

**Appraisal Report  
Of:**

**Office/Warehouse Building  
130 Ste. 170 & 134 W. New Circle Road  
Lexington, Kentucky 40505**

**Date of Appraisal  
December 11, 2023**

**Prepared for:  
MS. Elizabeth Sebren  
Lexington Fayette Urban County Government  
Water Quality  
200 E. Main Street  
Lexington, KY 40507**

**Prepared by:  
E. Clark Toleman, MAI, SRA  
333 West Vine Street, Suite 300  
Lexington, Kentucky 40507**

**E. Clark Toleman, MAI, SRPA**



*Real Estate Appraisal Services*

VINE CENTER 333 W. VINE ST., SUITE 300 • LEXINGTON, KENTUCKY 40507  
TEL. (859) 253-0314 • FAX (859) 253-0653

December 12, 2023

Ms. Elizabeth Sebren, Administrative Specialist Principal  
LFUCG, Water Quality  
200 E. Main Street  
Lexington, KY 40507

*Appraisal Report*  
*Office/ Warehouse Building*  
*130 Ste. 170 & 134 W. NCR*  
*Lexington, Kentucky 40505*

Dear Ms. Sebren

Following your request, I have carried out an investigation of the relevant market data, highest and best use analysis and detailed inspection of this property for the purpose of estimating market value of the property as of appraisal date in fee simple interest. Attached is an Appraisal Report, which contains the market data as well as our analysis, reasoning and judgment, which forms the basis for this market value opinion.

Considering this analysis and conclusions contained herein, an overall value estimate of the Fee Simple Estate as of December 11, 2023 based on the current market conditions for this property is indicated to be:

**Six Million Two Hundred and Seventy-Five Thousand**  
**\$6,275,000**

This Market Value Estimate is subject to the Statement of Limiting Conditions and Assumptions, and the Certification included as part of this report. We are pleased to provide you with our professional appraisal services. If we may be of further assistance, please do not hesitate to call.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be "ECT", followed by a long horizontal line.

**E. Clark Toleman, MAI SRA**

**1. TABLE OF CONTENTS**

**PART I – INTRODUCTION**

1. Table of Contents .....3  
2. Summary of Important Facts and Conclusions.....4  
3. Purpose of the Appraisal .....5  
4. Date of Appraisal .....6  
5. Property Rights Appraised .....6  
6. Identification and Legal Reference of Property .....6  
7. Scope of Appraisal .....6

**PART II – FACTUAL DATA**

8. Area and City Data .....8  
9. Neighborhood Data.....11  
10. History of Property .....11  
11. Property Data .....17

**PART III – ANALYSIS AND CONCLUSIONS**

12. Analysis of Highest and Best Use .....22  
13. The Appraisal Process .....24  
14. Value Estimate by Income Approach .....25  
15. Value Estimate by Sales Comparison Approach .....34  
16. Reconciliation .....43

**PART IV – EXHIBITS AND ADDENDA**

17. Certification of Value .....44  
18. Assumption & Limiting Conditions ..... 45  
19. Qualifications of Appraiser.....47  
20. Subject Deed.....49

## 2. SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

Property Location: 130, Ste. 170 and 134 W. NCR, Lexington KY

Date of Appraisal: December 11, 2023

Property Rights Appraised: Fee Simple

Land Area: 8.43 Acres

Building Area: 67,700SF

Zoning: B-3 Highway Business

Highest and Best Use:

Unimproved: Commercial

As Improved: Office/ Warehouse/ Retail Space

Marketing Period: 3-6 Months

Value Estimate by Sales Comparison Approach \$6,100,000

Value Estimate by Income Approach \$6,450,000

Overall Market Value Estimate \$6,275,000

### 3. PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate Market Value of the subject property as of December 11, 2023.

Market Value is defined as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus, Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are informed or well advised, and each acting in what he considers his own best interest; (3) a reasonable time is allowed for exposure to open markets; (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.

Market Value is therefore the actual real dollar value of the subject property would bring at an appraisal date under “normal” conditions with the seller and buyer acting reasonably. The contemporary concept emphasizes cash value. This is necessary in the investigation of “market” sales to equate any non-typical financing terms to conditions that are typical at an appraisal date. The value assumes exposure in a competitive market for a reasonable time.

From USPAP 2012-2013

#### Market Exposure Time

In accordance with the *Uniform Standards of Professional Appraisal Practice* the reasonable market and exposure time for the subject property is estimated. Marketing period and exposure time is defined by the standards as being:

#### Marketing Period

Given the existing market information from an historic perspective, as well as the anticipated supply line of directly competing product, the appraisers believe that the subject property, **at the concluded value of this appraisal** would require a marketing time of 3-6 months.

## Exposure Time

The estimated length of time that 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.

Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Based on the indicated exposure periods, the value conclusion represents a market price achievable within 3 to 6 months' exposure prior to the effective date.

## Intended Use of the Appraisal

This appraisal is prepared for and on behalf of Lexington Fayette Urban County Government, Water Quality for a possible purchase of the property.

### **4. DATE OF APPRAISAL**

This Appraisal is made as of December 11, 2023 with all economic, statistical and market data correlated to this date. The inspection of the property was made on this date and all physical characteristics are described relative to this date unless otherwise stated within this report.

### **5. PROPERTY RIGHTS APPRAISED**

The subject property has one existing lease which can be terminated by owner with one month notice with the larger area now unoccupied with the property rights appraised for this tract being Fee Simple Interest.

### **6. IDENTIFICATION AND LEGAL REFERENCE**

Subject is known as 130 Suite 170 and 134 W. New Circle Road. This property has a Fayette County PVA parcel number of 13872150 and 38158940. This property is further described in a deed dated March 10, 2017 recorded in deed book 3474 page 350, and in a plat cabinet M slide 535.

### **7. SCOPE OF APPRAISAL**

The "scope" of the appraisal is the process used by the appraiser in collection, confirming and reporting data used in the appraisal of the subject property. The scope of the assignment is

to prepare an appraisal of the identified rights in the proposed subject property as of the effective appraisal date. No extraordinary assumption or hypothetical conditions have been considered.

An extensive search was conducted for sales and rental data in order to process the normally recognized approaches to value and known as the cost, sales comparison, and income approaches to value. In this case only the sales cost approach and income approach were deemed applicable and reliable in valuing the subject property.

Regional, city, and neighborhood data were gathered from studies by the U.S. Census Bureau, information in local libraries, public offices, and various other sources. Information regarding the subject property was gathered from various sources including the Fayette County Property Valuation Administrator's Office, Fayette County Planning Commission, County Clerk's Office, and other municipal offices.

In addition, the appraisal process included interviews with area real estate brokers, developers, property owners and other real estate professionals. The primary focus of the data search related to sales of comparable land sales, and small improved property in the immediate area of subject property.

The research also considered the impact of supply and demand factors in the local commercial land market, development trends, highest and best use analysis, capital market constraints, and location characteristics.

## 8. AREA AND CITY DATA

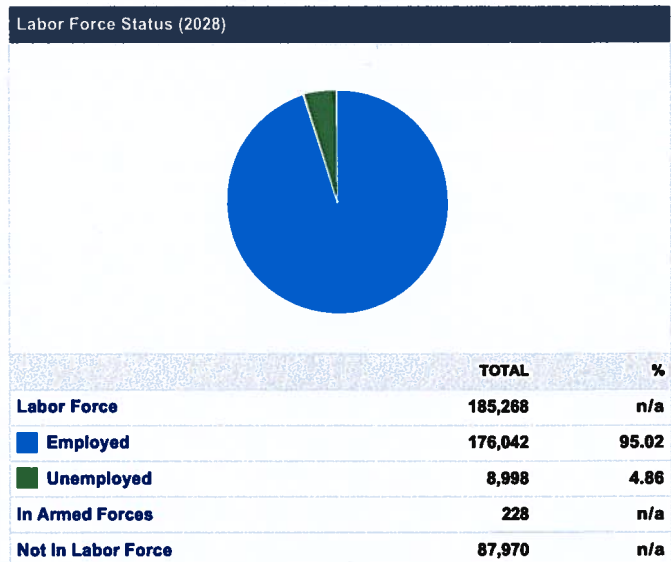
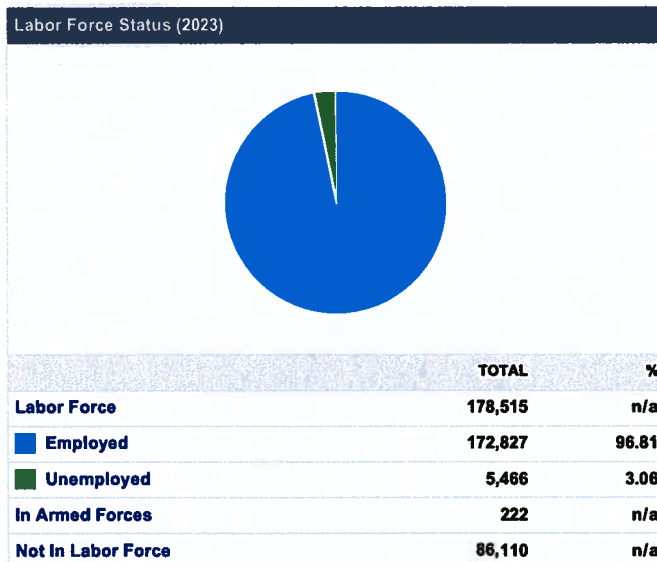
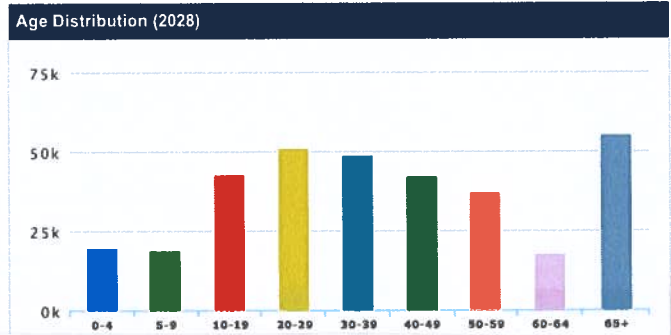
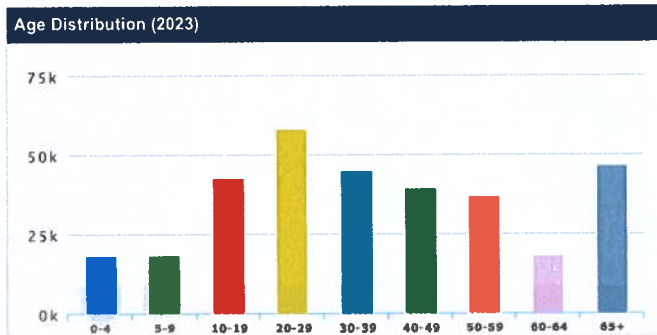
Subject is located in Lexington, Kentucky, Fayette County being the second largest city in Kentucky with a county wide population of approximately 322,000. The six counties surrounding Lexington have a total market area population of approximately 766,833. The following statistical information is provided for the general area of Lexington.

### State of Kentucky-Demographics

Demographics Report (Lexington-Fayette County, Kentucky)

Population (2023)	
<b>TOTAL</b>	<b>324,191</b>

Population (2028)	
<b>TOTAL</b>	<b>334,850</b>



Total Households (2023)		
<b>TOTAL</b>	<b>137,004</b>	<b>n/a</b>
<b>Households</b>	<b>137,004</b>	<b>n/a</b>
<b>Families</b>	<b>76,285</b>	<b>55.68</b>

Total Households (2028)		
<b>TOTAL</b>	<b>140,654</b>	<b>n/a</b>
<b>Households</b>	<b>140,654</b>	<b>n/a</b>
<b>Families</b>	<b>79,775</b>	<b>56.72</b>



## AREA AND CITY DATA (cont'd)

### Office Spaces

Total: 10,491,677 SF

Data provided by Yardi Matrix, properties over 50k SF, includes office with retail

By square footage range:

Range	Total square feet	Share of total
50k to 100k SqFt	3,065,522 SqFt	29.22% of total office
100k to 500k SqFt	4,578,155 SqFt	43.64% of total office
> 1M SFSqFt	2,848,000 SqFt	27.15% of total office

By class:

Class	Total square feet	Share of total
Class A	2,950,398 SqFt	28.12% of total office
Class B	7,026,628 SqFt	66.97% of total office
Class C	134,651 SqFt	1.28% of total office

Class A office space holds a 28.12% share of the overall Lexington, KY office market, while Class B office assets make up approximately 66.97%.

## AREA AND CITY DATA (cont'd)

### Trend Analysis

Overall vacancy rates trended downward year over year between 2021 and 2022. The one exception is Industrial vacancy, which increased to 9.15% for Q4 2022.

	2021 - Q4	2021-Q4	2022-Q4	2022 - Q4
<b>RETAIL</b>				
	Vacancy Rate (%)	Vacant (SF)	Vacancy Rate (%)	Vacant (SF)
<b>Regional Mall</b>	5.39%	87,489	2.00%	31,489
<b>Neighborhood Center</b>	6.41%	392,312	5.73%	312,987
<b>Community and Power Centers</b>	8.60%	275,608	7.07%	214,430
<b>Other (Freestanding)</b>	1.81%	57,838	2.21%	69,836
<b>Total</b>	<b>5.75%</b>	<b>813,247</b>	<b>4.76%</b>	<b>628,742</b>

### OFFICE - CBD

	Vacancy Rate (%)	Vacant (SF)	Vacancy Rate (%)	Vacant (SF)
<b>Class A</b>	12.74%	217,055	9.99%	170,372
<b>Class B</b>	10.41%	190,760	9.69%	176,779
<b>Total</b>	<b>11.53%</b>	<b>407,815</b>	<b>9.84%</b>	<b>347,151</b>

### OFFICE - SUBURBAN

	Vacancy Rate (%)	Vacant (SF)	Vacancy Rate (%)	Vacant (SF)
<b>Class A</b>	13.69%	344,414	11.70%	292,881
<b>Class B</b>	13.02%	797,988	13.99%	854,663
<b>Total</b>	<b>13.22%</b>	<b>1,142,402</b>	<b>13.32%</b>	<b>1,147,544</b>

### INDUSTRIAL

	Vacancy Rate (%)	Vacant (SF)	Vacancy Rate (%)	Vacant (SF)
<b>Bulk Warehouse</b>	1.53%	131,842	1.63%	139,832
<b>Distribution</b>	0.53%	20,243	1.99%	75,918
<b>High Tech &amp; R&amp;D</b>	0.00%	-	11.06%	45,479
<b>Manufacturing</b>	2.18%	65,770	26.35%	794,124
<b>Flex</b>	2.87%	78,383	7.97%	166,358
<b>Total</b>	<b>1.60%</b>	<b>296,238</b>	<b>9.15%</b>	<b>1,221,711</b>

## **9. NEIGHBORHOOD DATA**

Subject is located approximately two miles north of downtown Lexington on the south side of New Circle Road between North Broadway and North Limestone, on the commercial corridor on the northern beltway around Lexington. The development character of this area is formed by intense commercial development on both sides of New Circle Road from Newtown Pike to Richmond Road including retail, auto sales, restaurants, office, motels and shopping centers. The area inside and outside New Circle is composed of residential neighbors. The traffic count on this portion of New Circle Road is approximately 38,800 vehicles per day. The area is fully developed with new development created on redeveloped sites. North Broadway is an access route to an interchange with I-64/I-75. This area was originally developed in the 1960s and one of the earliest commercial areas to develop outside of the downtown area with much redevelopment development over its history.

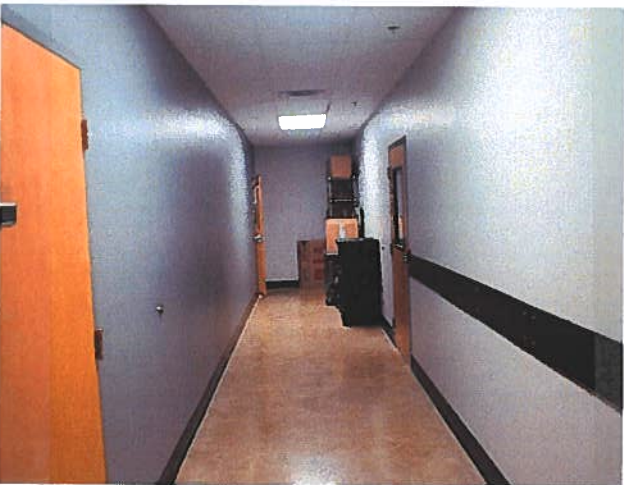
## **10. HISTORY OF SUBJECT PROPERTY**

Subject was developed as a Kmart Center in the 1960s and redeveloped for Kentucky Alltell Inc. in 2005 which became Windstream Kentucky East, LLC, and having a lease that extended to February 2023. This lease included 40,000 square feet of office space and 22,800 sf of warehouse space and 3.10 acres lot. The final rent for this portion of the property was \$656,574 per year. An additional 4,900 square feet of retail showroom space was leased in October 2011 to James K. Sergent and James H. Patterson doing business as Mattress Overstock for a rent of \$5,000 per month in a lease renewal expiring in 2025.. This lease can be ended by landlord with 30 day notice. The subject sold in March 2017 to the William Ziering Trust for \$7,200,000. The property is currently listed for sale by SVN at a price of \$6,950,000.

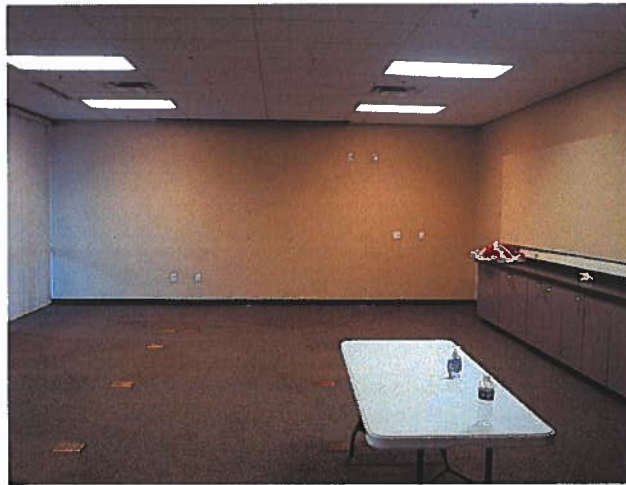
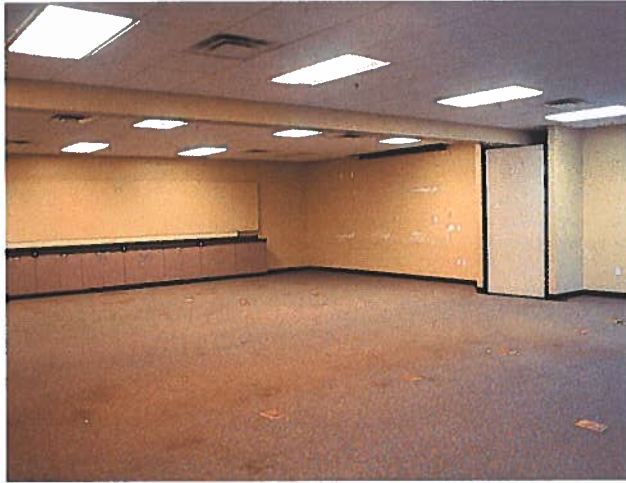
**PHOTOGRAPHS OF SUBJECT PROPERTY**



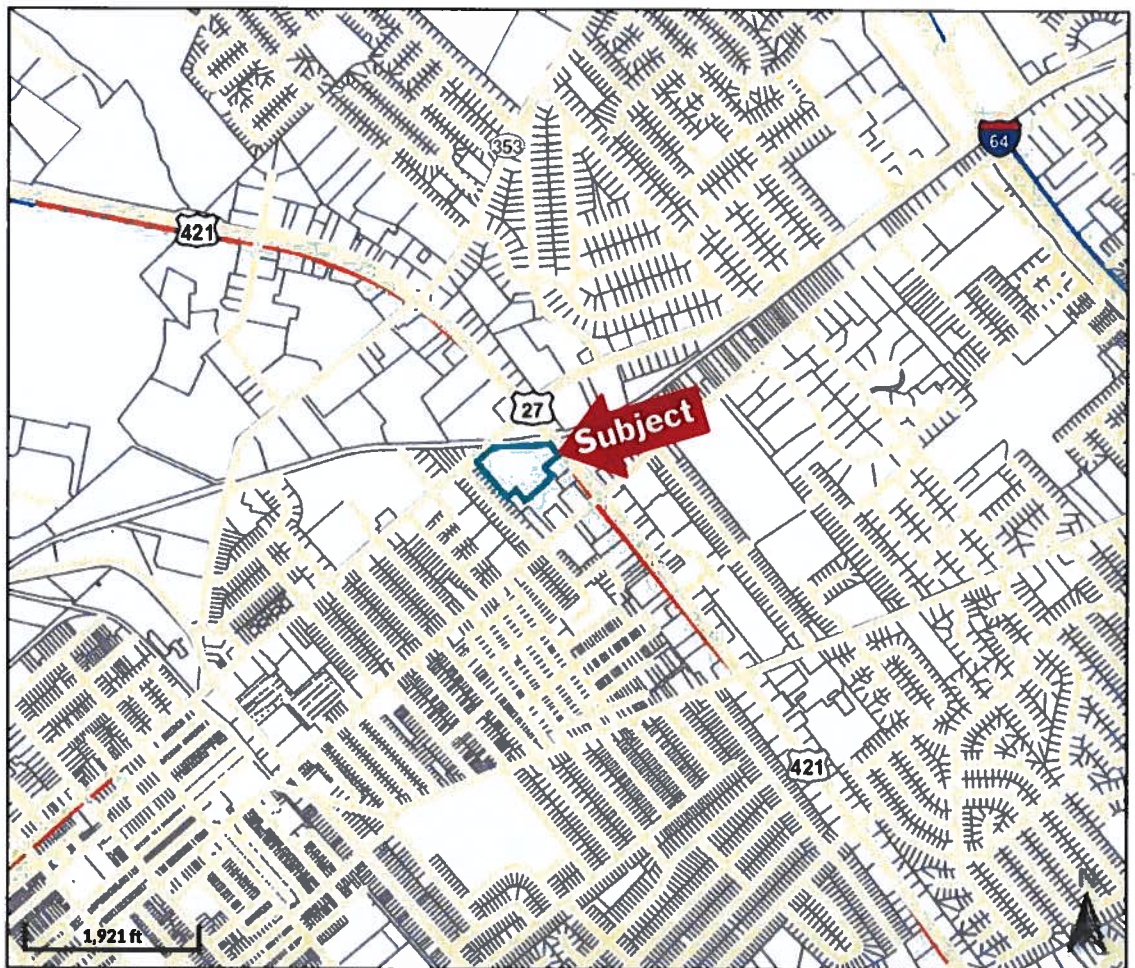
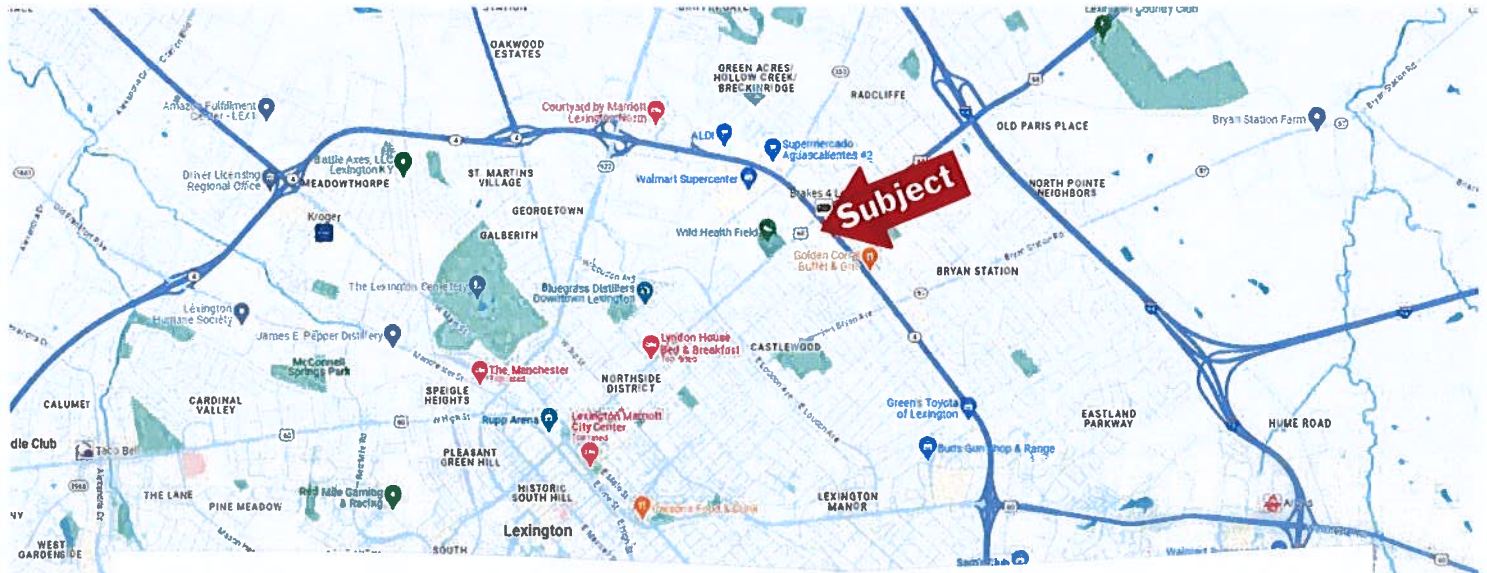
**PHOTOGRAPHS (Continued)**



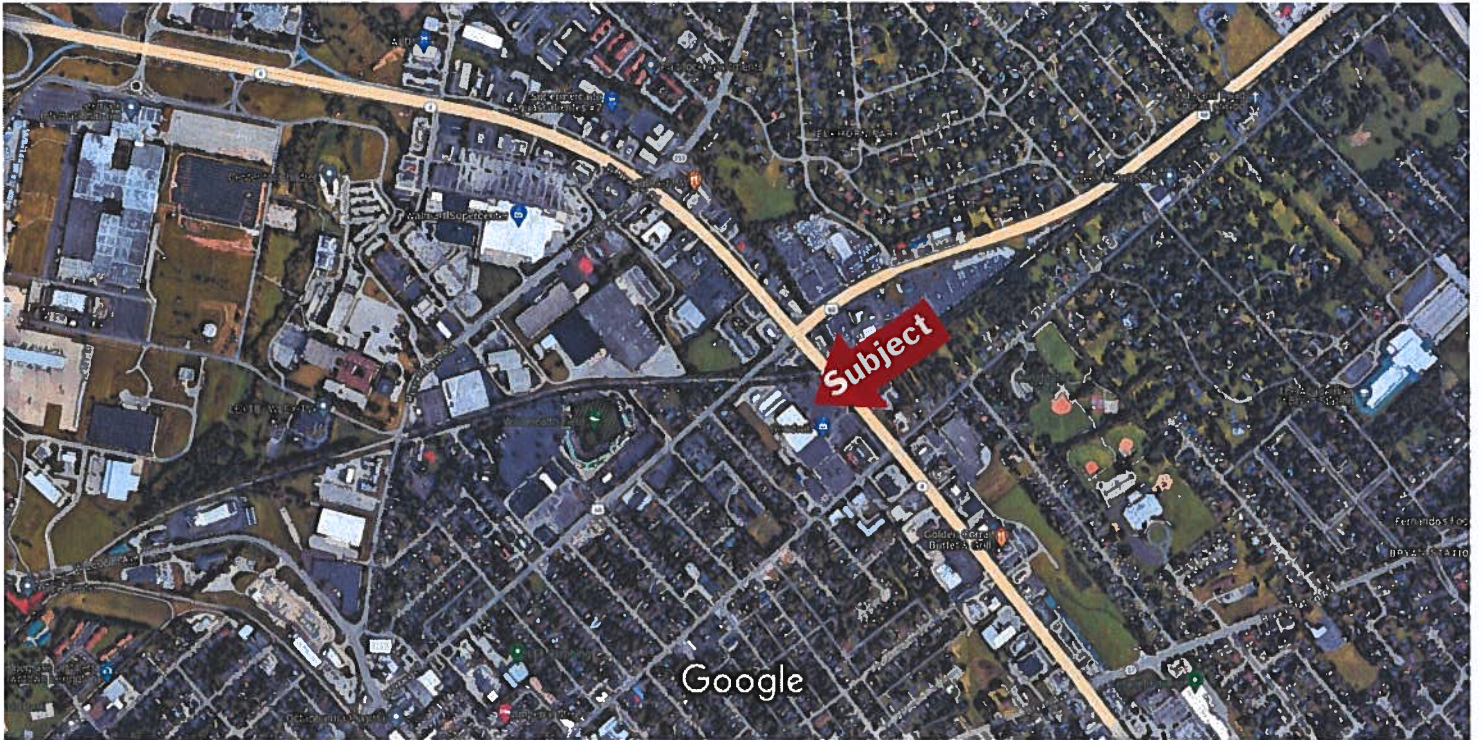
**PHOTOGRAPHS (cont'd)**



# LOCATION MAP



## Neighborhood Aerial Map



Imagery ©2023 Google, Imagery ©2023 CNES / Airbus, Maxar Technologies, U.S. Geological Survey, USDA/FPAC/GEO, Map data ©2023

500 ft

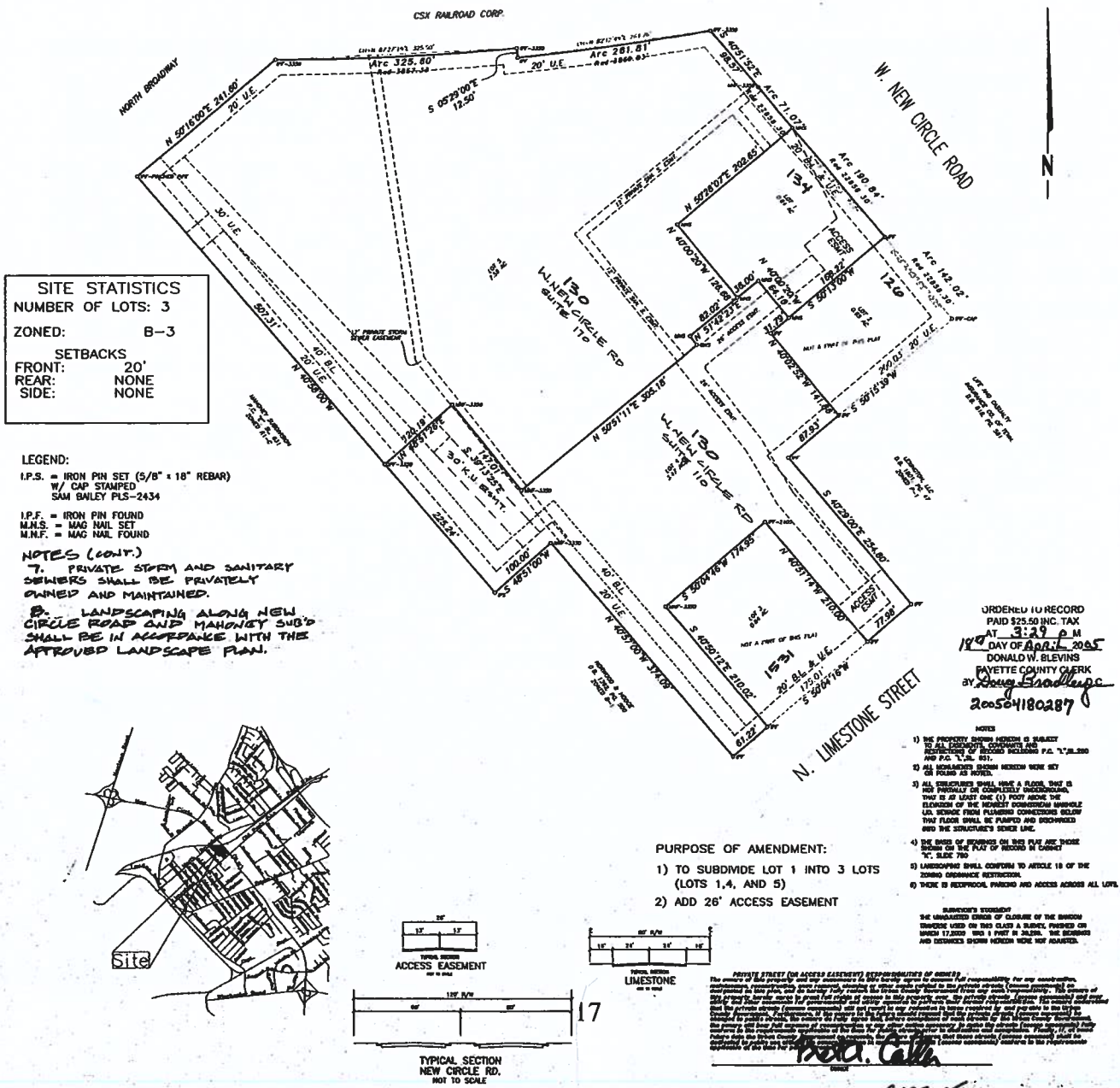


# 11. PROPERTY DATA

## (a) Site Analysis

Subject site is situated on the south side of New Circle Road with approximately 360.48 feet of frontage and depth of 675.61 for a total of 8.43 acres in 130 suite 170 and 134 NCR. The lot has irregular shape with the western boundary following the CSX Railroad right of way 587.41 feet and North Broadway 241.60. Access is by NCR and North Limestone with a 26 wide access easement provided from the east side from 130 suite 170 to North Limestone, and south through lot 134 to the entrance on New Circle Road. The site is level to slightly sloping downward from south to north.

### Property Plat



**SITE STATISTICS**  
 NUMBER OF LOTS: 3  
 ZONED: B-3  
 SETBACKS  
 FRONT: 20'  
 REAR: NONE  
 SIDE: NONE

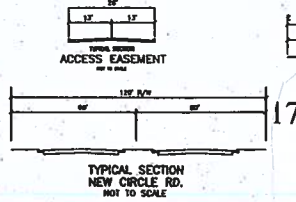
**LEGEND:**  
 I.P.S. = IRON PIN SET (5/8" x 18" REBAR) W/ CAP STAMPED SAM BAILEY PLS-2434  
 I.P.F. = IRON PIN FOUND  
 M.N.S. = MAG NAIL SET  
 M.N.F. = MAG NAIL FOUND

**NOTES (CONT.)**  
 7. PRIVATE SEWER AND SANITARY SHOWERS SHALL BE PRIVATELY OWNED AND MAINTAINED.  
 8. LANDSCAPING ALONG NEW CIRCLE ROAD AND MAHONEY SUB'D SHALL BE IN ACCORDANCE WITH THE APPROVED LANDSCAPE PLAN.

JORDEN L U RECORD PAID \$25.50 INC. TAX  
 AT 3:29 P.M.  
 DAY OF APRIL 2005  
 DONALD W. BLEVINS  
 PAVETTE COUNTY CLERK  
 BY *Donna Shadler*  
 200504180287

- NOTES**
- 1) THE PROPERTY OWNER HEREIN IS HEREBY TO ALL EXISTING CONDITIONS AND RESTRICTIONS OF RECORD INCLUDING P.L. 178,200 AND P.G. 17, 201.
  - 2) ALL UNEXHAUSTED SEWER HEREIN WERE SET TO FLOOR AS NOTED.
  - 3) ALL UNEXHAUSTED SHALL HAVE A FLOOR, THAT IS NOT PRIMARILY OR COMPLETELY UNDERGROUND, THAT IS AT LEAST ONE (1) FOOT ABOVE THE ELEVATION OF THE NEAREST FLOODPLAIN UNLESS UNLESS VENTURE FROM FLOODPLAIN CONDITIONS BELOW THAT FLOOR SHALL BE PUMPED AND DISCHARGED INTO THE STRUCTURE'S SEWER LINE.
  - 4) THE OWNER OF PROPERTY ON THIS PLAN AND THOSE SHOWN ON THE PLAN OF RECORD IN EXHIBIT "C", SLIDE 700.
  - 5) LANDSCAPING SHALL CONFORM TO ARTICLE 18 OF THE ZONING ORDINANCE RESTRICTIONS.
  - 6) THERE IS RECREATIONAL PARKING AND ACCESS ACROSS ALL LOTS.

**PURPOSE OF AMENDMENT:**  
 1) TO SUBDIVIDE LOT 1 INTO 3 LOTS (LOTS 1,4, AND 5)  
 2) ADD 26' ACCESS EASEMENT



**PRIVATE STREET (OR ACCESS EASEMENT) RESPONSIBILITIES OF OWNER'S**  
 The responsibility for the maintenance and repair of any private street or access easement shall be the responsibility of the owner of the property on which the private street or access easement is located. The owner shall be responsible for the maintenance and repair of any private street or access easement that is located on the property. The owner shall be responsible for the maintenance and repair of any private street or access easement that is located on the property. The owner shall be responsible for the maintenance and repair of any private street or access easement that is located on the property.

*Paula Calkins*  
 2005-15

**(b) Building Improvements**

Subject building was built in 1968 as a big box department store with a total area of 67,700 square feet with 40,000 square feet converted to office space in 2005. Approximately 22,800 square feet is warehouse, and 4,200 square feet in retail space. This building is of masonry construction on concrete slab having no basement. The office area contains partitioned as well as open offices with conference, storage, mechanical and employee kitchen with drop ceiling drywall and glass wall partitions. The warehouse space has 16 height space heat and metal halide lighting. The entire area has a sprinkler system, with roof mounted heat and air conditioning system for the office and retail space. Overall quality is average class C and condition is good.

Office Building

Type:	Office/ warehouse/retail Class C, average quality
Age:	55 Years Actual, 15 year effective, 30 year remaining Economic Life
Gross Building Area:	67,700 SF
Method of Construction:	Concrete block/steel frame roof structure
Foundation:	Concrete with Slab
Exterior Walls:	Concrete with glass store front
Roof:	Membrane
Ceiling height:	11 feet, Drop Ceilings office,16 feet warehouse
HVAC:	Heat & Airconditioning Roof mounted office/retail Space in warehouse
Typical Interior Finish –	
Floors:	Concrete, carpet office/retail
Walls:	Drywall in office, concrete block in warehouse
Ceilings:	Acoustic Tile in office and retail, open warehouse
Sprinkler System:	Wet system
Overall Quality:	Average
Overall Condition:	Good
Functional Utility:	Good

**(c) Site Improvements**

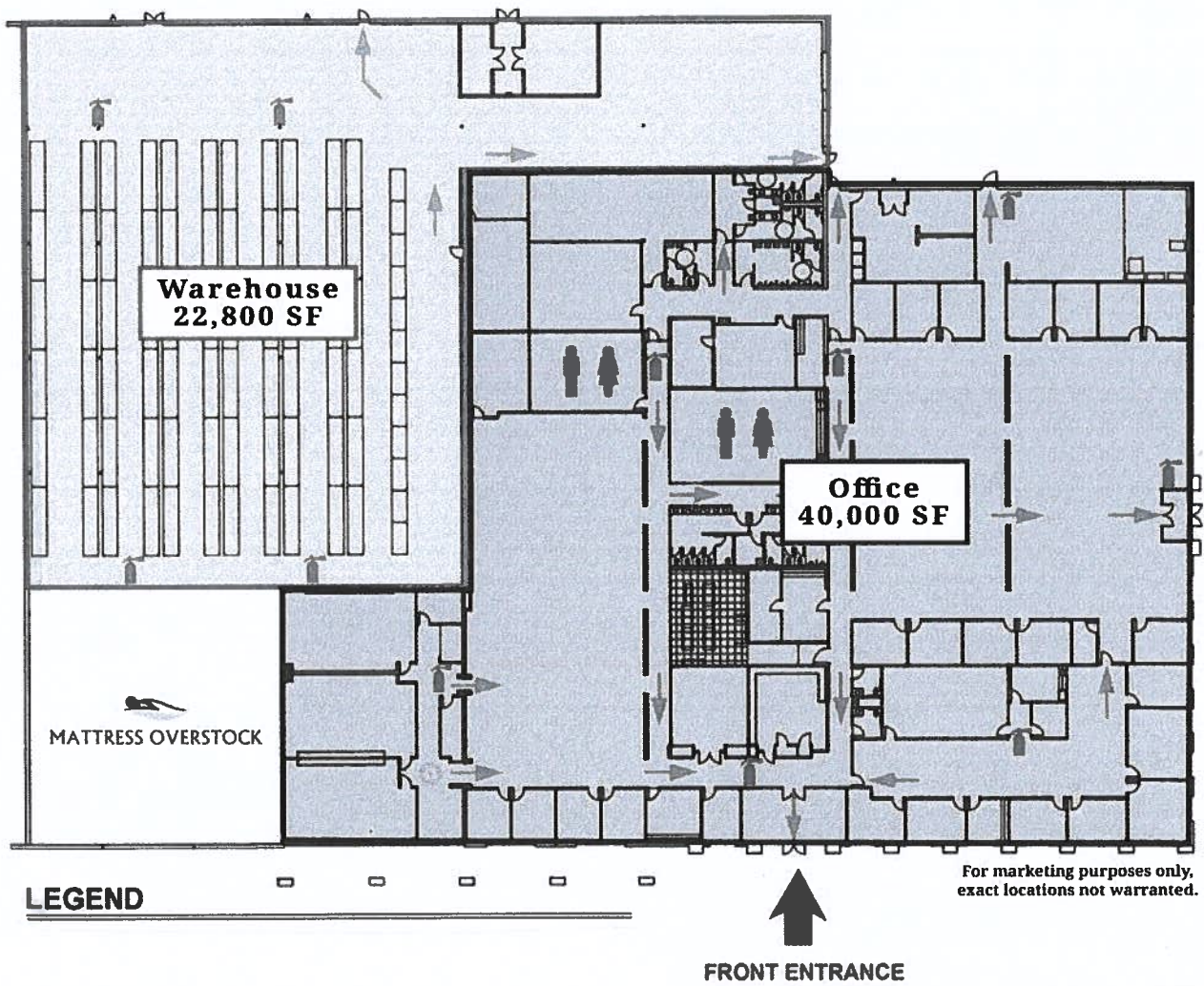
Subject site improvements include asphalt paving for driveways and parking, sidewalks, lot lighting and 78 car canopy that is fenced. All site improvements are in good condition.

**(d) Zoning:** Subject is zoned B-3 for highway business which allows a wide range of commercial development. Subject current use is in compliance with this zone.

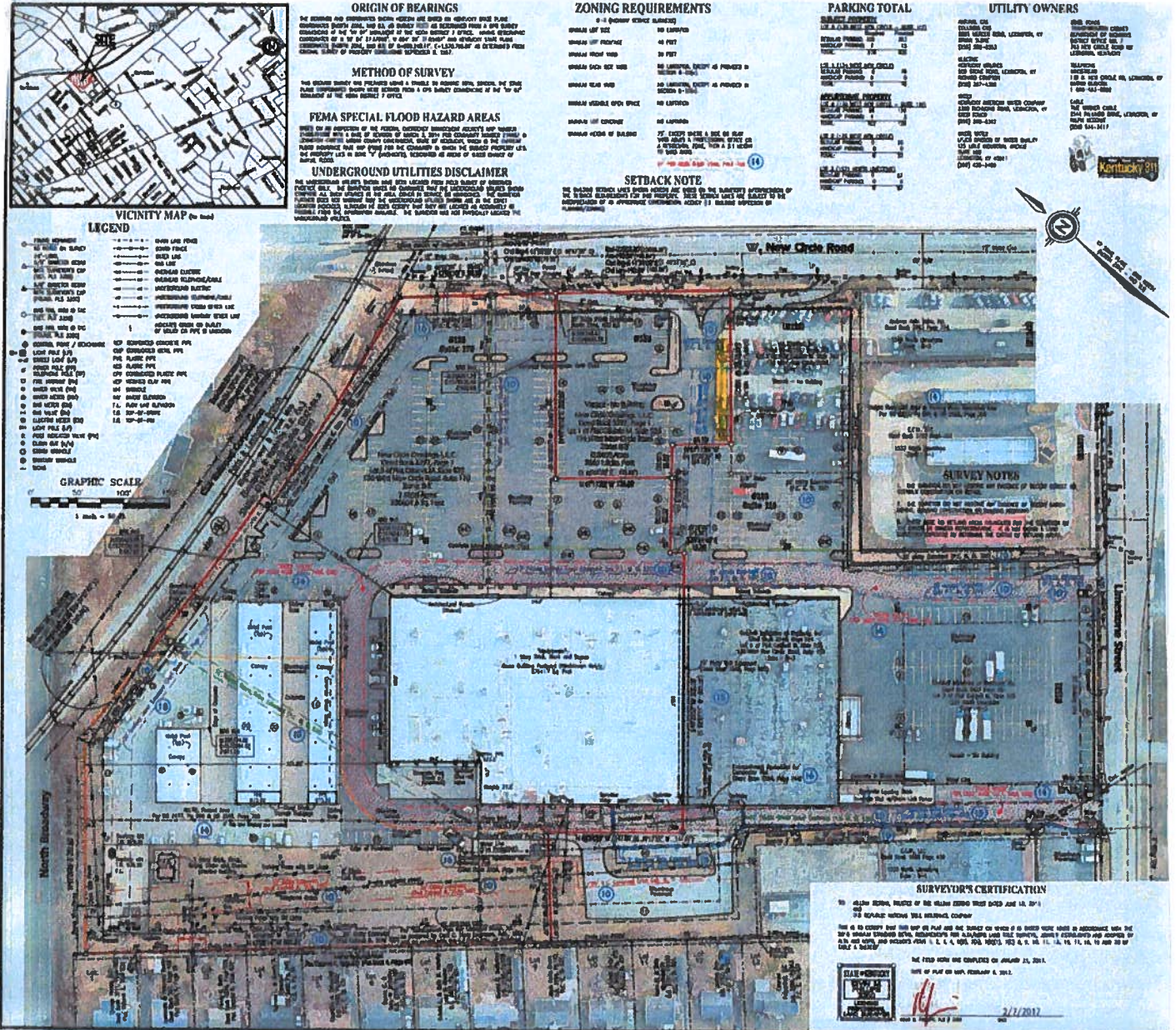
**(e) Tax Assessment:** Subject property is currently assessed in two tracts for property tax with assed value for 130, suite 170 NCR of \$4,200,000, and \$1,100,000 for 134 NCR by the Fayette County PVA.

**(f) Flood Plain:** Subject is outside any existing flood zone.

# Building Floor Plan



# Site Plan



## 12. ANALYSIS OF HIGHEST AND BEST USE

In order to estimate the value of a property, its highest and best use, as though vacant and as improved, must first be determined. For the purpose of this report, the highest and best use is defined as:

1. The reasonable and probably use that supports the highest present value of vacant land or improved property, as defined, as of the date of the appraisal.
2. The reasonably probable and legal use of land or sites as though vacant, found to be physically possible, legally permissible, financially feasible and maximally productive.
3. The most profitable use.

Implied in these definitions is that the determination of highest and best use takes into account the contribution of a specific use to the community and community development goals as well as the benefits of that use to individual property owners. Therefore, in certain situations, the highest and best use of the land may be for parks, greenbelts, preservation, conservation, wildlife habits and the like.

This definition is taken from the Dictionary of Real Estate Appraisal as published by the Appraisal Institute.

### *As Though Vacant*

**Physically Possible** – This is a lot on the south side of New Circle Road, with 360 feet of frontage irregular in shape, slightly sloping with a total area of 8.43 acres  $\pm$ .

**Legally Permissible** – Current zoning is B-3 for highway business commercial uses.

**Financially Feasible** – This property would be most feasible to be developed as commercial including retail, office, strip shopping center.

**Maximally Productive** – Of the legally permissible and financially feasible uses for the site, the most likely would be for high traffic commercial uses.

### *Conclusion*

The subject site contains a total of 8.43 acres with irregular shape, and level to sloping topography. The site has potential for a variety of uses related to highway business uses including retail, strip shopping center, big box department store, motel, call center, automobile sales, and restaurant.

***As Developed***

Subject property is an office building, with warehouse and retail area that was converted from a prior big box department store in 2005. The building is in very good condition and has continued utility as an office building, and is considered to develop the lot as the highest and best use.

### **13. THE APPRAISAL PROCESS**

The basis of the appraisal process is the collection, analysis, and application of market data relative to the subject property. Market data is applied to this property by the Sales Comparison Approach.

The cost approach is a summation of all components that the property encompasses. The property is broken down into its primary components with the unimproved land value estimated the comparison of the subject to similar land sales. The improvements are then valued by estimating the cost new and then deducting the accrued depreciation. The contributory value of all improvements is then added to the land value for an overall value estimate. The cost approach is most representative of market value when the improvements are relatively new, in good condition, and develop the land to its highest and best use.

The sale comparison approach to value is a direct comparison of subject property to comparable sales. The comparison can be made on basis of various units of value such as: per unit, per square foot, acre, etc. Adjustments can be made for differences that may exist between subject and sale properties, but when highly comparable sales data is available adjustment are minimal. The validity of the sales comparison approach is dependent on available comparable data since it is a direct market comparison, and is highly reliable when similar property sales are available.

The income approach values property based on its utility to generate a net operating income. The property and market are analyzed so that income and expenses may be estimated. The market also indicates the relationship between net income and value with comparable sales analyzed for an indication of capitalization rates. A capitalization rate can also be estimated by indirect methods based on market expectation of return, mortgage rates and trends of appreciation and depreciation. This approach is the indicator for income producing, investment properties.

The reliability of the Income Approach is also dependent on the quality of market data, and this approach essential for investment type properties.

The conclusion of the appraisal process is the analysis of each of the approaches as it relates to the subject property and the appraisal problem. The correlation process considers the range of value indicated by the approaches as well as the individual market estimates with a final value estimate indicated.

The final value estimate is therefore based on the market information that has been analyzed with the final market value being representative and a function of the market process.

Subject is developed as an office building with rental potential and improvements that contribute to the highest and best use of the land with the Sales Comparison and Income Approaches considered the most applicable approaches to value.



## 14. VALUE ESTIMATE BY THE INCOME APPROACH

The Income Capitalization Approach is defined as an “approach through which an appraiser derive a value indication for income producing property by converting anticipated benefits, i.e. cash flows and reversions, into property value.” (The dictionary of Real Estate Appraisal, 5<sup>th</sup> edition. Page 99). In the case of the subject property, the analysis is based on a Direct Capitalization technique and a Discounted Cash Flow model.

### Direct Capitalization

Direct Capitalization is defined as: “A method used to convert an estimate of a single year’s income expectancy, or an annual average of several years’ income expectancies, into an indication of value in one direct step, either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate factor.”

### Discounted Cash Flow Analysis

Discounted Cash Flow Analysis is defined as: “A set of procedures in which the quantity, variability, timing and duration of periodic income, as well as the quantity and timing of reversions and are specified and discounted to a present yield rate.”

### Steps Involved in Developing the Income Approach:

1. Estimate Potential Gross Income (PGI). This is accomplished by an examination of the current leases as well as comparable market rentals in competing market area.
2. Estimate an allowance for vacancy and collection loss. In direct capitalization, the vacancy and collection loss should reflect either the stabilized occupancy for the subject market with short term leases, or in properties with minimal of low-risk tenants with long term leases, a vacancy and collection loss factor may not be applicable. In the DCF analysis, the vacancy and collection and collection loss must be estimated for each year of the holding period. This is accomplished by analyzing existing leases, their expiration, potential tenant turnover and estimated absorption throughout the holding period.
3. Calculate the Effective Gross Income (EGI) by deducting the estimated vacancy a collection loss and adding to this any additional income from sources other than rental income. Additional sources of income include laundry, vending, parking and/or tenant reimbursements for expenses.
4. Estimate the expenses or industry standards.
5. Calculate Net Operating Income (NOI) for the property by deducting the total estimate expenses.
6. Capitalize the estimated NOI by the selected Capitalization Rate in Direct Capitalization, or discount the estimated cash flows to present value and add the estimated value at reversion to result in a value indication by the Discounted Cash Flow Analysis.

## INCOME ANALYSIS

Subject property consists of 40,000 square feet of office space, 22,800 sf of warehouse and 4,900 sf of retail area, with a total of 67,700 sf. The building is office space containing 33,253 square feet and has potential to be leased for potential rental income

Comparable office and warehouse space will be surveyed within the Lexington suburban market and considered as an indicator of gross rent potential.

### OFFICE SPACE- WAREHOUSE SPACE

Location	Building Size	Built	Asking Rent
2375 Professional Ht. H.	12,329 SF	1973	\$12.00 PSF Net
2401-2409 Regency Rd.	25,000 SF	1976	\$13.50 PSF
2417 Regenct Rd.	9,880 SF	1983	\$12.00 PS
161 Prosperous Pl.	10,260 SF	1994	\$12.00 PSF
1591 Winchester Rd.	3,643 SF	2003	\$14.25 PSF
1101 Winchester Rd.	12,428 SF	1972	\$12.00 PSF

### WAREHOUSE SPACE

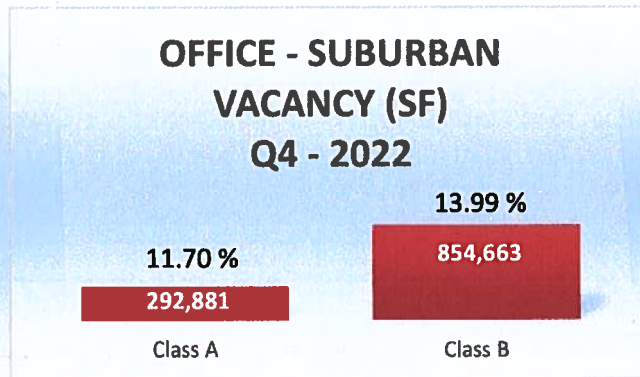
<u>133 Trade Street</u>	<u>17,875</u>	<u>1978</u>	<u>\$8.50</u>
<u>251 Price Road</u>	<u>24,500</u>	<u>1950</u>	<u>\$8.00</u>
182 Turner Commons	38,200	1950	\$7.50
1209 E. New Circle Rd.	37,400	1976	\$6.00
<b>1300 E. New Circle Rd.</b>	<b>33,504</b>	<b>1984</b>	<b>\$11.00/Flex</b>

**Summary: These rental rates are representative for office and warehouse space in the subject market with a range for office space from \$12.00 to \$14.25 per square foot net to the lessor for space from 3,643 to 25,000 square feet. Warehouse rentals range from \$6.00 to \$8.50 for warehouse and \$11.00 for flex space which includes a portion of office area. The terms generally include a 3 to 5 year lease. The most recent lease on subject office and warehouse space was \$12.50 psf for office area and \$5.50psf for the warehouse portion including 3.1 acres of land, with tenant paying landlord 10% of operating expenses. The**

retail space is currently leased for \$12.24 psf with landlord paying property insurance and property taxes plus all other operating expenses.

Considering subjects location, age, size, quality, and condition a potential gross rental rate for the office space is indicated to be \$12 per square foot, with warehouse rate indicated to be \$8.00 and the retail \$14.00.

### Vacancy Rate Analysis



OFFICE CBD	# BUILDINGS	GLA (SF)	OCCUPIED (SF)	OCCUPANCY RATE	VACANT (SF)	VACANCY RATE
Class A	9	1,705,511	1,535,139	90.01%	170,372	9.99%
Class B	42	1,824,130	1,647,351	90.31%	176,779	9.69%
<b>TOTAL</b>	<b>51</b>	<b>3,529,641</b>	<b>3,182,490</b>	<b>90.16%</b>	<b>347,151</b>	<b>9.84%</b>

OFFICE SUBURBAN	# BUILDINGS	GLA (SF)	OCCUPIED (SF)	OCCUPANCY RATE	VACANT (SF)	VACANCY RATE
Class A	53	2,502,936	2,210,055	88.30%	292,881	11.70%
Class B	187	6,110,699	5,256,036	86.01%	854,663	13.99%
<b>TOTAL</b>	<b>240</b>	<b>8,613,635</b>	<b>7,466,091</b>	<b>86.68%</b>	<b>1,147,544</b>	<b>13.32%</b>

## INCOME VALUATION WORKSHEET

The following is a stabilized analysis of income and experiences based on the potential rent and expenses.

**Income Breakdown – Office : 40,000 SF @ \$12.00 PSF Retail: 4,900 SF@ \$14.00 PSF  
Warehouse:22,800 SF @ \$8.00 PSF**

	<u>Annual Income</u>
Potential Gross Income	\$731,000
Vacancy and Collection Loss @ 10%:	(\$73,100)
Effective Gross Income (EGI)	\$657,900
Total Income	\$657,900
 <b>Expense Breakdown</b>	
Property Taxes	\$75,858
Property & Liability Insurance Premium	\$25,000
Maintenance Repairs	\$15,000
Replacement Reserve (\$.10 PRSF)	\$6,770
Management Fee (3% of Net Rents)	\$19,737
Utilities	Tenant
Total Operating Expenses	<u>\$142,365 (22%) (2.10 PSF)</u>
<b>Net Operating Income (NOI)</b>	<b>\$515,535</b>

## Expense Analysis

### **Vacancy and Collection Loss**

The surveys, which have been completed, have indicated that most investors in this type of property are forecasting long-term vacancy and credit loss of between 5% and 20% depending upon the credit quality of the typical tenant. Based on rental rates at market level, it is assumed that the property would attain stabilized occupancy levels. A survey of the local market indicates higher vacancy in lower quality buildings while the better-quality buildings and locations operating at greater than 75% with a majority at 85%+. Based on the overall quality and appeal of the subject and giving consideration to its size and location and the long-term lease with initial term of 5 years a vacancy at of 10% is applied.

Management and Leasing Lease type, tenant type and occupant quantity all affect management expense. When ownership is expected to occupy all or most of the property, both management and leasing fees could be nil. If leases are negotiated on a net basis, where tenants are responsible for payment of most or all expenses, then managerial tasks are minor and management expenses decreases. However, the opposite is true for gross leases.

Professional management services can usually be hired for 3% to 7% of effective gross income depending on the level of service provided. All management fees are included in administrative costs. When the same company provides management and leasing services, discounts are customary. If long-term leases with very creditworthy tenants were already written, expected leasing fees might be none. In this case, the subject is considered an owner-amenity type property. Leases burdening the remainder are expected to be negotiated on an absolute net basis. Accordingly, management fees for the subject building are estimated at 3.0%.

Repairs and Maintenance Maintenance is a planned, scheduled task like those required by an elevator. A repair is a sporadic item that needs attention now like an inoperative heating plant in the mid of winter. These expenses are the tenant's responsibility.

Reserves for Replacements In concept, funds are deducted from income and deposited into a safe, interest-bearing account so monies will be reserved for future component replacement. Reserves are controversial because few owners actually set the funds aside. Moreover, the IRS only recognizes expenses in the year expended, not the year when funds are deposited into a reserve account. Whether funds are, or are not, deducted should not impact value. If funds are not deducted, then risk climbs because there is greater chance ownership will not have the money when needed. In compensation of increased risk, an appropriate overall cap rate should be higher. The risk for reserves was considered when developing the overall cap rate. Many of the expenses for replacement of items with a short economic life are passed along to the tenant; this is typical for our market and this type of property. Reserves of 0.10 psf annually is appropriate for this type of property for items to be replaced by the owner of the property and not the responsibility of tenants.

Tenant Improvements Tenant improvements are customary for larger, investment-grade real estate like similar to subject property. They are non-reoccurring expenditures made to adopt or

modify a space to suit the needs of an occupant at the onset of new lease or lease renewal. These type expenses are to be reimbursed by tenant.

## **Income Approach**

### *Capitalization*

In the appraisal profession, capitalization is the process of converting income into value. One method extracts a capitalization rate (also called a cap rate) from sales of similar property via the following formula. An extracted rate is then divided into the subject's net operating income (NOI) resulting in a value indication for the real estate being appraised.

$$\text{Net Operating Income} / \text{Sale Price} = \text{Cap Rate}$$

Implicit within a cap rate are all investor expectations about risk, return and change. This methodology is simple to use, easy to explain and directly reflects market behavior. Its simplicity is also a weakness because implicit expectations may not be scrutinized.

### Mortgage-Equity Technique

Real estate is customarily acquired with both debt and equity capital. The mortgage-equity technique recognizes this and constructs an overall capitalization rate (Ro). An overall cap rate can be calculated as a weighted average composed of the mortgage ratio (M), blended with the cost of the debt capital (Rm), plus the equity ratio (E) tempered by the return or rate necessary to attract equity capital (Re).

The equity cap rate (Re), shown below, is just a first year cash-on-cash return. Four other major ownership benefits – rental growth, equity growth due to loan repayment, income tax benefits and value growth all escalate total return. When these other factors are explicitly recognized, total return to equity over the entire ownership period, called equity yield (Ye), is usually much higher than the initial or going-in overall cap rate (Ro).

Mortgage interest rates vary by property type and lender risk perceptions. Loan terms shown below are reasonably representative of market norms for borrowers with good credit. Borrowers with tarnished credit histories can expect to pay higher rates with lower loan to value ratios. However, a property's market value is not influenced by the tainted credit history of its current or prospective owner.

Debt capital is now available for real estate like the subject at a fixed interest rate and level monthly payments for an initial multi-year period. Throughout the level payment period, the interest rate is expected to remain stable. Thereafter, the interest rate and payment are both expected to adjust annually. Different buyers have different purchasing criteria, so a range of reasonable equity returns and an approximate midpoint are illustrated. Current loan terms and first year demands on equity are shown below.

<b>Debt</b>		<b>Equity</b>	
Mortgage Ratio (M)	75%	Equity Ratio (E)	25%
Interest Rate	5%	Reasonable First Year	
Initial Fixed Rate Period (Yrs)	5 to 7	Equity Return (Re) Range	9% to 11%
Amortization Period (Yrs)	25	First Year Equity Return	
Loan Constant (Rm)	7.015%	(Re), Say	10%

Using the above information, the following mortgage-equity  
Technique constructs an overall cap rate (Ro).

$$\begin{array}{l}
 (M) \quad x \quad (Rm) \quad = \quad (M) (Rm) \quad \Rightarrow \quad 75\% \quad x \quad 7.015\% \quad = \quad 5.26\% \\
 (E) \quad x \quad (Re) \quad = \quad \underline{(E) (Re)} \quad \Rightarrow \quad 25\% \quad x \quad 10.00\% \quad = \quad \underline{2.50\%} \\
 \\
 \text{Summation} \quad = \quad Ro \quad \Rightarrow \quad \quad \quad Ro \quad = \quad 7.76\% \\
 \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \text{Say} \quad Ro \quad = \quad 7.8\%
 \end{array}$$

Capitalization rates for professional-office class of real estate has a range of 6% to 9.5% depending on the condition/age and quality of the tenant, plus the supply and demand of the local market. The following is a survey of existing cap rates for this region.

## Survey of Capitalization Rates

### PwC Investor Survey, Q2 2023

	Regional Mall		CBD Office		Warehouse		Apartment	
	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023
<b>Discount Rate<sup>a</sup></b>								
Range (%)	6.00 – 13.00	6.00 – 13.00	6.00 – 9.00	6.00 – 9.00	5.25 – 8.00	5.25 – 7.50	5.75 – 8.00	5.50 – 9.00
Average (%)	7.90	7.85	7.23	7.05	6.48	6.36	6.63	6.71
Change (bps)		+5		+18		+12		-9
<b>Overall Cap Rate (OAR)<sup>a</sup></b>								
Range (%)	5.00 – 12.50	5.00 – 12.50	4.25 – 7.50	4.25 – 7.50	3.00 – 7.00	3.00 – 7.00	3.75 – 8.00	3.50 – 8.00
Average (%)	7.28	7.28	5.88	5.78	4.96	4.82	5.25	5.01
Change (bps)		0		+10		+14		+24
<b>Residual Cap Rate</b>								
Range (%)	5.00 – 12.50	5.00 – 12.50	5.00 – 8.50	5.00 – 8.50	4.00 – 6.50	4.00 – 6.50	4.00 – 8.00	4.00 – 8.00
Average (%)	7.43	7.40	6.33	6.30	5.31	5.18	5.58	5.38
Change (bps)		+3		+3		+13		+20

<sup>a</sup>Rate on unleveraged, all-cash transactions. *Definitions:* bps — basis points. Discount Rate — a rate of return on capital used to convert future payments or receipts into present value; assumes an all-cash transaction, based on annual year-end compounding. Overall Cap Rate (OAR) — initial rate of return in an all-cash transaction. Residual Cap Rate — an overall capitalization rate used to estimate the resale price of a property; usually applied to the anticipated stabilized income for the year beyond the holding period; also called terminal capitalization rate. Survey involves institutional-grade properties. *Source:* PwC's Investor Survey; personal survey conducted by PwC during June 2023. For subscription information, please visit <https://investorsurvey.pwc.com/>.

### Market rates and bond yields

	Jun 2023	Dec 2022	Jun 2022	Dec 2021	Jun 2021	Jun 2020
Reserve bank discount rate	5.25	4.00	0.25	0.25	0.25	0.25
Prime rate (monthly average)	8.25	7.00	4.38	3.25	3.25	3.35
Federal funds rate	5.08	3.83	1.38	0.08	0.08	0.08
3-month Treasury bills	5.17	4.22	1.49	0.06	0.05	0.16
6-month Treasury bills	5.24	4.49	2.11	0.15	0.06	0.17
U.S. 5-year bond	4.13	3.68	3.19	1.23	0.87	0.32
U.S. 10-year bond	3.81	3.53	3.14	1.47	1.45	0.68
U.S. 30-year bond	3.85	3.64	3.25	1.85	2.06	1.43
Municipal tax exempts (Aaa)*	—	—	—	—	—	2.01
Municipal tax exempts (A)*	—	—	—	—	—	2.50
Corporate bonds (Aaa)*	—	—	—	—	—	2.44
Corporate bonds (A)*	—	—	—	—	—	3.02
Corporate bonds (Baa)*	—	—	—	—	—	3.64

\*Source: Moody's Bond Record.



## Income Approach

### *Value Indication*

In review, risk associated with physical attributes is normal due to proper maintenance of the building. The current rental rates for subject with potential for increasing income. For the most part, supply and demand show absorption of the supply of suburban office properties with Moderate demand. Overall, risk is deemed moderate, although the subject location is in a rural area off interstate direct access and is on a land lease which terminates in 75 years. There are also occupancy restrictions imposed by the Kentucky Horse Park regulations, which is considered to decrease potential tenants and increase risk. Considering these unique factors an increase of the capitalization by one and a half points is considered representative for these conditions.

All issues necessary to produce a value indication via this approach have been presented and explained. After careful consideration of all factors pertaining to and influencing the income approach, the following formula capitalizes or converts net income into value.

$$\frac{\text{NOI}}{\text{Ro}} = \text{Value} = \frac{\$515,535}{8\%} = \$6,444,187$$

*Indicated Market Value  
By Income Approach, (rounded)*

\$6,450,000

## **15. VALUE ESTIMATE BY SALES COMPARISON APPROACH**

The Sales Comparison Approach to value compares the subject to similar properties that have sold or are under contract in the same or similar market. This approach is based on the principle of substitution, which states that no commodity has a value greater than a similar commodity offering similar uses, similar utility and similar function that can be purchased within a reasonable time frame. In other words, the market value of a property is set by the price of acquiring a substitute property, which could provide the owner with similar utility. The principle of substitution also is crucial in reconciling all three approaches to value, as it provides linkage in the underlying determination of the subject's market value.

### **Units of Comparison**

Using a common unit of comparison is an effective device to adjust for differences in physical characteristics while controlling for scale or some other factor. This control allows the appraisers to determine the impact of differences in attributes between the subject and comparable sale properties.

As for the subject, the appraisers discussed recent market transactions with area brokers, as well as evaluating the physical attributes of the subject's user type. In both instances, the predominant unit of comparison was sale price per acre. The following analysis will use this unit.

### **Elements of Comparison**

There are eight major comparison categories that must be considered in the direct sales comparison approach. These include the following:

#### Date of Sale

Property Rights Conveyed

Financing

Conditions of Sale

Expenditures Made After Sale

Market Trends

Location of sale Property

Physical Attributes

Economic Attributes

Each of these categories will be addressed in the subsequent analysis, as it relates to the subject.

The following comparable sales are considered as a basis for comparison to subject property for an indication of unit price for subject.

Building Comparable No. 1  
 Address: 2376 Sir Barton Way  
 Lexington, KY 40509

Photograph



Land Size:	3.186 AC	Building:	Suburban office building
Number Primary Buildings:	One	Age:	18 years
Number Total Suites:	Multiple	# Stories:	Two
Total Size Building	29,240 SF	Const. Quality:	Average/Steel/Metal
Building Composition/Use:	Office Building	Zoning:	P-1
General Description:	Two Story	Land/Building Ratio:	4.7 to 1
Site Improvements:	Paving	Grantor:	Corolla Management Corp
Accessory Buildings:	None	Grantee:	Quality Logistics LLC
Occupancy:	Professional Office	Recorded:	Deed Book 3776 Page 634
Personal Property in Sale:	None		
Atypical Features:	None		
Overall Physical Condition:	Good		
Sale Price & Date:	\$3,100,000 08/19/2020	Sale Price per SF	\$106.02 psf

Comments: This is a two-story free standing class B office building that was built in 2005 in the Hamburg neighborhood. This building is of tilt-up construction with floor area of 14,620 square feet and is well locate near the Winchester Road / I-75 interchange.

Building Comparable No. 2  
 Address: 800 Corporate Drive  
 Lexington, KY 40503

Photograph



Land Size:	2.49 AC	Building	
Number Primary Buildings:	One	Design:	Steel Frame/Brick
Number Total Suites:	Multiple	Age:	43 Years
Total Size Building	26,098 SF	# Stories:	Two
Building Composition/Use:	Office Building	Const. Quality:	Average
General Description:	Class B Office	Zoning:	P-1
Site Improvements:	Paving	Land/Building Ratio:	4.16 to 1
Accessory Buildings:	None	Grantor:	Bright Ideas LLC
Occupancy:	Office	Grantee:	CNL Property Group LLC
Personal Property in Sale:	None	Recorded:	Deed Book 3950 Page 511
Atypical Features:	None	Sale Price per SF:	\$82.38 psf
Overall Physical Condition:	Recently Renovated		
Sale Price & Date:	\$2,150,000 06/28/22		

Comments: This sale property is a two-story office building of class B steel frame and brick construction built in 1980 with 26,098 sf of finished office space. This building was recently renovated and in good condition with 13,624 sf on each floor. Sale is located in Corporate Center at the intersection of Harrodsburg Road and New Circle Road.

**Building Comparable  
Address:**

**No. 3  
4071 Tates Creek Road  
Lexington, KY 40517**

**Photograph**



<b>Land Size:</b>	2.19 ac	<b>Building</b>
<b>Number Primary Buildings:</b>	One	<b>Design:</b> Steel/Curtin-wall
<b>Number Total Suites:</b>	Three	<b>Age:</b> 34 years
<b>Total Size Building:</b>	32,124 SF	<b># Stories:</b> Three
<b>Building Composition/Use:</b>	Office Class C	<b>Const. quality:</b> Average
<b>General Description:</b>	Office Building	<b>Zoning:</b> P-1
<b>Site Improvements:</b>	Paving	<b>Land/building ratio:</b> 2.97 to 1
<b>Accessory Buildings:</b>	None	<b>Grantor:</b> Tates Creek Office Cte.
<b>Occupancy:</b>	Professional Office	<b>Grantee:</b> Ridgefield Investments
<b>Personal Property in Sale:</b>	None	<b>Recorded:</b> Deed Book 3976 Page729
<b>Atypical Features:</b>	None	
<b>Overall Physical Condition:</b>	Good	
<b>Sale Price &amp; Date:</b>	\$4,050,000 10/06/2022	<b>Sale Price per SF:</b> \$126.07 psf

**Comments:** This is a three story class C office building approximately 34 years old and has approximately 11,000 sf per floor. Construction is steel frame with Curtin wall. The property is situated in the Tates Creek Shopping Center at Tates Creek Road and Man O War Blvd.

**Building Comparable**                      No. 4  
**Address:**                                      2405 Harrodsburg Road  
                                                            Lexington, KY 40504

**Photograph**



<b>Land Size:</b>	1.14 ac	
<b>Number Primary Buildings:</b>	One	<b>Building</b>
<b>Number Total Suites:</b>	Multiple	<b>Design:</b> Steel Frame/Brick
<b>Total Size Building:</b>	15,151 SF	<b># Stories:</b> One
<b>Building Composition/Use:</b>	Office/	<b>Const. quality:</b> Average
<b>General Description:</b>	Professional/Office	<b>Zoning:</b> P-1
<b>Site Improvements:</b>	Paving	<b>Land/building ratio:</b> 3.27 to 1
<b>Accessory Buildings:</b>	None	<b>Grantor:</b> SBC Investments, LLP
<b>Occupancy:</b>	Office	<b>Grantee:</b> MLG Real Estate, LLC
<b>Personal Property in Sale:</b>	None	<b>Recorded:</b> Deed Book 3979 Page 110
<b>Atypical Features:</b>	None	<b>Age:</b> 28 years
<b>Overall Physical Condition:</b>	Good	
<b>Sale Price &amp; Date:</b>	\$2,100,000 10/17/2022	<b>Sale Price per SF:</b> \$138.60 PSF

**Comments:** This property consists of a one-story class C office building with a total area of 15,150 square feet. Construction is masonry, and in good condition located on Harrodsburg Road just north of Pasadena Drive.

**Building Comparable**                      **No. 5**  
**Address:**                                      **120 Prosperous Place**  
                                                                 **Lexington, KY 40509**

**Photograph**



<b>Land Size:</b>	<b>2.87 ac</b>	
<b>Number Primary Buildings:</b>	<b>One</b>	<b>Building</b>
<b>Number Total Suites:</b>	<b>Three</b>	<b>Design: Steel Frame/Curtin Wall</b>
<b>Total Size Building:</b>	<b>47,754 SF</b>	<b># Stories: One</b>
<b>Building Composition/Use:</b>	<b>Office</b>	<b>Const. quality: Average</b>
		<b>Age: 26 years</b>
<b>General Description:</b>	<b>Professional Office</b>	<b>Zoning: P-1</b>
<b>Site Improvements:</b>	<b>Paving</b>	<b>Land/building ratio: 2.6 to 1</b>
<b>Accessory Buildings:</b>	<b>None</b>	<b>Grantor: Turner Property 2, LLC</b>
<b>Occupancy:</b>	<b>Warehouse</b>	<b>Grantee: Vision Engineering, LLC</b>
<b>Personal Property in Sale:</b>	<b>None</b>	<b>Recorded: Deed Book 3989 Page 125</b>
<b>Atypical Features:</b>	<b>None</b>	
<b>Overall Physical Condition:</b>	<b>Good</b>	
<b>Sale Price &amp; Date:</b>	<b>\$5,700,000</b>	<b>Sale Price per SF: \$119.28 PSF</b>
	<b>5/12/2022</b>	

**Comments:** This is a three-story class C office building with a total area of 47,754 SF with 15,910 SF on each floor. Construction is steel frame with Curtin Wall built in 1997 and in good condition. Sale is located at the intersection of Richmond Road and Man O War Blvd.

### COMPARATIVE ANALYSIS

Sale No.	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Location	130 Ste.170 and 134 NCR	2376 Sir Barton Way	800 Corporate Drive	4071 Tates Creek Road	2405 Harrodsburg Road	120 Prosperous Place
Sale Date		8/19/20	6/28/22	10/06/22	10/17/22	12/02/22
Sale Price		\$3,100,00	\$2,500,000	\$4,050,000	\$2,100,000	\$5,700,000
Building Size SF	67,700 SF	29,240 SF	26,098 SF	32,124 SF	15,151 SF	47,754 SF
Unit Price PSF		\$106.02	\$82.38	\$126.07	\$138.60	\$119.28
<b>Comparative Analysis</b>						
Property Rights	Fee Simple	Similar	Similar	Similar	Similar	Similar
Financing		Market	Market	Market	Market	Market
Conditions of Sale		Normal	Normal	Normal	Normal	Normal
Appreciation & Inflation		+15%	+7%	+6%	+5%	+5%
Adjusted Unit Price		\$121.92	\$88.15	\$133.63	\$145.53	\$125.24
Location		-20%	-20%	-20%	-20%	-20%
Effective Age		-5%	+5%	Similar	Similar	Similar
Condition		Similar	Similar	Similar	Similar	Similar
Construction		-15%	-10%	-10%	-10%	-10%
Size of Improvements		Similar	Similar	Similar	Similar	Similar
Site Area	8.43 Acre	+20%	+20%	+20%	+20%	+20%
Utility		-20%	-20%	-20%	-20%	-20%
Composite Adjustment		0.60	0.75	0.70	0.70	0.70
Indicated Adjusted Unit Value		\$73.15psf	\$66.11psf	\$93.54psf	\$101.87psf	\$87.67psf



## Sales Comparison Approach

### *Analysis and Conclusions*

The subject and all cited comparable sales share several characteristics and are all located in suburban Lexington locations. These commonalities justify inclusion of these transactions in this analysis. Often, there are differences between the property appraised (“the subject”) and a comparable sale. When the dissimilarity affects value, an adjustment to the sale price of the comparable is necessary.

Property Rights Agreements or laws create partial interests in real estate. A deed restriction or life estate usually reduces rights and value. If the subject is not affected by these limitations and a comparable is, then the comparable sale price needs an upward property rights adjustment. In another situation, unfavorable leases eliminate a landlord’s right to collect market rent, so the real estate sells for a below-market price. If the property appraised has no lease adversities and a comparable does have unfavorable leases, then the comparable requires upward adjustment.

Financing Sub-market financing is a common technique used to finance the acquisition of real estate during periods of high interest rates. When non-market financing is used, the financing may be favorable to the buyer so the sale price is inflated. The escalated price can be envisioned as a composite of the worth of real estate plus the value of advantageous financing. Since value created by financing is not real property, the contribution of the advantageous financing must be deducted from total sale price to derive market value for just the realty. However, there are instances where the buyer assumes unfavorable financing, so the sale price is diminished. In the latter case, an upward adjustment must be applied to the sale price of the comparable thusly deriving the market value of the real estate. Unless a statement is made to the contrary, non-market financing was not used to acquire any comparable sale cited in this report. Therefore, no compensations are needed for financing.

Conditions of Sale An adjustment for conditions of sale is necessary when a criterion of market value is violated. It could compensate for unusual buyer or seller motivations. For instance, when a seller gives a buyer an atypical rebate, discount, credit, or something of value to induce a conveyance, the sale price is usually inflated. In this case, it is logical to deduct the worth of the giveback from the sale price. Residual sums represent the property’s market value. In another scenario, a buyer may pay a premium to facilitate an assemblage. In this instance, the premium must be deducted from the sale price to derive market value for that conveyance. Unless stated otherwise, no adjustments are necessary for conditions of sale.

Expenditure Post Sale This is a situation when a buyer is compelled to invest additional money into a property immediately after acquisition for some atypical reason. Post-sale invested sums are appropriately added to a comparable sale price, thereby producing an adjusted sale price. Examples are demolition costs or building-code compliance costs.

Market Conditions Adjustments for market conditions are commonly referred to as time adjustments, but this is misleading. Value does not change due to the passage of time;

sometimes it remains stable. Often, real estate values fluctuate due to change in supply and demand, interest rates, employment or inflation. This type adjustment compensates for change in market conditions between a sale's transaction date and a later point in time.

The Central Kentucky market has remained stable throughout the economic difficulties. This is due to the limited supply of available properties and the local planning commission restricting the available land for future development. The limited supply of land and low vacancy rates create a stable market for commercial property in Lexington avoiding the large upswings and downturns in property values and lease rates.

Location Each property was rated to the subject for locational aspects such as value growth potential, access and general desirability. Those transactions with superior locations were adjusted downward and vice versa. The location of comparable sales is very similar although sales 4 and 5 are considered superior relative to their Lexington location.

Physical Attributes A myriad of physical characteristics can affect value. Some examples are lot size, building size, physical condition of the building, functionality and visual appeal. Those sales with superior physical qualities warrant downward adjustment and vice versa. Those sales with superior physical qualities warrant downward adjustment and vice versa.

These sales are all located in Lexington and all sales are zoned for office use and sold over a period from August 2020 to December 2022. The sale price of sales ranges from \$2,100,000 to \$5,700,000 and a unit price from \$82.38 to \$138.60 per square foot.

A time adjustment for the rate of inflation and general appreciation is estimated at 5% per year. Subject locations are superior relative to the demand for office space, with a downward adjustment warranted for each sale.

Subjects effective age is more than sale number 1, and less than sale 2 and similar in age to sale 3, 4, and 5, with subject having similar condition relative to all sales.

All sales are office developments of steel and masonry or curtain-wall construction and quality is considered superior to subject as a portion of subject is warehouse space with downward adjustment relative to this factor for all sales. The size of the sale improvements is considered comparable to all sales.

Subject site area is greater than all sales relative to the useable area with a building to land ratio of 5.24 to 1 and although it is zoned B-3 the current use is as office and warehouse. An upward adjustment is therefore justified for site area. A downward adjustment is also considered for sales overall superior utility due to the mix of construction type and use of subjects improvements.

After considering subject attributes and comparative adjustments a range of unit value from \$66.11 to \$101.87 per square foot is indicated for subject. Applying greater weight to the most recent sales a unit value of \$90.00 per square foot of building area is indicated for subject with overall value indicated to be; \$6,093,000 rounded to; \$6,100,000

## **16. RECONCILIATION AND FINAL VALUE ESTIMATE**

In analyzing the market value of the subject property, the Income Approach and Sales Comparison Approach are considered applicable approaches indicating the following Market Value Estimates:

Sales Comparison Approach:	\$6,100,000
Income Approach:	\$6,450,000

These approaches indicate a range of overall value from \$6,100,000 to \$6,450,000. Applying equal weight to each approach an overall value estimated for subject as of appraisal date for the fee simple interest is indicated to be:

\$6,275,000

## 17. CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statement of fact contained in this report is true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and is my personal, unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development of reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- E. Clark Toleman made a personal inspection of the property that is the subject of this report.
- No one provided significant professional assistance to the person(s) signing this report.
- 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 Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, E. Clark Toleman has completed the requirements of the continuing education program of the Appraisal Institute.
- I have not provided valuation services on this property prior to this appraisal.

Based on the market information that has been analyzed, the Market Value of the Lessee's interest on December 11, 2023 is indicated to be \$6,275,000.



---

E. Clark Toleman, MAI, SRA  
Kentucky Certified General Appraiser

## **18. ASSUMPTION AND LIMITING CONDITIONS**

1. This Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy 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 estimates contained in this report are based.
11. Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
12. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. It is assumed that there is no environmental contamination on the site or in the improvements. There was no evidence of environmental contamination. However, it should be pointed out that the appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of

hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The appraiser's 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 unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

14. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.
15. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
16. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
17. It is assumed that the proposed subject office building will be completed within 10 months of the appraisal date.

Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper written qualification and only in its entirety.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news sales, or other media without prior written consent and approval of the appraiser.

## **19. QUALIFICATIONS OF THE APPRAISER**

### **E. Clark Toleman MAI, SRA**

#### **PROFESSIONAL MEMBERSHIPS:**

MAI Member of the Appraisal Institute

SRPA MAI No. 7572

SRA General Certification – Kentucky Real Estate Appraisers Board No. 109

Real Estate Broker – State of Kentucky  
Member of Lexington Board of Realtors  
Member of Kentucky Association of Realtors  
Member of National Association of Realtors

**EDUCATION:** West Australia Institute of Technology, Perth, Australia – Business Studies Major in Real Estate Valuation

Completed all course requirements for the Australian Institute of Valuers, the American Institute of Real Estate Appraisers and Society of Real Estate Appraisers. Appraisal seminars related to Conservation Easements, partial interests and Federal guidelines for Federal Land Acquisition.

Participate in continuing education through seminars and courses by the Appraisal Institute.

#### **EXPERIENCE:**

Full time career in all phases of Real Estate. Employed in Property Management, Office of Development, Leasing and Valuation. Real Estate Appraiser in Lexington, Kentucky since 1974. Owner and Manager of Investment Property. Self- employed and owner of E. Clark Toleman Real Estate Appraisal Services.

#### **APPRAISAL CLIENTS:**

##### **Financial Institutions:**

Bank of Lexington, First Security National Bank, Bank One, Citizens Fidelity Bank in Lexington, First National Bank of Louisville, Fifth Third Bank of Campbell County, PNC Bank, Franklin Bank, MCNB Bank, First Capital Bank, Community Trust Bank, First Southern National Bank. Recent non-bank lender clients include: Realty Investment

Company, Memphis, Tennessee; New York Life, Atlanta, Georgia, Cincinnati Insurance Co.

**GOVERNMENT INSTITUTIONS:**

Lexington Fayette Urban County Government, Corps of Engineers, Department of Justice, General Services Administration, U.S. Postal Service, Census Bureau, Resolution Trust Corporation, FDIC, FSLIC, Commonwealth of Kentucky, Transportation Cabinet, Bluegrass Airport Board, LexTran Board, State of Kentucky Kentucky Office of the Courts, LFUCG Division of Water Quality, University of Kentucky, Kentucky State University, Kentucky Community and Technical College System, Eastern Kentucky University, Division of Real Property State of Kentucky, Louisville Regional Airport Board, Lexington KY Airport Board.

**APPRAISED FOR:**

Major horse farms, full range of commercial properties, multi-family residential, condemnation cases for both Plaintiff and Defendant, IRS, utility companies, four flood control lane projects, Urban Renewal, major industrial properties and highway right of way. Appraisals conducted on conservation easements for individuals the State of Kentucky for the PACE program and the Lexington Fayette Urban County Government for the Purchase of Development Rights, on Farm Properties, Marathon Oil Co. for R/W easements, CSX Railroad, Norfolk Southern Railway, Cincinnati Insurance, Safe Co Insurance, LexTran, and Southern States.

**QUALIFIED AS EXPERT IN REAL ESTATE VALUES:**

Federal Court of Kentucky- Eastern and Western Division. Testified in Local Tax Appeal Cases, Circuit Court of Clark, Pike, Montgomery, Bourbon, Woodford, Jessamine, Bell, Johnson, Jefferson, Anderson, Franklin, Boone, Campbell, Scott, Lawrence, Clay, Whitley, Pulaski, Kenton, and Martin County, Kentucky, and the United States Bankruptcy Court.



**50. Subject Deed**

BOOK 3474 PAGE 350

**SPECIAL WARRANTY DEED**

THIS DEED, made effective as of the 10<sup>th</sup> day of March, 2017, by and between **NEW CIRCLE CROSSINGS, LLC**, a Kentucky limited liability company, with an address of 840 East High Street, Lexington, Kentucky 40502 ("NCC"), **DELZAN PROPERTIES, LLC**, a Kentucky limited liability company, with an address of 2040 Regency Road, Suite D, Lexington, Kentucky 40503 ("Delzan"); and **FORTUNE TRADE CENTER, LLC**, a Kentucky limited liability company, with an address of 840 East High Street, Lexington, Kentucky 40502 ("FTC") (collectively the "Grantors"), and **WILLIAM ZIERING, TRUSTEE OF THE WILLIAM ZIERING TRUST DATED JUNE 18, 2015, AND ANY AMENDMENTS THERETO**, with an address of 4633 Olive Hill Road, Fallbrook, California 92028 (the "Grantee"). Property tax bills for the current year may be addressed in care of William Ziering, Trustee of the William Ziering Trust Dated June 18, 2015, 4633 Olive Hill Road, Fallbrook, California 92028.

**WITNESSETH:**

WHEREAS, Grantors are owners of the "Property" (as hereinafter defined) in the following percentages, NCC 15%, Delzan 34% and FTC 51%;

NOW for and in consideration of the total sum of Seven Million Two Hundred Thousand Dollars (\$7,200,000.00) cash in hand paid by Grantee to Grantors, the receipt of which is hereby acknowledged, Grantors have this day BARGAINED and SOLD the percentage interest of the Property owned by each of Grantors, the total being a 100% interest, and do hereby GRANT and CONVEY to Grantee, its successors and assigns forever, the property located in Fayette County, Kentucky, and more particularly described on Exhibit "A" attached hereto and incorporated herein by reference (the "Property").

TO HAVE AND TO HOLD the Property, together with all rights, privileges, appurtenances and improvements thereunto belonging, unto Grantee, in fee simple, its successors and assigns forever.

Grantors do hereby release and relinquish unto Grantee, its successors and assigns, all of Grantors' right, title and interest in and to the Property, including all exemptions allowed by law, with covenant of SPECIAL WARRANTY.

Provided, however, that there is excepted from the foregoing warranty and covenants and this conveyance is made subject to the following:

1. Restrictive covenants of record in the Fayette County Clerk's office.
2. All conditions and/or restrictions, if any, affecting the said property herein conveyed and contained on any plat of record in the Fayette County Clerk's office.
3. Zoning and building restrictions, regulations and ordinances, if any.

CLERK'S NOTE:  
 Quality of book pages &  
 scanned images reflects  
 original document presented  
 006451.156448/46197241

**RETURN TO PREPARER**

Fayette County Clerk Recording  
 Related Documents  
 From 172  
 To 173, 174

4. Easements, rights-of-way and all other matters of any nature and kind reserved and recorded in the Fayette County Clerk's office.

5. The 2017-2018 and all subsequent years' ad valorem property taxes assessed against the property herein conveyed.

For purposes of compliance with KRS 382.135, Grantors and Grantee hereby certify that the consideration reflected in this Special Warranty Deed is the full consideration paid for the property herein conveyed. Grantee joins in the execution of this Deed for the sole purpose of certifying the amount of the consideration.

IN WITNESS WHEREOF, Grantors and Grantee have hereunto set their hands as of the day and year first above written.

**NEW CIRCLE CROSSINGS, LLC**  
a Kentucky limited liability company

By: Bret A. Caller  
Bret A. Caller, its Authorized Agent

**DELZAN PROPERTIES, LLC**  
a Kentucky limited liability company

By: Bret A. Caller  
Bret A. Caller, its Authorized Agent

**FORTUNE TRADE CENTER, LLC**  
a Kentucky limited liability company

By: Bret A. Caller  
Bret A. Caller, Its Manager

STATE OF OHIO  
COUNTY OF HAMILTON

9 The foregoing Deed was subscribed, acknowledged and sworn to before me this day of March, 2017, by Bret A. Caller, as Authorized Agent of New Circle Crossings, LLC, a Kentucky limited liability company, for and on behalf of said company.



STEPHEN J. HORNER  
Notary Public, State of Ohio  
My Commission Expires 08-24-2019

Stephen J. Horner  
Notary Public  
My commission expires: 8/24/2019  
Notary number: \_\_\_\_\_

STATE OF OHIO  
COUNTY OF HAMILTON

9 The foregoing Deed was subscribed, acknowledged and sworn to before me this day of March, 2017, by Bret A. Caller, as Authorized Agent of Delzan Properties, LLC, a Kentucky limited liability company, for and on behalf of said company.



STEPHEN J. HORNER  
Notary Public, State of Ohio  
My Commission Expires 08-24-2019

Stephen J. Horner  
Notary Public  
My commission expires: 8/24/2019  
Notary number: \_\_\_\_\_

STATE OF OHIO  
COUNTY OF HAMILTON

9 The foregoing Deed was subscribed, acknowledged and sworn to before me this day of March, 2017, by Bret A. Caller, as Manager of Fortune Trade Center, LLC, a Kentucky limited liability company, for and on behalf of said company.



STEPHEN J. HORNER  
Notary Public, State of Ohio  
My Commission Expires 08-24-2019

Stephen J. Horner  
Notary Public  
My commission expires: 8/24/2019  
Notary number: \_\_\_\_\_