
WG DORRANCE AND COMPANY

• COMMERCIAL REAL ESTATE APPRAISAL REVIEWS •

PROPERTY INFORMATION:

RIMS Job #: 13-002064-01-2
Liaison Officer/Organization: Sondra Mercier
Commercial Appraisal Section
Borrower: Twenty Mile Station III LLC
Property Name: Twenty Mile Station
Type: Office – 25,424 SF GLA – One 2-story Bldg.
Location: 18801 East Main Street, Parker, Colorado

APPRAISAL INFORMATION:

Appraisal Firm: Butler Burgher Group, LLC
Appraiser: Jaimee Keene
Report Date: July 25, 2013
Report Format: Summary
Prepared For: ABC Bank
(aka Community Banks of Colorado)

REVIEW INFORMATION:

Review Date: July 26, 2013
Reviewer: William Dorrance, MAI, FRICS

I have reviewed the referenced appraisal report. As a result of that review, I have determined that the report's value conclusions are appropriate and reasonable given the data and analyses presented. Furthermore, the referenced appraisal report has been approved for use by ABC Bank. It is intended that the review process and the reporting of the review process satisfy the requirements of Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) relating to the appraisal review function.

VALUATION SUMMARY

Valuation Scenario	Date of Value	Property Rights	Appraised Value	
			Appraiser	Accepted by Reviewer
Market Value As Is: Office – 25,424 SF GLA – Multitenant	7/16/2013	Leased Fee	\$5,660,000*	Same
*Note – While the appraiser also provided a fee simple value (\$5,100,000), this value was completed to determine the variance between fee simple and leased fee (\$560,000) since the leases are above market (\$19.59/SF/Yr. Contract vs. \$18.00/SF/Yr. Market - NNN). Since the project is encumbered by leases, the leased fee value is most relevant and appropriate for lending purposes.				

EXTRAORDINARY ASSUMPTIONS AND/OR HYPOTHETICAL CONDITION

The referenced appraisal and this review are subject to the following extraordinary assumptions:

It is an extraordinary assumption of this appraisal that no easements or restrictions which would dramatically impact the development potential of the site are present.

The appraiser was provided with an ALTA survey that indicated land area. We did not make measurements in the field and have relied on information provided. We assume this information to be accurate as we have relied upon it herein. Should information become available in the future indicating a land area different from that presented and analyzed herein, we reserve the right to modify our value conclusion(s).

The appraiser was not provided with building plans and therefore relied on information contained in the rent roll provided for the rentable building area. We assume the data utilized is correct and reserves the right to amend the market value estimates reported herein should it be determined otherwise.

APPRAISAL CONTINGENCIES

The referenced appraisal and this review are subject to the following appraisal contingencies:

See previous extraordinary assumptions.

SPECIAL APPRAISAL ASSUMPTIONS

See previous extraordinary assumptions.

PURPOSE OF THE REVIEW

The purpose of the review was to form an opinion as to the completeness of the report under review; the apparent adequacy and relevance of the data and the propriety of any adjustments to the data; the appropriateness of the appraisal methods and techniques used; and the appropriateness and reasonableness of the analyses, opinions, and conclusions in the report under review.

SCOPE OF THE REVIEW AND LIMITING CONDITIONS

The referenced appraisal was reviewed for compliance with the OCC's amended Appraisal Rule, effective June 7, 1994, as published in the Federal Register, Volume 59, No. 108, and with the Interagency Appraisal and Evaluation Guidelines, dated December 10, 2010; and the appraisal guidelines of the Commercial Appraisal Section of the Real Estate Services Department of ABC Bank¹

I am competent to review this appraisal report because I have been reviewing appraisal reports for a total of seventeen years and writing appraisals for 10 years. Prior to my contract employment at ABC Bank, I was SVP for KeyBank (14 years), managing 6 reviewers and overseeing \$6.0 billion in asset collateral (2008) in providing appraisal engagement, reviewing services, loan/credit officers, internal/external audit and OCC liaison. I am in regular contact with market participants, including brokers and appraisers.

During the review process for **office** appraisals, I have access to other **office** appraisers, developers, as well as **office** brokers, who provide updated information on the trends concerning market acceptance of product types, absorption rates and developer yield requirements for new projects.

This Memorandum of Appraisal Review is intended solely for the use of ABC Bank in its lending, investment or collection processes, and release of this Memorandum to another financial institution is specifically prohibited by ABC Bank Commercial Real Estate Appraisal Policy. Per the Policy, this Memorandum may only be released to a loan applicant in the case of an appraisal review, which results in a different value conclusion from the report under review.

¹ An appraisal prepared by an appraiser engaged directly by another financial services institution will not be reviewed for adherence to ABC Bank, NA, but will be reviewed for regulatory compliance and for conformance with the USPAP.

REVIEW APPRAISER'S COMMENTS

Subject Property

The subject property consists of a two-story 25,424 square foot gross leasable Class B/C office building located at 18801 East Main Street, Parker, Colorado (Douglas County). The steel frame brick/stucco veneer elevator served (1) and glass building was constructed in 2000 and is situated on a 1.115 acre site (L/B 1.91:1). The improvements also feature an on-site surveillance system with 8 security cameras. The existing improvements are considered to be in good overall condition with no significant items of deferred maintenance that would require capital expenditures. The lobby and common areas were recently upgraded within the past year. The improvements included new carpet, tile, granite, Televisions, and furniture for a cost of approximately \$62,000. The building is demised as a multi-user office space with spaces ranging from 1,250 to 4,704 square feet. 71 parking spaces are available (2.79 Spaces/1,000 SF); a subpar parking ratio for office product. It is noted that according to the property owner, David Faestel, the subject and surrounding parcels share a cross access easement that allows for ingress, egress and use of parking spaces in the shared parking lot.

The property is currently 90.3 percent occupied with 9 tenants. Historically, the subject property has shown a strong occupancy history and has been able to retain its tenant base. The existing rents are considered *above market* (\$19.59/SF/Yr. Contract vs. \$18.00/SF/Yr. Market - NNN). The present value of the rent over and above market is estimated at \$560,000. Tenant *rollover* in the first 4-years is *34.0 percent*; a relatively *low* rollover profile. However, in year five 66.0 percent of the project's space will rollover, a relatively *high* rollover exposure.

The subject is located in the Town of Parker, with exposure to East Main Street. The Denver CBD is approximately 25 miles north of the property. The neighborhood is well-served by major highways and neighborhood streets. Primary access to the area is from the E-470 toll road, which is accessible from S. Parker Road. Secondary access to the neighborhood, and perhaps as important as E-470, is Parker Road (State Highway 83). This major highway extends from central Denver through the southeast metropolitan area in a northwest/southeast direction. The subject property is located just west of the intersection of Twenty Mile Road and Parker Road approximately ¼ mile north of E-470, a primary roadway. The subject has good exposure to the highly trafficked Parker Road (64,000 vpd).

Positive Risk Factors

Denver is forecast to recover at a somewhat faster pace than previously forecast as a result of the momentum in the alternative energy industry. Longer term, above-average population growth and further expansion in energy and health-related industries will help propel above-average gains.

Currently, the regions' vacancy is declining and rents are rising, presenting a positive market condition for operators.

As of Q1 2013, the Denver office market maintains a current vacancy rate of 18.0 percent, which is 10 basis points below that of the 18.1 percent indication as of 2012 annual.

The neighborhood is well-served by major highways and neighborhood streets.

The subject property is located just west of the intersection of Twenty Mile Road and Parker Road approximately ¼ mile north of E-470, a primary roadway.

The subject has good exposure to the highly trafficked Parker Road (64,000 vpd).

Historically, the subject property has shown a strong occupancy history and has been able to retain its tenant base.

The property represents good quality construction with an above average occupancy for this submarket and building class.

The existing improvements are considered to be in good overall condition with no significant items of deferred maintenance that would require capital expenditures.

The subject's lobby and common areas were recently upgraded within the past year. The improvements included new carpet, tile, granite, Televisions, and furniture for a cost of approximately \$62,000.

Negative Risk Factors

Overall the Class B/C product (subject) indicated a 21.3 percent vacancy rate and an asking rent of \$18.56 /month as of Q1 2013; unchanged from year-end 2012.

Class B/C product absorption has been weak (average of -279,300 square feet over 10 years excluding current year) of Class B/C product shown while new supply has been higher at an average of 97,900 square feet per year.

As of Q1 2013, the Southeast Suburban office submarket (*subject*) maintains a current vacancy rate of 21.5 percent which is 20 basis points above that of the 21.3 percent indication as of 2012 annual.

The Class B/C product within its submarket (*subject*) indicated a 23.8 percent vacancy rate and an asking rent of \$17.05/square foot as of 2013. The current vacancy has remained unchanged from the 2012 annualized figure of 23.8 percent and a 190 basis point change from the 10 year high of 25.7 percent in 2011.

The existing rents are considered *above market* (\$19.59/SF/Yr. Contract vs. \$18.00/SF/Yr. Market - NNN). The present value of the rent over and above market is estimated at \$560,000.

The property has *no* credit-rated tenants.

The subject's tenant *rollover* in the first 4-years is *34.0 percent*; a relatively *low* rollover profile. However, in year five 66.0 percent of the project's space will rollover, a relatively *high* rollover exposure.

71 parking spaces are available (2.79 Spaces/1,000 SF); a subpar parking ratio for office product. It is noted that according to the property owner, David Faestel, the subject and surrounding parcels share a cross access easement that allows for ingress, egress and use of parking spaces in the shared parking lot .

Market Overview

Currently, the Denver office market contains an inventory of some 88,798,000 square feet, with 72,851,000 occupied square feet. As of Q1 2013, the Denver office market maintains a current vacancy rate of 18.0 percent, which is 10 basis points below that of the 18.1 percent indication as of 2012 annual. The current vacancy rate is 280 basis points above that of the prior low rate of 15.2 percent reported in 2007 and 420 basis points below the highest historical rate of 22.2 percent indicated in 2003. The current market-wide effective rental rate is \$16.92 per square foot annually, which is an increase of 0.48 percent over the 2012 indication of \$16.84 per square foot. Currently, vacancy is declining and rents are rising, presenting a positive market condition for operators.

Overall the Class B/C product (*subject*) indicated a 21.3 percent vacancy rate and an asking rent of \$18.56 /month as of Q1 2013; unchanged from year-end 2012. Absorption has been weak (average of -279,300 square feet over 10 years excluding current year) of Class B/C product shown while new supply has been higher at an average of 97,900 square feet per year. The average vacancy rate over the past 10 years, excluding the current period, is 20.7 percent

According to Reis, the subject is located within the Southeast Suburban submarket. The Southeast Suburban office submarket as of Q1 2013, contains an inventory of 29,358,000 square feet. As of Q1 2013, the Southeast Suburban office submarket maintains a current vacancy rate of 21.5 percent which is 20 basis points above that of the 21.3 percent indication as of 2012 annual. The current submarket effective rental rate is \$14.97 per square foot per month, which is an increase of 1.29 percent over the 2012 indication of \$14.78 per square foot per month. The Class B/C product within this submarket indicated a 23.8 percent vacancy rate and an asking rent of \$17.05/square foot as of 2013. The current vacancy has remained unchanged from the 2012 annualized figure of 23.8 percent and a 190 basis point change from the 10 year high of 25.7 percent in 2011.

Valuation Analysis & Issues

The appraisal developed the Sales Comparison and Income approaches to value. The Cost Approach was appropriately omitted due to the age (2000) of the property and the difficulty in precisely estimating depreciation.

The Sales Comparison Approach included adequate data and analysis with a supportable per square foot analysis and appropriate value conclusion. The Income Approach includes appropriate comparable rental data with a reasonable analysis and conclusion of market rents. The expense analysis was adequate. The capitalization and discount rates were reasonably supported. The Income Approach was of dominate reliance due to the most likely buyer of this property to be a local/regional investor although some reliance was given the Sales Comparison Approach. The final concluded value is reasonable and adequately supported.

Appraisal Score

The appraiser report was deemed to be scored a number 3 (Adequate) out of 5 being excellent.

Prior Appraisal

Not available

INSURABLE VALUE

Not provided

LAND USE CONTROLS

Not applicable - subject is not proposed.

FLOOD CERTIFICATION

The site is in FEMA Panel No. 08035C0069F, dated 9/30/2005, indicates the subject to be located within Zone X, an area of low flood risk.

REVIEW APPRAISER'S CERTIFICATION

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

- I have **not** reviewed a prior appraisal of the subject property in the last three years
- The facts and data reported by the review appraiser and used in the review process are true and correct.
- The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest or bias in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- My compensation is not contingent on pre-determined results or an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review report.
- My analyses, opinions, and conclusions were developed and this review report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Institute.
- I **have not** made a personal inspection of the property that is the subject of the report under review.
- No one provided significant professional assistance to the person signing this review report.
- The appraisal review process and the reporting of the appraisal review process did not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, disability, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.
- I am competent to perform this appraisal review assignment.
- I am currently licensed by the State of **Colorado** Office of Real Estate Appraisers as a "Certified General Real Estate Appraiser."
- 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 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.



William Dorrance, MAI, FRICS

Certified General - Colorado No. CG01314151

July 26, 2013

USPAP & FIRREA COMPLIANCE CHECKLISTS

USPAP APPRAISAL REPORTING REQUIREMENTS:

	YES	NO	N/A
1. (2-1a) Appraisal is misleading:		X	
2. (2-1b) Written report contains sufficient information to enable the intended user to understand the analysis, rationale, opinions, and conclusions:	X		
3. (2-1c) All assumptions and limiting conditions are clearly disclosed:	X		
4. (2-2a/b) The proper report format is used and prominently stated:	X		
5. (2-2a/bi) Client and intended users are identified:	X		
6. (2-2a/bii) Intended use of the report is stated:	X		
7. (2-2a/biii) Property is sufficiently identified (location & legal description):	X		
8. (2-2a/biii) Physical and economic characteristics are described:	X		
9. (2-2a/biv) Identifies real property interest appraised:	X		
10. (2-2a/bv) Type and definition of value is stated (including definition source):	X		
11. (2-2 a/bvi) States effective date of appraisal and date of report:	X		
12. (2-2a/bvii) Scope of Work used to develop the appraisal is adequately described:	X		
13. (2-2a/bviii) Explains exclusion of any valuation approach:	X		
14. (2-2a/bviii) Information analyzed, methods and techniques employed, reasoning to support analysis, opinions, and conclusions are adequately described:	X		
15. (2-2a/bvix) Use of the property on the date of value is stated:	X		
16. (2-2a/bvix) Use of the property as reflected in appraisal is stated:	X		
17. (2-2a/bix) Support and rationale for the appraiser's highest & best use opinion is adequately described:	X		
18. (2-2a/bx) Extraordinary assumptions and Hypothetical conditions are clearly disclosed, and whether their use has affected the results of the assignment:	X		
19. (2-2a/bxi) Includes signed certification consistent with 2-3:	X		
20. Appraisal report format and content is appropriate and complete:	X		

Comments: None.

ADDITIONAL *FIRREA*, *OCC*, & BANK REQUIREMENTS:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Statement that appraisal conforms to <i>USPAP</i> standards:	<u>X</u>	<u> </u>	<u> </u>
2. Appraisal report format and content is appropriate and complete:	<u>X</u>	<u> </u>	<u> </u>
3. Analyzed discounts for proposed construction, absorption, or non-market leases:	<u>X</u>	<u> </u>	<u> </u>
4. Appraisal is based upon the <i>FIRREA</i> definition of market value:	<u>X</u>	<u> </u>	<u> </u>
5. Appraiser is appropriately state certified or licensed:	<u>X</u>	<u> </u>	<u> </u>
6. Appraisal engaged by qualified financial institution:	<u>X</u>	<u> </u>	<u> </u>
7. Letter of Engagement is included in the report:	<u>X</u>	<u> </u>	<u> </u>
8. Appraisal fulfills terms of engagement letter:	<u>X</u>	<u> </u>	<u> </u>
9. Appraiser's license/certification is included in the report:	<u>X</u>	<u> </u>	<u> </u>
10. Appraiser's resume/qualifications are included in the report:	<u>X</u>	<u> </u>	<u> </u>

Comments: None