffic in each direction by the subject. Broadway Street Northeast is an east/west major collector street with two lanes in each direction. A copy of a survey or plat map of the allocated subject site was not available. A copy of the flood map follows this discussion. The subject lot will be subdivided from a larger parcel of land as previously shown on the plat map that was drawn by the appraisers for illustration purposes, and have the following characteristics:

Land Area:	±20,000 square feet, or 0 46 acre
Shape:	Rectangular
Topography:	The site is generally level with street grade. There are retaining walls along the south and east sides of the property.
Street Frontage:	100 lineal feet along Marshall Street Northeast
Curb Cuts:	One along Marshall Street Northeast (loading only) and one off of 13th Avenue NE to be established through a parking agreement/easement to access the surface and underground parking stalls.
Zoning:	I-1, Light Industrial District
Flood Zone:	Zone X; Map Panel 27053-C0357-E; Map Date: 9/2/2004
Census Tract:	27053-0024 00-3
Assumed Easements:	There will be a parking agreement that permanently allocates 21 reserved/designated parking spaces for the benefit of the subject property that are located on the adjacent property. Of these, 14 spaces will be located in an underground garage. The owner of the subject property will be responsible for their prorated share of the operating expenses associated with the parking spaces. There will be an ingress/egress easement to access the parking stalls through the adjacent property. In addition, there will be a tunnel connection from the parking garage to the garden level/basement of the subject building with a related access easement. Typical necessary utility easements are assumed. The appraisers are not aware of any other easements on the subject property.

DESCRIPTION OF THE LAND

Encroachments:	From an inspection of the property, no boundary encroachment irregularities were evident.
Utilities:	Municipal water and sewer are available to the site, as well as natural gas, electricity, and telephone.
Visibility:	The subject has good visibility from Marshall Street NE. The subject also a limited visibility from Broadway Street Northeast. This good visibility from Marshall will remain because part of the Grain Belt Housing Development consists of creating an open public plaza around the Orth Ruins preventing development at the southeast corner of the block.
Land/Building Ratio:	1.34 to 1.0 (based on above ground and garden level GBA)
Land Coverage:	39% (based on 1st floor GBA)
Neighboring Uses:	North – Orth Ruins public plaza South – Northeast State Bank and bank landscaped parking lot East – Proposed condominium development West – RSP Architects in a former Grain Belt building that has been renovated
Soils:	Soil tests of the land parcel were not available for review, so it is assumed the useable land is capable of supporting building loads typical of its neighborhood.
Hazardous Conditions:	Nicollet Partners, Inc. makes no representation regarding the existence or non-existence of hazardous wastes or substances on-site that may impact the real estates market value.

FLOOD MAP



© 1999-2005 SourceProse and/or FloodSource Corporations. All rights reserved. Patents 6,631,326 and 6,678,615. Other patents pending. For Info: info@floodsource.com.

DESCRIPTION OF THE IMPROVEMENTS

The subject improvements consist of a historic two-story office building with a basement that is partially at garden level. The front, two-story portion of the building with basement was constructed in 1892, and the one-story rear portion of the building with the garden level was subsequently added on at an unknown date, likely in the early 1900's. The building has sat vacant for approximately seven years. Overall, the existing improvements are in fair condition and have obvious deferred maintenance issues. Upon fixing the deferred maintenance items the property should be in overall good condition. It should be noted that a physical condition report identifying all deferred maintenance items and the associated costs to repair was not provided, thus the appraisers have estimated these costs. A discussion of these costs follows the *Highest and Best Use* section of the report.

The building contains 18,507 square feet of gross building, including the basement and garden level. The rentable area of the building was estimated to be 10,397 square feet, and includes the garden level with the lookout windows and a 9' ceiling height. A detailed discussion of the calculation of the rentable area is located at the end of this section, just before the building plans. The building areas were estimated by the appraisers based upon two separate sets of building plans provided by the Community Planning Economic Division (CPED), one of which was for the fire sprinklering system installed in 1991. These areas are summarized as follows:

Floor	GBA (sq. ft.)	RA (sq. ft.)
1st	7,817	5,481
2nd	3,209	2,098
Garden Level	3,919	2,818
Basement	3,562	1,913
Total	**18,507**	**12,310**
Total Above Ground*	**14,945**	**10,397**

* includes garden level

The building has an assumed wood frame with brick exterior walls and limestone and brick/block foundation wall portions. The building has both a flat roof with an assumed pitch/gravel covering above the two-story portion, and a gable roof over the one-story portion with an asphalt shingle covering. The one-story portion contains a barrel-vaulted ceiling with a stained glass skylight that has been covered on the exterior with the aforementioned gable wood roof. The exterior windows consist mainly of older, wood frame double-hung windows with aluminum combination storm window covers on the first and second floors, as well as the garden level. The roof and windows are in need of replacement. The restoration of the antique quality stained glass skylight could be very expensive, thus, an alternative may be to repair the gable roof and install backlighting in the attic space to illuminate the stained glass ceiling's decorative elements. This would also allow the stained glass to be displayed in the evening hours for a potential tenant, such as a restaurant user. In addition, the building will require some degree of tuck-pointing and exterior sidewalk and stair repairs to the entrances of the building located on the west and north sides of the building.

DESCRIPTION OF THE IMPROVEMENTS

The two-story portion of the building contains a number of large office suites, and a large, long and deep lobby/reception area. The two-story portion also has three security storage vaults (one on each level), and an open stair case leading to the second floor and basement. A small, north wall passenger elevator services floors one and two, and there is also a larger elevator that services the first floor and basement. The ceiling heights in the above grade portion of this part of the building are estimated at 12' while the basement area has only a 7' ceiling height. The mechanical systems are located in this basement area and the remaining space is only desirable for storage purposes. The finishes in this area consist of carpeted floors, attractive high-grained wood paneling and wainscoting on the walls along with wall portions that are painted or wallpapered gypsum board or plaster, 4 and 6 panel solid wood doors, textured gypsum board ceiling, and several older hanging antique brass light fixtures. There are separate men and women's restrooms located on second floor.

The one-story portion of the building, with the garden level, consists of a large open area on the first floor with an estimated 16' high, barrel-vaulted, stained glass skylight ceiling. The garden level consists of a former beer/pub area with decorative wood wall finishes and a commercial kitchen. The finishes consist of terrazzo-tiled floors, as well as carpeting, painted gypsum board or plaster walls with wood wainscoting, and a painted gypsum board or plaster ceilings. There are separate men and women's bathrooms in the basement area and a first floor unisex bathroom.

Items needing replacement or repair associated with the interior finishes of the building include: floor refinishing, painting/repair of walls, new bathrooms, and elevator service/repair. Water damage was noted in at least two areas of the building. One area was on the first floor where the original two-story building abuts the addition, and the other area was in the basement in the former commercial kitchen area. In addition, it is assumed some degree of repairs or upgrading to the plumbing, electrical, and heating/cooling systems will be required.

The main entrance to the building is located on the west side of the building fronting on Marshall Street NE. In addition, there are two structural entrance extensions on the north side of the building, and an assumed tunnel entrance on the east end of the building to the parking ramp that will be constructed as part of the Grain Belt Housing Redevelopment Project. The building will be loaded from the entrances on the north side of the building as there is a curb cut on Marshall Street NE leading to this area. There will be no on-site parking in this narrow loading area. The only parking for the property will be the 21 spaces to be provided in the to-be-built adjacent parking garage. The subject property will have exclusive rights to these 21 stalls via an easement agreement. The property's parking ratio is then 1 space per 495 square feet of above ground and garden level rentable area.

The building is heated by two boilers, which were installed around 1991 when the current owner acquired the building. The building also has central air-conditioning. The electrical service is assumed to be adequate and the building is sprinklered for fire protection. It is assumed the heating, cooling, and sprinklering system will not require significant repair/replacement expenditures. However, due to the building being vacant for seven years, some repairs/servicing will be required.

DESCRIPTION OF THE IMPROVEMENTS

Overall, the subject property has historic charm that is difficult to reproduce and once the deferred maintenance items are fixed, the subject property will be superior to most competing properties in the neighborhood due its ability to provide parking, central air-conditioning, and elevator service. A discussion of the rentable area calculation follows:

A summary of definitions provided by BOMA (Building Owners and Managers Association), the market-recognized authority for determining how to measure and calculate rentable area, is:

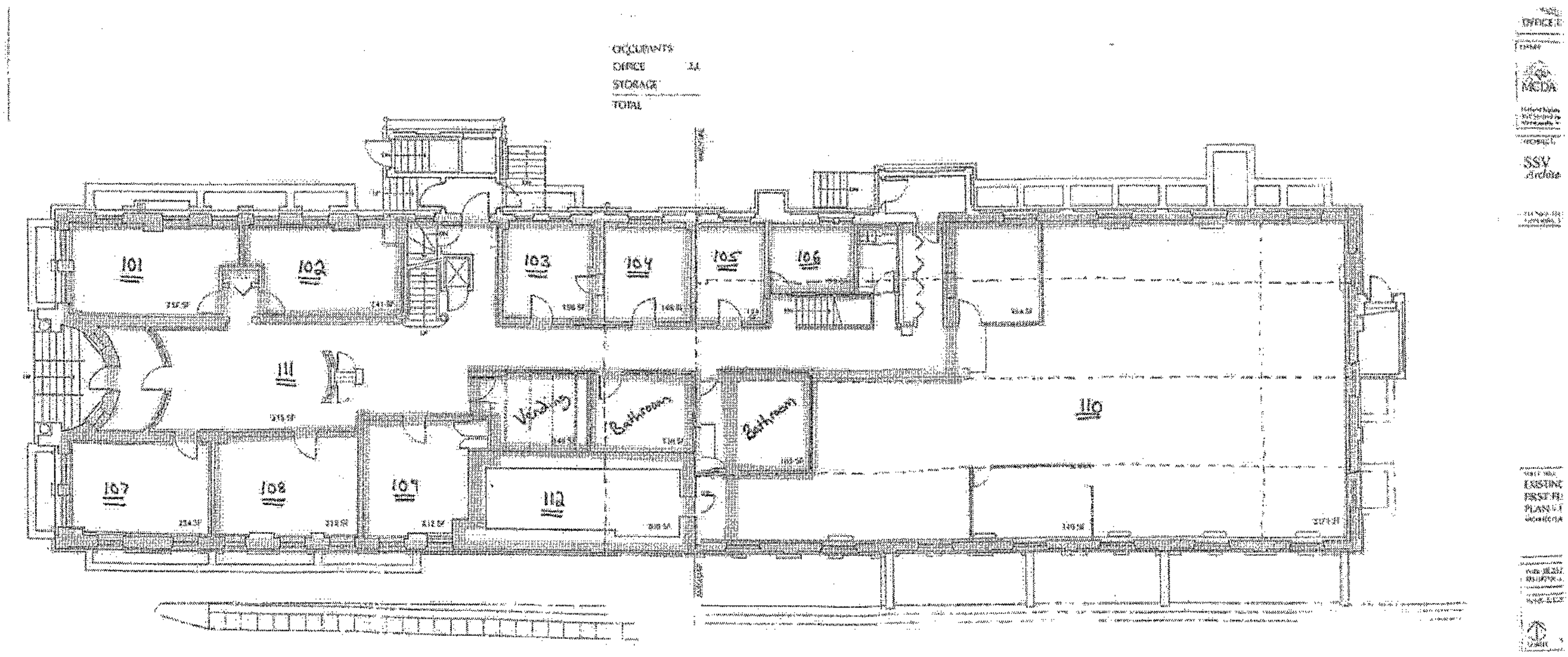
> **Useable Area** - The secured area (square footage) occupied exclusively by tenant within a tenant's leased space. The useable area times the load factor for common area results in rentable area on which rent is charged.
>
> **Load Factor** - In a lease, the load factor is the multiplier to a tenant's useable space that accounts for the tenant's proportionate share of the common area (restrooms, lobby, etc.) The load factor is usually expressed as a percentage and ranges from a low of 5% for a full tenant to as high as 15% for a multi-tenant floor.
>
> **Rentable Area** - The (square footage) for which rent can be charged. Generally it is the gross area of the full floor less the area of all vertical penetrations (elevator shafts, stairwells, mechanical shafts etc.)

The following measurements of usable area were taken from the building plans on the upcoming pages, with the exception of a few areas not shown on the reviewed plans that were estimated by the appraisers based on the scaled building plans for the installation of the fire sprinklering system. A load factor of 1.15 was utilized based on the multi-tenant floor plans and discussions with market participants. In addition, the load factor of 1.15 resulted in an efficiency ratio of 70% for the above ground and garden level rentable area compared to the above ground and garden level gross building area. This efficiency ratio is market consistent with other older, office buildings.

Suite	Floor	Usable Area (sq. ft.)	x	Load Factor	=	Rentable Area (sq. ft.)
101	1st	257	x	1.15	=	296
102	1st	241	x	1.15	=	277
103	1st	156	x	1.15	=	179
104	1st	148	x	1.15	=	170
105	1st	114	x	1.15	=	131
106	1st	99	x	1.15	=	114
107	1st	234	x	1.15	=	269
108	1st	253	x	1.15	=	291
109	1st	212	x	1.15	=	244
110	1st	2,684	x	1.15	=	3,087
111 (lobby)	1st	160	x	1.15	=	184
112 (vault)	1st	208	x	1.15	=	239
Subtotal		**4,766**				**5,481**
201	2nd	114	x	1.15	=	131
202	2nd	216	x	1.15	=	248
203	2nd	216	x	1.15	=	248
204	2nd	265	x	1.15	=	305
205	2nd	244	x	1.15	=	281
206	2nd	399	x	1.15	=	459
207	2nd	252	x	1.15	=	290
208 (vault)	2nd	118	x	1.15	=	136
Subtotal		**1,824**				**2,098**
001	Garden Level	623	x	1.15	=	716
002	Garden Level	980	x	1.15	=	1,127
003	Garden Level	848	x	1.15	=	975
Storage	Basement	1,664	x	1.15	=	1,914
Subtotal		**4,115**				**4,732**
Total Area		**10,705**				**12,311**
Total Above Ground / Garden Level Area		**9,041**				**10,397**

© 2005 by Nicollet Partners

1st Floor

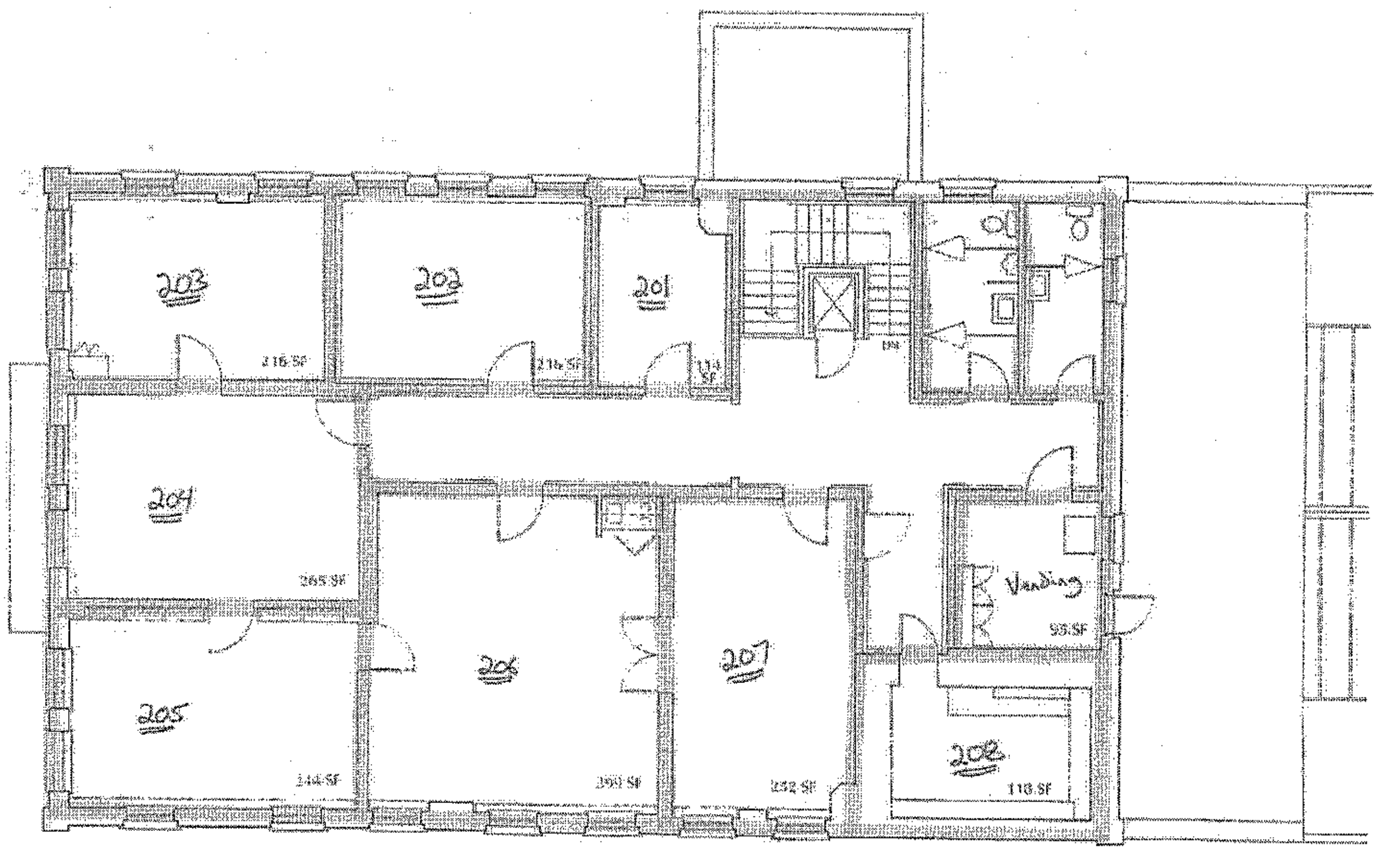


OCCUPANTS
OFFICE
STORAGE
TOTAL
101
102
103
104
105
106
107
108
109
110
111
112
Vending
Bathroom
Bathroom
SSV

MECHANICAL 95 SF + 300 = 0

TOTAL 17

2nd Floor



OFFICE BUI

OWNER

MCDA

ARCHITECT

SSV Architectu

SHEET TITLE

EXISTING SECOND FL PLAN

ARCHITECTURAL

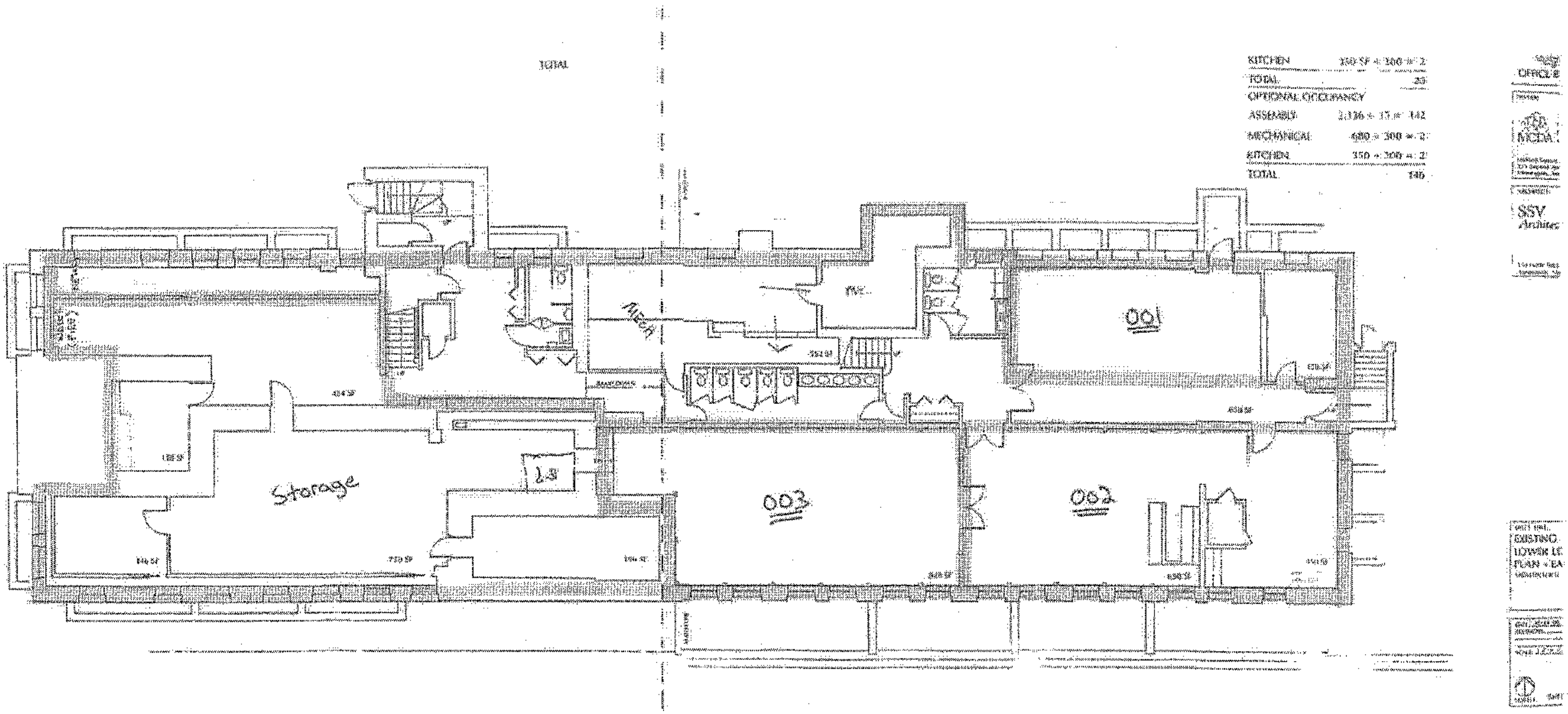
DATE: 10/31/90

REVISIONS

SCALE: 3/32" = 1'-0"

SHEET

Basement ⟵⟶ Garden Level with 9' ceilings



PART FIVE – ANALYSIS OF DATA AND CONCLUSIONS

HIGHEST AND BEST USE ANALYSIS

The highest and best use of the subject real estate will be regarded in this report 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."*

This definition was taken from <u>The Dictionary of Real Estate Appraisal</u>, Fourth Edition, published by the Appraisal Institute, copyright 2002.

1) **LEGALLY PERMISSIBLE**: Private restrictions, zoning, building codes, historical district controls, and environment regulations, etc. need to be investigated to determine their impact on the potential use of the site.

2) **PHYSICALLY POSSIBLE**: Size, shape, area, terrain, utilities, accessibility, etc. need to be evaluated in terms of their affect on the overall utility of a given parcel.

3) **FINANCIALLY FEASIBLE**: Those uses that meet both physically possible and legally permissible criteria need to be further analyzed to determine if they can produce a positive return to the land and capital improvements. In this section an analysis of supply and demand, and location are needed to identify those uses that are financially feasible, as well as the use that is maximally productive.

4) **MAXIMALLY PRODUCTIVE**: This is the final test which concludes the financially feasible use that will bring the highest value to the subject land as though vacant, and the subject real estate as developed, with consideration given to the associated risk of the development.

It is to be recognized that there are situations where the existing improvements on a site do not meet the conclusion of the highest and best use of the land parcel as though vacant. In these instances, the analysis of the highest and best use of the property, as improved, will be able to conclude if the highest and best use of the subject land, as-vacant, exceeds the total value of the property in its existing use (as-improved). Highest and Best Use study will also be able to determine if market forces warrant renovation, additions, or conversion of the existing improvements. In the subject's case, the specific intent of the Grain Belt Housing Redevelopment Project is to preserve the subject office building. Thus, this analysis is subject to the ***hypothetical condition/extraordinary assumption*** that the proposed Grain Belt Housing Redevelopment Project, as stated in the *Addendum*, comes to fruition.

Implied within these definitions is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners. Also implied, is that the determination of highest and best use results from the appraisers' judgment and analytical skill, i.e., the use is determined from well-founded research and analysis, and represents an opinion, not a fact to be found. In appraisal practice, the concept of highest and best use represents the premise upon which the value for the land "as if vacant" and the real estate "as developed" is based. In the context of selling price (market value), appropriate terms to reflect highest and best use include most reasonably probable use and most profitable use.

HIGHEST AND BEST USE ANALYSIS

In the following, both the highest and best use of the subject land "as if vacant" and the real estate "as improved" will be discussed. The "as if vacant" analysis of the land identifies the most probable or optimum development for the land and is very brief due to presumption that the office building is to remain as part of the Grain Belt Housing Redevelopment Project. The "as improved" will follow the below "as if vacant" discussion.

Highest and Best use – As Vacant

The ***Legal Use*** of the subject land is zoned I-1, Light Industrial District. This zoning allows for most types of light industrial, office, and restaurant uses (see *Zoning* section of the report for a full list). It should also be noted the City of Minneapolis may grant a rezoning of the subject property to allow residential uses as this has been done on several other industrial properties located in the City. Based on the subject's proposed residential use to the north, and numerous residential uses to the north and east, this does seem probable. The allocated land area of the subject site is 20,000 square feet. The size of the subject land limits the ***Physically Possible*** uses on the site. In fact, assemblage with the adjacent parcels would allow for a much more flexible development. As stated previously, the allocated subject land area is a hypothetical condition as it is currently part of a larger parcel. If the subject were vacant, the need to allocate this land would not exist. As such, if the land were vacant, the most ***Financially Feasible*** use of the subject land is to assemble it with the adjacent land for a residential or mixed-use type of development.

Highest and Best Use – As Improved

The subject property is improved with a historic building that was formerly part of the Grain Belt Brewery complex. The building was formerly used for office space with large office suites in the west half of the building, and an open office area in the east half of the building. The property contains a basement area for storage in the west half of the building and a garden level area in the east half of the building that was a former pub room with a commercial kitchen. Below is a summary of some of the positive characteristics the subject building has:

1. Historic appeal associated with the Grain Belt Brewery complex
2. Location in an area of Minneapolis rapidly revitalizing and gaining in popularity
3. Twenty-one parking stalls, of which fourteen will be covered with a tunnel connection to the garden level of the building
4. Barrel-vaulted, stained glass skylight ceiling over an open office area
5. Attractive interior woodwork, terrazzo tile floors and antique brass light fixtures
6. Central air-conditioning
7. Sprinklered for fire protection
8. Existing elevator service to all floors
9. Two new boilers

© 2005 by Nicollet Partners

HIGHEST AND BEST USE ANALYSIS

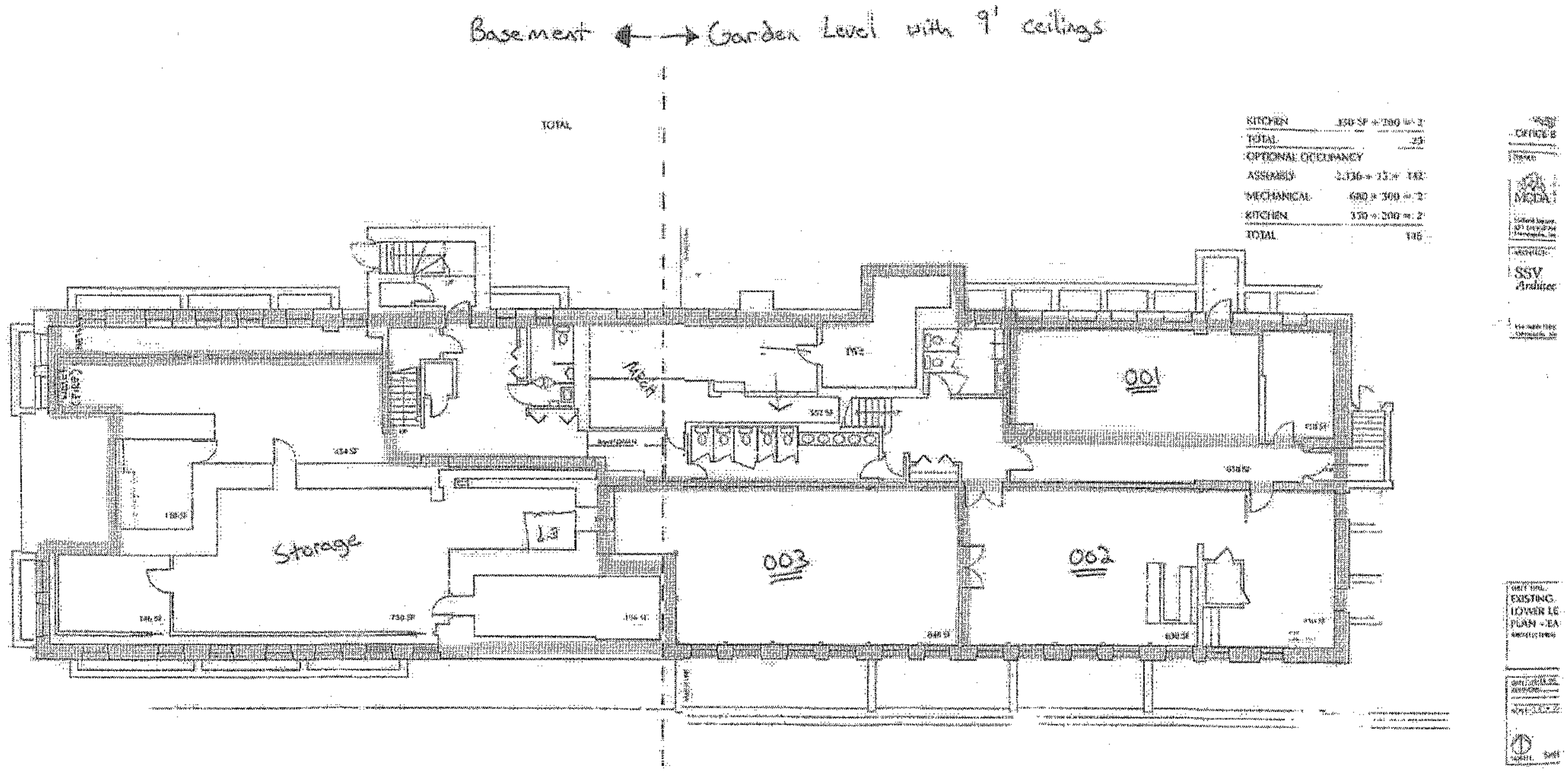
Based on the Grain Belt Housing Redevelopment Project, the subject improvements are to be preserved. Thus, the demolition and redevelopment on the site was not considered. As such, a major negative associated with the subject property is that it does suffer from a high-degree of deferred maintenance. These costs were estimated to be roughly $750,000 as shown immediately following the *Highest and Best Use* section.

When estimating the deferred maintenance, consideration was also given to the reconfiguration of the existing building to better maximize its space, as well as some sharing of costs by the owner for the build-out for a potential restaurant user. Significant changes to the overall floor plan were considered cost prohibitive. In addition, most market participants that have renovated older office buildings generally do not make significant changes to the overall floor plan. The renovations generally have consisted of addressing the deferred maintenance items (i.e. new roof, windows, floor covering, painting, tuck-pointing, updated mechanicals/electrical when needed, and new bathrooms).

Based on the data presented in the *Improvement Description*, an above ground and garden level rentable area of 10,705 square feet was estimated. It should be noted that this could change somewhat based on how the building is configured and what particular users occupy the building. However, in general, this unit of comparison and calculation of area will result in a credible valuation based on the review of market data and discussion with participants.

The building would appeal to an owner/user in the market, as well as an investor. However, due to the smaller overall size of the building, it would likely achieve the highest price in the market from a buyer who intended to owner-occupy at least a portion of the building, possibly an entire floor, if not the entire building.

The two-story portion of the building does lend itself to multi-tenant occupancy with tenants occupying office suites ranging in size from 114 to 459 square feet of rentable area. An assemblage of at least two office suites by a single-user would be necessary on the second floor due to the location of the existing entrances. This office suites most likely would appeal to professionals such as architects, accountants, lawyers, psychiatrists, physical therapists, real estate related professionals, insurance agents, dentists, engineers, software programmers, web developers, etc. There are few other similar professional office developments in the neighborhood and based on discussions with market participants the demand for office space has grown in the past six months. This is likely attributable to the growing popularity of the neighborhood having attracted entrepreneurs and small businesses. Gross rents are reported to be stable around $12 per square foot on a gross basis for similar office properties in the immediate neighborhood. However, these properties are inferior to the subject in terms of parking, central air-conditioning, historic appeal, ceiling heights, and elevator service. In addition, based on the 100% occupancy and low turnover of tenants in the nearby buildings with office suites, higher rents may be achievable. On a 250 square foot office suite, a $2 per square foot increase in rent on a gross basis only adds $500 to the annual rent. Discussions with landlords indicated some of the reluctance to increase rents is due to the satisfaction they have with their existing tenants for what appears to them is a nominal increase in rent.


Basement ←→ Garden Level with 9' ceilings
TOTAL
KITCHEN 350 SF ÷ 200 = 2
TOTAL
OPTIONAL OCCUPANCY
ASSEMBLY 2,136 ÷ 15 = 142
MECHANICAL 680 ÷ 300 = 2
KITCHEN 350 ÷ 200 = 2
TOTAL 146
001
002
003
Storage
Mech
SSV
EXISTING
PLAN

PART FIVE – ANALYSIS OF DATA AND CONCLUSIONS

© 2005 by Nicollet Partners

HIGHEST AND BEST USE ANALYSIS

The highest and best use of the subject real estate will be regarded in this report 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."*

This definition was taken from The Dictionary of Real Estate Appraisal, Fourth Edition, published by the Appraisal Institute, copyright 2002.

1) **LEGALLY PERMISSIBLE:** Private restrictions, zoning, building codes, historical district controls, and environment regulations, etc. need to be investigated to determine their impact on the potential use of the site.

2) **PHYSICALLY POSSIBLE:** Size, shape, area, terrain, utilities, accessibility, etc. need to be evaluated in terms of their affect on the overall utility of a given parcel.

3) **FINANCIALLY FEASIBLE:** Those uses that meet both physically possible and legally permissible criteria need to be further analyzed to determine if they can produce a positive return to the land and capital improvements. In this section an analysis of supply and demand, and location are needed to identify those uses that are financially feasible, as well as the use that is maximally productive.

4) **MAXIMALLY PRODUCTIVE:** This is the final test which concludes the financially feasible use that will bring the highest value to the subject land as though vacant, and the subject real estate as developed, with consideration given to the associated risk of the development.

It is to be recognized that there are situations where the existing improvements on a site do not meet the conclusion of the highest and best use of the land parcel as though vacant. In these instances, the analysis of the highest and best use of the property, as improved, will be able to conclude if the highest and best use of the subject land, as-vacant, exceeds the total value of the property in its existing use (as-improved). Highest and Best Use study will also be able to determine if market forces warrant renovation, additions, or conversion of the existing improvements. In the subject's case, the specific intent of the Grain Belt Housing Redevelopment Project is to preserve the subject office building. Thus, this analysis is subject to the ***hypothetical condition/extraordinary assumption*** that the proposed Grain Belt Housing Redevelopment Project, as stated in the *Addendum*, comes to fruition.

Implied within these definitions is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners. Also implied, is that the determination of highest and best use results from the appraisers' judgment and analytical skill, i.e., the use is determined from well-founded research and analysis, and represents an opinion, not a fact to be found. In appraisal practice, the concept of highest and best use represents the premise upon which the value for the land "as if vacant" and the real estate "as developed" is based. In the context of selling price (market value), appropriate terms to reflect highest and best use include most reasonably probable use and most profitable use.

© 2005 by Nicollet Partners

HIGHEST AND BEST USE ANALYSIS

In the following, both the highest and best use of the subject land "as if vacant" and the real estate "as improved" will be discussed. The "as if vacant" analysis of the land identifies the most probable or optimum development for the land and is very brief due to presumption that the office building is to remain as part of the Grain Belt Housing Redevelopment Project. The "as improved" will follow the below "as if vacant" discussion.

Highest and Best use – As Vacant

The ***Legal Use*** of the subject land is zoned I-1, Light Industrial District. This zoning allows for most types of light industrial, office, and restaurant uses (see *Zoning* section of the report for a full list). It should also be noted the City of Minneapolis may grant a rezoning of the subject property to allow residential uses as this has been done on several other industrial properties located in the City. Based on the subject's proposed residential use to the north, and numerous residential uses to the north and east, this does seem probable. The allocated land area of the subject site is 20,000 square feet. The size of the subject land limits the ***Physically Possible*** uses on the site. In fact, assemblage with the adjacent parcels would allow for a much more flexible development. As stated previously, the allocated subject land area is a hypothetical condition as it is currently part of a larger parcel. If the subject were vacant, the need to allocate this land would not exist. As such, if the land were vacant, the most ***Financially Feasible*** use of the subject land is to assemble it with the adjacent land for a residential or mixed-use type of development.

Highest and Best Use – As Improved

The subject property is improved with a historic building that was formerly part of the Grain Belt Brewery complex. The building was formerly used for office space with large office suites in the west half of the building, and an open office area in the east half of the building. The property contains a basement area for storage in the west half of the building and a garden level area in the east half of the building that was a former pub room with a commercial kitchen Below is a summary of some of the positive characteristics the subject building has:

1. Historic appeal associated with the Grain Belt Brewery complex
2. Location in an area of Minneapolis rapidly revitalizing and gaining in popularity
3. Twenty-one parking stalls, of which fourteen will be covered with a tunnel connection to the garden level of the building
4. Barrel-vaulted, stained glass skylight ceiling over an open office area
5. Attractive interior woodwork, terrazzo tile floors and antique brass light fixtures
6. Central air-conditioning
7. Sprinklered for fire protection
8. Existing elevator service to all floors
9. Two new boilers

HIGHEST AND BEST USE ANALYSIS

Based on the Grain Belt Housing Redevelopment Project, the subject improvements are to be preserved. Thus, the demolition and redevelopment on the site was not considered. As such, a major negative associated with the subject property is that it does suffer from a high-degree of deferred maintenance. These costs were estimated to be roughly $750,000 as shown immediately following the *Highest and Best Use* section.

When estimating the deferred maintenance, consideration was also given to the reconfiguration of the existing building to better maximize its space, as well as some sharing of costs by the owner for the build-out for a potential restaurant user. Significant changes to the overall floor plan were considered cost prohibitive. In addition, most market participants that have renovated older office buildings generally do not make significant changes to the overall floor plan. The renovations generally have consisted of addressing the deferred maintenance items (i.e. new roof, windows, floor covering, painting, tuck-pointing, updated mechanicals/electrical when needed, and new bathrooms).

Based on the data presented in the *Improvement Description*, an above ground and garden level rentable area of 10,705 square feet was estimated. It should be noted that this could change somewhat based on how the building is configured and what particular users occupy the building. However, in general, this unit of comparison and calculation of area will result in a credible valuation based on the review of market data and discussion with participants.

The building would appeal to an owner/user in the market, as well as an investor. However, due to the smaller overall size of the building, it would likely achieve the highest price in the market from a buyer who intended to owner-occupy at least a portion of the building, possibly an entire floor, if not the entire building.

The two-story portion of the building does lend itself to multi-tenant occupancy with tenants occupying office suites ranging in size from 114 to 459 square feet of rentable area. An assemblage of at least two office suites by a single-user would be necessary on the second floor due to the location of the existing entrances. This office suites most likely would appeal to professionals such as architects, accountants, lawyers, psychiatrists, physical therapists, real estate related professionals, insurance agents, dentists, engineers, software programmers, web developers, etc. There are few other similar professional office developments in the neighborhood and based on discussions with market participants the demand for office space has grown in the past six months. This is likely attributable to the growing popularity of the neighborhood having attracted entrepreneurs and small businesses. Gross rents are reported to be stable around $12 per square foot on a gross basis for similar office properties in the immediate neighborhood. However, these properties are inferior to the subject in terms of parking, central air-conditioning, historic appeal, ceiling heights, and elevator service. In addition, based on the 100% occupancy and low turnover of tenants in the nearby buildings with office suites, higher rents may be achievable. On a 250 square foot office suite, a $2 per square foot increase in rent on a gross basis only adds $500 to the annual rent. Discussions with landlords indicated some of the reluctance to increase rents is due to the satisfaction they have with their existing tenants for what appears to them is a nominal increase in rent.

© 2005 by Nicollet Partners

HIGHEST AND BEST USE ANALYSIS

The vault areas in the two-story portion of the building would be cost prohibitive to remove, thus this area is best utilized as storage space. In addition, the basement area in the front part of the building has only a 7' clear, thus it is also only useful for storage.

The rear first floor, in the one-story portion of the building with the garden level, consists of an open area with a barrel-vaulted ceiling containing a stained glass skylight. This area could be utilized as an open office area or demising walls could be construct to create more office suites. However, due to the increasing popularity of the neighborhood, and the historic appeal of the building, a restaurant usage would maximize the value of this area. The barrel vaulted ceiling with skylight, side entrance near the parking stalls, ability to have an outdoor rear patio area, and the general attraction to the building by customers due to its historic character all would be considered positives by a restaurant entrepreneur. Gross rents for restaurant spaces in the neighborhood, with landlords paying up to 50% of associated restaurant build-out costs, are in the range of $26 to $34 per square foot on a gross basis. In addition, the south half of the garden level would lend itself to be utilized as a cocktail lounge. The most probable place for a kitchen would be towards the west half of the first floor of the one-story portion with the possibility of utilizing the vault for food storage. Two new bathrooms would also need to be constructed in the west portion of this part of the building that would be utilized by all the tenants on the first floor and the restaurant patrons.

The relocation and merging of the two elevators into a single elevator that services all floors was considered to be cost prohibitive, as the rental income associated with an elevator with more utility is nominal as many users are indifferent. The repair/servicing of the existing elevators will make the building more handicap-friendly and be adequate for the facility's needs.

In conclusion, the ***Highest and Best Use, As Improved*** is for the repair of the deferred maintenance items noted on the next page and to operate the west half of the building as a professional office facility and the east half, including the garden level as a restaurant/cocktail lounge. The most probable buyer would be an owner-user that only needs to occupy a portion of the building (i.e. a few office suites, all the office suites, or the potential restaurant area).

DEFERRED MAINTENANCE

The following is an estimate of deferred maintenance costs based on the appraisers physical inspection of the building, discussions with the current owner and market participants, and utilizing segregated costs from the Marshall Valuation Service. It should be noted that a physical condition report identifying all deferred maintenance items and associated cost to repair was not provided. A typical buyer in their due diligence process would have a property condition assessment performed, and obtain bids on all deferred maintenance items. Also, included with the deferred maintenance items are some reconfigurations costs and the partial build-out for a potential restaurant user. The table below shows the deferred maintenance costs estimated by the appraisers.

Deferred Maintenance Items

Item	Estimated Cost
Roof (approx. $8 per sq. ft. of roof area)	$62,500
Windows (approx. 65 windows)	$78,000
Tuck-pointing/other exterior repairs including retaining walls, side	$175,000
Flooring (@ approx. $6 per sq. ft. of floor area)	$60,000
Interior Painting/Wall Repair	$30,000
New bathrooms (new men's/women's on each floor)	$90,000
Electrical/wiring (including networking/phone/fixtures)	$70,000
Plumbing	$35,000
Elevator	$15,000
Demolition	$15,000
New Walls (including division of storage space in basement)	$20,000
Heating/Cooling System	$25,000
Miscellaneous/Soft Costs	$70,000
Total	**$745,500**

The total cost of $745,500 equates to $49.88 per square foot on above ground and garden level gross building area. In comparison to replacement cost new estimates provided by Marshall Valuation Service in the table below, this can be allocated as $23.45 per square foot of the above ground and garden level gross building area being attributable to the building shell (roof, windows, exterior, and 50% of miscellaneous costs) and $26.43 per square foot on the above ground and garden level gross building area being attributable to the interior build-out (the remaining items). This equates to 40% of replacement cost new for a building shell and 53% of the replacement cost new for the interior build-out. This exercise serves as an overall check on the deferred maintenance estimate and seems reasonable given the existing condition of the improvements.

Marshall Valuation Service Analysis

Replacement Cost New of an Aver. to Good Class D Office Bldg	$108.85	per sq. ft. of GBA
Less: Replacement Cost New of Shell	$59.21	per sq. ft. of GBA
Equals: Replacement Cost New of Interior Build-out	$49.64	per sq. ft. of GBA
Deferred Maintenance (shell related)	$23.45	per sq. ft. of Above Ground and Garden Level GBA
Deferred Maintenance (interior build-out related)	$26.43	per sq. ft. of Above Ground and Garden Level GBA
Total Deferred Maintenance	$49.88	per sq. ft. of Above Ground and Garden Level GBA
Deferred Maintenance (shell related)	40%	of shell RCN
Deferred Maintenance (interior build-out related)	53%	of interior build-out RCN
Deferred Maintenance (shell and interior build-out related)	46%	of total RCN

Source: Marshall Valuation Service

DEFERRED MAINTENANCE

In addition, a search for comparable renovation costs on properties was conducted. Limited data was discovered, but data for three comparables yielded the following:

Ex-Jubilee Foods Store in Roseville – Converted in 2003 to an office building

Renovations included the following:

- New roof
- New mechanicals (HVAC, electrical)
- Adding exterior windows
- Additional landscaping
- Resurfacing parking lot
- Complete refinish of interior

Renovation costs were approximately $2,377,760, or $68.33 per square foot.

Ex-Minnesota Federal Savings & Loan in Anoka – Converted in 2002/2003 to an office building

Renovations included the following:

- Adding exterior windows
- Complete refinish of interior
- New roof
- New mechanicals (HVAC, electrical)

Renovation costs were originally estimated to be $234,900 or $35.13 per square foot. Actual costs were $369,900, or $55.32 per square foot, due to the new sprinkler system for fire protection and higher demolition costs.

Historic Mixed-Use Development in St. Paul – Renovated in 2001 to 1st floor office/coffee shop and 2nd floor residential units

Renovations included the following:

- Replacing windows
- Complete refinish of interior
- New roof
- New mechanicals (HVAC, electrical)

Renovation costs were approximately $370,000, or $63.72 per square foot.

These three comparable all resulted in slightly higher renovation costs, however they also all included a complete refinish and gutting of the interior of each building. This is not believed to be necessary for the subject property.

In conclusion, the deferred maintenance costs are estimated to be around ±$750,000.

SALES COMPARISON APPROACH

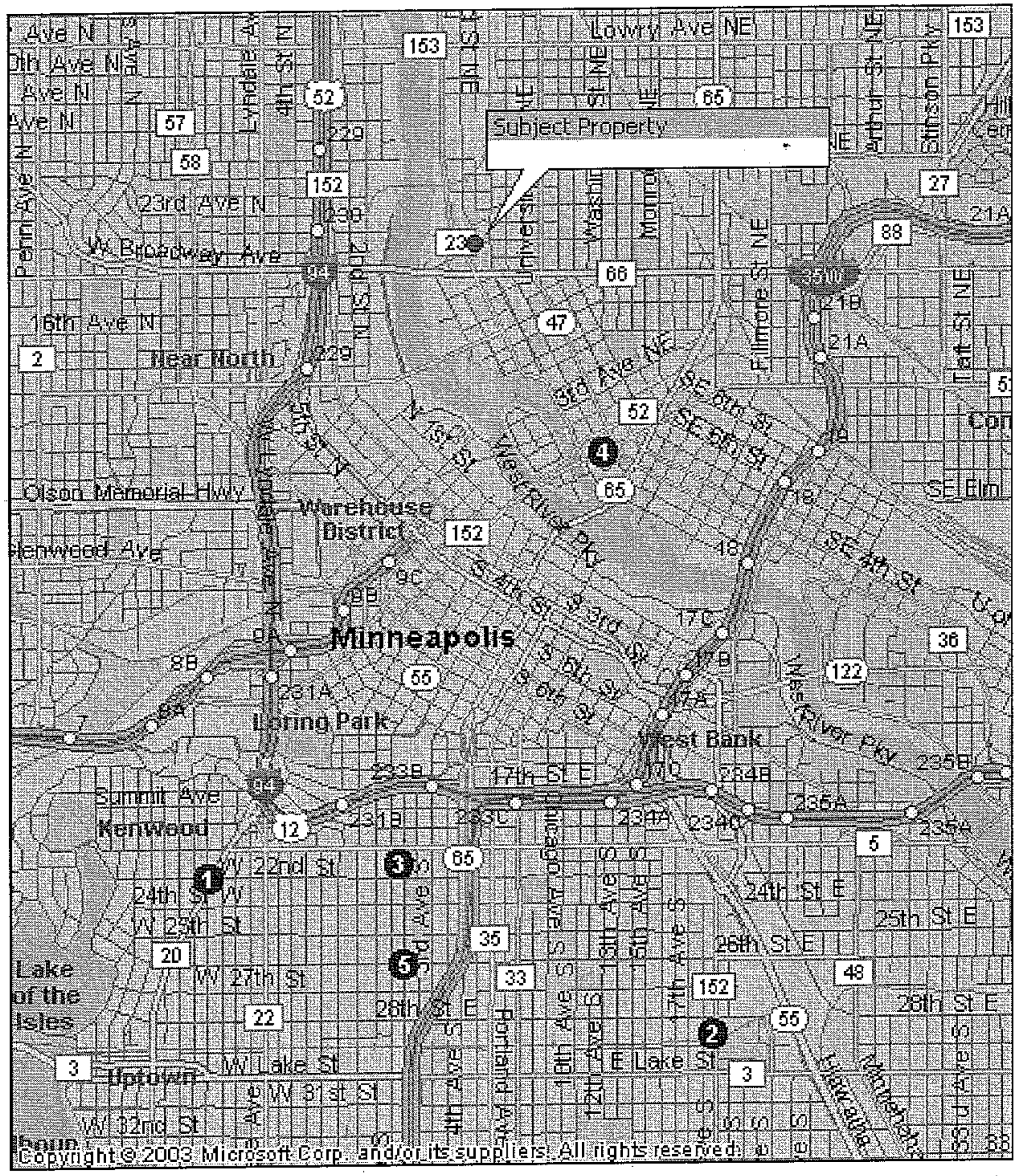
The Sales Comparison Approach produces an indication of value by comparing the prices paid, asked and offered in the marketplace on properties that bear characteristics similar to the property being appraised. It represents the actions of informed buyers, sellers and investors in the marketplace. The basis of the approach is the principle of substitution, which implies that a prudent purchaser will not pay more for a property than it will cost them to buy a similar substitute property.

The application of the approach requires the appraiser to correlate and analyze the market data of similar properties. A common denominator or unit of comparison between a similar or comparable property and the subject property must be determined. Units of comparison such as price per gross square foot, price per unit or the gross rent multiplier are commonly employed in appraisal practice. The soundness of the method depends upon the following considerations:

a) The comparability to the subject of each sale being analyzed.
b) The accuracy of the sale data.
c) The terms of the sale.
d) The date of the sale.

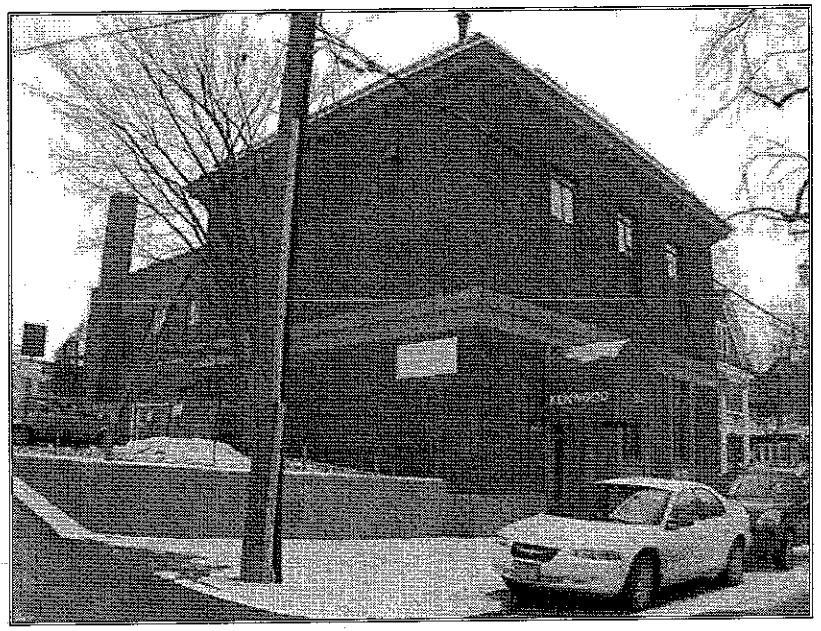
The appraiser must then adjust each comparable property's unit of comparison for every aspect that the comparable property differs materially from the corresponding aspect of the subject property. The appraiser almost always adjusts the characteristics of the comparable to those of the property being appraised, and this is usually done on a percentage basis. If the comparable is superior in any way to the subject, it represents a relationship to the subject of more than 100%. If the comparable is inferior to the subject, it represents a relationship to the subject of less than 100%. Both are adjusted by division. The adjustment for time is usually made first in order to bring the varying transaction dates of the comparables to an equal status current with the appraisal date. This adjustment is by simple multiplication. At the end of this process, the adjustments are reconciled in order to arrive at a net overall adjustment of each comparable to the subject. Those comparables requiring the least overall and net adjustment are most often held to bear the most resemblance to the subject, and therefore, are accorded the most relevance in the final value conclusion.

An investigation and analysis into the sale of older office building sales resulted in five comparable properties being selected as having a solid likeness to the subject. All of the comparables are located in neighborhoods outside of the subject's as there were no recent transactions of similar properties in Northeast Minneapolis. One of the comparables had a restaurant component while the other four properties were office buildings somewhat similar to the subject. Improved Sale Comparables Nos. 1, 3, and 4 were more representative of the subject property after the deferred maintenance items are repaired. Improved Sale Comparables Nos. 2 and 5 were more representative of the *As Is* condition of the subject property. For purposes of this analysis, the adjustments to the comparables were based on the comparison to the subject as if the deferred maintenance items were already corrected. The estimated deferred maintenance items were then subtracted from this conclusion to arrive at the *As Is* opinion of market value by the Sale Comparison Approach. A location map of the comparables is located on the next page followed by narrative descriptions of each of the comparable sales. An adjustment grid, the associated discussion of adjustments, and the value indications by the Sales Comparison Approach are then presented.



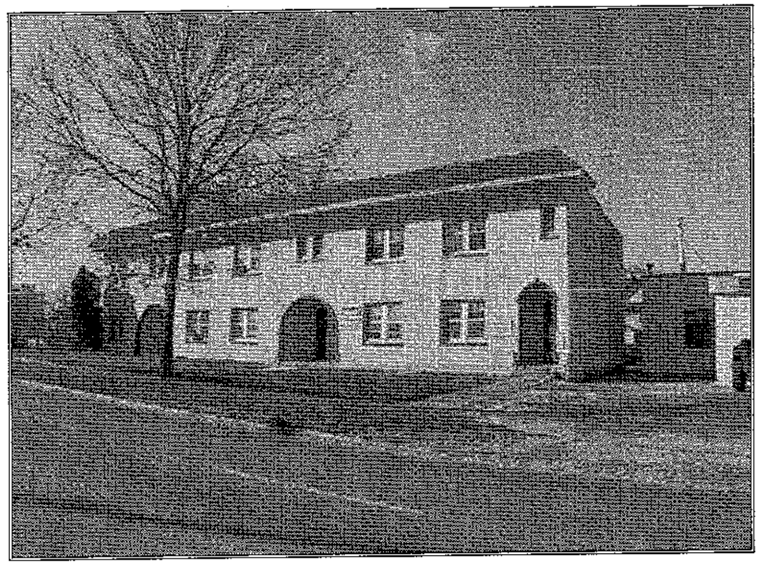
Comparable Improved Sales *N*

Improved Sale Comparable No. 1



Name:	**Kenwood Professional Building**
Location:	1111 West 22nd Street Minneapolis, MN
Sale Date:	December 7, 2004
PID:	33-029-24-12-0001
Seller:	Silver Sword, LLC
Buyer:	The Bridge
Above Ground GBA:	9,320 square feet
Total GBA:	13,452 square feet (includes unfinished basement area)
Rentable Area:	6,297 square feet (above ground only)
Year Built:	1915
Stories/Exterior:	Two story building with brick exterior walls
Elevator:	None
Condition:	Average to Good
Land Area:	10,430 square feet, or 0.239 acre
Zoning:	OR-2, High Density Office Residence District
Parking:	±6 on-site parking spaces
Sale Price:	$1,300,000
Price/Square Foot of RA:	**$206.45**
Comments:	The property is located in Minneapolis in the Lowry Hill neighborhood. The building is divided into office areas ranging in size from approximately 200 square feet to 3,000 square feet. The gross rents ranged from $18 to $22 per square foot. The basement area is utilized for storage. The building was originally constructed for use as a telephone exchange/switching facility.

Improved Sale Comparable No. 2

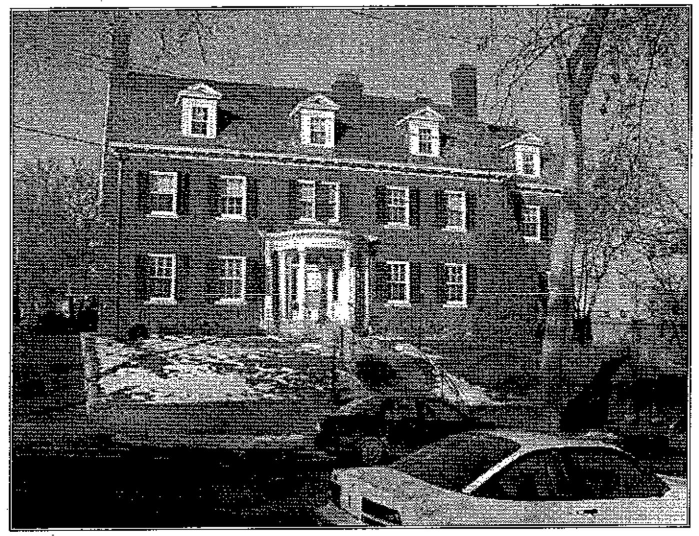


Name:	**2830 Cedar Avenue South**
Location:	2830 Cedar Avenue South Minneapolis, MN
Sale Date:	September 30, 2004
PID:	35-029-24-44-0199
Seller:	Karen Larsen
Buyer:	Rocco Lombardi
Above Ground GBA:	6,152 square feet
Total GBA:	6,152 square feet (no basement area)
Rentable Area:	5,300 square feet (above ground only)
Year Built:	1900
Stories/Exterior:	Two story building with a stucco exterior
Elevator:	None
Condition:	Fair
Land Area:	12,614 square feet, or 0.290 acre
Zoning:	R-6, Multi-family District
Parking:	±15 on-site parking spaces
Sale Price:	$377,000
Price/Square Foot of RA:	**$71.13**
Comments:	The property is located in Minneapolis in the Phillips neighborhood approximately 2 blocks north of Lake Street. The building is divided into four separate office areas with an average size of 1,325 square feet. The buyer intends to owner-occupy half the building and is currently renovating that portion of the building. The buyer stated the rents were well below market levels and he intends to increase them over time in conjunction with the efforts to revitalize the Lake Street area, which will receive new sidewalks and streetlights in 2005.

Improved Sale Comparable No. 2

Comments:	The property's rear, off-street parking lot is accessed by a mid-block alley. This property is adjacent to the Mid-town Greenway bike trail. Its two adjacent neighboring properties are a small printing company and an ornamental iron fabricator. An office building is located directly across the street. The property also has two small wood second floor balconies off of its rear wall.

Improved Sale Comparable No. 3



Name:	**2100 Stevens Avenue South**
Location:	2100 Stevens Avenue South Minneapolis, MN
Sale Date:	June 1, 2004
PID:	34-029-24-12-0052
Seller:	Sheridan Kelly and Martha Spriggs
Buyer:	Bolder Options
Above Ground GBA:	8,438 square feet
Total GBA:	11,248 square feet (includes basement area)
Rentable Area:	6,327 square feet (above ground only)
Year Built:	1906
Stories/Exterior:	Two story building with a brick exterior
Elevator:	None
Condition:	Average to Good
Land Area:	13,174 square feet, or 0.302 acre
Zoning:	OR-2, High Density Office Residence District
Parking:	±15 on-site parking spaces
Sale Price:	$825,000
Price/Square Foot of RA:	**$130.39**
Comments:	The property is located just south of Franklin Avenue in the Whittier neighborhood of Minneapolis. The building is divided into office areas ranging in size from approximately 600 square feet to 2,800 square feet. The gross rents ranged from $16 to $20 per square foot. The basement area is partially finished, but lacks lookout windows. The building sits quite a bit higher than the grade of Stevens Avenue. There is also a driveway off Stevens Avenue to a tuck-under garage at the north end of the building. The property's parking is located in a rear lot accessed by a driveway at the south end of the property.

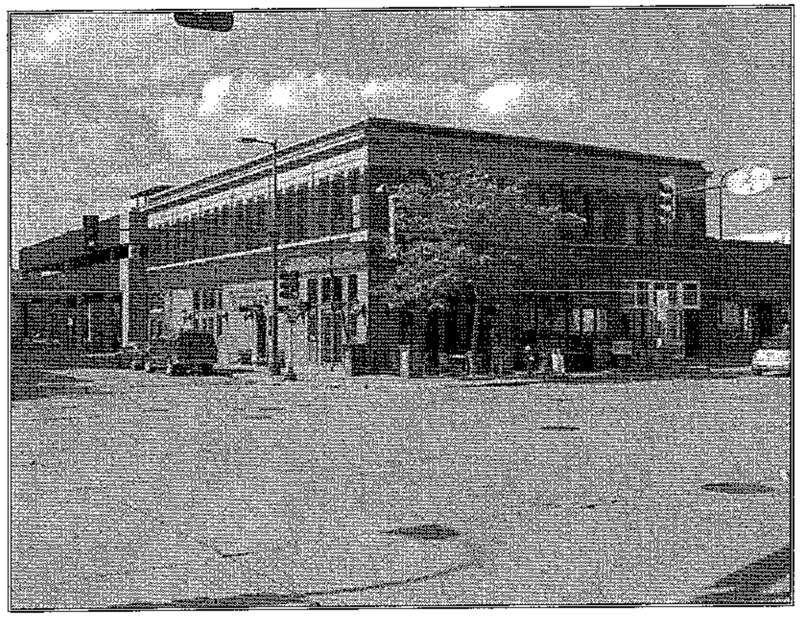
© 2005 by Nicollet Partners

Improved Sale Comparable No. 3

Comments:

The buyer intends to owner-occupy the facility when the existing leases expire. A large portion of building was available for rent at $16 per square foot on a gross basis at the time of the sale. The buyer is a non-profit organization

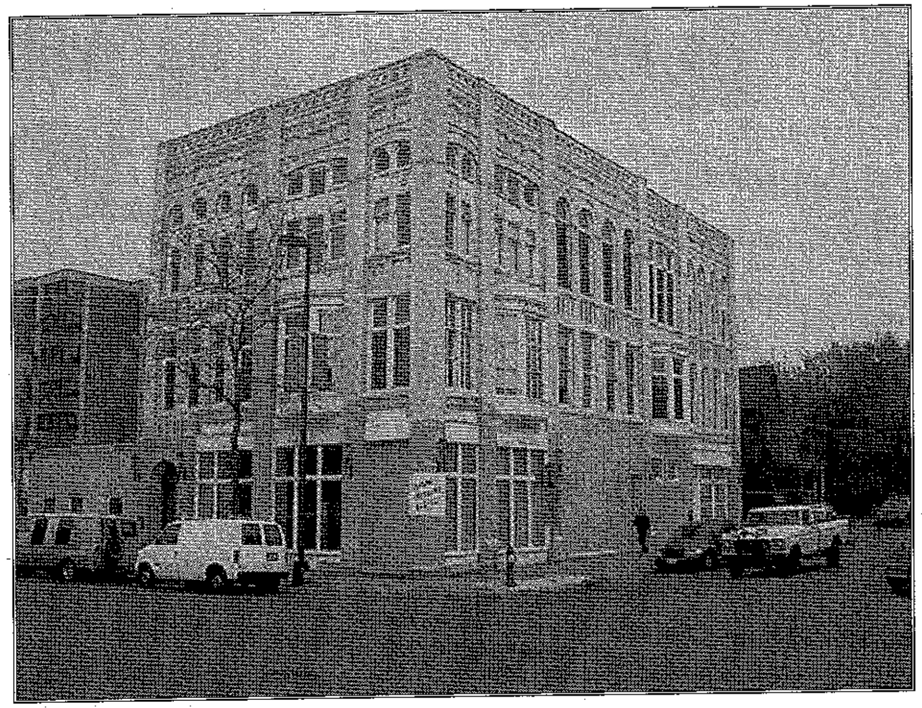
Improved Sale Comparable No. 4



Name:	**Times & Jitters Restaurant / Office Building**
Location:	201 Hennepin Avenue East Minneapolis, MN
Sale Date:	April 14, 2004
PID:	23-029-24-21-0034
Seller:	Sammy Real Estate Holdings
Buyer:	Garland Properties, LLC
Above Ground GBA:	10,956 square feet
Total GBA:	16,896 square feet (includes finished basement area)
Rentable Area:	8,310 square feet (above ground / finished basement area)
Year Built:	1915
Stories/Exterior:	Two story building with a brick exterior
Elevator:	None
Condition:	Good (fully renovated in 1999)
Land Area:	5,980 square feet, or 0.137 acre
Zoning:	C3-A, Community Activity Center District
Parking:	No on-site parking spaces (adjacent to parking ramp)
Sale Price:	$1,400,000
Price/Square Foot of RA:	**$168.47**
Comments:	The property is located just east of Downtown Minneapolis in the Nicollet Island/East Bank neighborhood. The building is divided into office areas on the second floor with the typical size being approximately 200 square feet. The first floor is occupied by the Times Restaurant and the basement is operated by a bar known as Jitters, which is affiliated with restaurant above. The gross rents ranged from $12 to $20 per square foot in the office areas.

© 2005 by Nicollet Partners

Improved Sale Comparable No. 5



Name:	**118 East 26th Street**
Location:	118 East 26th Street Minneapolis, MN
Sale Date:	June 20, 2002
PID:	34-029-24-13-0102
Seller:	Mark Vosbeek
Buyer:	Nathaniel Shea and Kenneth Piper
Above Ground GBA:	11,063 square feet
Total GBA:	14,448 square feet (includes basement area)
Rentable Area:	9,348 square feet (above ground only)
Year Built:	1901
Stories/Exterior:	Three story building with a brick exterior
Elevator:	None
Condition:	Average to fair
Land Area:	4,704 square feet, or 0.108 acre
Zoning:	C-2, Neighborhood Corridor Commercial District
Parking:	±4 on-site parking spaces
Sale Price:	$762,000
Price/Square Foot of RA:	**$81.51**
Comments:	The property is located in the Whittier neighborhood of Minneapolis. The building is divided into multiple small office areas. The gross rents ranged from $12 to $16 per square foot in the office areas. The building has painted exterior brick walls and such architectural features as bay windows and arched, top floor window frames and entries.

© 2005 by Nicollet Partners

GRAIN BELT OFFICE BUILDING PROPERTY

Valuation Date: May 2, 2005

COMPARABLE BUILDING SALES - DATA RECAP and ADJUSTMENTS

- OUTLINED BELOW IS A DATA SUMMARY and ADJUSTMENT OF THE CITED COMPARABLE OFFICE BUILDING SALES DATA

COMP NO.	1	2	3	4	5	SUBJECT
NAME	Kenwood Office Building	Multi-tenant Building	Bolder Options Building	Times & Jitters Restaurant / Office Bldg	Multi-tenant Building	Grain Belt Office Building
ADDRESS	1111 West 22nd Street	2830 Cedar Avenue South	2100 Stevens Avenue South	201 Hennepin Avenue East	118 East 26th Street	1215 Marshall Street NE
	Minneapolis	Minneapolis	Minneapolis	Minneapolis	Minneapolis	Minneapolis
SALE DATE	Dec-04	Sep-04	Jun-04	Apr-04	Jun-02	
LAND AREA (Useable) - SF	10,430	12,614	13,174	5,980	4,704	20,000
ACRES	0.24	0.29	0.30	0.14	0.11	0.46
TOTAL GROSS BUILDING AREA - SF	13,452	6,152	11,248	16,896	14,448	18,507
ABOVE GROUND GROSS BUILDING AREA - SF (1)	9,320	6,152	8,438	10,956	11,063	14,945
RENTABLE AREA - SF (2)	6,297	5,300	6,327	8,310	9,348	10,397
EFFICIENCY RATIO (ABOVE GROUND AREA ONLY)	68%	86%	75%	76%	84%	70%
LAND/BUILDING RATIO (ABOVE GROUND ONLY)	1.12	2.05	1.56	0.55	0.43	1.34
YEAR BUILT	1915	1900	1906	1915	1901	1892
YEAR LAST UPDATED	2000		est 2000	1999		1991
ESTIMATED EFFECTIVE AGE (3)	10	35	10	10	25	10
NUMBER OF STORIES	2	2	3	2	3	2
ELEVATOR	None	None	None	None	None	Yes
SINGLE vs. MULTI-TENANT USAGE?	Multi	Multi	Multi	Multi	Multi	Multi
PARKING STALLS	6	15	15	0	4	21
PARKING STALLS PER SF OF ABOVE GROUND RA	1,050	353	422	n/a	2,337	495
SALE PRICE	$1,300,000	$377,000	$825,000	$1,400,000	$762,000	
PRICE/SF ABOVE GROUND RA	$206.45	$71.13	$130.39	$168.47	$81.51	
SALE TERMS	Cash Eq.	Cash Eq.	Cash Eq.	Cash Eq.	Cash Eq.	
MONTHS SINCE SALE	5	7	11	13	34	
MONTHS FOR TIME ADJUSTMENT	5	7	11	13	34	
ADJUSTMENTS:						
TIME ADJ	1.01	1.02	1.03	1.03	1.09	
TIME ADJ PRICE/SQ. FT. GBA	$209.04	$72.39	$134.02	$174.03	$88.74	
OTHER ADJUSTMENTS:						
LOCATION ADJUSTMENT	Sup	Inf	Equal	Sup	Equal	
	-25%	25%	0%	-25%	0%	
ACCESS/EXPOSURE ADJUSTMENT	Inf	Inf	Inf	Sup	Inf	
	5%	5%	5%	-5%	5%	
BUILDING SIZE ADJUSTMENT	Sup	Sup	Sup	Equal	Equal	
	-5%	-5%	-5%	0%	0%	
AGE/CONDITION ADJUSTMENT	Equal	Inf	Equal	Equal	Inf	
	0%	20%	0%	0%	15%	
LAND/BUILDING RATIO ADJ	Equal	Equal	Equal	Equal	Equal	
	0%	0%	0%	0%	0%	
ELEVATOR ADJUSTMENT	Inf	Inf	Inf	Inf	Inf	
	5%	5%	5%	5%	5%	
PARKING ADJUSTMENT	Inf	Equal	Equal	Inf	Inf	
	10%	0%	0%	5%	10%	
MISCELLANEOUS ADJUSTMENT	Sup	Equal	Equal	Equal	Equal	
	-25%	0%	0%	0%	0%	
NET ADJUSTMENT %	-35%	50%	5%	-20%	35%	
	Sup	Inf	Inf	Sup	Inf	
NET ADJUSTMENT FACTOR (÷)	1.35	0.50	0.95	1.20	0.65	
ADJUSTED PRICE/SF - GBA	$154.85	$144.77	$141.08	$145.02	$136.52	

	UNADJUSTED:		*ADJUSTED*	
(1) Above Ground and Garden Level GBA	Minimum/sf	$71.13	Minimum/sf	$136.52
(2) Above Ground and Garden Level RA	Maximum/sf	$206.45	Maximum/sf	$154.85
(3) After fixing deferred maintenance items	Average/sf	$131.59	Average/sf	$144.45
	Median/sf	$130.39	Median/sf	$144.77

ADJUSTMENT ANALYSIS

The following is an analysis and explanation of the indicated adjustments made on each of the comparable office building sales cited in this report.

A. ***Cash Equivalency Adjustment*** - If a sale comparable involved favorable or below market financing, an adjustment was made to the sales price based on market financing rates at the time of sale to reflect this variance in order to equate the price to a cash sale. All of the sales involved cash equivalent transactions, thus, no adjustments for financing were necessary.

B. ***Time Adjustment*** – The purpose of this adjustment is to bring the varying transaction dates of the comparables to an equal status current with the appraisal date by applying adjustments for changes in market conditions. For this analysis, the actual date of closing has been relied on as the transaction date. Typically, both the buyer and the seller are aware of the changing market conditions. They also realize that it may take several months for a closing to take place. If the time between the purchase agreement and the closing date is considerable, the price usually reflects the risk or holding costs. Purchase agreements very often do not come to fruition in the form of a sale. The date of the purchase agreement and the terms are considered a good indication of value, but a bona fide sale is considered a better measure.

The improved sales included sold between June 2002 and December 2004. Despite softening overall marketing conditions, the owner-occupied office market has had a lot of demand as low interest rates have made properties more affordable. For this analysis, an annual rate of appreciation of 3% was considered supported.

C. ***Location Adjustment*** – This factor considers both the general and specific location of a comparable sale property. The sale comparables are all located in urban areas within the City of Minneapolis, and as such have similar market influences. This adjustment is more subjective in nature, but can often be correlated back to the rent levels in a particular neighborhood. Sales Nos. 1 and 4 were considered superior for this adjustment factor while Sale No. 2 was considered inferior.

D. ***Access/Exposure Adjustment*** –This adjustment deals with the access/exposure to and from major thoroughfares/streets, and also, the proximity to these routes that a particular comparable property sale has. This adjustment attempts to account for factors such as, specific site access factors, including the number and location of curb cuts, nearby street traffic flow patterns, and the visibility or exposure to daily traffic volumes in the area. Sale No. 4 was considered superior for this adjustment factor while Sales Nos. 1, 2, 3, and 5 were considered slightly inferior.

E. ***Building Size Adjustment*** - The rationale behind the building size adjustment is that generally the larger the building, the smaller the per unit purchase price owing to the reduced number of potential buyers at higher investment levels. Also, lower per unit construction costs often result from the economies of scale. Sale Nos. 1, 2, and 3 were at the low end of this range and were all held to be slightly superior for this factor.

F. ***Age/Condition Adjustment*** - Adjustments here are based on the property's effective age. An approximate 1.0% per year adjustment was estimated for each year's difference in effective age between the subject and the comparables. Again, the deferred maintenance items are assumed to be repaired for this part of the analysis.

G. ***Land to Building Ratio Adjustment*** - Generally, properties having a higher land to building ratio will sell for a higher price per unit given the higher value of the land component and the implication that these properties typically possess off-street parking or some amount of expansion potential. This adjustment factor is generally not applicable to small urban properties, as higher-density developments result in a lower land to building area, which may be desirable to maximize income potential. Parking is addressed as a separate adjustment factor.

H. ***Elevator Adjustment*** – The subject property as elevator service to all levels in the building. The main elevator providing service between the 1st and 2nd floors is a single passenger elevator. In general, the market place considers elevator service to a multi-level older office property a luxury as several of these buildings lack elevators and it is cost prohibitive to add them. Due to the subject's small atypical elevator, a nominal positive adjustment was applied to all of the comparables that lacked elevator service.

I. ***Parking Adjustment*** – The subject property will have superior parking characteristic compared to all of the comparables. Similar to an elevator, off-street parking is considered a luxury for these types of properties. Most older properties have associated on-street parking or are located near public parking ramps. Sales Nos. 1, 4, and 5 were held to be inferior for this adjustment factor. Although Sale No. 4 lacks off-street parking, it is located adjacent to a public parking ramp.

J. ***Miscellaneous Adjustment*** – This adjustment was made only to Sale No. 1. This sale was acquired by the adjacent property owner, which is a non-profit organization that needed additional expansion space. A negative 25% adjustment was applied to this sale.

Summary

Through the application of the Sales Comparison Approach, the sale of five comparable properties were analyzed for the purpose of estimating the 'as-is' market value of the subject Grain Belt Office Building Property. In addition to the five sales, two other older sales in the vicinity of the subject were also analyzed. The first sale occurred in February 2001 of a building at 1304 University Avenue Northeast. The building was in fair condition when it was acquired at a price of $40.05 per square foot of rentable area. The other sale occurred in October 2002 and consisted of three adjacent properties located at the northeast intersection 13th Avenue NE and 2nd Street Northeast. The buyer acquired these properties, of which all were in poor to fair condition, for $43.94 per square foot of rentable area. The first comparable was not analyzed due to its older sale date as the immediate area has had rapidly increasing appreciation. The second sale was difficult to analyze as over a third of the property consisted of an older warehouse building that functions as artists' space at the valuation date.

All of the five adjusted sales were considered to be either cash or cash equivalent based. Prior to adjustment, the cited sales exhibited a range of price from between $71.13 to $206.45 per square foot of rentable area. The average unadjusted sale price was $131.59 per square foot. Those sales at the lower end of the range were in fair condition, while those sales at the higher end of the range were generally in good overall condition.

After adjusting for characteristic differences with the subject, the sales exhibited a much narrower range in value from $136.52 to $154.85 per square foot of rentable area. The mean after adjustment was $144.45 per square foot and the median was $144.77 per square foot. Sale No. 1 had a miscellaneous downward adjustment to reflect a captive buyer situation. Excluding this sale, the average sale price was $141.85 per square foot of rentable area. In valuing the subject property by the Sales Comparison Approach, Sales Nos. 2-5 were given the greatest weight and an estimated value of $140 per square foot of rentable area was deemed supportable. As noted earlier, this analysis is based on the assumption that the deferred maintenance items have been repaired, thus the deferred maintenance cost of $745,500 were then subtracted.

Above Ground and Garden Level Rentable Area - sf	x	Estimated Market Value/sf	=	Indicated Value
10,397 sf	x	$140.00 / sf	=	$1,455,531
less: Deferred Maintenance Costs				($745,500)
Indicated Market Value by the **Sales Comparison Approach**				$710,031
		rounded to,		**$710,000**

The subject can now be valued as follows:

INCOME APPROACH

The Income Approach to value is most applicable to types of real estate that are owned for investment purposes. The Principle of Anticipation is fundamental to this approach. According to The Appraisal of Real Estate, Twelfth Edition, on page 35, "... *Anticipation is the perception that value is created by the expectation of benefits to be derived in the future.*" The Income Approach to value consists of analyzing a property's ability to generate income and to convert such income into an indication of present value. The market value of a particular property can usually be derived from the quantity, quality, and durability of the income stream the property produces.

The following steps have been employed to arrive at a market value indication by the Income Approach:

1) *Potential Gross Income has been estimated based on current market rentals being charged and/or offered in the marketplace on properties comparable to the subject.*
2) *A deduction for vacancy/collection is applied to the Potential Gross Income estimate to arrive at an Effective Gross Income figure.*
3) *Next, expenses for the operation of the property including fixed expenses such as taxes and insurance and variable expenses such as utilities, management, and replacement reserves that are not reimbursed by the tenant are estimated, totaled and then deducted from Effective Gross Income to arrive at a Net Operating Income Estimate.*
4) *An appropriate capitalization rate, based on market data, is then applied to the Net Operating Income resulting in an indication of value.*

The Net Income is money that is left to pay mortgage debt service, equity return and income taxes if depreciation is insufficient to cover any income tax liability.

Capitalization is the procedure of taking the net income stream and converting it into an indication of value. There is no one consistent right way to capitalize net income. It is the appraiser's job to select the appropriate rate and method for the particular property being appraised.

The subject facility is a small office building that could operate as a single-tenant property or a multi-tenant property renting out small professional office suites. In addition, the open area in the east portion of the building would be well suited for a restaurant. A direct capitalization process using a market base overall capitalization rate (R_o) analysis was considered the most reliable and commonly accepted technique for this type of property.

© 2005 by Nicollet Partners

INCOME APPROACH

INCOME ANALYSIS

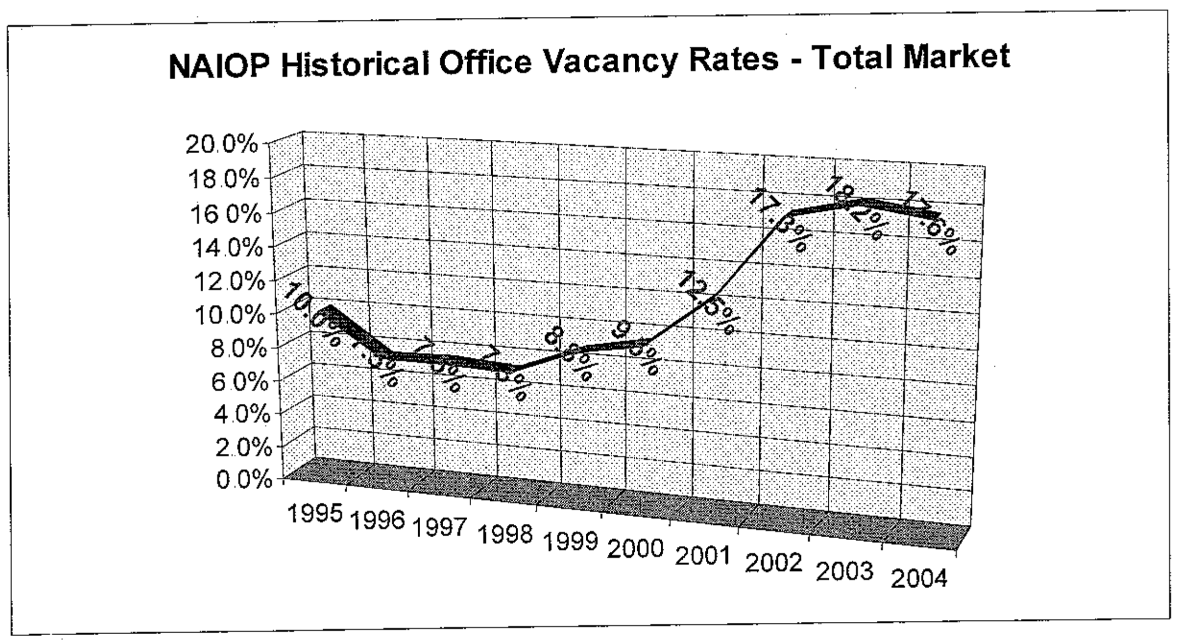
Market Conditions and Rent Estimate

Below is a table and graph based on data from the NAIOP 2004 Office Market Update report. This report covers only pure, multi-tenant competitive office buildings in excess of 20,000 square feet. It therefore does not include owner-occupied buildings, medical office buildings, or buildings containing solely government offices. In general, the office market is currently very soft with an overall vacancy rate of 17.6% in the TCMA. The average overall vacancy rate in the TCMA over the past ten years has been 11.6%. The market anticipated stabilized vacancy rate is around 8% to 10% for office properties. The subject property is anticipated to be at the low end of this range due to the higher demand for small office suites, and the limited availability of such office space.

NAIOP -2004 Office Market Study

Market Sector	New Projects (Sq. Ft.)	New & Existing Projects (Sq. Ft.)	Vacant (Sq. Ft.)	% Vacant	Annual Absorption (Sq. Ft.)
St. Paul CBD	0	8,022,466	2,024,228	25.2%	(390,143)
St. Paul Suburban	0	8,037,906	716,274	8.9%	160,688
East Bloomington & South of the River	0	4,864,459	631,433	13.0%	(9,821)
Southwest	58,000	13,077,574	2,123,240	16.2%	345,179
West and Northwest	23,000	11,111,858	1,936,499	17.4%	380,594
Minneapolis CBD	0	26,669,772	5,172,855	19.4%	(205,001)
Totals	81,000	71,784,035	12,604,529	17.6%	281,496

Source: NAIOP 2004 Office Market Update (as of October 1, 2004)



Office space rents have been generally stable over the past few years. However, landlord rental concessions have been prevalent in the market. The table below illustrates net rent levels and expenses for the TCMA for the various classes of office buildings. It should be noted that the rent levels reported below do not factor in concessions and other transaction costs such as tenant improvements (TI's) and leasing commissions (LC's).

NAIOP - 2004 Office Rent Study (Average for all Market Sectors)

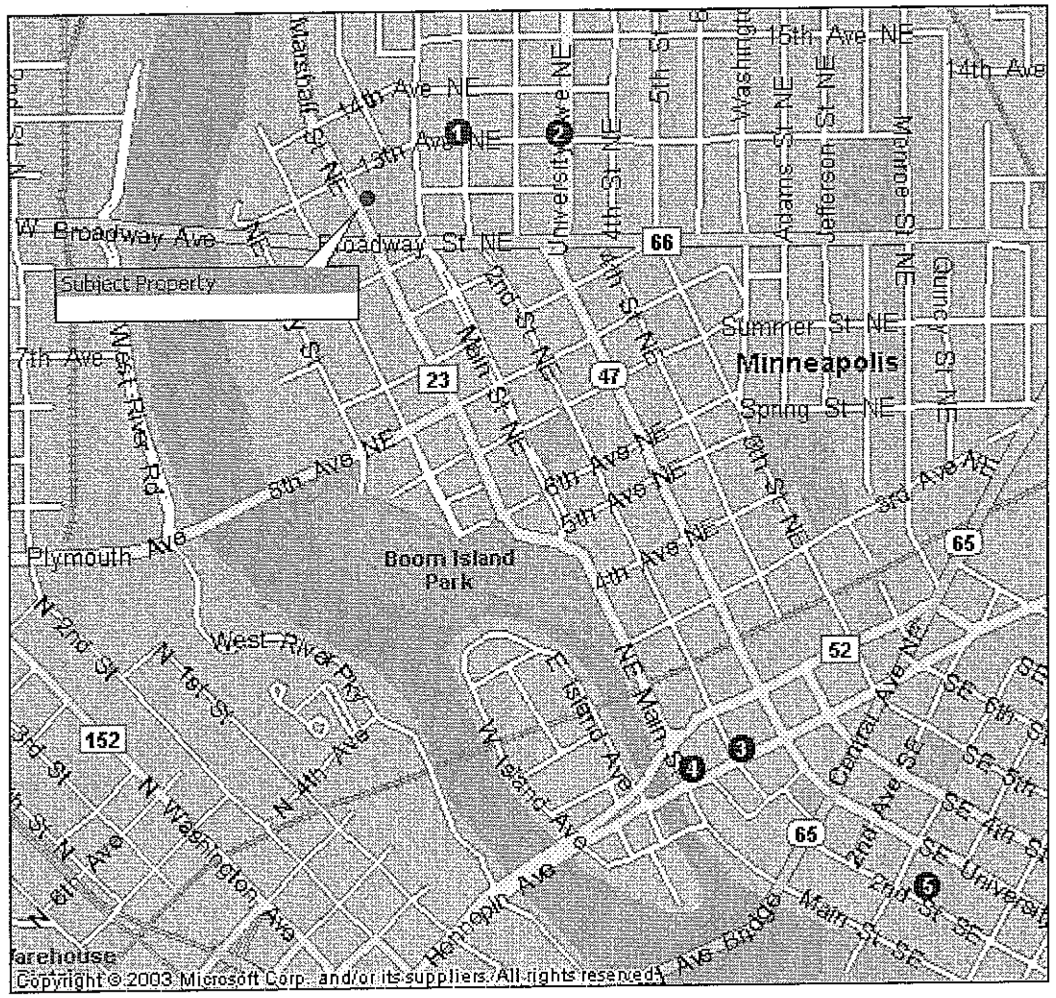
	Total (Sq. Ft.)	Percent Vacant	Net Rent: Quoted	Net Rent: Estimated Low	Net Rent: Estimated High	Tax & Operating Base*
Class A	29,752,453	13.7%	$14.75	$9.50	$38.00	$10.16
Class B	30,281,254	22.1%	$10.68	$6.50	$18.00	$8.67
Class C	11,750,328	15.2%	$9.70	$4.00	$15.00	$7.65
* Does not include new construction that has not yet been fully assessed						

Source: NAIOP 2004 Office Market Update (as of October 1, 2004)

The data presented above for the TCMA overall shows a weak office market. However, many of the properties included in the above survey are not in competition with the subject property due to their larger tenant spaces. As a rental property, the subject would likely function as a multi-tenant property consisting of small office suites ranging in size from ±100 to 500 square feet of rentable area. In addition, the subject property is located in a neighborhood that is primarily residential in nature. There are several old industrial properties in the vicinity of the subject, which have been converted to artists' workspaces. The following five rental comparables are located in or near the subject's neighborhood. These comparables are presented on a map on the next map and will be used for estimating the market rent for the subject property.

Rental Comparables

Address	Year Built	Year Ren.	Rentable Area-sf	Vacant Area-sf	% Vacant	Office Space Gross Rent From	Office Space Gross Rent To	Retail / Restaurant Space Gross Rent From	Retail / Restaurant Space Gross Rent To	Comments
1300 NE 2nd Street	1922	2005	13,512	8,136	60.2%	$14.00	$16.00	$18.00	$20.00	Vacant portion is in the process of being renovated and retail/restaurant rates assumes nominal buildout paid by landlord
1304 University Ave NE	1916	1987	13,107	0	0.0%	$12.00	$12.00	$26.00	$34.00	Retail/restaurant rates are actual rents and landlord paid 50% of the buildout costs
201 Hennepin Ave E	1915	1999	8,310	600	7.2%	$11.25	$19.50	n/a	n/a	Low end of rent range is for the office space that lacks windows.
10 NE 2nd Street	1984	n/a	65,372	6,534	10.0%	$19.50	$21.50	n/a	n/a	This is a larger, more modern office building that can be divided into office suites as small as 600 square feet
300 SE 2nd Street	1900	2005	28,000	28,000	100.0%	$24.00	$24.00	n/a	n/a	Historic property that was part of the Pillsbury complex that is being renovated
Totals/Average			**128,301**	**43,270**	**33.7%**	**$16.15**	**$18.60**	**$22.00**	**$27.00**	



Comparable Rentals *N*

In arriving at a market rent estimate, consideration was given to current Class C gross rents in the TCMA of $17.35 per square foot of rentable area based on the NAIOP survey. However, the five rentals presented on the previous page were given the greatest emphasis. The subject property will compete well with other properties in the neighborhood due to its availability of on-site parking, central air-conditioning, historic appeal, ceiling heights, and elevator service. For office space the average gross rents of the comparables ranged from roughly $16 to $18 per square foot. The retail/restaurant areas had average gross rents ranging from $22 to $27 per square foot. Based on this information a base gross office rent of $16 per square foot was estimated. In addition, the two corner office suites on the first floor were assigned a higher market rental rate of $18 per gross square foot, and the interior lobby office/cubicle area was estimated at a lower rent of $12 per gross square foot. The storage vaults were assigned a rate of $4 per square foot gross basis, and the basement storage area was assigned a rate of $3 per gross square foot. The garden level's market rental rate was estimated at $10 per square foot gross. Finally, the market rent for the first floor restaurant area was estimated at $28 per square foot gross, and assumes the landlord would cover approximately 50% of the TI build out costs, specifically the costs associated with the construction of a commercial kitchen.

INCOME APPROACH

Potential Gross Income

Based on the preceding information, the potential gross income was calculated as follows:

Suite	Floor	RA (sq. ft.)	Gross Rent / sq. ft.	Monthly Gross Rent	Rounded Monthly Gross Rent	Annual Gross Rent
101	1st	296	$18.00	$443	$440	$5,280
102	1st	277	$18.00	$416	$420	$5,040
103	1st	179	$18.00	$269	$270	$3,240
104	1st	170	$18.00	$255	$260	$3,120
105	1st	131	$18.00	$197	$200	$2,400
106	1st	114	$18.00	$171	$170	$2,040
107	1st	269	$18.00	$404	$400	$4,800
108	1st	291	$18.00	$436	$440	$5,280
109	1st	244	$18.00	$366	$370	$4,440
110	1st	3,087	$28.00	$7,202	$7,200	$86,400
111 (lobby)	1st	184	$12.00	$184	$180	$2,160
112 (vault)	1st	239	$4.00	$80	$80	$960
Subtotal		**5,481**			$10,430	$125,160
201	2nd	131	$16.00	$175	$170	$2,040
202	2nd	248	$16.00	$331	$330	$3,960
203	2nd	248	$16.00	$331	$330	$3,960
204	2nd	305	$16.00	$406	$410	$4,920
205	2nd	281	$16.00	$374	$370	$4,440
206	2nd	459	$16.00	$612	$610	$7,320
207	2nd	290	$16.00	$386	$390	$4,680
208 (vault)	2nd	136	$4.00	$45	$50	$600
Subtotal		**2,098**			$2,660	$31,920
001	Garden Level	716	$10.00	$597	$600	$7,200
002	Garden Level	1,127	$10.00	$939	$940	$11,280
003	Garden Level	975	$10.00	$813	$810	$9,720
Storage	Basement	1,914	$3.00	$478	$480	$5,760
Subtotal		**4,732**			$2,830	$33,960
Total RA		**12,311**	**Total Rental Income**			**$191,040**

In addition to the rental income above, the property will be able to collect parking income associated with its 21 available stalls. The parking income was estimated at $25 per stall per month or $6,300 on an annual basis. This is income that will offset the associated operating expenses to maintain the stalls.

Thus, total potential gross income (PGI) is estimated to be **$197,340**.

INCOME APPROACH

Vacancy/Collection Loss

Vacancy/collection loss was estimated at 8.0%. The survey previously presented showed that the average overall office vacancy rate in the TCMA over the past ten years has been 11.6%. The market anticipated stabilized vacancy rate relied on by purchasers is around 8% to 10% for office properties in the TCMA. The subject property is anticipated to be at the low end of this range due to the higher demand for small office suites and its location in an area in growing popularity with little competition.

Effective Gross Income

The effective gross income is calculated by subtracting the vacancy/collection loss from the potential gross income. The calculation is shown below:

Potential Gross Income	$197,340
less: Vacancy/Collection Loss @ 8%	($ 15,787)
Effective Gross Income	**$181,553**

EXPENSE ANALYSIS

Real Estate Taxes

The stabilized assessors estimated market value (AEMV) was estimated to be roughly $1,000,000 after the correction of the deferred maintenance items. This was based on 70% of an estimated market value of $1,400,000. The 70% factor accounts for the lag in how property taxes are paid (i.e. paid one year in arrears), the current sale price being less than the AEMV due to the deferred maintenance items not yet having been addressed, and also considers that the AEMV is somewhat below that of its actual market value in many cases. An effective tax rate of 3.5% was then utilized to estimate the stabilized annual real estate taxes at $35,000 per year.

Insurance

Insurance was estimate at $0.25 per square foot based on data published by IREM in the 2004 edition of Office Buildings Income/Expense Analysis.

Management

Management expenses were estimated at 3% of effective gross income based on discussion with market participants. The management company is responsible for leasing space, collecting rents, coordinating maintenance and repairs, and assuring overall tenant satisfaction.

Utilities

Utilities include outlays for plumbing, gas and electricity, and water expenses This expense was estimated at $1.35 per square foot based on data published by IREM in the 2004 edition of Office Buildings Income/Expense Analysis.

Garbage

The garbage expense was estimated at $200 per month based on discussions with market participants.

Janitorial Services

The janitorial services expense was estimated at $300 per month based on discussions with market participants. This is expense is for the cleaning of the common area hallways and bathrooms on a weekly basis.

General Repair and Maintenance, including elevator

This expense was estimated at $0.35 per square foot based on data published by IREM in the 2004 edition of Office Buildings Income/Expense Analysis.

Prorated share of parking repair and maintenance

This expense was estimated at $25 per month per parking stall and offsets the associated parking revenue.

Replacement Reserves/Structural

Stuctural reserves for the replacement of the short-lived components such as the roof and parking lot are typically deducted as an annual charge. A figure of $0.15 per square foot was relied on based upon surveying market participants.

The stabilized operating statement is presented on the next page.

GRAIN BELT OFFICE BUILDING PROPERTY
Stabilized Operating Statement

Rental Income			$195,000
add: Other Income (Parking)			$6,300
Gross Potential Income (PGI)			$201,300
less: Vacancy and Collection Loss	@ 8.0%		($16,104)
Effective Gross Income (EGI)			$185,196
less: Operating Expenses			
Fixed Expenses			
Real Estate Taxes		$35,000	
Insurance		$2,599	
Total Fixed Expenses		$37,599	
Variable Expenses			
Management (3% of EGI)		$5,556	
Utilities		$14,036	
Garbage		$2,400	
Janitorial Services (common areas only)		$3,600	
General Repair and Maintenance, including elevator		$3,639	
Prorated share of parking repair and maintenance		$6,300	
Total Variable Expenses		$35,531	
Total Operating Expenses			($73,130)
less: Replacement Reserves/Structural	@	$0.15 /sf =	($1,560)
Net Operating Income (NOI)			**$110,506**

© 2005 by Nicollet Partners

CAPITALIZATION OF THE NET INCOME STREAM – BAND OF INVESTMENT

In the purchase of income property, investors typically buy properties on both leveraged (or finance) and unleveraged (or total equity) bases. A leveraged basis is most probable for a property such as the subject.

The leveraged basis assumes that the subject's purchase capital would be made up of mortgage loan and cash equity components. Research into lender mortgage loan parameters for commercial properties at the valuation date leads to the conclusion that a loan for 75% of market value at 6.25% interest with a 25 year amortization period, and a ten year term could be obtained on the subject. The annual debt constant for such a typical loan would be 7.92%.

Investors consistently purchase properties based on the cash return on cash invested that a property will flow annually to the equity capital risked. These annual cash flow rates are more often than not lower than the lender's debt constant rate because investors are confident that future benefits such as appreciation, increased rentals and tax write-offs will more than compensate any initial yield deficiencies. An equity rate of 10% is considered to be reasonable and supported in the market. This rate is below that of typical industrial properties as a potential investor would factor in lesser degree of risk with this property due to the underlying land value contributing significantly to the overall value. A Band of Investment technique can now be evolved to develop an overall capitalization rate for the subject as follows:

BAND OF INVESTMENT ANALYSIS							
Mortgage Loan % (M)	x	Mortgage Capitalization Rate (R_M)	75%	x	0.0792	=	0.0594
Equity % (E)	x	Equity Capitalization Rate (R_E)	25%	x	0.1000	=	0.0250
		Indicated Overall Capitalization Rate (R_O)				=	0.0844
					or,		**8.50%**

An indication of probable market value for the subject property by the Income Approach using direct capitalization can now be evolved through the direct capitalization process. The table below illustrates this process utilizing an 8.50% overall capitalization rate. The deferred maintenance costs must then subtracted from the capitalized value of the income stream to arrive at the *As Is* market value by the Income Approach.

Capitalization of the Net Income Stream		
Net Operating Income		$110,506
÷ Overall Capitalization Rate (R_O)	÷	8.50%
Market Value before Deferred Maintenance Costs		**$1,300,072**
less: Deferred Maintenance Costs		($745,500)
Indicated Market Value by the **Income Approach**		$554,572
	rounded to,	**$550,000**

© 2005 by Nicollet Partners

RECONCILIATION

Through the application and development of two of the three standard appraisal approaches to value, this study has evolved the following indications of market value for the Grain Belt Office Building Property as of May 2, 2005:

Cost Approach	*Not Applicable*
Sales Comparison Approach	*$710,000*
Income Approach	*$550,000*

The Sales Comparison Approach to value is based on the principal of substitution, which affirms that a prudent purchaser will not pay more for a property than for an equally desirable substitute property. A typical buyer seeks the best buy available. Consequently, the Sales Comparison Approach provides a strong indication of market value when adequate market data is available for review. A total of five recent office building sales were analyzed in this appraisal and several others were also reviewed. After adjusting for characteristic differences with the subject, the sales exhibit a range in value from $136.52 to $154.85 per square foot of rentable area. The mean after adjustment was $144.45 per square foot. A value of $140 per square of rentable area was concluded for the subject property assuming the deferred maintenance items were corrected. Subtracting deferred maintenance costs then of roughly $750,000 resulted in an *As Is* value indication of $710,000 by the Sales Comparison Approach, or $68.29 per square foot of rentable area. Improved Sale Comparables Nos. 2 and 5 were most similar to the *As Is* condition of the subject property with unadjusted sales prices of $71.13 and $81.51 per square foot of rentable area, respectively.

The Sales Comparison Approach resulted in a very good indication of market value and this approach was given the most emphasis in the final overview. It should be noted that a physical condition report identifying all deferred maintenance items and associated cost to repair was not provided, thus these costs were estimated by the appraisers.

The Income Approach considers the property as a capital investment from which a desired return of money in the form of both capital recapture and interest, or profit, is expected. It is the basis upon which investors many times place greatest emphasis as they make deliberate decisions to buy or sell real estate in the everyday marketplace. It is the subject's ability to generate and return a specific desired income level that is more often than not the critical factor in determining its value in the open market. One of the advantages of the Income Approach is the relatively constant supply of rental data available from which a market rent estimate can be derived. However, due to the subject's location in an area with relatively few office buildings this is not the case. In addition, since the building has been vacant for seven years, there is no operating expense history to compare to the expenses projected.

RECONCILIATION

Nevertheless, there was adequate data available to construct a stabilized operating statement in order to project an anticipated net operating income. This NOI projection is supportable, but due to the lack of operating history, this approach was given a slightly lesser weight than the Sales Comparison Approach.

Based on this reasoning and analysis, it is concluded that the market evidence best substantiates a market value for the **Grain Belt Office Building Property** as of May 2, 2005 of:

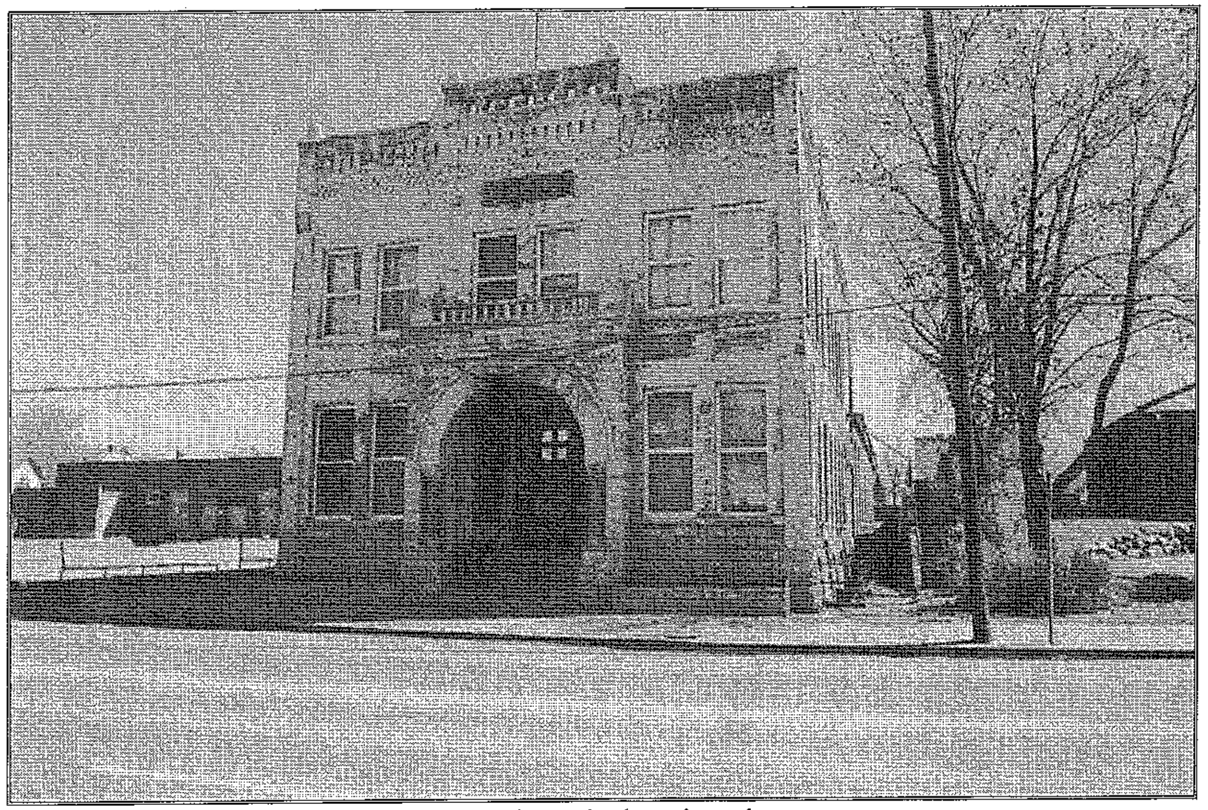
SIX HUNDRED FIFTY THOUSAND DOLLARS ***$650,000***

© 2005 by Nicollet Partners

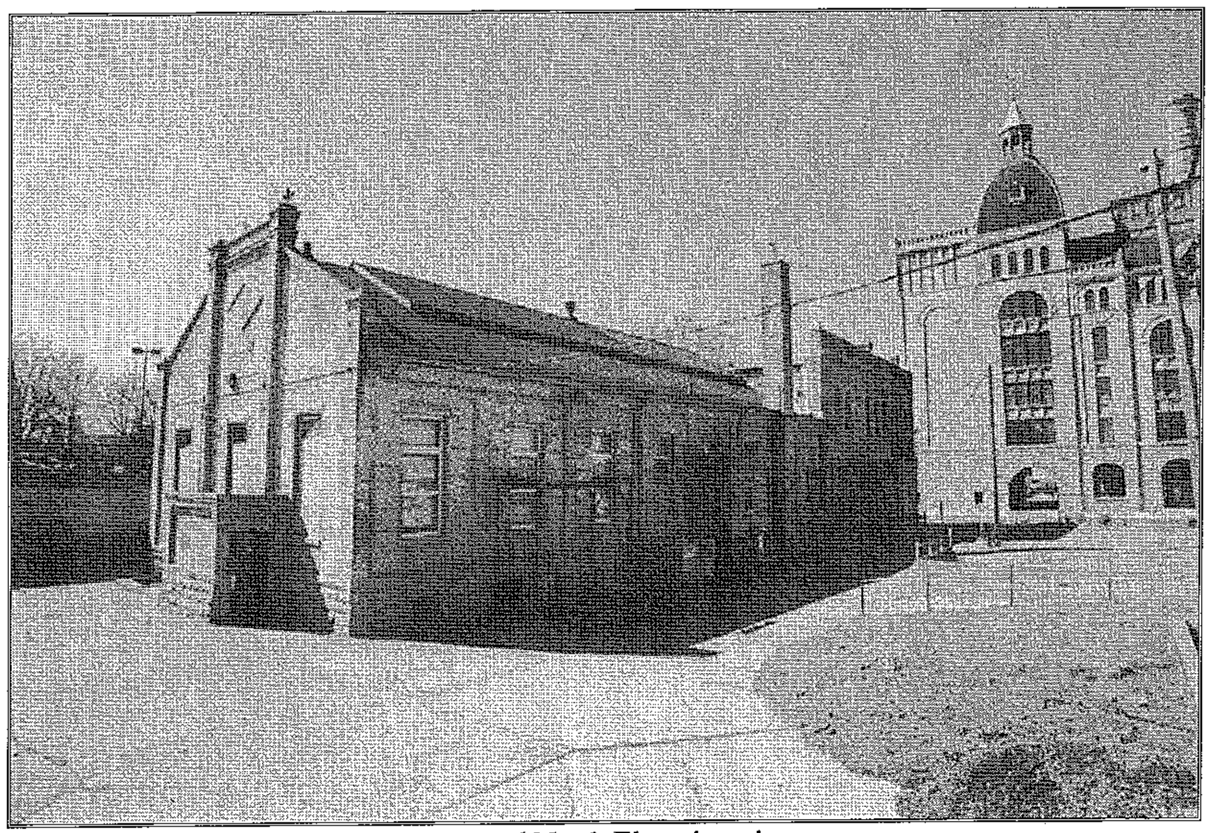
PART SIX - ADDENDA

EXHIBIT A – SUBJECT PHOTOGRAPHS

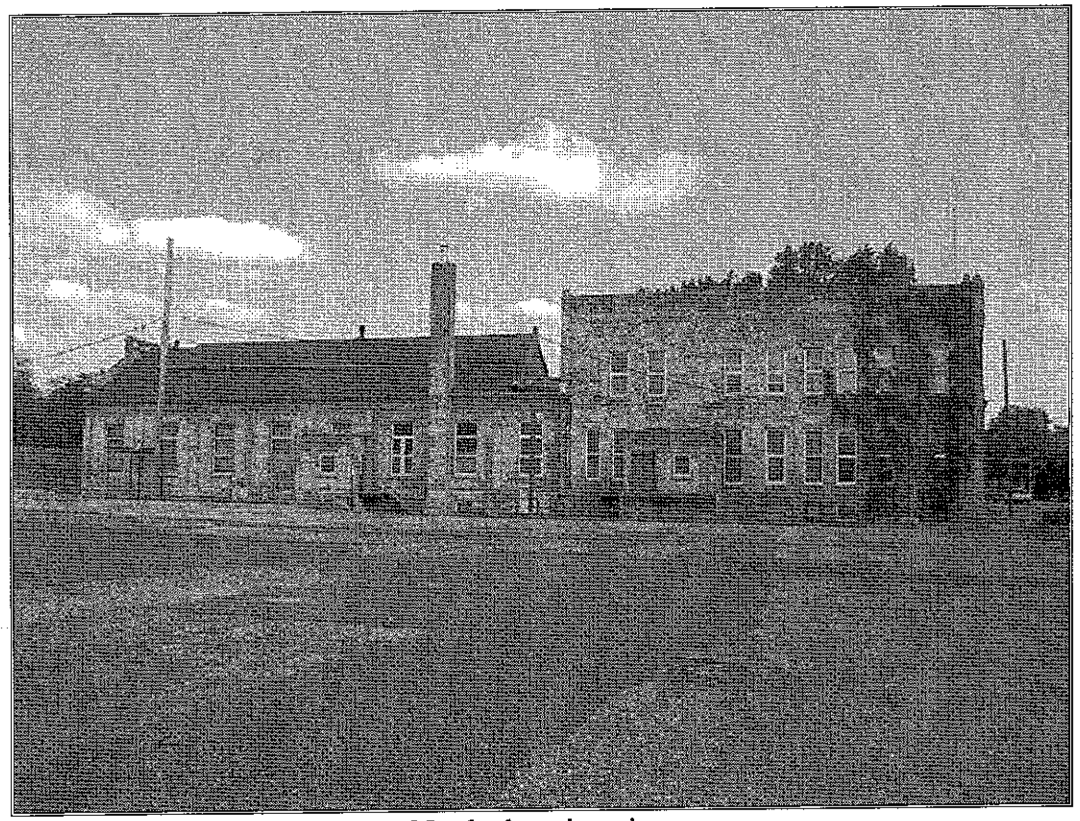
SUBJECT PHOTOGRAPHS



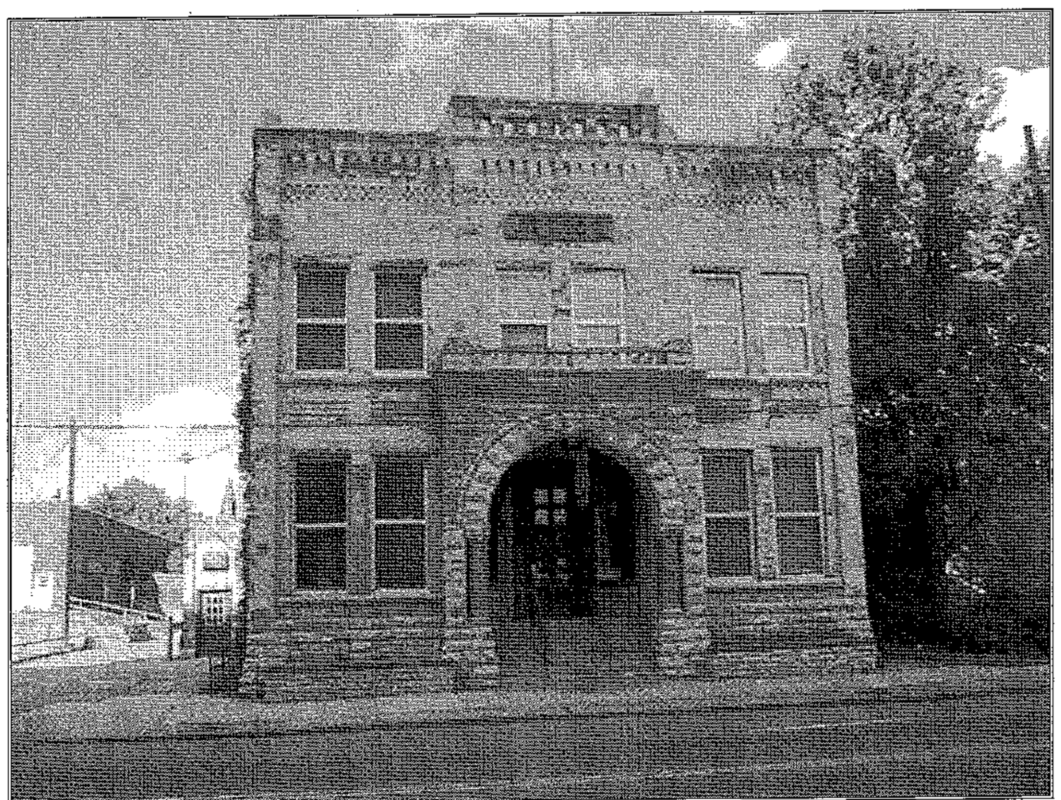
West and South elevation views



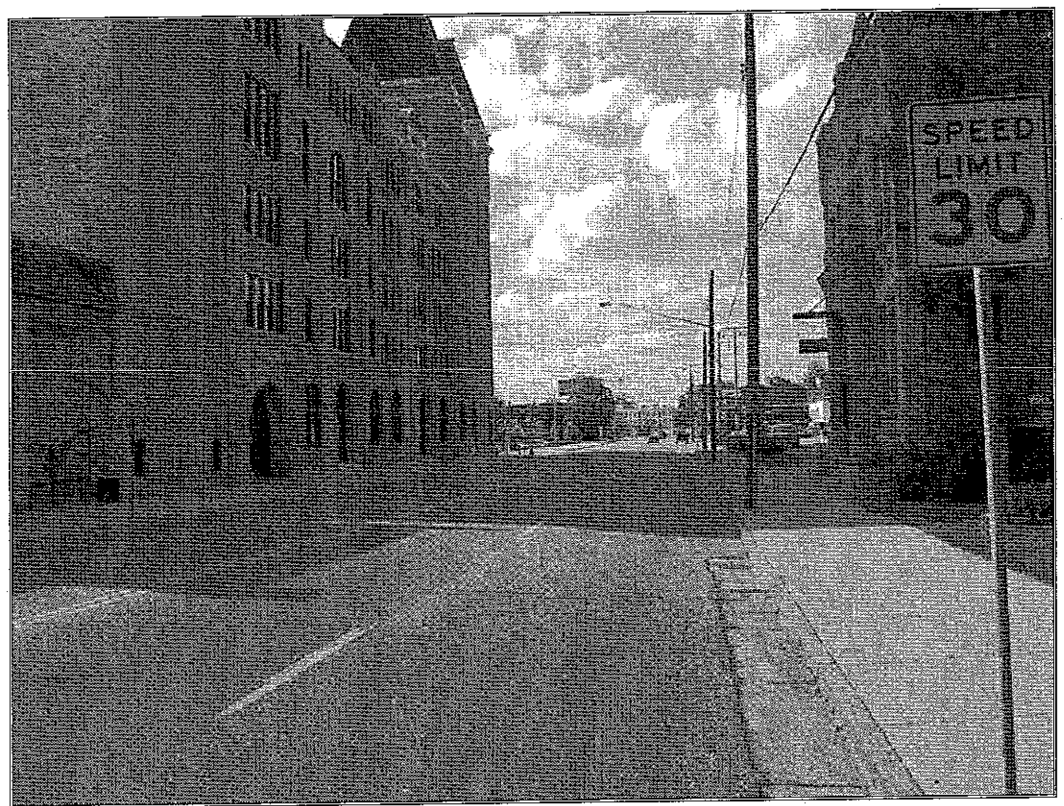
East and North Elevation view



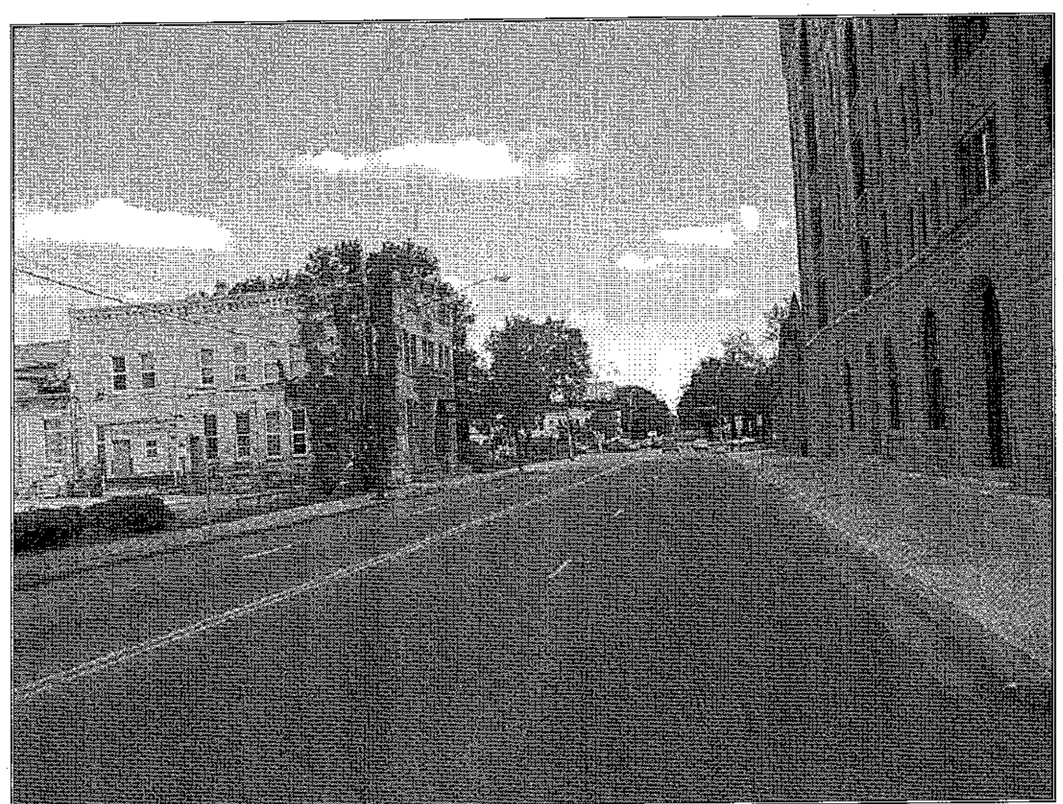
North elevation view

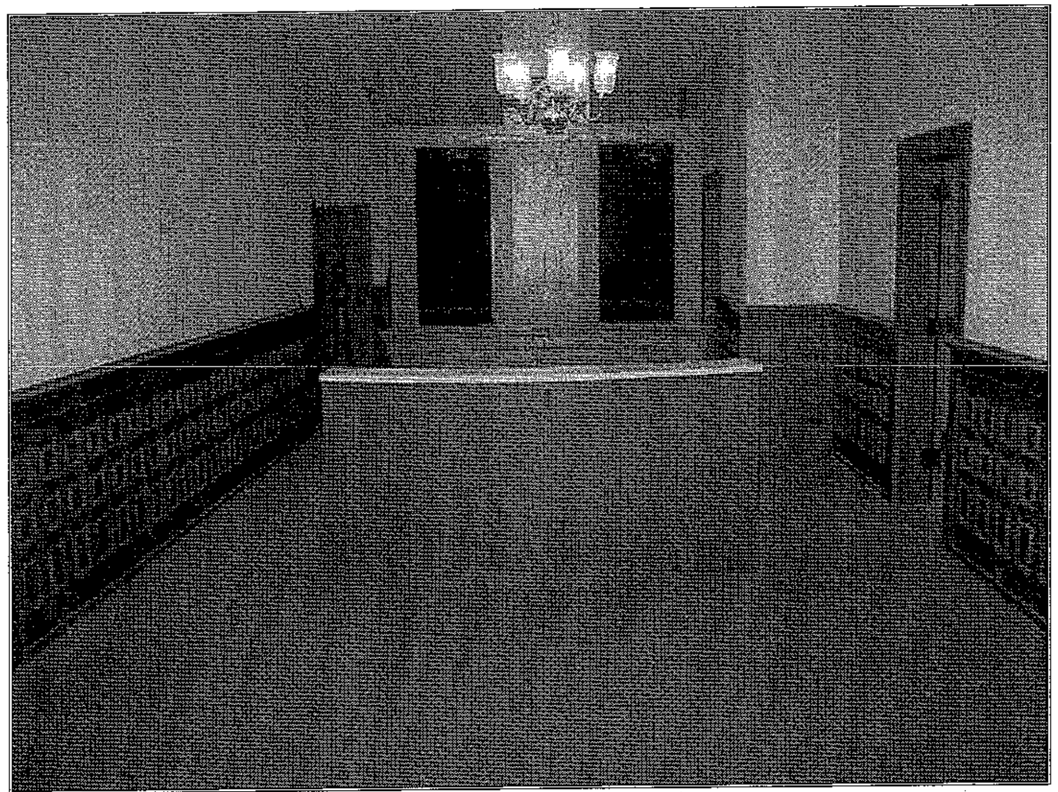


West elevation view

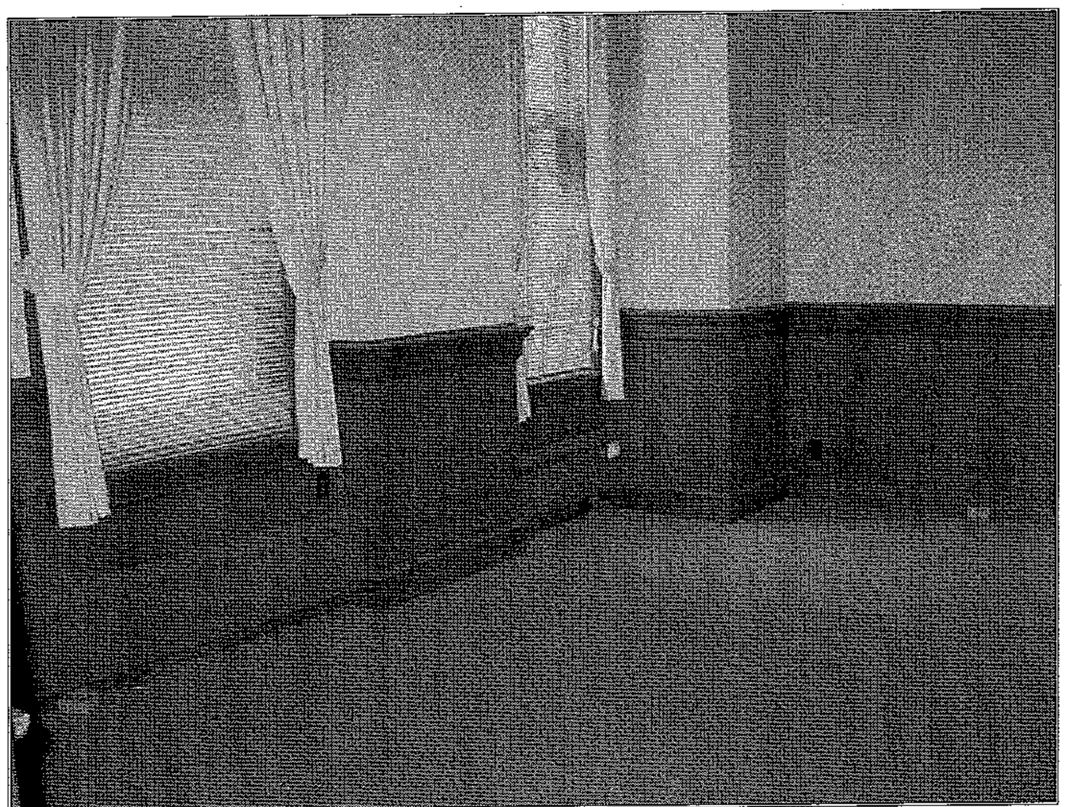


Street scene – facing North on Marshall Street NE

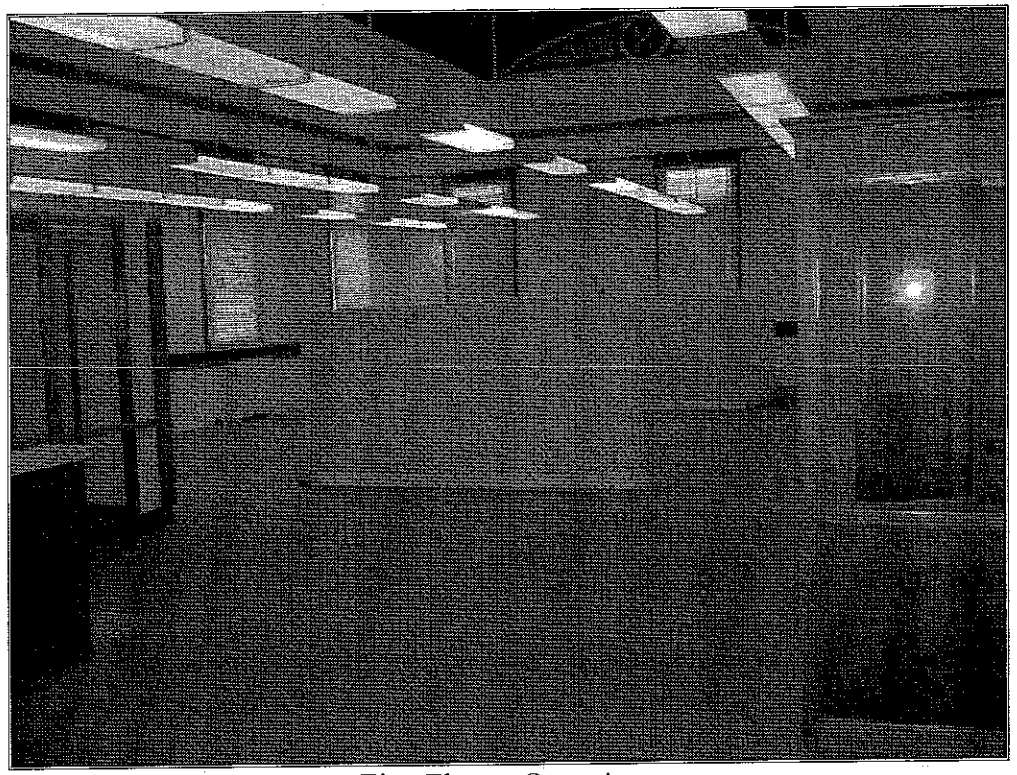

Street scene – facing South on Marshall Street NE



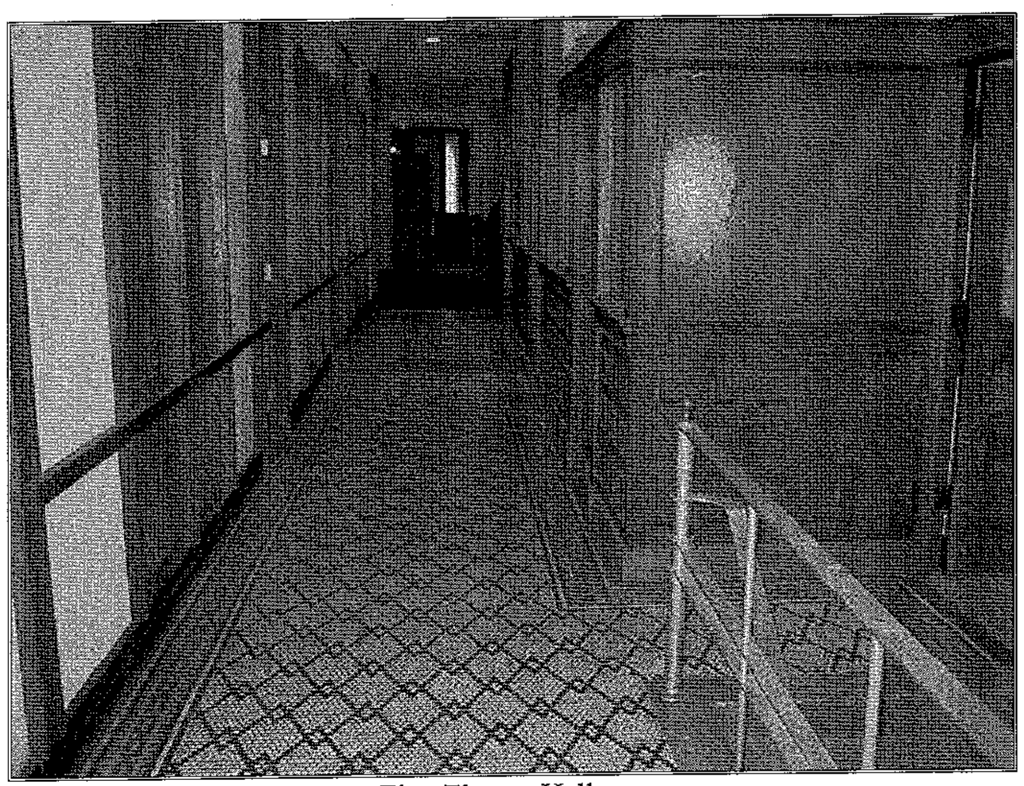
First Floor – Lobby/Reception Area



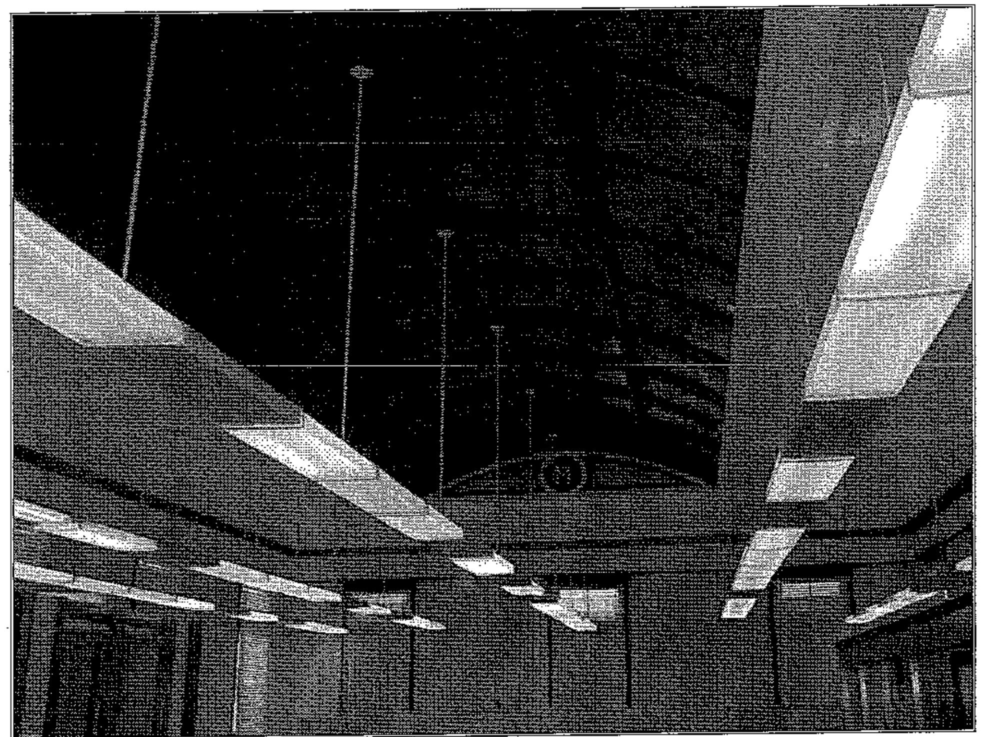
First Floor – Typical Office Suite



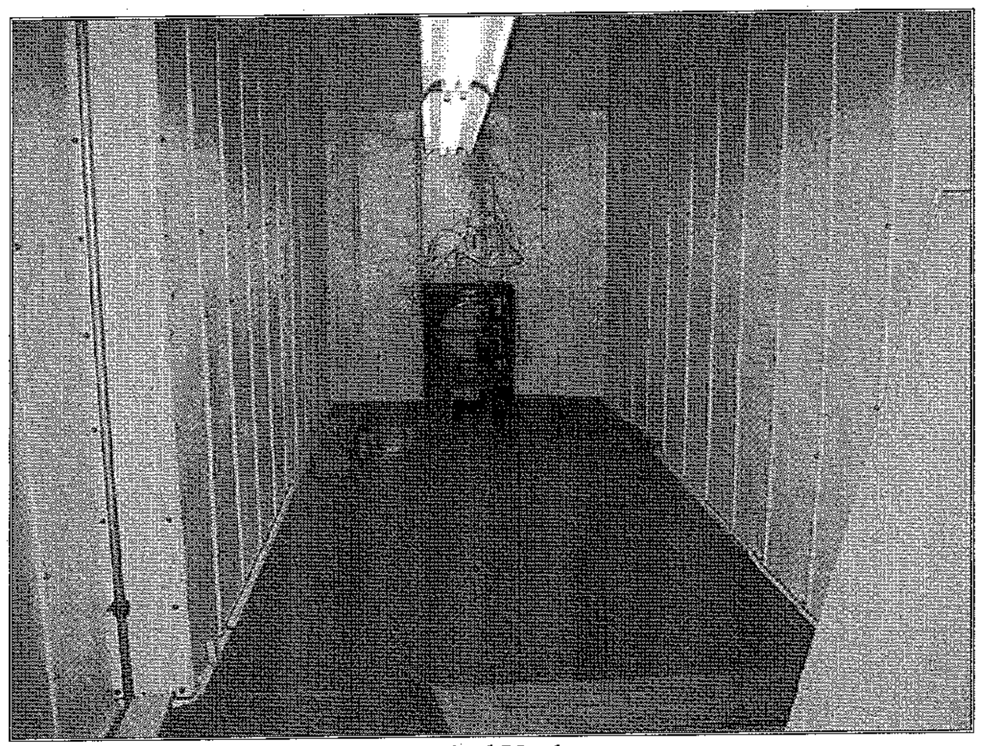
First Floor – Open Area



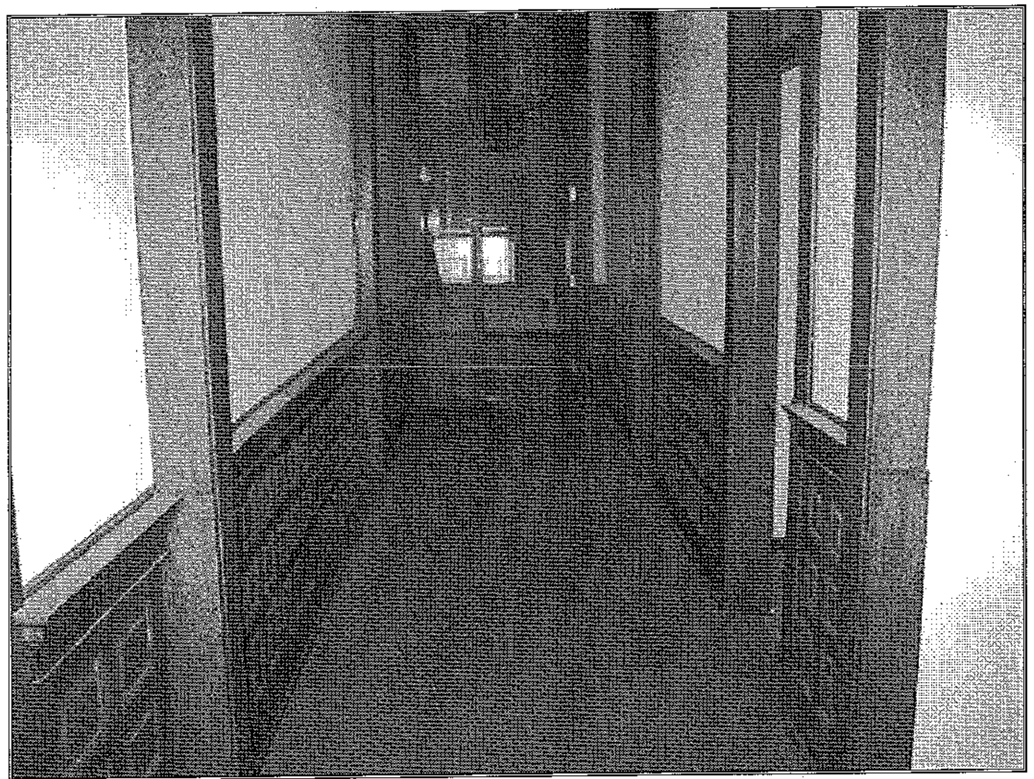
First Floor – Hallway



First Floor – Barrel Vaulted Ceiling with Stained Glass Skylight

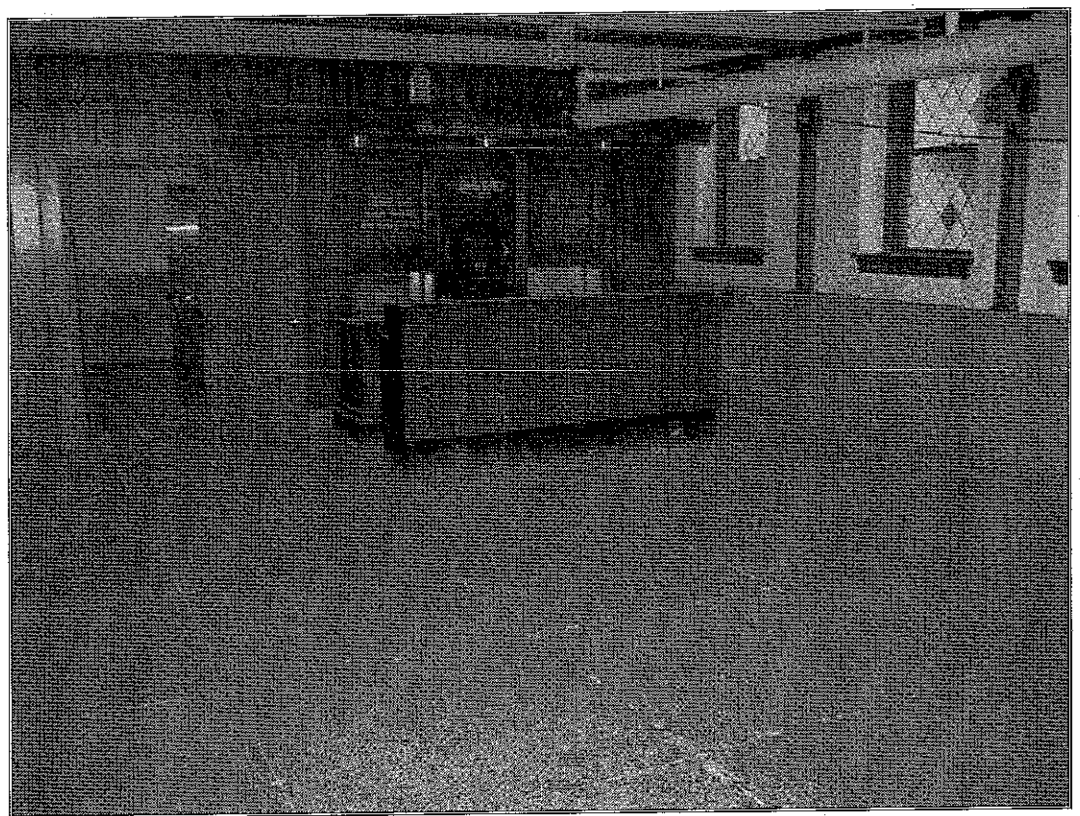


Typical Vault

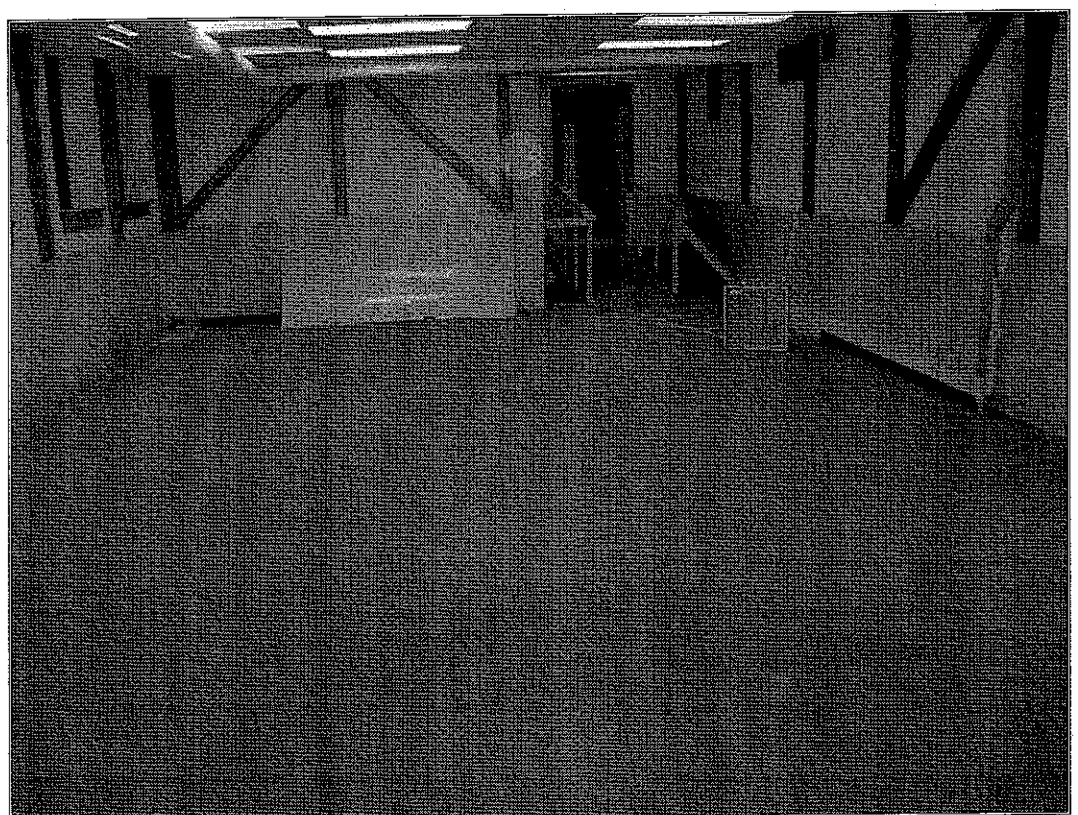


Second Floor - Hallway

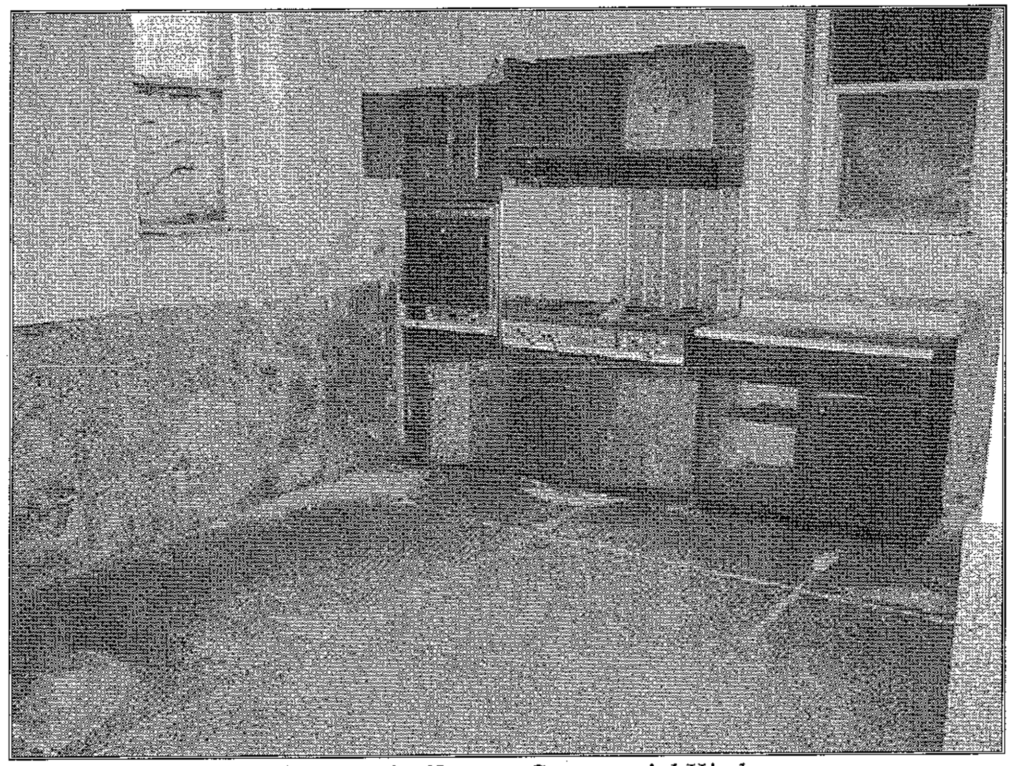
Second Floor – Typical Office Suite



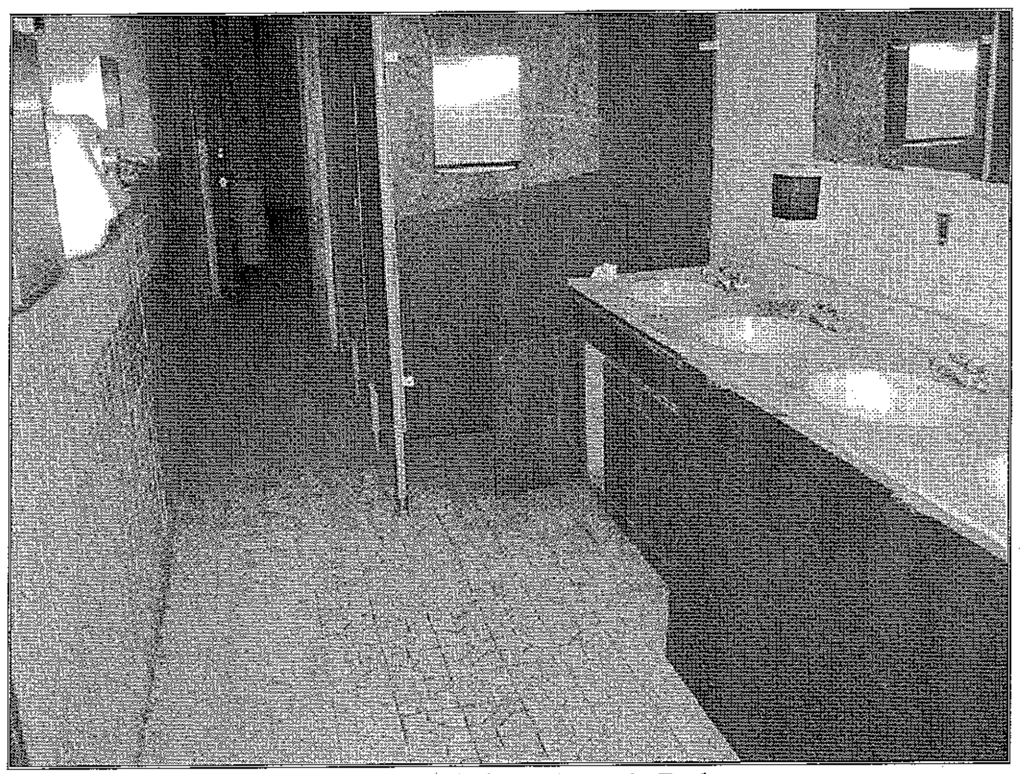
Garden Level – Beer/Pub Area



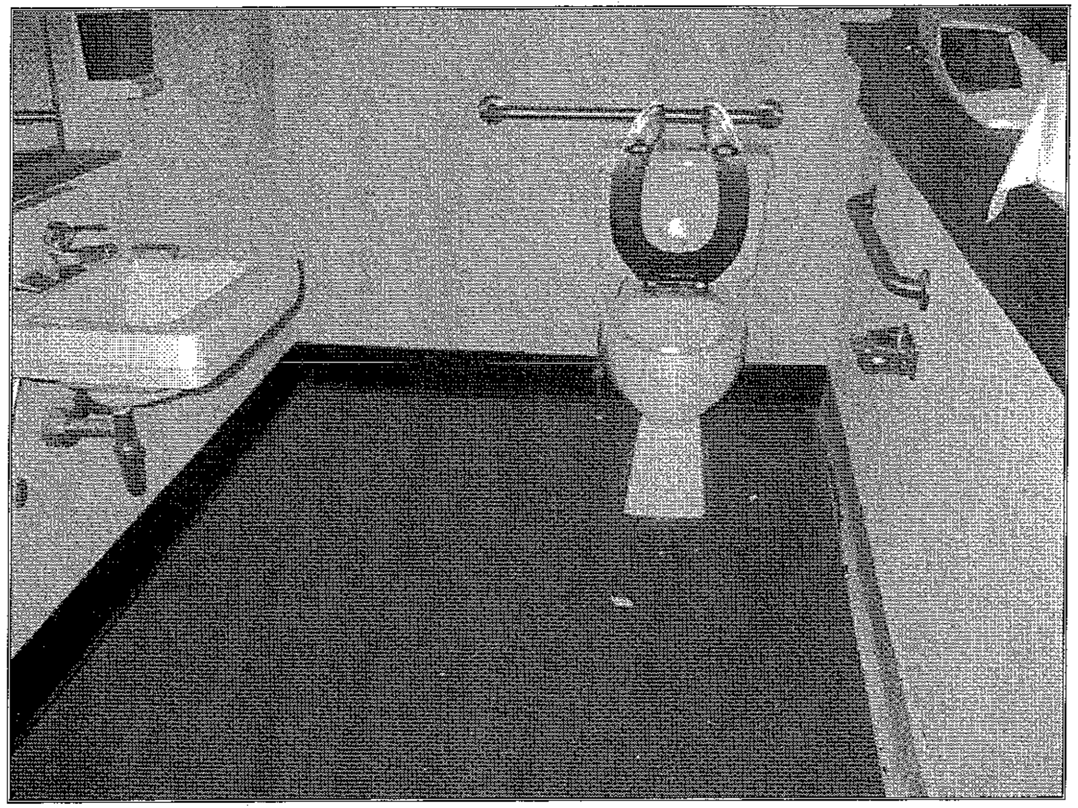
Garden Level – Area to the west of the Beer/Pub area

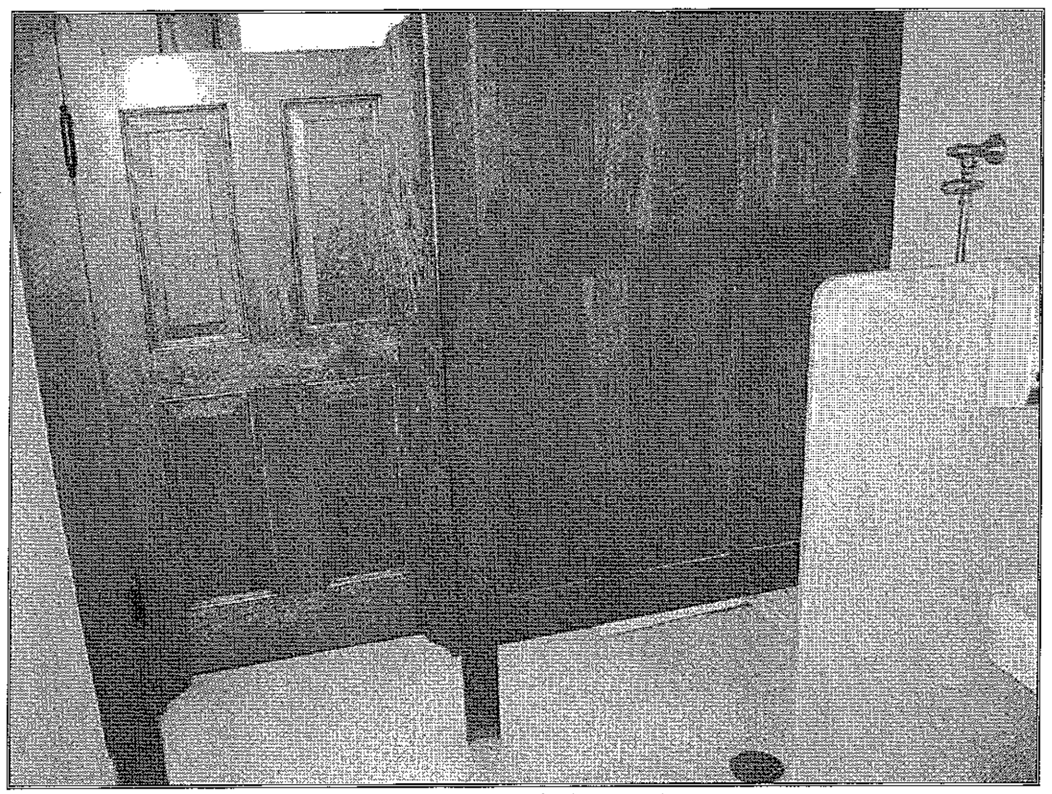


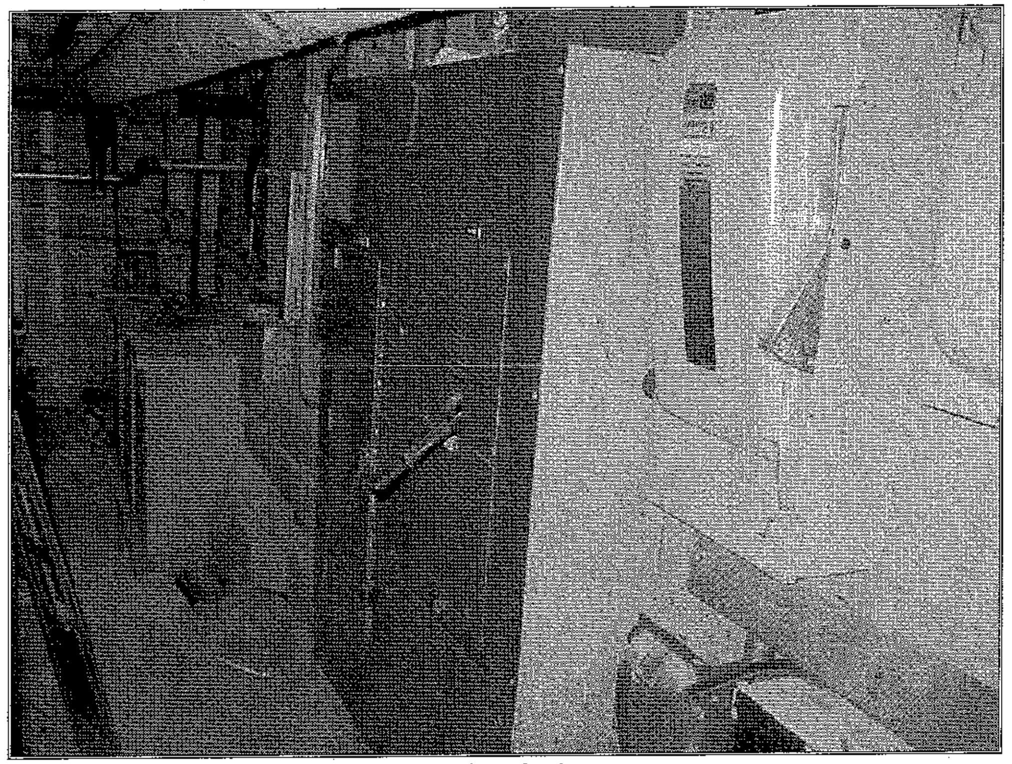
Garden Level – Former Commercial Kitchen



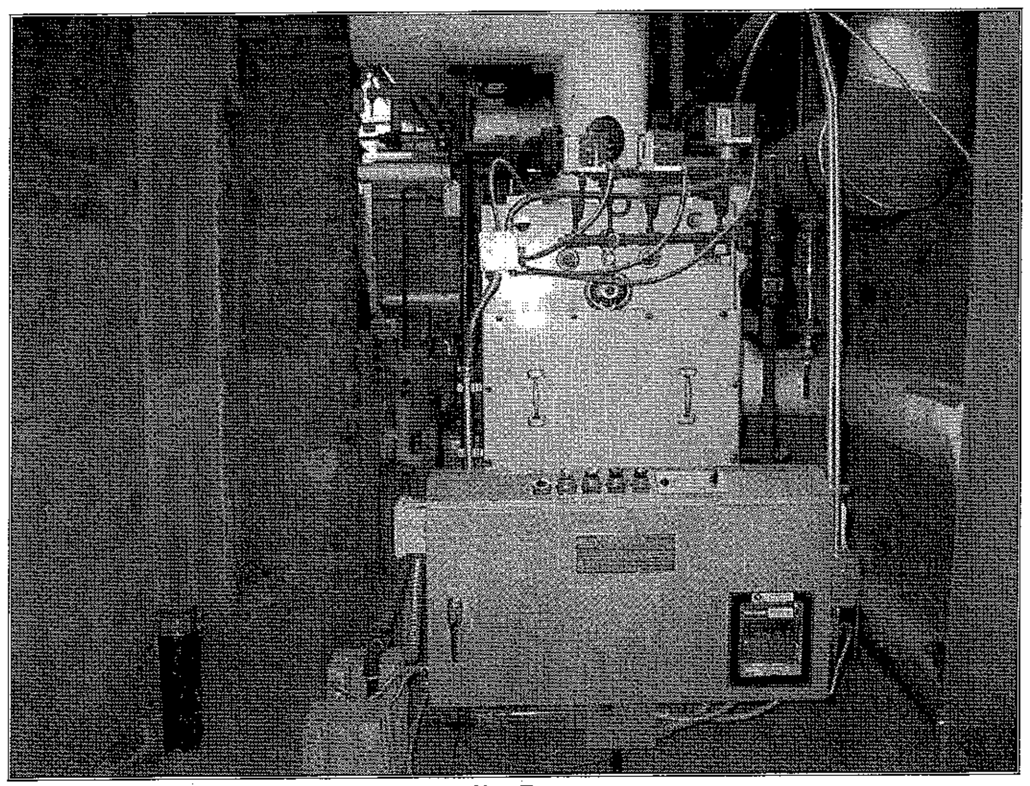
Garden Level – Existing Women's Bathroom


First Floor – Existing Bathroom


Second Floor – Existing Bathroom



Electrical



Boiler Room