

PGP  
VALUATION INC

May 1, 2006

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**RE: Pamida #3037**  
2702 Central Avenue  
Estherville, IA 51334-2779

To Whom It May Concern:

In accordance with your request, we have conducted an appraisal to determine the as-is fee simple market value of the above referenced property. The property is valued using generally accepted appraisal principles and theory and is intended to conform to the Uniform Standards of Professional Appraisal Practice (USPAP), the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), the Appraisal Institute and Bank of America's appraisal requirements.

This appraisal report is a Complete Self-Contained Appraisal Report under Standards Rule 1 and 2-2, as defined in the Uniform Standards of Professional Appraisal Practice (USPAP). The appraisal service was performed in such a manner that the results of the analysis, opinion, or conclusion, be that of a disinterest to a third party. The property that is the subject of this appraisal has been appraised previously for an alternative financial institution.

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This report is addressed to Barclays Capital Real Estate Inc. ("BCRE"), Citigroup Global Markets Realty Corp ("Citi"), Spirit Finance Corporation ("Spirit") and its affiliates. BCRE, Citi, Spirit and its affiliates, their respective successors and assigns (including, without limitation, investors who purchase the mortgage loan or a participation interest in the mortgage loan and the trustee in a securitization that includes the mortgage loan), each servicer of the mortgage loan, and all rating agencies involved in any sale, securitization or syndication involving the mortgage loan may use and rely upon this Report, including, without limitation, utilizing selected information from the Report in the offering materials (either in electronic or hard copy format) relating to any sale, securitization or syndication involving the mortgage loan. The Appraiser agrees to cooperate in answering questions by any of the above parties in connection with the sale, securitization or syndication, as communicated by BCRE, Citi and Spirit personnel.

In addition, this Report or a reference to this Report may be included or quoted in any offering circular, registration statement, prospectus or sales brochure (either in electronic or hard copy format) in connection with a sale, securitization or syndication, or transaction involving such debt and or debt securities.

The subject consists of a single-tenant retail building that is 100% owner-occupied by Pamida a subsidiary of ShopKo Stores, Inc. The improvements measure 20,000 gross square feet and are situated on one 4.70 acre tax lot. The improvements were constructed in 1976 and are in average condition. The site and improvements are further described in the attached report.

Based upon our investigation and analysis of available information, the concluded value opinion under the request scenario is:

MARKET VALUE SCENARIO	DATE	VALUE
As-Is Fee Simple	May 05, 2005	\$800,000

If questions arise concerning this report, please do not hesitate to contact the undersigned.

Sincerely,

**PGP VALUATION INC**



Philip L. Steffen, MAI  
Certified General Real Estate Appraiser – License No. 1100342  
State of Iowa License No. 193F019.2





## APPRAISAL SUMMARY (CONTINUED)

Flood Zone: No – Discussed in Site Description section.

### Value Indications

Cost Approach: Not applicable

Income Capitalization Approach: \$800,000

Sales Comparison Approach: \$800,000

**Final Value Opinion: \$800,000**

Appraisal Premises: As-is

Property Rights Appraised: Fee simple

Insurable Value Estimate: See insurable value table in Addenda

Date of Value: May 05, 2005

Scope of Appraisal & Report Format: Complete self-contained

Value of Personal Property, Fixtures,  
Intangibles Included in Market Value  
Estimate: \$0

**PGP VALUATION INC File No.: S050363**

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## ■ PRELIMINARY APPRAISAL INFORMATION ■

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### **Report Organization**

This report is designed to inform the reader of all factors influencing the property's value in a clear and concise manner. The Appraisal Summary and Preliminary Appraisal Information sections provide an overview of the property and general information. The Description section starts with general regional issues and proceeds to more specific issues directly related to the property. The Market Analysis and Highest and Best Use sections establish the marketability of the subject and premise upon which the property is valued.

The Valuation section focuses on the as is market value of the property. This section describes the Income and Sales Comparison Approaches to value, and includes comparable information, application of market information to the subject and valuation analysis.

### **Intended Use & User of Appraisal**

The purpose of this appraisal is to estimate the as-is market value of the fee simple interest in the property.

This report is addressed to Barclays Capital Real Estate Inc. ("BCRE"), Citigroup Global Markets Realty Corp ("Citi"), Spirit Finance Corporation ("Spirit") and its affiliates. BCRE, Citi, Spirit and its affiliates, their respective successors and assigns (including, without limitation, investors who purchase the mortgage loan or a participation interest in the mortgage loan and the trustee in a securitization that includes the mortgage loan), each servicer of the mortgage loan, and all rating agencies involved in any sale, securitization or syndication involving the mortgage loan may use and rely upon this Report, including, without limitation, utilizing selected information from the Report in the offering materials (either in electronic or hard copy format) relating to any sale, securitization or syndication involving the mortgage loan. The Appraiser agrees to cooperate in answering questions by any of the above parties in connection with the sale, securitization or syndication, as communicated by BCRE, Citi and Spirit personnel.

In addition, this Report or a reference to this Report may be included or quoted in any offering circular, registration statement, prospectus or sales brochure (either in electronic or hard copy format) in connection with a sale, securitization or syndication, or transaction involving such debt and or debt securities.

### **Definition of Market Value**

This definition is in compliance with the OCC (Office of the Comptroller of the Currency), FDIC (Federal Deposit Insurance Corporation), *FIRREA (Federal Institutions Reforms, Recovery and Enforcement Act)*, and *USPAP (Uniforms Standards of Professional Appraisal Practice)* as adopted by the Appraisal Foundation and the appraisal Institute.

Market Value, as defined by the Uniform Standards of Professional Appraisal Practice, is:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeable, 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 well informed or well advised, and acting in what they consider their best interests;

## PRELIMINARY APPRAISAL INFORMATION (CONTINUED)

3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in United States 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."<sup>1</sup>

### Property Rights Appraised

Fee Simple Estate is defined in The Dictionary of Real Estate Appraisal, Fourth Edition (2003), as:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat."<sup>2</sup>

### Legal Description

The following description is from the title report and is assumed to be correct:

Lot 2 in Block 1 of Estherville Industrial Park, an Addition to the City of Estherville, Emmet County, Iowa, EXCEPT Part of Lot 2, Block 1 of the Plat of Estherville Industrial Park No. 1, Estherville, Emmet County, Iowa, described as follows: Beginning at the Southeast Corner of said Lot 2; thence North 0 degrees 01 minutes 50 seconds East along the East line of said Lot 2 a distance of 353.10 feet; thence North 89 degrees 36 minutes 50 seconds West along a Northerly line of said Lot 2 a distance of 250.50 feet; thence South 0 degrees 36 minutes 50 seconds East a distance of 354.84 feet to the South line of said Lot 2; thence North 89 degrees 59 minutes 45 seconds East along the South line of said Lot 2 a distance of 245.66 feet to the Point of Beginning.

The subject is located within Estherville, Emmett County, Iowa.

### Ownership & Sales History

County records show ownership of the subject is vested to SHOPKO STORES, INC. We are aware of no sales of the subject within the past three years or any pending sale of listing. It is noted, however, that the subject's owner was recently acquired by another company. ShopKo Stores, Inc. owns many of its stores; therefore, the sale of the company did include real estate holdings. However, we are aware of no allocation between real estate and going concern.

### Exposure Time

Exposure time is defined within the USPAP, Statement 6, as:

"The estimated length of the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market

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<sup>1</sup> *Uniform Standards of Professional Appraisal Practice*, 2003 Edition, Appraisal Standards Board of the Appraisal Foundation, page 224.

<sup>2</sup> *The Dictionary of Real Estate Appraisal*, Appraisal Institute, 4th Edition, 2003, page 113.

## PRELIMINARY APPRAISAL INFORMATION (CONTINUED)

value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.”<sup>3</sup>

Exposure time is best established upon the experience of recent comparable sales. If the property is an occupied/leased property that is purchased for investment purposes and is appropriately priced, an exposure period of six months or less is supported. There is currently strong demand for the subject product type in the market, with limited properties available for sale.

Comparables used in the Sales Comparison Approach section reported no marketing period information and some were not formally marketed. Marketing periods reported in the 1<sup>st</sup> Quarter 2005 Korpacz survey range from 4.0 to 12.0 months with an average of 7.28 months in the National Strip Center market. We conclude an exposure period of 12 months or less for the subject. A marketing period of 12 months or less is also reasonable.

### Assessment & Tax Information

The subject's current assessed values and property tax liability are summarized the following table:

2003 PROPERTY TAX AND ASSESSMENTS					
ASSESSED VALUES					
APN	Land	Improvements	Total	Taxable Value	Total Taxes
0513100008	\$ 97,100	\$237,500	\$334,600	\$334,600	\$14,406

Source: Emmet County

Property taxes in Iowa are assessed based on a levy rate multiplied by the total taxable value divided by 1,000. The 2003 (most recent available) property tax rate for the subject is \$43.05439 per \$1000 of assessed value.

### Inspection

Lisa Carter inspected the subject on May 5, 2005.

### Appraisal Development & Reporting Process

Preparation of this appraisal included:

- An interior and exterior inspection of the subject property.
- Reviewing assessor's maps.
- Reviewing income and expense information.
- Reviewing county records for information on taxes and assessments.
- Inspecting the subject property neighborhood.
- Gathering and confirming rent comparables and improved sales from immediate and competing neighborhoods.
- Inspecting the exterior of all comparables utilized.
- Analyzing supply and demand conditions in the area.
- Applying traditional approaches to value (Income and Sales Comparison Approaches) to arrive at an indication of value for the subject property.

<sup>3</sup> Uniform Standards of Professional Appraisal Practice, 2003 Edition, Appraisal Standards Board of The Appraisal Foundation, page 224.



## PRELIMINARY APPRAISAL INFORMATION (CONTINUED)

### **Sources of Information**

The following sources were contacted to obtain relevant information:

<b>Source</b>	<b>Information</b>
Emmet County Assessor & Treasurer	Subject Property Information
Site to do Business	Demographic Information
Area Appraisers/Brokers	Comparable Data & Market Information
Comparable Properties/Area Brokers	Rent and Expense Information
Loopnet	Comparable Data & Demographics
<i>Korpacz Investor Survey</i>	Investment Information

### **Compliance & Competency Provision**

We are aware of the compliance and competency provisions of the USPAP, and within our understanding of those provisions the author of this report complies with all mandatory requirements. Philip L. Steffen, MAI, a Certified General Appraiser with the State of Iowa, conducted research, analysis and writing of the appraisal report. Lisa Carter, provided him with significant professional assistance.

### **Unavailability of Information**

We were not provided with an A.L.T.A. survey or environmental reports. Otherwise, all information necessary to develop a reliable estimate of value of the subject property was available.

### **Personal Property, Fixtures & Intangible Items**

No personal property or intangible items are included in this valuation.

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## ■ ASSUMPTIONS AND LIMITING CONDITIONS ■

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This appraisal is subject to the following limiting conditions:

### **Extraordinary Assumptions**

None

### **Hypothetical Conditions**

None

### **General Assumptions**

For proposed properties, the analysis assumes the improvements will be constructed in a professional and workmanlike manner according to the plans included in this report.

In evaluating the value contribution of the physical improvements, reliance has been placed upon information provided by the owner, client, or other sources. It is assumed that there are or will be no hidden defects and that all structural components are or will be functional and operational. If questions arise regarding the integrity of the structure or its operational components, it may be necessary to consult additional professional resources.

The analysis assumes that the legal description accurately represents the subject property. If further verification is required, further research is advised.

Without prior written approval from the authors, the use of this report is limited to decision-making concerning the existing and potential financing of the property. All other uses are expressly prohibited. Reliance on this report by anyone other than the client for a purpose not set forth above is prohibited. The authors' responsibility is limited to the client.

We assume no responsibility for matters legal in character, nor do we render any opinion as to title, which is assumed to be marketable. All existing liens, encumbrances, and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, under responsible ownership and competent management.

The exhibits in this report are included to assist the reader in visualizing the property. We have made no survey of the property and assume no responsibility in connection with such matters.

Unless otherwise noted herein, it is assumed that there are no encroachments, zoning, or restrictive violations existing in the subject property.

The appraisers assume no responsibility for determining if the property requires environmental approval by the appropriate governing agencies, nor if it is in violation thereof, unless noted.

Information presented in this report has been obtained from reliable sources, and it is assumed that the information is accurate.

This report shall be used for its intended purpose only, and by the parties to whom it is addressed. Possession of the report does not include the right of publication.

## ASSUMPTIONS AND LIMITING CONDITIONS (CONTINUED)

The appraisers may not be required to give testimony or to appear in court by reason of this appraisal, with reference to the property in question, unless prior arrangements have been made.

The statements of value and all conclusions shall apply as of the dates shown herein.

The appraisers have no present or contemplated future interest in the property that is not specifically disclosed in this report.

Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the authors. This applies particularly to value conclusions and to the identity of the appraisers and the firm with which the appraisers are connected.

This report must be used in its entirety. Reliance on any portion of the report independent of others may lead the reader to erroneous conclusions regarding the property values. No portion of the report stands alone without approval from the authors.

The distribution of the total valuation of this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

The valuation stated herein assumes professional management and operation of the property throughout the lifetime of the improvements, with an adequate maintenance and repair program.

The liability of PGP VALUATION INC and its employees is limited to the client only and only up to the amount of the fee actually received for the assignment. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way responsible for any costs incurred to discover or correct any deficiency in the property. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures that would render it more or less valuable. In the case of limited partnerships or syndication offerings or stock offerings in real estate, the client agrees that in case of lawsuit (brought by lender, partner, or part owner in any form of ownership, tenant, or any other party), any and all awards, settlements, or cost, regardless of outcome, the client will hold PGP VALUATION INC completely harmless.

The appraisers are not qualified to detect the presence of toxic or hazardous substances or materials that may influence or be associated with the property or any adjacent properties, have made no investigation or analysis as to the presence of such materials, and expressly disclaim any duty to note the presence of such materials. Therefore, irrespective of any degree of fault, PGP VALUATION INC and its principals, agents, and employees shall not be liable for costs, expenses, damages, assessments, or penalties, or diminution in value, property damage, or personal injury (including death) resulting from or otherwise attributable to toxic or hazardous substances or materials, including without limitation hazardous waste, asbestos material, formaldehyde, or any smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids, solids, or gasses, waste materials or other irritants, contaminants, or pollutants.

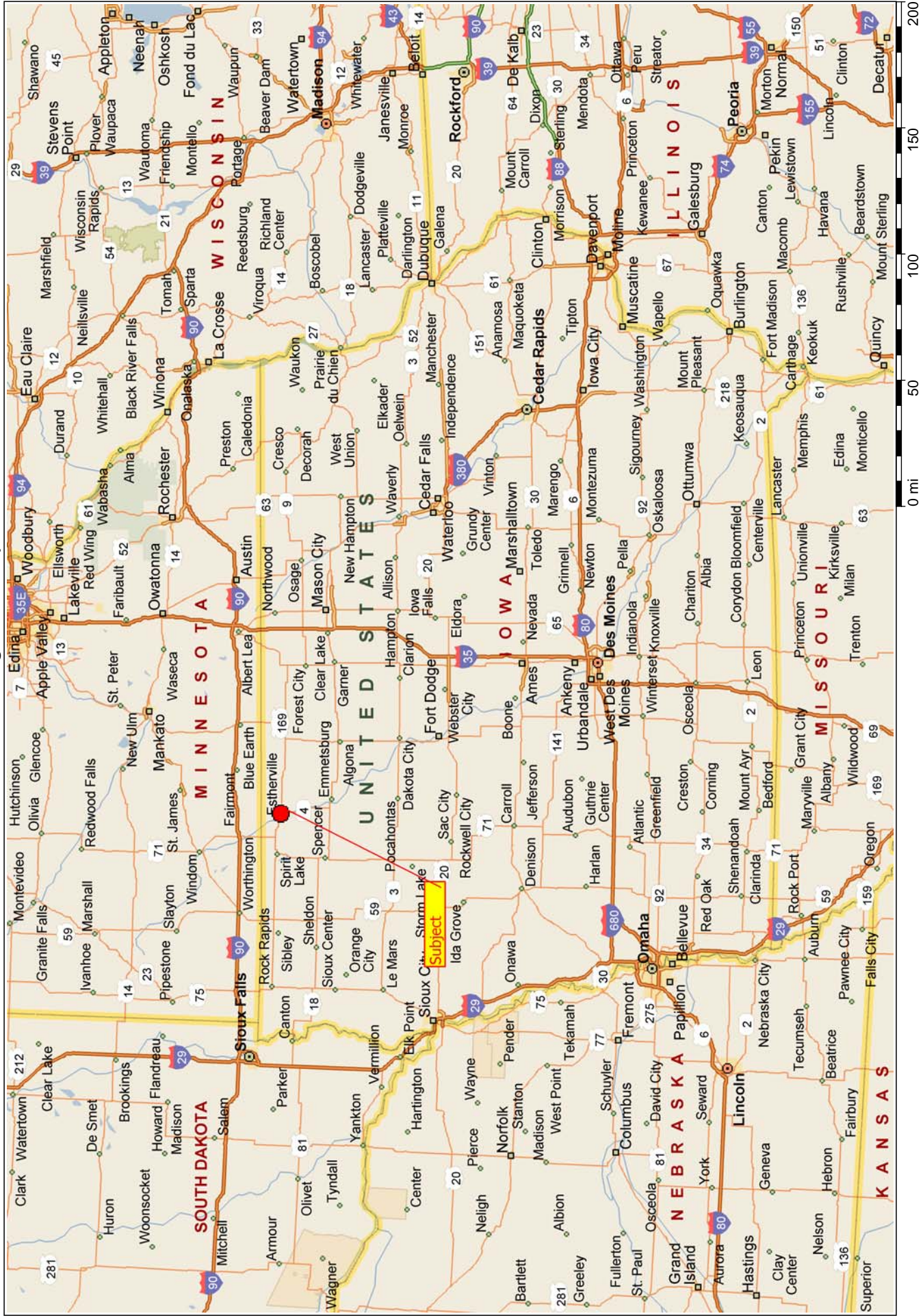
## ASSUMPTIONS AND LIMITING CONDITIONS (CONTINUED)

It is assumed the subject is not affected by mold to the extent the value is impacted. The appraisers are not experts with regard to detecting the presence of mold. We make no claims as to whether the subject is or is not free of the presence of mold. Mold commonly exists in a variety of circumstances. In some instances, mold may be present and not apparent or detectable without specialized training or might occur in locations not visible from a routine inspection for valuation purposes. If questions arise regarding this issue, it is recommended that assistance from an expert in this area be obtained.

The appraisers assume no responsibility for determining if the subject property complies with the Americans with Disabilities Act (ADA), which prescribes specific building standards that may be applied differently to different buildings, depending on such factors as building age, historical significance, amenability to improvement, and costs of renovation. PGP Valuation Inc, its principals, agents, and employees, shall not be liable for any costs, expenses, assessments, penalties, or diminution in value resulting from non-compliance. Except as otherwise noted herein, this appraisal assumes that the subject complies with all ADA standards appropriate to the subject improvements; if the subject is not in compliance, the eventual renovation costs and/or penalties would negatively impact the present value of the subject. If the necessary renovation costs, time period needed for renovation, and penalties for non-compliance (if any) were known today, appropriate deductions would be made to the value conclusion(s) reported herein.



# Estherville, Iowa - Regional Map - S050363



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## REGIONAL DESCRIPTION

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### **Brief History**

Iowa became the 29th State in 1846. It is known as the Hawkeye State, and Des Moines is the capital city. Iowa is bordered by major rivers (the Mississippi and the Missouri) on its east and west sides. It has a rich agricultural tradition and ranks first in the nation with corn and soybean production as well as in hog production from its 93,000 farms. Other leading crops are hay and oats. Iowa ranks third among the states in the value of the livestock and livestock products, behind only Texas and California. A significant share of all the hogs marketed in the United States come from Iowa. Many of the cattle, hogs, and sheep processed in Iowa slaughterhouses were originally shipped to the state from the West and Southwest. Iowa farmers fatten and finish the animals, often on a corn-rich diet, before sending them to market. Dairy cows are also raised on many farms. Iowa ranks among the leading milk-producing states. Most of the milk is used in making butter, cream, and dried milk; only a small fraction of the total is sold fresh or used in making cheese. Eggs, turkeys, and chickens are produced on many farms, some of which specialize in raising poultry.

### **Introduction**

**Employment** – Iowa is known for its good living conditions and quality of life. Iowa offers a rich and rewarding lifestyle with high educational standards, friendly communities, affordable living and convenient access to recreational opportunities. The economy is evolving and diversifying from its original agricultural roots. Iowa companies are leaders in their fields such as advanced manufacturing, information solutions, life sciences and insurance/financial services. Businesses are creating new jobs and opportunities.

Iowa products are an integral part of our every day lives. Windows, washers and dryers and avionics equipment are just a few of the products produced in Iowa. The manufacturers who call Iowa home provide one of the largest single sources of personal income for Iowans.

The Information Age began in Iowa during the 1930's when researchers at Iowa State University built and operated the world's first electronic digital computer. New revolutions take place everyday at Iowa's 1,300 technology intensive companies. Utilizing cutting-edge technologies, Iowa companies are creating and developing new products and solutions for the future in a variety of areas, including, computers, engineering, education, research, finance, manufacturing, insurance, agriculture, customer service and publishing. Iowa's technologically advanced infrastructure also supports research and development. The Iowa Communications Network (ICN), a state-of-the-art fiber-optic communications network, connects all of Iowa's 99 counties to the technological and educational resources of the state. Businesses use ICN's video, voice and data transmission services for job training and statewide technology transfer conferences.

Iowa's rapidly growing life sciences industry cluster is anchored by the nation's premier companies and dynamic entrepreneurial ventures. The innovative minds and discoveries of hundreds of scientists and professionals at Iowa's world-class university research and development centers are focused on commercializing bioscience applications related to plants, animals, and humans. Iowa's public and private researchers are helping to redefine what is grown and how it is grown. Their research is already contributing to the development of healthier foods, life-saving medicine, a sustainable environment, and improved industrial

## REGIONAL DESCRIPTION (CONTINUED)

products. Nearly \$2.5 billion in new technology investments have been made in Iowa by leading life sciences companies including Cargill, Inc., Monsanto, and Pioneer-Hi-Bred International, Inc.

Iowa is home to the nation's leading insurance and financial companies. Through the growth of this industry, Des Moines has become one of the largest insurance centers in North America. With the presence of many insurance and financial giants in Iowa, this segment has seen employment growth each year for more than 20 years.

Some of Iowa's largest and fastest growing industries are in the service sector. This industry includes media, publishing, health services, real estate and business-to-business services. A number of major companies have customer service and credit processing operations in the state and several printing and publishing companies make their home here. Other service areas showing impressive growth in Iowa during recent years include transportation, tourism and recreation, health services, and retail trade.

**Recreation** – Iowa has something for every taste and every interest: concerts, Broadway hits, ethnic festivals, sports, historical sites, cultural celebrations, scenic vistas and a terrain that accommodates nearly every form of recreation.

More than one million people visit Iowa museums and art galleries each year. The Cedar Rapids Museum of Art has the world's largest collection of Grant Wood paintings. The Des Moines Art Center features one of the finest collections in the nation and is itself a masterpiece, designed by noted architects Eliel Saarinen, I.M. Pei and Richard Meier. Along with their extensive permanent collections, Iowa museums often play host to national and international exhibits.

Iowa also has a thriving music and theater scene. Symphonies draw classical music lovers, and the Des Moines Metro Opera is a world-famous repertory company. Broadway shows such as "Miss Saigon," "Cats" and "The Phantom of the Opera" include Iowa stops on their tours. Big name musical acts — Van Halen, Garth Brooks, The Rolling Stones and Elton John have all played to sell-out Iowa crowds. Plus, there are hundreds of smaller venues around the state that offer everything from one-act plays to red-hot blues bands.

Iowa offers AAA baseball, Arena football, International Basketball League games and Junior A hockey action. Major league teams in Chicago, Minneapolis, Kansas City and St. Louis are all just a few hours away. With four Division I schools and many smaller colleges in the state, there are many to root for, including teams in the prestigious Big 10 and Big 12 conferences. Every spring, top athletes such as Michael Johnson and Gwen Torrence run in the Drake Relays, held at Drake University in Des Moines. In 1999, 22 Olympians competed in the relays. RAGBRAI, the annual week-long bike trek across the state is one of the largest and oldest organized group bicycle rides in the world. The Iowa State Fair, one of the longest-running in the nation, brings two weeks of fun and entertainment.

Iowa has much to offer the outdoor enthusiast. The state's terrain can accommodate everything from downhill skiing to bicycling. Iowa has 56,000 acres of state parks, more than 380 golf courses and eight major ski areas. There are over 1,000 miles of trails that criss-cross the state. Iowa is one of the nation's leaders for rail/bicycle trail conversions, offering a variety of trails including snowmobile trails, equestrian trails, nature and hiking trails, and canoe routes.

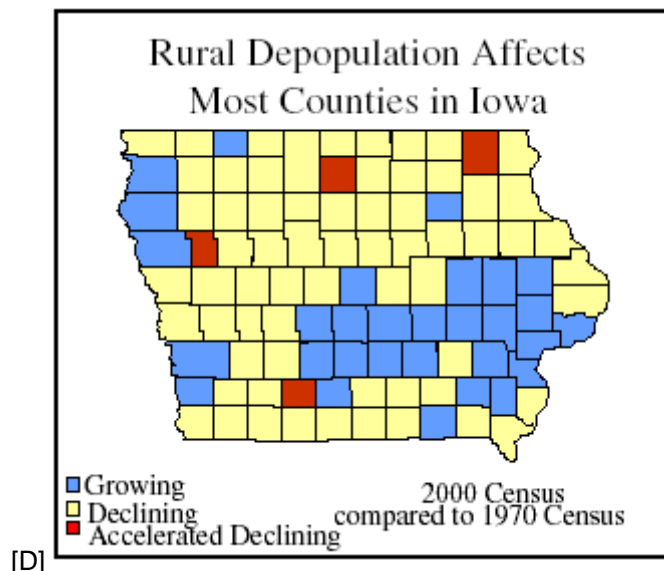


## REGIONAL DESCRIPTION (CONTINUED)

Hunting is a popular state pastime, with Iowa as the nation's leading pheasant hunting state. Fishing can be found in 19,000 miles of interior fishing streams and four large recreational and flood control reservoirs. The bordering Mississippi and Missouri Rivers offer water sports, scenery and both passenger and commercial water travel. There is an abundance of game and campgrounds along with 265 man-made and natural lakes, including two major natural "great lakes" areas.

### **Population**

As of 2003, Iowa's estimated population was 2,944,062 and ranks 30th among the states. The state has experienced modest population growth, at best, over the past 35 years. The average population growth from 1970 to 2000 was 3.27% and 0.43% from 1980 to 2000. Population growth has been slow because technological changes and consolidation in the agricultural sector have reduced the demand for farm labor. Farmers have become less dependent on nearby small towns to purchase inputs and professional services. As a result, people have migrated from rural areas to metropolitan areas to seek better employment opportunities. As shown on the map 65 of Iowa's 99 counties have lost population since 1970, and four of those counties also lost population at an increasing rate in the 1990s.



A concern for the small Iowa towns in counties that are losing population at a faster rate is they may be in danger of losing their economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Another concern for Iowa as a state is a phenomenon known as "rural flight" – the shift of population from the traditional rural farm towns to heavier populated employment centers within the state or in many cases out of state. Iowa, in common with five other Mid-West states (Kansas, Nebraska, Oklahoma, North and South Dakota), is feeling the brunt of falling populations in their rural areas. 89% of the total number of cities in those states have fewer than 3000 people; hundreds have fewer than 1000. Between 1996 and 2004 almost half a million people, nearly half with college degrees, left the six states. Because there are no real incentives or employment opportunities in the small rural towns for the young educated people, many of them are struggling economically and dying on the vine. "Rural flight" has led to offers of free land and tax breaks as enticements to newcomers.



## REGIONAL DESCRIPTION (CONTINUED)

Iowa's land area is 55,869 square miles and has a population density of 52.4 people per square mile. Below is a breakdown of the population statistics for Iowa.

<b>Land Area and Urbanization</b>
<p><b>Land area and population density (2000)<sup>1</sup></b>            Land area: 55,869.3 square miles            Population density: 52.4 people per square mile</p> <p><b>Urban and rural population (2000)<sup>1</sup></b>            Urban: 61.1%            Rural (total): 38.9%            Rural (farm): 5.9%</p> <p><b>Metropolitan and non-metropolitan population (2003)<sup>1,2</sup></b>            Metropolitan: 53.4%            Non-metropolitan: 46.6%</p> <p>Metropolitan areas: 9 areas comprised of 20 Iowa counties            Micropolitan areas: 15 areas comprised of 17 Iowa counties            Combined statistical areas: 4 areas comprised of 13 Iowa counties</p>
<b>Vital Statistics</b>
<p><b>Births (2003)<sup>6</sup></b>            Total: 38,139            Rate per 1,000 population: 13.0</p> <p><b>Deaths (2003)<sup>6</sup></b>            Total: 27,972            Rate per 1,000 population: 9.5</p> <p><b>Marriages (2003)<sup>6</sup></b>            Total: 20,371            Rate per 1,000 population: 6.9</p> <p><b>Dissolutions (2003)<sup>6</sup></b>            Total: 8,285            Rate per 1,000 population: 2.8</p>
<b>Households and Families</b>
<p><b>Households (2003)<sup>1</sup></b>            Number of households: 1,158,018            Average household size (people): 2.45</p> <p><b>Families (2003)<sup>1</sup></b>            Number of families: 758,104            Average family size (people): 3.02</p> <p>Married couple family with own children under 18 years: 34.1%            Single householder with own children under 18 years: 11.7%</p>
<b>General Demographic Characteristics</b>
<p><b>Sex and age (2003)<sup>1</sup></b>            Male: 49.2% Female: 50.8%</p> <p>Population under 5 years: 6.2%            Population 18 years and over: 76.4%            Population 65 years and over: 14.7%            Population 85 years and over: 2.4%</p> <p>Median age (years): 37.7</p>

## REGIONAL DESCRIPTION (CONTINUED)

The estimated projected population in 2015 is 3,087,683. This is an expected increase of 4.65% over the next ten years. This is a larger projected increase than historical average for the past 20 and 30 years, most likely based on the efforts of economic diversification by the state and aggressive marketing strategies of economic development agencies to entice businesses to locate or relocate to Iowa.

Below is the population breakdown for the Metropolitan Statistical Areas of Iowa.

### **Metropolitan Statistical Areas of Iowa**

<u>Name</u>	<u>State(s)</u>	<u>Population (Current)</u>
<u>Ames, IA MSA</u>	Iowa	83,964
<u>Cedar Rapids, IA MSA</u>	Iowa	237,230
<u>Davenport-Moline-Rock Island IA-IL MSA</u>	Illinois, Iowa	376,019
<u>Des Moines IA CBSA</u>	Iowa	512,416
<u>Dubuque, IA MSA</u>	Iowa	90,309
<u>Iowa City, IA MSA</u>	Iowa	131,676
<u>Omaha-Council Bluffs, NE-IA MSA</u>	Iowa, Nebraska	767,041
<u>Sioux City, IA-NE-SD MSA</u>	Iowa, Nebraska, South Dakota	143,053
<u>Waterloo-Cedar Falls, IA MSA</u>	Iowa	163,706

Metropolitan and Urban populations are increasing, while rural and non-metropolitan areas are declining. This is due to availability of jobs brought on by economic diversification in the metropolitan areas and the increased reliance on machines in the agricultural sector, which has lessened the need of farm workers, hence decreasing population in the rural areas.

### **The Labor Force**

Iowa's total work force numbered 1,630,000 in 2004. Of those, 35 percent worked in the diverse services sector, doing jobs working in restaurants or data processing. Another 25 percent worked in wholesale or retail trade; 18 percent in manufacturing; 5 percent in federal, state, or local government, including those in the military; 1 percent in farming (including agricultural services), forestry, or fishing; 6 percent in finance, insurance, or real estate; 5 percent in construction; and 6 percent in transportation or public utilities. Employment in mining was insignificant. In 2004, 11 percent of Iowa's workers were members of a labor union.

Iowa students are among the highest achievers in the nation, based on state and national performance exams. Seventy-seven percent of graduating high school seniors (public schools only) had plans to enroll in college.

Below is a detailed breakdown of the labor force, education and unemployment statistics.

<b>Civilian Labor Force</b>				
	<b>Civilian Labor Force</b>	<b>Employment</b>	<b>Unemployed</b>	<b>Unemployment Rate</b>
<b>March 2005</b>	1,643,200	1,559,800	83,400	5.10%
<b>2004</b>	1,627,800	1,556,200	71,600	4.40%
<b>2003</b>	1,612,300	1,540,100	72,200	4.50%
<b>2002</b>	1,663,000	1,596,500	66,600	4.00%
<b>2001</b>	1,587,800	1,534,800	53,000	3.30%
<b>2000</b>	1,563,100	1,522,100	40,900	2.60%
<b>Labor Force Participation Rate</b>				

## REGIONAL DESCRIPTION (CONTINUED)

	2003	2000	
<b>Civilian Labor Force – Male</b>	849,000 / 76.50%	817,557 / 74.00%	
<b>Civilian Labor Force – Female</b>	763,000 / 64.90%	737,165 / 62.60%	
<b>Civilian Non-Institutional Population 16 and Over – Male</b>	1,111,000 / 48.60%	1,104,397 / 48.40%	
<b>Civilian Non-Institutional Population 16 and Over – Female</b>	1,175,000 / 51.40%	1,176,877 / 51.60%	
<i>Data Source: Bureau of Labor Statistics and U.S. Census</i>			
<b>Education – Enrollment and Graduates</b>			
<b>2003</b>	<b>Enrollment</b>	<b>Graduates</b>	
<b>High School – Public</b>	152,565	34,942	
<b>High School – Private</b>	8,070	0	
<b>High School Students Enrolling in College</b>	26,913		
<i>Data Source: Iowa Department of Education; High School Students Enrolling in College is for public high schools only.</i>			
<b>2003</b>	<b>Headcount</b>	<b>Full-Time</b>	<b>Graduates</b>
<b>Community College</b>	78,404	40,931	13,184
<b>4-Year College</b>	134,314	88,361	27,865
<i>Data Source: National Center for Education Statistics; 4 Year College includes both public and private; Community College includes only public; Graduates equals all degrees and certificates awarded by the colleges.</i>			
<b>Comments</b>			
The overall labor participation rate for Iowa is 68.2%. 71.4% of families with children under 6 years have both parents in the labor force.			

Iowa's unemployment rate was slightly higher than the national rate of 4.9% for March 2005. However, this rate should decline based on the positive outlook of the March 2005 Iowa Business Council release of the Quarterly Economic Outlook Survey. With a 100% survey response rate of corporate members, over the next six months, 68% of respondents expect an increase in employment overall. 83% of the manufacturers responding in the Survey expect employment to increase. InfoUSA reports that the number of businesses in Iowa grew 3.2%, while the nation's business count declined by 2.5%.

### Wages and Income

Iowa by regional and national standards has relatively low wages, a fact that is only partially a reflection of their lower cost of living. Estimates in 2001 was that Iowa's low cost of living accounted for only about one-third of the \$6,000 gap between Iowa's average annual wage and the national average annual wage; and that differences in the cost of living account for little of Iowa's low rankings within the region.

Below outlines factors that impact Iowa's wages and income.

- Deindustrialization (in Iowa and the nation) has meant lower wages. Service employment is less likely to offer full-time, full-benefit, high-wage employment than the manufacturing employment it replaced. Wages for all but the highest income groups stagnated or declined between 1973 and 1995.

## REGIONAL DESCRIPTION (CONTINUED)

- Although Iowa has not lost manufacturing jobs at as high a rate as the nation or its peer states, manufacturing wages (which peaked in the early 1980s) have suffered. High-wage employment (often sustained by union contracts) in industries such as meatpacking and farm machinery has declined.
- In general, the farther one gets from a major city, the lower the wage. Jobs are highest in the Big Nine counties, lowest in the 74 rural counties.
- In 2001, average earnings per job were \$30,940 in the Big Nine counties, 30 percent higher than in the bottom 74.

Another factor impacting Iowa's wages and income is the jobless recovery of the economic recession that began March 2001. The recession officially ended eight months after it started, when the national economy began to grow again, but the "recovery" has been the weakest in modern American history. For the first time since 1940 (a period covering 11 recessions) jobs have not recovered within 31 months of an economic downturn – a gap exacerbated by the fact that almost 10 million young Americans have entered the labor force over this span. (Lee Price and Yulia Fungard, "Understanding the Severity of the Current Labor Slump" –EPI Briefing Paper, February 2004). Just as the strong labor markets of the late 1990s led to real gains for most workers, the recession and jobless recovery have weakened wages and incomes. Three charts demonstrating the wage trends for Iowa broken into distribution groups of low-wage, median wage and high wage workers follow.

- This first chart is representative of the low wage category and offers a national and regional comparison for 20th percentile low-wage workers (20 percent of workers earn less, 80 percent earn more).

**Table 2.1. Low Wages: U.S., Iowa and Peers, 1979-2002**

	Hourly wage at 20th percentile in 2002 dollars					Percent Change		
	1979	1989	1995	2000	2002	79-95	95-00	00-02
Minnesota	7.98	7.72	8.26	9.37	9.35	4 %	13 %	0 %
Wisconsin	7.93	7.02	7.35	8.80	9.01	- 7 %	20 %	2 %
Illinois	8.60	7.59	7.68	8.24	8.47	- 11 %	7 %	3 %
Missouri	7.48	6.81	7.14	8.55	8.40	- 5 %	20 %	- 2 %
Indiana	7.72	6.84	7.39	8.50	8.38	- 4 %	15 %	- 1 %
<b>Iowa</b>	<b>7.54</b>	<b>6.67</b>	<b>7.19</b>	<b>8.41</b>	<b>8.26</b>	<b>- 5 %</b>	<b>17 %</b>	<b>- 2 %</b>
Kansas	7.71	6.91	6.70	7.74	8.06	- 13 %	15 %	4 %
Nebraska	7.35	6.58	6.98	7.80	8.00	- 5 %	12 %	3 %
South Dakota	6.96	6.06	6.77	8.03	7.98	- 3 %	19 %	- 1 %
<b>Total U.S.</b>	<b>7.73</b>	<b>7.26</b>	<b>7.25</b>	<b>8.11</b>	<b>8.23</b>	<b>- 6 %</b>	<b>12 %</b>	<b>1 %</b>

Source: Economic Policy Institute.

Through the 1980s, Iowa fell well behind the national 20th percentile wage (\$7.26 in 1989), and in the region outranked only Nebraska and South Dakota. The low unemployment of the mid- and late-1990s, by contrast, was very good for Iowa's low wage workers who earned more than their national peers. Iowa's regional ranking has improved slightly (it is now ahead of Kansas and the nation), although it still falls over a dollar behind the region's leader (Minnesota). In the 16 years from 1979 to 1995, wages fell by between 3 percent and 13 percent in the United States and in all states in the region save Minnesota; yet in the succeeding five years, wages rose by 7 percent or more (17 percent in Iowa). Between 2000 and 2002, hourly wages decreased for five of nine states in the region, including Iowa.

## REGIONAL DESCRIPTION (CONTINUED)

- This second chart is representative of the median wage category, and is representative of wages at the 50th percentile (half of all workers earn more, half earn less).

**Table 2.2. Median Wages: U.S., Iowa and Peers, 1979-2002**

	Median hourly wage in 2002 dollars					Percent Change		
	1979	1989	1995	2000	2002	79-95	95-00	00-02
Minnesota	12.60	12.40	12.60	14.97	14.64	0 %	19 %	- 2 %
Illinois	13.57	12.91	12.96	13.63	14.17	- 5 %	5 %	4 %
Missouri	11.72	11.18	11.36	12.97	13.20	- 3 %	14 %	2 %
Wisconsin	12.59	11.53	11.91	12.77	13.18	- 5 %	7 %	3 %
Indiana	11.98	11.05	11.23	12.48	12.95	- 6 %	11 %	4 %
<b>Iowa</b>	<b>11.76</b>	<b>10.78</b>	<b>10.75</b>	<b>12.42</b>	<b>12.25</b>	<b>- 9 %</b>	<b>16 %</b>	<b>- 1 %</b>
Kansas	11.53	11.35	10.64	12.14	12.12	- 8 %	14 %	0 %
Nebraska	11.04	10.17	10.48	11.09	11.89	- 5 %	6 %	7 %
South Dakota	9.72	9.29	9.94	11.29	11.13	2 %	14 %	- 1 %
<b>Total U.S.</b>	<b>12.08</b>	<b>12.08</b>	<b>11.87</b>	<b>12.79</b>	<b>13.19</b>	<b>- 2 %</b>	<b>8 %</b>	<b>3 %</b>

Source: Economic Policy Institute.

2000 median wages in Iowa ranked ahead of only the region's most rural states (Kansas, Nebraska, South Dakota), and fell well behind both the national median and that of the region's high wage states. In Iowa, as in much of the region, these workers suffered through a dismal decade in the 1980s; real wages even in 1995 were below 1979 levels in most states. Between 1979 and 1995, Iowa's real median wage declined by 9 percent. Between 1995 and 2000, Iowa's median wage finally rebounded with an increase of 16 percent. Minnesota took the lead in the region by the year 2000 after a 19 percent increase over 1995 levels. Four states in the region (including Iowa) experienced hourly wage decreases between 2000 and 2002.

- This last chart is representative of the high wage category, and is representative of wages at the 80th percentile.

**Table 2.3. High Wages: U.S., Iowa and Peers, 1979-2002**

	Hourly wage at 80th percentile in 2002 dollars					Percent Change		
	1979	1989	1995	2000	2002	79-95	95-00	00-02
Illinois	21.35	21.01	21.41	22.76	23.92	0 %	6 %	5 %
Minnesota	19.51	20.88	20.32	23.96	23.39	4 %	18 %	- 2 %
Kansas	17.64	18.26	18.31	19.93	21.19	4 %	9 %	6 %
Wisconsin	18.84	18.44	18.86	20.36	20.99	0 %	8 %	3 %
Missouri	19.12	18.46	18.18	20.94	20.75	- 5 %	15 %	- 1 %
Indiana	18.41	17.77	17.71	20.73	20.69	- 4 %	17 %	- 2 %
<b>Iowa</b>	<b>18.29</b>	<b>16.97</b>	<b>17.48</b>	<b>19.55</b>	<b>19.62</b>	<b>- 4 %</b>	<b>12 %</b>	<b>0 %</b>
Nebraska	17.05	16.91	17.17	18.17	19.10	1 %	6 %	5 %
South Dakota	15.96	14.84	15.64	17.93	17.55	- 2 %	15 %	- 2 %
<b>Total U.S.</b>	<b>19.30</b>	<b>20.07</b>	<b>20.27</b>	<b>21.80</b>	<b>22.52</b>	<b>5 %</b>	<b>8 %</b>	<b>- 3 %</b>

Source: Economic Policy Institute.

Unlike low and median wages, high wages in Iowa actually increased between 2000 and 2002. Still, the gap between Iowa and its peers, and between Iowa and the nation, widens at the 80th percentile. The implications include a relatively dismal payoff for education in Iowa's labor market, and persistent obstacles to the retention and recruitment of higher wage (often professional) workers. Low wages lie at the root of both the low recruitment and retention rate among schoolteachers in Iowa and contribute to the chronic nursing shortage. A rural-urban earnings gap also persists in Iowa, and it has been widening. Average earnings in the largest

## REGIONAL DESCRIPTION (CONTINUED)

nine counties in 1990 exceeded average earnings in the rural 74 counties by about \$6,100 (in 2001 dollars), a 28 percent wage premium for living in an urban area. By 2001, the difference had widened to about \$7,100 or a 30 percent wage premium for urban workers (See Figure 2.4).

A common response of workers to declining real wages is to work more, a choice that sustains family incomes at the expense of time spent with family and friends. In Iowa, as throughout the region, the rate of multiple job holding fell during the boom of the late 1990s but has rebounded since the onset of the recession. This pattern emerges more dramatically if we turn to hours worked. The annual hours worked for all married couples (with children) in Iowa has ballooned to over 4,000, more than the equivalent of two full-time jobs. This is the second-highest hourly burden in the nation (only South Dakotans work more), and represents 380 more hours at the job, per family, than the national average.

As of Labor Day, September 2004, Iowans were encouraged by signs that Iowa's job picture is improving. However, net job gains have not yet proved to be sustainable, and given the lag between job trends and wage trends it is believed that the full impact of the recession on payrolls and pocketbooks remains to be seen.

### **The Economy**

Iowa's major industries are advanced manufacturing, agriculture, life sciences and insurance. Below is an outline of these industries and businesses in these fields and their contribution to Iowa's economy.

- **Advanced Manufacturing**

Advanced Manufacturing is defined as the rapid introduction of new processes, materials and technologies to manufacturing applications. This sector gains competitive advantages through continuous innovation. Manufacturing companies are located in all 99 Iowa counties, and span many industries, such as food, machinery, chemicals, equipment, fabricated metals and printing. Iowa's largest manufacturing industries are: food processing, machinery (especially machinery for agriculture, construction, and mining) and chemicals (particularly pesticides, fertilizers, and other agricultural chemicals). Iowa's manufacturing sector is comprised of over 220,000 jobs, almost 16 percent of Iowa's workforce. In 2002, manufacturing contributed \$20.1 billion to Iowa's Gross State Product (GSP) and amounts to 22 percent of Iowa's GSP, making manufacturing the largest economic sector in the state.

Advanced Manufacturing businesses in Iowa include:

- 3M
- ALCOA
- Custom-Pak Inc.
- Electrolux/Frigidaire
- Emerson Process Management/Fisher Controls International
- HON Industries
- IPSCO Steel
- John Deere
- Kind & Knox
- Lennox Manufacturing Inc.

## REGIONAL DESCRIPTION (CONTINUED)

- Maytag Corporation
- Pella Corporation
- Rockwell Collins
- Sauer-Danfoss Co.
- Vermeer Manufacturing
- Winnebago Industries Inc.

### • **Food Processing**

ConAgra Foods, Wells Blue Bunny, Barilla, Heinz, Wonder Bread/Hostess Snack Cakes, Tone's Spices, General Mills, Quaker, JollyTime are national brands that manufacture products in Iowa. Food processing is the largest segment of the manufacturing industry in Iowa contributing over \$4 billion to Iowa's Gross State Product (GSP) and representing 21 percent of the manufacturing GSP of the state. Almost 700 food industry businesses are located in the state and the food processing industry provides Iowa with over 51,000 jobs.

### • **Agriculture**

Centrally located in the heartland of America, Iowa has often been called "The Food Capital of the World." Iowa is the one of the wealthiest agricultural states in the nation, as total cash receipts from this industry valued \$12.6 billion in 2003. Iowa ranks 3rd in the nation for number of farms, with 89,700 farms. Iowa is made up of 31.7 million acres of farmland, with the average farm being around 353 acres. Iowa is the top producer of corn, soybeans, hogs and eggs in the United States. In 2004, Iowa's farmers produced 2.24 billion bushels of corn. That same year, Iowa farmers produced 497.4 million bushels of soybeans. Iowa ranks as the number one state in the nation for hogs and second in the nation for pigs. Iowa hog farmers had 16.1 million hogs on hand in 2004 and 15.2 million pigs, almost 15% of the nation's pig crop. One pound out of every 3.5 pounds of pork comes from a facility in Iowa. Iowa egg farmers produced 11.6 billion eggs, 13% of the eggs produced nationwide. Iowa's dairy farmers produced an estimated 3.60 billion pounds of milk in 2004 from the 187,000 milk cows in the state.

Iowa produces 19% of the nation's corn supply, almost 16% of the nation's soybeans, and 13% of the nation's eggs. Livestock and livestock product receipts in 2003 totaled \$6.07 billion; crop receipts totaled \$6.56 billion in 2003. 91.0% of the state's land area is arable (fit for growing crops) – the highest percentage in the United States. Currently, the ethanol industry buys 320 million bushels of corn from Iowa growers each year.

2004 Commodity Market in Iowa /Iowa ranks:

- 1st in corn production – 2.24 billion bushels
- 2nd in soybean production – 497.4 million bushels
- 1st in egg production – 11.6 billion eggs produced
- 2nd in red meat production – Iowa produced 6.42 billion pounds of red meat (beef, veal, pork, mutton) in 2003
- 3rd in cash receipts from commodities at almost \$12.6 billion in 2003

### • **The Business of Agriculture in Iowa**

## REGIONAL DESCRIPTION (CONTINUED)

These companies help make the business of agriculture big business in Iowa.

- Cargill Inc.
- Pioneer Hi-Bred International
- Monsanto Co.
- Ajinomoto
- Rose Acre Farms
- Hy-Line International
- Garst Seed Company
- Heartland Pork Enterprises

### • **Biotechnology**

Iowa is building a future for the field of biotechnology in the state by leading the biotechnology revolution with raw materials, innovative minds, and economic opportunities. Iowa has a rich history in the life sciences sector, a culture of innovation that reaches far into the past and continues today.

Iowa is home to more than 1,800 biotech establishments, ranging from large international companies, to small startups. The long-standing partnership among government, education and business has made Iowa fertile ground for ideas that will continue to propel the biotechnology industry. Many of the globally respected companies in this field are at work in the state. Companies such as Fort Dodge Animal Health, TransOva, Kemin Industries, IDT (Integrated DNA Technologies), Wyeth, Proliant, Inc., Roche Vitamins Inc., Roquette America, Boehringer Ingelheim Vetmedica and Wacker Biochem Corp. are working in Iowa to prepare breakthroughs for the food industry, medicine and renewable industrial products. Iowa serves as home to more than 1,800 establishments, ranging from large international companies, to small startups including:

- Bio-Research Products Inc
- Boehringer Ingelheim Vetmedica
- Diosynth, Inc.
- Fort Dodge Animal Health
- Kemin Industries
- Penford Products Co.
- IDT (Integrated DNA Technologies)
- Proliant, Inc.
- Roche Vitamins Inc.
- Roquette America
- TransOva Genetics
- Wacker Biochem Corp.
- Wyeth
- Ajinomoto

### • **Finance and Insurance Services**

With the presence of many insurance and financial giants in the state, Iowa is widely regarded as a major center for the insurance and financial services industries. Nearly 6,500 firms and 94,000 employees are at work in this sector in Iowa. Major companies in the insurance and finance sectors include:



## REGIONAL DESCRIPTION (CONTINUED)

- AEGON, USA
- Nationwide Group
- AmerUs
- EMC Insurance Group
- Farm Bureau Financial Services
- ING
- Marsh Affinity Group
- MetLife
- Principal Financial Group and Principal Capital Management
- Wellmark Blue Cross & Blue Shield of Iowa
- Wells Fargo and Wells Fargo Financial Service

Iowa has a critical mass of insurance companies that continues to grow and prosper, giving Iowa a well deserved reputation as one of the country's leading centers of the insurance industry. Iowa is the home office state for 2,630 insurance and related firms and Iowa's insurance industry has:

- 57 domiciled property and casualty companies
- 26 domiciled life insurance companies.
- 6 Health Maintenance Organization headquarters
- More than 100 county mutual insurance company headquarters
- More than 40,000 workers

In recent years, Iowa has seen \$254 million in insurance expansions, creating nearly 2,200 new jobs.

*Sources: Iowa Workforce Development, Iowa Department of Economic Development, Battelle Memorial Institute, The Northeast-Midwest Institute, U.S. Department of Agriculture, Iowa Department of Agriculture, Iowa Farm Bureau – Revised May 2005*

### • **Top Employers by Industry**

#### **-Manufacturing**

- Deere & Co
- Rockwell Collins
- Pella Corp.
- Frigidaire/Electrolux
- Maytag Corporation
- Alcoa Mill Products
- Winnebago Industries Inc.

#### **-Information**

- Communication Data Services
- NCS Pearson
- Qwest Communications
- McLeod USA Telecom
- EDS Resources Management

#### **-Finance/Insurance**

- Principal Financial Group
- Aegon
- Nationwide Mutual Insurance
- Wells Fargo Home Mortgage
- Marsh

## REGIONAL DESCRIPTION (CONTINUED)

### **-Agriculture**

- Iowa Select Farms
- Heartland Pork Enterprises
- Rose Acre Farms
- Hy-Line International
- Iowa Ag LLC

*Revised September 2004*

Iowa is reinventing itself by offering business incentives in form of creative tax advantages to encourage businesses and entrepreneurs to locate or relocate to Iowa. The state economic development office is taking an aggressive stance on marketing and encouraging growth for the state. Other state programs include employee training programs, finance programs for small businesses and enterprise zones, a program designed to encourage businesses and developers to target distressed areas in Iowa to make them more competitive by creating jobs and building and rehabilitating housing within these areas. All of these incentives are meant to stimulate growth and help to further diversify a historically agricultural based economy. Iowa has positive business climate rankings:

### **Iowa ranks:**

- 12th on the Cost of Business Index (Economy.com, 2003)
- 5th for The Best States for E-Commerce (Progressive Policy Institute, 2002)
- 17th on the State Competitiveness Index (Beacon Hill Institute of Suffolk University, 2004)
- 4th on the State Liability Systems Ranking (Harris Interactive, Inc., 2004)
- 14th for Workers Compensation Costs with an average cost of \$2.99 per 100 of payroll (Actuarial & Technical Solutions, Inc., 2004)
- 6th for University Research & Development expenditures with \$163.96 per capita (Development Report Card for the States, 2004)

### **Mayor's Challenge List of Best Places in the U.S. to locate a company (Expansion Management, 2004)**

- Des Moines ranks 1st overall and 1st for metros between 250,000 and 1 million population
- Iowa City ranks 5th overall and 1st for metros less than 250,000 population
- Cedar Rapids ranks 12th overall and 4th for metros less than 250,000 population
- Dubuque ranks 38th overall
- Waterloo-Cedar Falls ranks 43rd overall

### **Best Performing Cities: Where America's Jobs Are Created (Milken Institute, 2004)**

- Des Moines, Cedar Rapids, Davenport-Moline-Rock Island, Iowa City, Dubuque, Omaha-Council Bluffs, Sioux City and Waterloo-Cedar Falls all made the list.

### **America's 100 Most Logistics-Friendly Cities Ranking**

- Des Moines ranks as a 4-Star Community (Expansion Management, 2004)

## REGIONAL DESCRIPTION (CONTINUED)

Analysis of gross taxable sales in Iowa helps illustrate Iowa's modest economic growth rate over the last five years. The following table summarizes gross taxable sales in Iowa since 2000.

<b>Iowa Gross Taxable Sales (Billions of Dollars)</b>		
<b>Calendar Year</b>	<b>Gross Taxable Sales</b>	<b>Percentage Change</b>
2004	\$67,577	2.81%
2003	\$65,674	1.25%
2002	\$64,852	-0.69%
2001	\$65,308	2.98%
2000	\$63,358	

*Source: Iowa State Tax Commission*

Iowa's gross taxable dollars grew at a slow pace with an average of 1.25% a year since 2000.

The following table breaks down the Iowa economy by employment by industry and shows declining employment across the board, though some sectors are regaining lost employment and have even grown over 2000 numbers (construction, finance, government, retail and wholesale trade).

<b>Employment By Industry</b>			
	<b>2000</b>	<b>2004</b>	<b>2003</b>
<b>Agriculture &amp; Mining</b>	65,903 / 3.36%	17,755 / 1.16%	21,339 / 1.44%
<b>Construction</b>	91,824 / 4.68%	63,564 / 4.16%	19,132 / 1.29%
<b>Finance, Insurance &amp; Real Estate</b>	100,395 / 5.12%	114,996 / 7.52%	116,249 / 7.83%
<b>Government</b>	51,058 / 2.60%	87,683 / 5.73%	31,891 / 2.15%
<b>Manufacturing</b>	253,444 / 12.92%	196,088 / 12.82%	187,814 / 12.66%
<b>Retail Trade</b>	179,381 / 9.15%	290,795 / 19.02%	330,808 / 22.29%
<b>Service</b>	1,092,522 / 55.71%	606,811 / 39.69%	583,448 / 39.32%
<b>Transportation &amp; Public Utilities</b>	73,170 / 3.73%	66,709 / 4.36%	130,687 / 8.81%
<b>Wholesale Trade</b>	53,267 / 2.72%	84,604 / 5.53%	62,619 / 4.22%
<b>Total</b>	1,960,964 / 99.99%	1,529,005 / 99.99%	1,483,987 / 100.01%

*Data Source: United States Census Data and Applied Geographic Solutions*

There is a 22% difference in the number of employed in 2000 compared to those employed in 2004. Though employment is improving over last years numbers, Iowa has yet to regain many of the jobs lost due to the economic downturn in March 2001.

### **Real Estate and Construction**

As a result of lower mortgage interest rates residential real estate has experienced heavy demand in recent years. Sales volumes and average home prices on most of the realtor boards in the state have been at historically-high levels. Residential construction activity has grown impressively over the past several years. Single-family home construction continues to be the main stay of residential construction.

## REGIONAL DESCRIPTION (CONTINUED)

Iowa New Residential Housing Permits										
Year-to-Date March										
Units	97	98	99	00	01	02	03	04	05	% Chg 04-05
Number of Permits										
Total	1,758	2,391	2,329	2,660	2,171	3,143	2,683	2,836	3,179	12.1%
1	1,013	1,400	1,899	1,887	1,514	1,821	1,978	2,109	2,339	10.9%
2	48	28	82	86	66	46	24	66	70	6.1%
3-4	23	234	20	95	43	45	124	41	88	114.6%
5+	674	729	328	592	548	1,231	557	620	682	10.0%
Value of Permits (\$1,000s)										
Total	147,410	211,821	242,869	274,453	247,411	359,252	320,214	372,822	438,175	17.5%
1	118,459	167,098	218,852	228,964	207,161	247,775	276,715	322,416	379,401	17.7%
2	3,051	2,642	6,817	7,352	5,606	4,250	2,891	6,841	6,629	-3.1%
3-4	2,005	9,597	1,095	6,837	2,849	3,634	8,579	3,200	6,307	97.1%
5+	23,895	32,484	16,105	31,300	31,795	103,323	32,029	40,365	45,838	13.6%

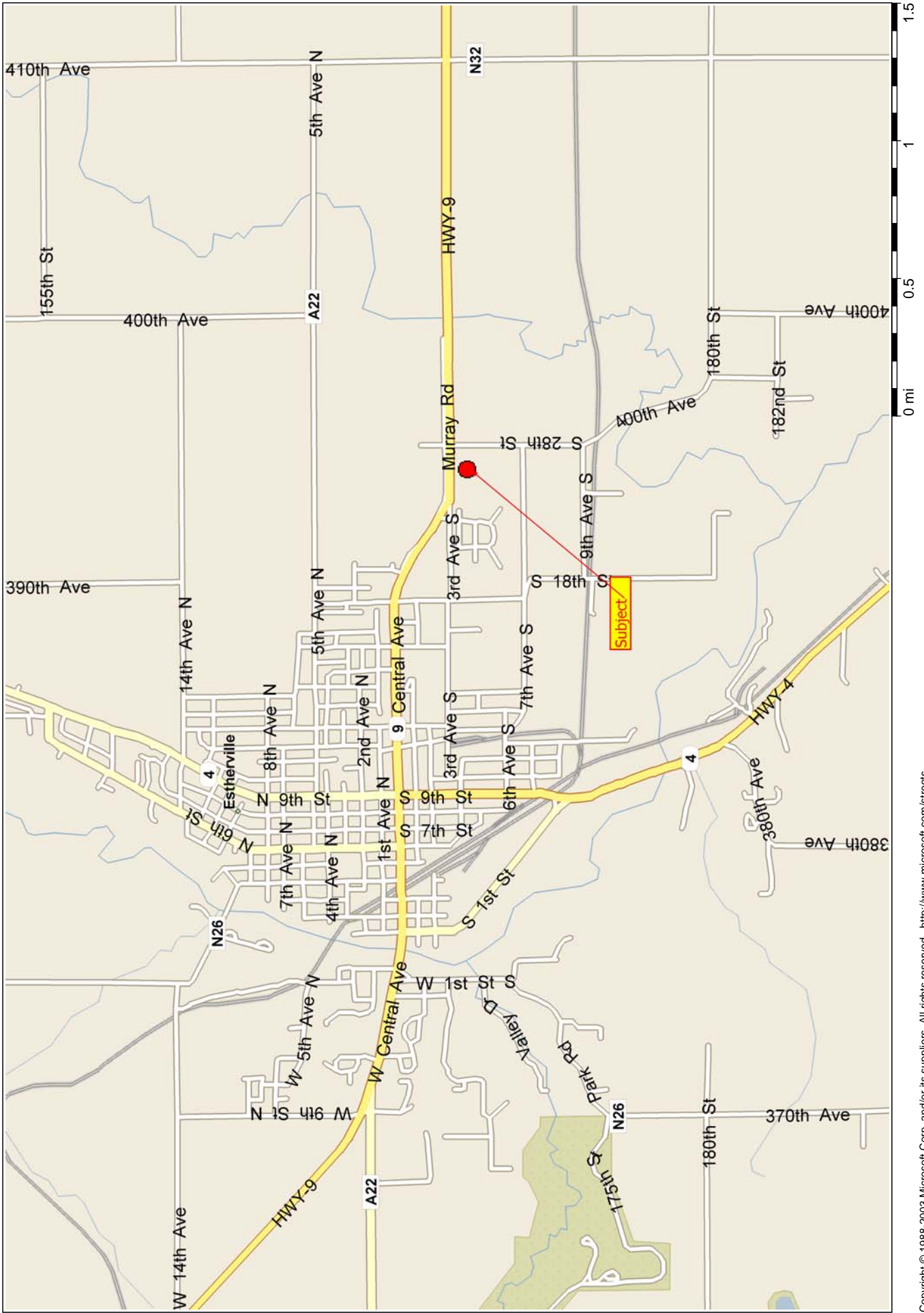
Source: Iowa Trends, Iowa Workforce Research

As of the end of 2004, 2,836 new dwelling units were authorized statewide, indicating an increase over the 2003 figure of 2,683. The number of single-family units increased from 1,978 in 2003 to 2,109 in 2004. The overall dollar value of residential construction increased to \$373 million in 2004, up from the 2003 figure of \$320 million. The number of new multi-family units also increased in 2004. The total number of new units totaled 727, up from the 2003 figure of 705.

### **Summary**

The overall economic outlook for Iowa is positive. Results from the December Economic Outlook Survey, published by Iowa Business Council, reports that CEOs of Iowa's major employers report expected increases in key economic indicators for the first six months of 2005. With an 88 percent survey response rate of corporate members, 64 percent of respondents expect an increase in employment overall, up 14 percent from the last Economic Outlook Survey released in September. One hundred percent of the manufacturers responding in the Survey expect employment to increase. Increases in capital spending are expected by 64 percent of the respondents and by 80 percent of the manufacturers responding. Expectations on capital spending are up 25 percent since the last Survey. Sales remain strong with 79 percent expecting increases. Eighty percent of the manufacturers responding anticipate an increase in sales. Iowa's economy is on the rebound and Iowa's employers are moving confidently into the first half of 2005.

# Estherville, Iowa - Market Area Map - S050363



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## ■ MARKET AREA DESCRIPTION ■

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### Overview

The subject is located in Estherville, Iowa, a small rural town that is the county seat of Emmet County. The county population is 10,742 and the town population is 6,710 (estimated 2004). Emmet County is located in northwestern Iowa approximately 200 miles northwest of Des Moines. The area is characterized as primarily agricultural. Estherville is located approximately 75 miles west of Interstate 35 (a main north-south highway through the state Iowa) via State Route 9, and is 19 miles from Interstate 90 (a main east-west highway through the state of Minnesota) via US 71. Estherville is 10 miles from the Iowa/Minnesota border.

### Demographics

As of the census of 2000, there are 6,656 people, 2,729 households, and 1,689 families residing in the city. The racial makeup of the city is 96.66% White, 0.18% African American, 0.17% Native American, 0.41% Asian, 0.02% Pacific Islander, 1.89% from other races, 0.68% from two or more races, and 6.19% of the population is Hispanic or Latino.

There are 2,729 households out of which 27.8% have children under the age of 18 living with them, 49.6% are married couples living together, 9.7% have a female householder with no husband present, and 38.1% are non-families. 32.9% of all households are made up of individuals and 17.0% have someone living alone who is 65 years of age or older. The average household size is 2.30 and the average family size is 2.93.

In the city the population is spread out with 23.1% under the age of 18, 12.3% from 18 to 24, 24.1% from 25 to 44, 20.3% from 45 to 64, and 20.2% who are 65 years of age or older. The median age is 42 years. For every 100 females there are 90.1 males. For every 100 females age 18 and over, there are 92.9 males.

The median income for a household in the city is \$31,279, and the median income for a family is \$41,042. Males have a median income of \$27,500 versus \$20,441 for females. The per capita income for the city is \$16,488. 8.1% of the population and 5.0% of families are below the poverty line. Out of the total population, 9.4% of those under the age of 18 and 9.3% of those 65 and older are living below the poverty line.

### The Economy/Labor Market

Industries providing employment: Educational, health and social services (22.4%), Manufacturing (25.4%), and Retail trade (13.1). Below are the leading employers in Estherville, Iowa.

<u>Company Name</u>	<u>Product or Service</u>	<u>Employees</u>
APAC Tele-Services	telemarketing	120
Ace Union Foods USA Corporation	pork products for export to Japan	60
Arts Way Mfg.	farm equipment	200
Electrimold, Inc.	fiberglass products for electricity	35
Estherville Foods, Inc	frozen and liquid eggs	150
GKN Armstrong Wheel	metal rims and wheels	180
Golden Sun Feeds, Inc.	livestock/poultry feed	80
Holiday Express	trucking	110
Holy Family Health Services	health care	190
Kent Feeds, Inc.	livestock/poultry feed	16

## MARKET AREA DESCRIPTION (CONTINUED)

Below is a chart illustrating the civilian labor force and unemployment rate for the past six years for Emmet County. The unemployment rate for the county has consistently been higher than the state unemployment rate, with the exception of 2004 where the state rate was 4.4% and the county rate was a low 3.70%.

<b>Civilian Labor Force</b>				
	<b>Civilian Labor Force</b>	<b>Employment</b>	<b>Unemployed</b>	<b>Unemployment Rate</b>
<b>2004</b>	5,350	5,150	200	3.70%
<b>2003</b>	5,550	5,230	320	5.80%
<b>2002</b>	5,760	5,480	270	4.80%
<b>2001</b>	5,630	5,410	220	3.80%
<b>2000</b>	5,450	5,290	170	3.00%
<b>1999</b>	5,510	5,320	180	3.30%

Data Source: Iowa Workforce Development

One broad measure of economic activity in an area can be made comparing gross taxable sales. The following table summarizes historical gross taxable sales for the city, county and Iowa Region over the past five years.

<b>GROSS TAXABLE SALES</b>			
	<b>2000</b>	<b>2004</b>	<b>Annual % Increase</b>
Emmet County	\$87,491,169	\$83,858,678	-0.83%
Estherville	\$76,121,004	\$73,442,270	-0.70%
State Total	\$44,541,591,771	\$67,577,779,428	6.8%

Source: Iowa Department of Revenue

Gross taxable sales in Estherville have decreased an average of 0.70% per year since 2000, compounded. This is lagging when compared to the state total average increase of 6.8% a year, compounded. Emmet County's rate of growth also decreased over the five year period by a rate of 0.83% a year, underperforming the state growth rate.

### **Construction**

Tracked permitted construction in Estherville consisted of residential development since 1996, with an average permitted value of \$118,337.

The list below summarizes city and county construction information, and it appears that there has been moderate construction activity. Construction permits peaked in 2002 with 8 permits and hit a low during 1998 with only 4 permits.

Single-family new house construction building permits:

- 1996: 8 buildings, average cost: \$100,400
- 1997: 8 building, average cost: \$98,700
- 1998: 4 buildings, average cost: \$96,300
- 1999: 4 buildings, average cost: \$107,500

## MARKET AREA DESCRIPTION (CONTINUED)

- 2000: 5 buildings, average cost: \$110,000
- 2001: 7 buildings, average cost: \$138,600
- 2002: 8 buildings, average cost: \$136,400
- 2003: 6 buildings, average cost: \$158,800

### Summary

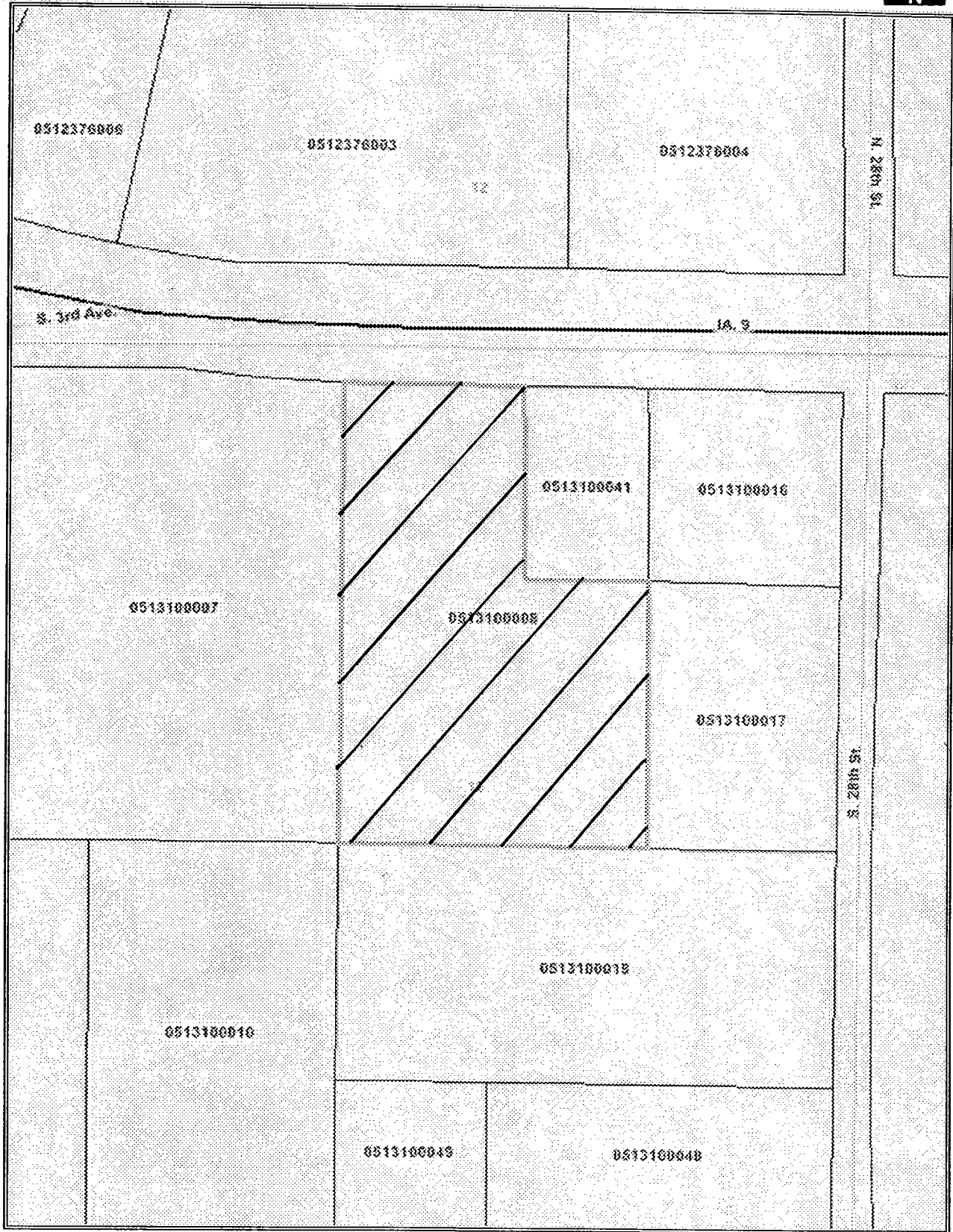
In conclusion, the outlook for Estherville and Emmet County is for relatively stable economic conditions. Gross taxable sales have been mixed over the past four years, but are relatively stable, though they have not been increasing at levels that are comparable to the state's annual increases. The labor market is improving, with moderate employment formation. Construction activity for this county is moderate, for residential activity, and no data for nonresidential activity. The area should continue to experience stable economic activity.





## SITE DESCRIPTION (CONTINUED)

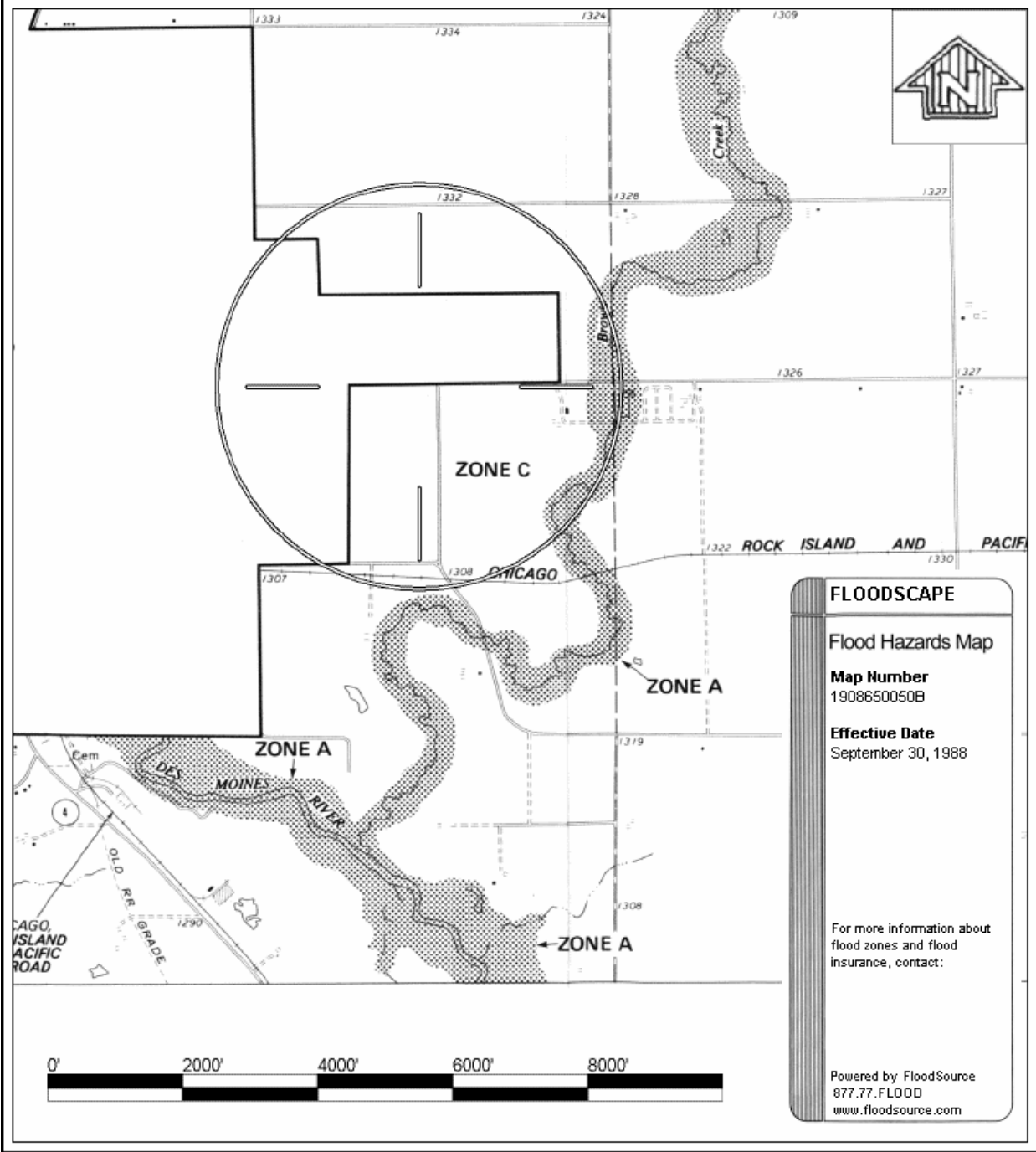
- Soils:** No soil study was provided; however, the on-site inspection revealed no visual evidence of excessive settling or unstable soils. The soils appear to have adequate bearing capacity for low-rise structures based on neighboring developments; however, no certification is made regarding the stability of the soil or subsoil conditions.
- Flood Plain:** Zone X, which is outside the 100-year floodplain; insurance is not required. Flood Map #1908650050B, dated September 30,1988, is shown at the end of this section
- Earthquake Zone:** As shown on the Seismic Zone Map at the end of this section, the area is within Zone 0, which is the lowest seismic zone.
- Functional Utility:** The subject site is well suited for retail development based on its zoning, access and exposure, and surrounding development.



**SITE DESCRIPTION (CONTINUED)**

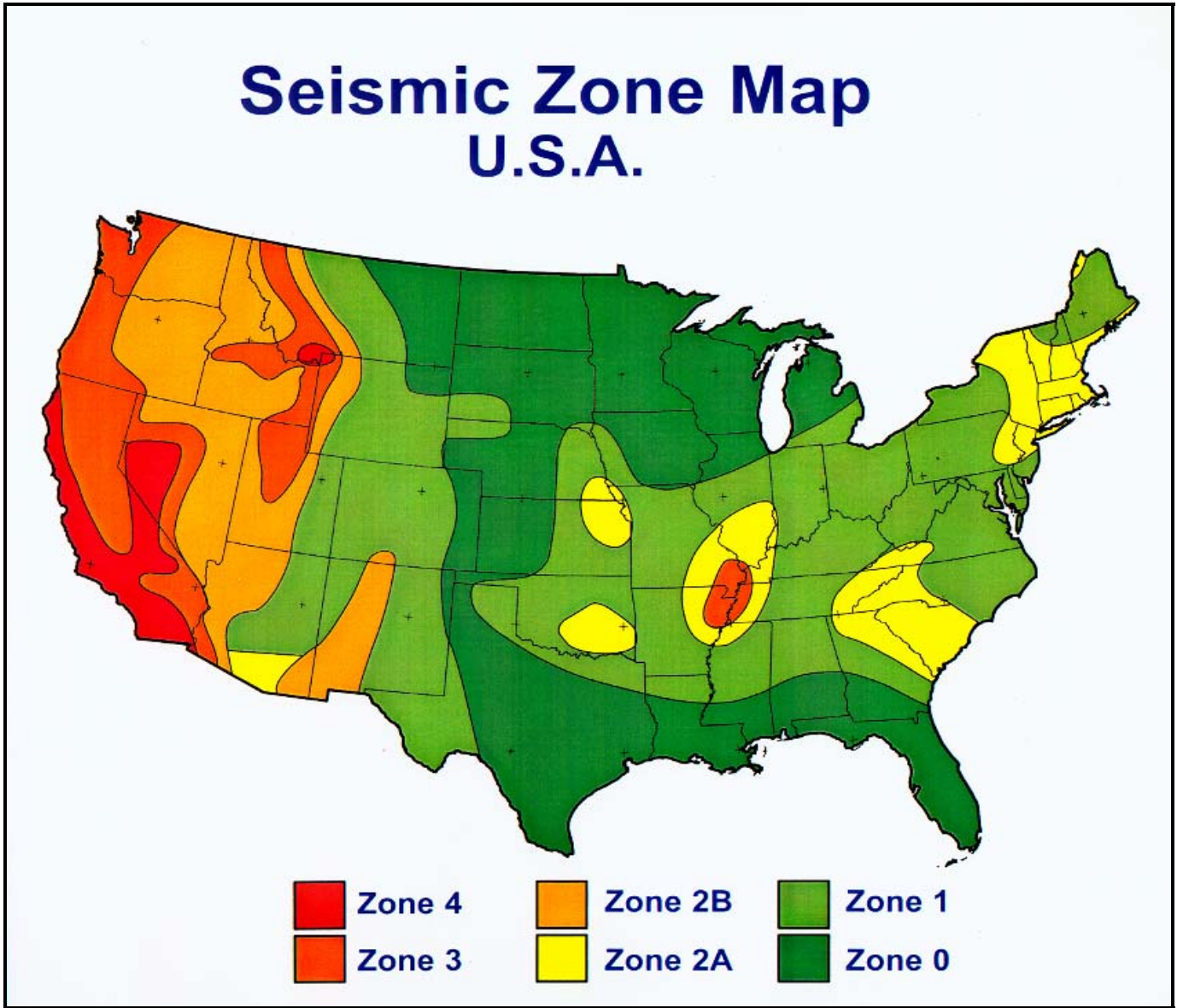


**Prepared for:**  
 PGP Valuation, Inc.  
 2702 Central Ave  
 Estherville, IA 51334-2779



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SUBJECT SEISMIC ZONE MAP







SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



04 – Exterior view of the southwest corner of the subject



05 – General interior view of the subject

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## ■ IMPROVEMENTS DESCRIPTION ■

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**General Description:** The improvements comprise a single-tenant retail building totaling 20,000 gross square feet which is 100% occupied by Pamida, a subsidiary of the owner (ShopKo Stores, Inc.) County records show the improvements were completed 1976. Construction is a metal building with a pitched standing seam metal roof. The interior is consistent with typical retail finishes; commercial grade tile & carpet floors, dropped ceilings, and flush mounted fluorescent tube lighting. Other improvements to the site consist of asphalt-paved and striped surface parking with minimal landscaping. There is a pylon sign as well as signage mounted to the building. Overall, the improvements represent average quality retail construction that is in average to good condition. The building has a remaining economic life of approximately 35 years.

The following is a summary of the subject's basic construction components:

**Year Built:** 1976 per county records

**Building Class:** Class S

**Size:** 20,000 gross square feet per measurements provided by the owner. Note that the appraisal of the subject is being performed in conjunction with several other Pamida and ShopKo Stores in the country. We have personally measured several of the stores included in the portfolio and found our measurements to be consistent with the owner's measurements and County records. Therefore, it is assumed that the owner's measurements are accurate.

**Exterior Walls:** Metal

**Roof Structure:** Pitched standing seam

**Windows:** Storefront windows, double pane in aluminum frame

**Exterior Doors:** The store entrance has glass doors in aluminum frames.

**Interior Finish:** Average quality retail finish  
**Walls:** Painted gypsum wallboard  
**Ceilings:** Suspended acoustical tile  
**Floor Coverings:** Commercial grade carpeting and tile through out

**Lighting and Electrical:** Flush mounted fluorescent tube lighting

**Heating &  
Air Conditioning:** Roof-mounted H.V.A.C.

**Fire Protection:** Sprinklered



**IMPROVEMENTS DESCRIPTION (CONTINUED)**

Site Coverage: 9.7%

Note, the site may be larger than the current tenant's need and there may be potential value in creating pad lots. We have not estimated the potential additional value of possible pad sites as it is outside the scope of the appraisal and the subject's site coverage is within market parameters.

Parking & Site Improvements:

A majority of the site improvements consist of asphalt-paved parking. We were not provided with a site plan; however, there is adequate parking on the site, with approximately 91 spaces at an estimated ratio of 4.5 spaces per 1,000 rentable SF of building area.

Quality & Condition:

The building is average construction quality in average condition. The parking areas are in average condition.

Appeal:

Overall appeal is average considering the design and surrounding development.

ADA Compliance:

It is unknown if the subject is in complete or nearly complete compliance with the Americans with Disabilities Act (ADA) due to the many requirements and vagueness of the law. Please refer to the Assumptions and Limiting Conditions for the full disclaimer.

Design and Functional Utility:

The subject is designed for single-tenant occupancy. The functional utility of the buildings is good, with no signs of functional obsolescence.

Remaining Economic Life:

The subject is average quality and in average condition. The remaining economic life is estimated to be 35 years.

**Summary**

The information presented above is a basic description of the subject property improvements. This information is utilized in the valuation of the property. Reliance has been placed upon information provided by owner, an inspection of the property interior and exterior, and other sources deemed reliable. It is assumed that there are no hidden defects, and that all structural components are functional and operational. If questions arise regarding the integrity of the structure or its operational components, it may be necessary to consult additional professional resources.

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## ■ MARKET ANALYSIS ■

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In this section, market conditions that influence the subject property will be considered. The major factors requiring consideration are the supply and demand conditions, which affect the competitive position of the subject property. In this analysis the overall market will first be examined followed by a closer analysis of the supply and demand factors in the subject's submarket and competitive trade area.

### **SUPPLY**

No published surveys were available from the local market area. Our visual inspection of Estherville revealed a limited retail presence. A survey of the 10 mile trade area for Estherville by STDBonline reported one shopping plaza just west of the subject. The center totaled 61,248 SF and is of the same vintage as the subject. There were a few locally owned retailers and two national retailers (Sears and Dollar General). A competitor of the subject, Alco has a 25,000 SF store in the shopping center next to the subject.

STBonline reported no Walmart's or Target's within the 10 mile trade area. The retail primarily consisted of locally owned businesses and shops.

Overall, the supply in the local market did not appear significant. It is also considered likely that the local population purchases mainly smaller items from the immediate market area while larger purchases are made in Mason City, IA (app 100 miles east) or Sioux Falls, SD (90 miles west). Larger retailers there include Target, Wal-Mart, Best Buy, Menard's, Pier 1 Imports and Borders.

### **DEMAND**

Demand for retail development is best indicated by trends in vacancy, absorption and asking rents. However, no published surveys were available from which to glean current or historical market data. Our informal survey of the market suggested that vacancy was average and that new supply was limited by the lack of significant population. The shopping center next to the subject has 25,000 SF available and being marketed from \$4.00/SF NNN. The probability of new supply is regarded as minimal as the population is small, the trade area is limited and the subject appears to meet most of the demand. A newer store that provides a higher level of appeal may capture a significant portion of the town's business away from the subject, but it is viewed as unlikely that a national retailer would consider the subject's market, because small demographic base. Consequently, the subject's outlook in the short to mid-term is average.

**Trade Area Analysis** – In order to define and analyze the market potential of the subject, it is important to first establish the boundaries of the trade area from which the subject draws its customers. Based on the subject's physical and locational aspects, as well as its size, we conclude that it serves a primary trade area within the county of Emmet, in an approximate 10 mile radius from the subject. The following represents a demographic study of the subject's area compiled through reference with the *Site to do Business Online*. Provided on the following page is a demographic data summary for the subject's primary trade area.

## MARKET ANALYSIS (CONTINUED)

**Geography:** 10 mile radius: 2702 CENTRAL AVE,  
ESTHERVILLE, IA 51334

**Latitude:** 43.399033 **Longitude:** -94.807988  
**City:** Estherville city **Pop:** 6,432  
**County:** Emmet County **Pop:** 10,598  
**Zip:** 51334 Estherville **Pop:** 8,089

### Executive Demographic Summary Report

#### Population

The current year population in this selected geography is 9,284. The 2000 Census revealed a population of 9,364, and in 1990 it was 9,597 representing a -2.43% change. It is estimated that the population in this area will be 9,112 in 2009, representing a change of -1.84% from 2004. The current population is 49.00% male and 51.00% female. In 2004, the median age of the population in this area was 39.8, compared to the MSA\_2120 median age which was 35.7. The population density in your area is 29.6 people per square mile.

#### Households

There are currently 3,747 households in this selected geography. The Census revealed household counts of 3,706 in 2000, up from 3,663 in 1990, representing a change of 1.17%. It is estimated that the number of households in this area will be 3,756 in 2009, representing a change of 0.24% from the current year. For the current year, the average household size in this area is 2.48 persons.

In 2004, the median number of years in residence in this geography's population is 4.63. The average household size in this geography was 2.35 people and the average family size was 2.90 people. The average number of vehicles per household in this geography was 1.9.

#### Income

In 2004, the median household income in this selected geography was \$35,851, compared to the MSA\_2120 median which was \$50,653. The Census revealed median household incomes of \$33,658 in 2000 and \$22,216 in 1990 representing a change of 51.50%. It is estimated that the median household income in this area will be \$38,302 in 2009, which would represent a change of 6.84% from the current year.

In 2004, the per capita income in this area was \$17,856, compared to the MSA\_2120 per capita, which was \$25,223. The 2004 average household income for this area was \$42,762, compared to the MSA\_2120 average which was \$62,203.

#### Race Ethnicity

In 2004, the racial makeup of this selected area was as follows: 97.12% White; 0.24% Black; 0.26% Native American; 0.33% Asian/Pacific Islander; and 1.43% Other. Compare these to the MSA\_2120 racial makeup which was: 89.93% White, 3.99% Black, 0.25% Native American, 2.20% Asian/Pacific Islander and 2.09% Other.

People of Hispanic ethnicity are counted independently of race. People of Hispanic origin make up 4.88% of the current year population in this selected area. Compare this to the MSA\_2120 makeup of 4.95%. Changes in the population within each race and ethnicity category from the 1990 Census to the 2000 Census are as follows: 111.9% American Indian, Eskimo, Aleut Population; 14.2% Asian, Pacific Islander; 22.0% Black; 611.5% Hispanic Ethnicity; 434.4% Other; White -4.4%.

#### Housing

The median housing value in this area was \$28,735 in 1990, compare this to the MSA\_2120 median of \$59,044 for the same year. The 2000 Census median housing value was \$58,334, which is a 103.0% change from 1990. In 1990, there were 2,653 owner occupied housing units in this area vs. 3,706 in 2000. Also in 1990, there were 1,010 renter

## MARKET ANALYSIS (CONTINUED)

occupied housing units in this area vs. 948 in 2000. The average rent in 1990 was \$182 vs. \$263 in 2000.

### **Employment**

In 2004, there were 7,527 people over the age of 16 in the labor force in your geography. Of these 95.41% were employed, 4.59% were unemployed, 33.71% were not in the labor force and 0.01% were in the armed forces. In 1990, unemployment in this area was 3.17% and in 2000 it was 3.06%.

In 2004, there were 3,947 employees in this selected area (daytime population) and there were 466 establishments.

For this area in 1990, 46.30% of employees were employed in white-collar occupations and 53.70% were employed in blue-collar occupations. In 2000, white collar workers made up 48.74% of the population, and those employed in blue collar occupations made up 51.26%. In 1990, the average time traveled to work was 7 minutes and in 2000 it was 13 minutes.

### **Summary and Conclusion of Trade Area Analysis**

- The trade area is characterized by its limited population base. Population is expected to continue to decrease. The number of households and average household income are expected to continue to increase in the next five years.
- The area's small population base, relatively isolated market and peripheral proximity to Mason City, IA and Sioux Falls, SD, suggest local consumers will continue to make large purchases outside of the immediate market area. However, the subject's goods appeal to local shoppers and the demographics and remote location should limit future competition.

### **Single-Tenant Triple Net Properties**

The subject is owner-occupied by Pamida a subsidiary of ShopKo Stores, Inc. The most likely scenario of an exchange in ownership is a sale-leaseback situation, which have been occurring significantly over the past few years as companies have looked for a cash infusion in order to fund expansion without adding debt. Nevertheless, as a single-tenant retail building, the single-tenant NNN market is applicable and is examined in the following paragraphs:

The weakness of the stock market over the past two years, coupled with significantly declining interest rates has made single-tenant triple net properties come into increasing demand. This is because investors are able to get a 7% to 10% return on their equity in a very safe investment. Cash-on-cash, or equity yields, have exceeded most other investments but have the added benefit of being secured by real estate.

Single tenant triple net properties are especially attractive because they require little to no management or real estate knowledge. Because many of the investors lack real property savvy, longer-term leases to high credit tenants are the most desirable. Another driving force behind the desirability of these properties in recent years has been the flurry of 1031 exchange activity in California. As rates-of-return in California have been driven down, those investors have sought better yields on a national level and have significantly affected demand nationwide. With ShopKo's credit and national recognition, they would attract significant demand in a sale situation.

## MARKET ANALYSIS (CONTINUED)

Because demand has outpaced supply and interest rates have fallen, capitalization rates have decreased significantly over the past year. Investors can achieve the same equity yield while paying higher prices, which has decreased overall rates. Average rates for high credit tenants with long-term leases have gone from 8% to 8.5% to around 6% +/- depending on location, remaining lease term, etc. Medium-credit and flat-lease tenants (long-term leases with no increases) are now selling at rates around 7% +/- . Though the current rates are reflective of the market and there is more than sufficient demand, a spike in interest rates and return of confidence in other forms of investment, primarily the stock market, may cause overall rates to return to previous levels.

### Tenant Analysis

ShopKo was incorporated in 1961 and acquired by SUPERVALU in 1971. In 1984, with a total of 39 stores, ShopKo began an aggressive expansion. Today, ShopKo Stores, Inc. operates 363 specialty discount retail stores under the names ShopKo (143) and Pamida (220). The stores are located in the Upper Midwest, Mountain, and Pacific NW states. ShopKo stores are primarily in mid-sized markets, carrying branded and private label merchandise. The ShopKo retail store division accounted for 75% of fiscal 2003 sales; Pamida, which are generally located in small markets, accounted for 25% of sales. ShopKo Stores, Inc., (both brands) employs 25,500 people. The graphic below summarizes their market position as provided by Standard and Poor's.



Of their 363 stores, ShopKo Stores, Inc. owns 185, or 53%. This has translated to significant financial stability which has been noted by Wall Street. Standard & Poor's raised ShopKo's Financial Strength rating to B in early 2005. The one notch upgrade from C++ reflects, "The recent year's improvement in the company's debt/equity structure. We also believe ShopKo's significant ownership of its locations is likely worth more than their balance sheet valuation, suggesting the company's book value is understated."

## MARKET ANALYSIS (CONTINUED)

ShopKo competes head-to-head with Kmart, Target and/or Wal-Mart in nearly every market. At a B rating, they are just below investment-grade from an investor standpoint. Properties leased to B-rated tenants throughout most of the United States are generally selling at capitalization rates between 7% to 8%, depending on location, tenant recognition, quality/condition, access/exposure and the lease structure (primarily term, rate increases, and overall price). B-rated properties in high-growth areas of the Southwest such as Southern California, Southern Nevada, and Greater Phoenix sometimes sell at rates below 7%.

Due to the substantial competition, significant growth for the larger ShopKo stores is not anticipated. However, due to lower debt (they paid off a \$55 million, 9% note last September) ShopKo is well positioned to maintain or slightly grow their market share against their main competitors. Last year, several stores were remodeled, a few new ShopKo Express Rx locations were opened and pharmacies were added to several locations.

Their smaller subsidiary, Pamida, is expected to grow however. A Pamida store is typically located in a rural area, primarily in county seat locations, and often with little to no competition. Pamida's strategy is to continue to focus its expansion program and target communities that have little chance of attracting the larger competitors due to limited demographics (Target, Kmart, Wal-Mart). According to a February 11, 2005, release by Standard & Poor's, "Substantial success in expanding Pamida and in merchandising both groups is needed for these shares to become a winner in the next 3 to 5 years." As such, ShopKo Stores, Inc. will likely expand their Pamida store concept in the near future.

ShopKo is rated as better than average from an investor standpoint as a tenant. They remain in a good cash position to keep their stores in a competitive position compared to their competition in order to respond to changing consumer demands.

### **Summary of the Market Study**

The subject is in a trade area that is characterized as a smaller, stabilized community with declining population projected over the next five years. The subject's submarket exhibits lower vacancy than the overall market, due in part to the sparse supply. The limited demographics should restrict future supply. As such, the subject is anticipated to experience stable demand in the foreseeable future.

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## ■ HIGHEST AND BEST USE ANALYSIS ■

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The highest and best use of a property is defined as that reasonable and most probable use that will support its highest present value. The highest and best use, or most probable use, must be legal, physically possible, financially feasible and marketable.

The Highest and Best Use concept is based upon traditional appraisal theory and reflects the attitudes of typical buyers and sellers who recognize that value is predicated on future benefits. This theory is based upon wealth maximization of the owner, with consideration given to community goals. A use that does not meet the needs of the public will not meet the above highest and best use criteria.

In this section, the highest and best use of the subject site “as vacant” is first determined utilizing analysis of legal, locational, physical, financial, and market factors. A similar analysis is then conducted for the highest and best use “as improved.”

### “AS VACANT”

The legal factors influencing the highest and best use of the subject property are primarily government regulations such as zoning ordinances and comprehensive plans. The current zoning allows a wide range of commercial/retail uses serving the community and neighborhood market area. Thus, legal factors support a commercial highest and best use.

With respect to physical characteristics, the site has an irregular shape and a corner orientation. Exposure is average and access is good. The site is 4.7 acres, mostly level, at street grade and has all utilities available. Overall, physical characteristics support retail development as the highest and best use.

Locational factors including surrounding commercial development and an established residential base also support a commercial highest and best use. Nearby residential development, traffic volume, and overall access/exposure in the immediate neighborhood implies that commercial/retail development in the subject market is financially feasible and marketable.

Thus, physical, locational, financial and marketability factors support a commercial/retail use as the subject’s highest and best use “as vacant.”

### “AS IMPROVED”

#### **Legal, Physical and Location Considerations**

As indicated above, legal (zoning and building codes) issues allow a wide variety of commercial uses on a citywide and regional basis. The existing improvements are an allowed use under the appropriate ordinances. Additionally, it is assumed the subject complies with all applicable building codes. Overall, legal considerations support the existing use as the subject’s highest and best use “as improved.”

As mentioned previously, locational features including access, exposure, and surrounding commercial and residential development all support the existing use as the highest and best use “as improved.” Regarding physical considerations, the existing use is viable and suffers from no functional obsolescence.

## HIGHEST AND BEST USE ANALYSIS (CONTINUED)

Based on the preceding analysis, legal, location, and physical considerations all support the existing retail center use as the subject's highest and best use "as improved."

### **Financial Feasibility/Alternative Uses**

The financial feasibility of the subject will be discussed in terms of alternative highest and best uses of the property. The five possible alternative uses of the property are demolition, renovation, expansion, conversion, and use "as-is," each of which is discussed below.

**Demolition:** The subject property "as improved" is worth substantially more than the site "as vacant." Therefore, demolition is not appropriate.

**Renovation:** The subject property is in average condition and it has an efficient design. Therefore, renovation is not reasonable.

**Expansion:** The subject has adequate parking and a competitive site coverage ratio. The existing improvements fully utilize the site and expansion is not warranted. Further analysis beyond the scope of this report, may identify the potential of one or two pad sites on the site frontage. In this instance, our value conclusion would likely not change if the primary site retains its current utility; rather, the creation of pad sites may create additional value.

**Conversion:** The subject is specifically designed for use as retail; the design would not lend itself well to alternative uses. Therefore, conversion is not appropriate.

**Use "As-Is":** The subject improvements are designed for retail use. This use meets the legal, physical and locational considerations. Further, it is consistent with the surrounding development and is concluded to be financially feasible based on supply and demand conditions. Thus, continued use "as-is" creates the maximum value of the subject property.

In summary, the above analysis indicates that continued "as is" use is the highest and best use of the subject property.

### **Conclusion – Highest and Best Use "As Improved"**

Legal, physical, locational, financial feasibility, alternative uses, and market considerations have been analyzed to evaluate the highest and best use of the subject property. The above analysis indicates the highest and best use "as improved" is the continued use as retail.



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## ■ VALUATION METHODS ■

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The next part of the appraisal process deals directly with the valuation of the subject property by utilizing the Income and Sales Comparison Approaches to value.

The **Cost Approach** is based upon the principle that the value of property is significantly related to its physical characteristics and that no one would pay more than the cost to build a like facility in today's market on a comparable site. For new or proposed improvements, this approach is meaningful. For older properties or those with substantial depreciation, this approach has limited application. Due to the age of the improvements, this approach is not formulated; however, an insurable value estimate is shown in the Addenda.

The **Income Approach** is predicated on the assumption that there is a definite relationship between the income a property will earn and its value. Net income is the income generated before payment of any debt service. The process of converting it into value is called capitalization. Net income is divided by a capitalization rate. Factors such as risk, time, interest on the capital investment, and recapture of the depreciating asset are considered in the rate. Applying a capitalization rate based on indications from comparable sales reflects expectations of buyers and sellers in the market.

The **Sales Comparison Approach** is based on the principle of substitution, which states no one would pay more for the subject property than the value of similar properties in the market. This approach analyzes sales of comparable properties with regard to the nature and condition of each sale. Logical comparisons are made for varying physical characteristics.

The approaches used to value the subject property will be correlated and a final value opinion will be presented in the Analysis of Value Conclusions section.

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## ■ INCOME CAPITALIZATION APPROACH ■

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The first step in the Income Capitalization Approach is to estimate the subject's potential gross income, (PGI) which is derived by comparing the subject property with leased properties having similar utility in similar locations.

### **Potential Gross Rental Income**

The subject is owner-occupied retail building. As such, potential gross income is projected based on an analysis of similar buildings in the market. The following market rent analysis is conducted on a dollar per square foot on an annual basis, reflecting market behavior

### **Selection of Comparables**

A search of the area was conducted in order to find the most comparable leased facilities in terms of location (market area), tenancy, age, appeal, exposure and quality/condition. A total of five rent comparables have been utilized which bracket the subject's location, quality and condition.

### **Adjustments**

The subject's units are leased on triple net with the tenants responsible for all operating expenses associated with the property. All of the lease comparables are triple net and require no adjustment for lease terms. Adjustments for quality, design, location and appeal are generally subjective in nature. A general discussion of condition and other factors will be discussed in the following pages. No specific dollar adjustments are made due to the subjective nature of these adjustments and the lack of direct market evidence.

### **Presentation**

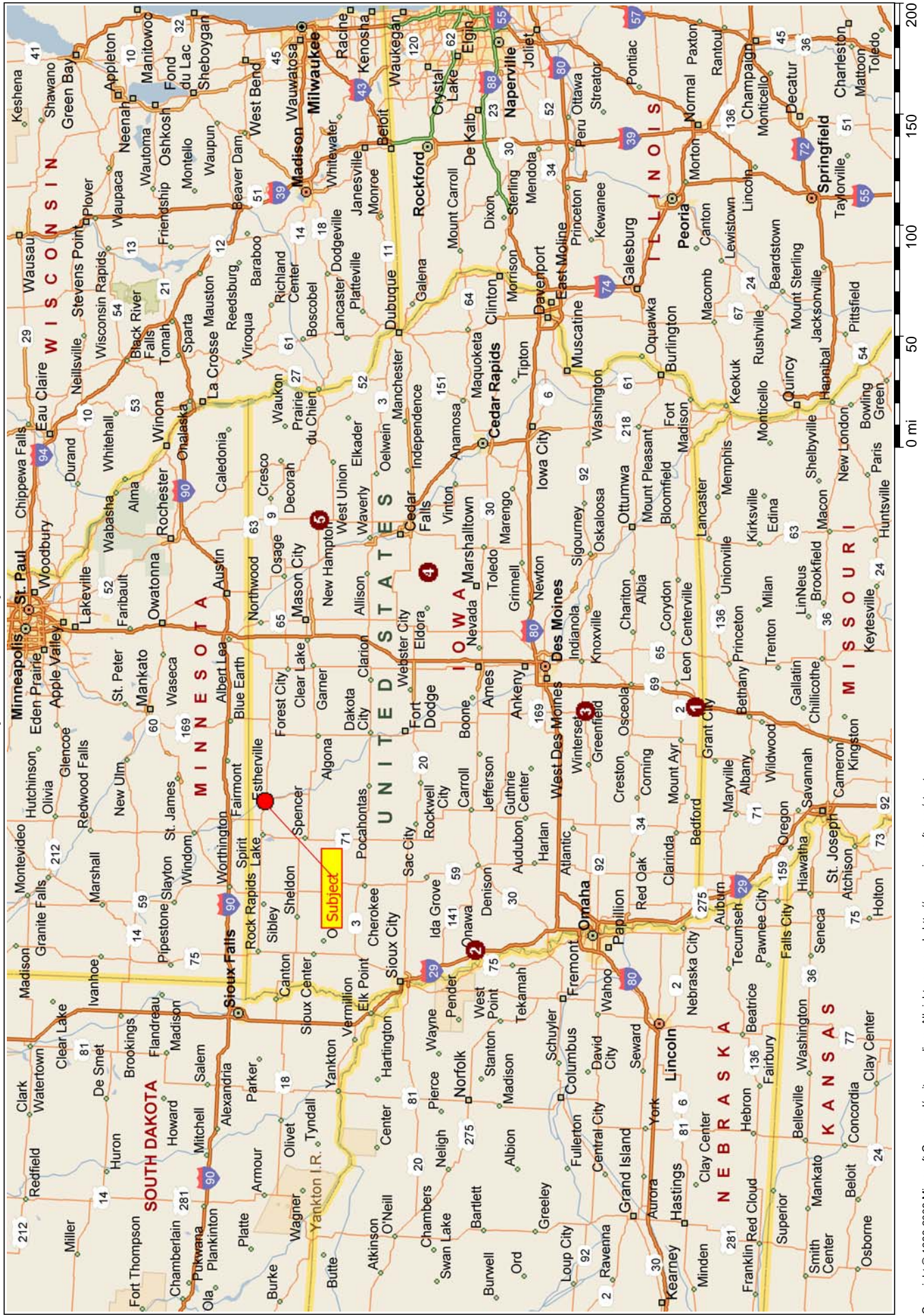
The Rent Comparable Summation Table, location map and photographs of each comparable is provided on the following pages. Following the photographs is an analysis of the rent comparables and subject contract rents, and our market rent conclusions for the subject. A bracketing process is used to estimate the appropriate market rents.

**RENT COMPARABLE SUMMATION TABLE**

No.	Identification/Location	Year Built	Tenant/Space Type	Lease Date	Rent PSF Per Year	Escalations	Size (SF)	Term	Structure	T.I.'s/SF	Comments
1	<b>Pamida</b> 610 East Main Street Lamoni, IA Provided by BofA	2000	Pamida	Oct-00	\$3.84	N/A	18,750	17 years	NNN	N/Av	This is a Pamida Store located in Lamoni, IA, in the county of Decatur County, IA. The Lamoni population is 2,444 and the county population is 8,711. The surrounding uses are predominately agricultural. Lamoni is the home of Graceland University a four year liberal arts sponsored by The Community of Christ. Lamoni is approximately one hour south of Des Moines on Interstate 35 and Highway 69 near the Iowa/Missouri border. The comparable is located on a main arterial also known as Highway 69.
2	<b>Pamida</b> 2220 Highway 175 West Onawa, IA Provided by BofA	1995	Pamida	N/A	\$4.52	N/A	42,456	20 years	NNN	N/Av	This is a Pamida Store located in Onawa, IA, the county seat of the county of Monona. The Onawa population is 3,091 and the county population is 9,661. The surrounding uses are predominately agricultural. The comparable is located on a main arterial also known as Highway 175 west. Onawa is located approximately 55 miles east of Omaha, NE.
3	<b>Pamida</b> 405 East Hwy 92 Winterset, IA Provided by BofA	1996	Pamida	Jun-96	\$4.47	N/A	42,984	20 years	NNN	N/Av	This is a Pamida Store located in Winterset, IA, the county seat of Madison County, IA. The Winterset population is 4,768 and the county population is 14,737. The surrounding uses are predominately agricultural. The store is located just off Highway 92, and is approximately 60 miles south of Des Moines.
4	<b>Pamida</b> 2201 Commerce Drive Grundy Center, Iowa Ian Stuart - Torrey Realty	1999	Pamida	Sep-98	\$2.88	No	18,750	20 yrs	NNN	N/A	This is the lease rate for a Pamida, located in Grundy Center, IA (2,596) the county seat of Grundy County, IA (12,500). Grundy Center is located in Northeastern Iowa about 22 miles east of Waterloo with access to Hwy. 20, Interstate 35 and 380. The comparable sits on a main arterial also know as SR 14.
5	<b>Pamida</b>	1995	Pamida	Nov-95	\$4.20	N/A	42,456	20 years	NNN	N/Av	This is a Pamida Store located in New



# Lease Comparable Map - S050363

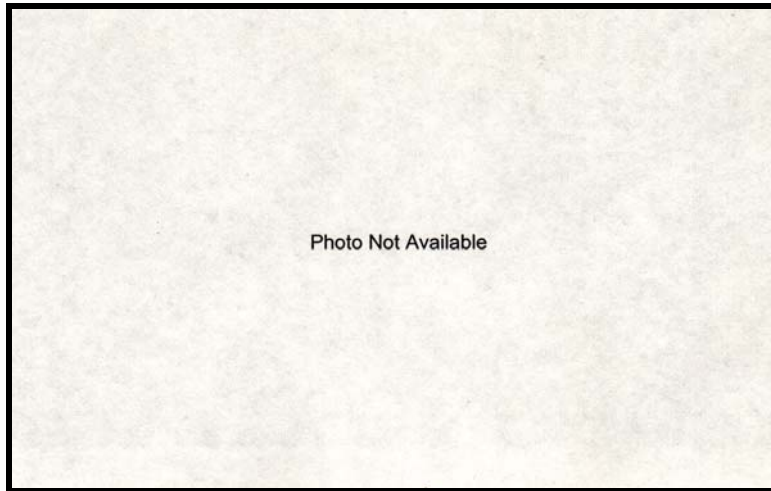




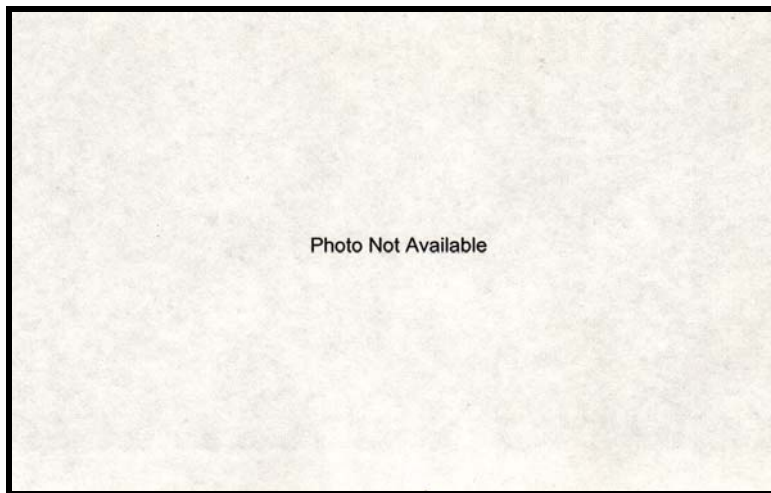
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## RENT COMPARABLE PHOTOGRAPHS

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Comparable 1 – No photo of Lamoni, IA – Pamida

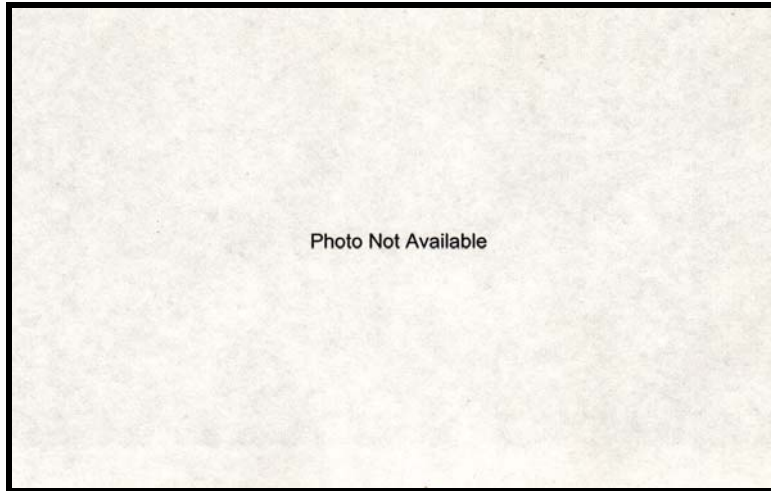


Comparable 2 - No photo of Onawa, IA – Pamida



Comparable 3 – Winterset, IA – Pamida

RENT COMPARABLE PHOTOGRAPHS (CONTINUED)



Comparable 4 – No photo of Grundy Center – Pamida



Comparable 5 – New Hampton, IA – Pamida

## INCOME CAPITALIZATION APPROACH (CONTINUED)

### Discussion of Rent Comparables

**Introduction** – These five comparables are for Pamida stores all located in similar small rural towns, typically the county seat. The dates of the leases are from 1995 to 2000 and range in lease rates from \$2.88/SF to \$4.52/SF on a triple net basis. Typical Pamida terms are for 20 years with an escalation in the 10<sup>th</sup> year on a triple net basis. The owners are responsible for management and reserves for replacement. These lease comparables are admittedly dated; however, are considered relevant because they are most similar to the subject's rural location, store type and demographics. To lend support to our conclusion we will offer some anecdotal listings and more recent lease comparable data in superior markets from a demographic standpoint. The anecdotal data will show that lease rates have remained relatively unchanged in Iowa.

**Rent Comparable 1 (\$3.84/SF)** – This Pamida is located approximately 261 miles south of the subject in Lamoni, the county seat of Decatur County. The population for the town is 2,444 and the county population is 8,711. The predominate land use in the area is agricultural, similar to the subject. Lamoni is the home to Graceland University, a four year liberal arts university sponsored by the Community for Christ. The town is approximately 75 minutes south of Des Moines, 3.5 miles west of the Interstate 35 interchange with US Highway 69 and is in close proximity to the Missouri/Iowa state line. The comparable is located along Main Street (US 69) with a year 2000 average daily traffic count of 1,180 cars per day.

The comparable is newer in age and appeal (2000), and is similar in size. The location is in an area with inferior population demographics. They similar in their rural county seat locations. The 2001-2004 sales average for this store on a SF basis was \$52.24/SF and is less than the subject's sales average for the same period of \$95.75/SF. Sales at the comparable have been inconsistent and 2004 sales are lower than those for 2001. Sales at the subject have been trending downward since 2001, with some recovery in 2004, but not up to 2001 levels. Traffic counts for the subject at 6,300 cars per day are superior. Overall, the subject's superior demographic base and traffic counts along with higher sales average argue for a higher rent per SF for the subject.

**Rent Comparable 2 (\$4.52/SF)** – This Pamida is located approximately 169 miles southwest of the subject in Onawa, IA, the county seat of Monona County. The town population is 3,091 and the county population is 9,661. The predominate land use in the area is agricultural, similar to the subject. The town is approximately 30 miles south of Sioux City and 50 miles north of Omaha, NE. The comparable is located one mile east of Interstate 29 on State Route 175 and is in close proximity to the Nebraska/Iowa state line. The comparable is located along a main arterial and has year 2000 average daily traffic count of 5,900 cars per day.

The comparable is a newer store (1995) to the subject, and is larger in size. The location is a similar rural county seat location. The 2001-2004 sales average for this comparable on a SF basis was \$85.21/SF and is lower than the subject's sales average for the same period of \$95.75/SF. The trend in sales at the comparable has been consistently downward from a high of \$96.83/SF in 2001 to a low of \$78.10/SF in 2004. Sales at the subject have been trending downward since 2001, with some recovery in 2004, but not up to 2001 levels. Traffic counts for the subject at 6,300 cars per day are superior. The size of the comparable suggests some economies of scale indicating a higher rent per SF for the subject. Balancing the subjects superior demographic base, traffic counts and smaller size with the comparables newer age and condition a similar to slightly lower rent is suggested for the subject.

## INCOME CAPITALIZATION APPROACH (CONTINUED)

**Rent Comparable 3 (\$4.47/SF)** – This Pamida is located approximately 179 miles south of the subject in Winterset, IA, the county seat of Madison County. The city population is 4,768 and the county population is 14,737. The predominate land use in the area is agricultural, similar to the subject. The town is approximately 40 miles southwest of Des Moines. The comparable is located 15 miles west of Interstate 35 on State Route 92. The comparable is located along a main arterial and has year 2000 average daily traffic count of 5,700 cars per day.

The comparable is a newer store (1996) to the subject, and is larger in size. The location is a similar rural county seat location. The 2001-2004 sales average for this comparable on a SF basis was \$107.67/SF and is higher than the subject's sales average for the same period of \$95.75/SF. In 2001, sales were \$109.46/SF and then fell to \$103.81/SF in 2002 and increased to \$108/SF in 2003. In 2004, the store regained the losses of the two prior years and was back to 2001 levels of \$109.25/SF. Total sales at the comparable exceeded the subject total sales for all four years. This comparable is a newer store in a market with similar demographics and a higher sales average per SF. The size of the comparable suggests some economies of scale indicating a higher rent per SF for the subject. Overall, the subject's older age and condition and lower sales average per SF suggest a lower rent for the subject.

**Rent Comparable 4 (\$2.88/SF)** – This Pamida is located approximately 177 miles southwest of the subject in Grundy Center, IA, the county seat of Grundy County. The city population is 2,596 and the county population is 12,500. The predominate land use in the area is agricultural, similar to the subject. Grundy Center is located in Northeastern Iowa approximately 22 miles west of the Waterloo/Cedar Falls MSA, where there is access to Hwy. 20, Interstates 35 and 380. The comparable is located along a main arterial also know as State Route 14, and has year 2001 average daily traffic counts of 5,000 cars per day.

The comparable is newer store (1999) and is similar in size. The location is a similar rural county seat location. The 2001-2004 sales average for this store on a SF basis was \$62.67/SF and is less than the subject's sales average for the same period of \$95.75/SF. Sales at this store have been mixed and 2004 sales are lower than those for 2001. The proximity of this town to a MSA likely has had a negative impact on this store. Competing Supercenter stores such as Target and Walmart can be found 20 miles away and are likely the reason sales are low and unstable for this comparable. The Grundy Economic Development Corporation built this store for Pamida and according to the owner there were virtually no land costs. The lease rate is flat for the entire term on an absolute net basis. There appears to be some motivation on the part of Grundy Economic Development in negotiating this lease. That in combination with the inferior sales history of this comparable and inferior demographic base and traffic counts suggest a lower rent for the subject.

**Rent Comparable 5 (\$4.20/SF)** – This Pamida is located approximately 154 miles east of the subject in New Hampton, IA, the county seat of Chickasaw County. The city population is 3,759 and the county population is 12,580. The surrounding uses are predominately agricultural, similar to the subject. The store is located just off of Highway 18 near its intersection with Highway 63. The town is approximately 50 miles east of Mason City and 40 miles north of Cedar Falls/Waterloo. The comparable is located along a main arterial and has year 2001 average daily traffic count of 3,670 cars per day.

The comparable is newer store (1995) to the subject, and is larger in size. The location is a similar rural county seat location. However, the subject population base is superior as are the traffic counts. The 2001-2004 sales average for this comparable on a SF basis was \$85.43/SF



## INCOME CAPITALIZATION APPROACH (CONTINUED)

and is less than the subject's sales average for the same period of \$95.75/SF. The sales trend at the comparable has been consistently downward from a high of \$90.78/SF in 2001 to a low of \$80.95/SF in 2003. In 2004 sales increased to \$87.90/SF, but are still not to 2001 levels. This mirrors the subject's sales trends, which were a high of \$101/SF in 2001 and a low of \$90.65/SF in 2002. Last year sales were \$37.05/SF. The size of the comparable suggests some economies of scale indicating a higher rent per SF for the subject. However, the subjects older age and condition mitigates the influence of economies. Overall, a similar to slightly lower rent is indicated for the subject.

### Anecdotal Data

Below is supporting lease data for a variety of retail operations through out the state of Iowa.

ANECDOTAL LEASE COMPS AND LISTINGS								
No.	Identification	Year Built	Lease Date	Rent /SF	Size (SF)	Structure	Traffic	Comments
1	<b>Former HyVee</b> 3150 Agency Street Burlington, IA	1987	Listing	\$4.50	35,850	NNN	15,000	This is a listing for a former Hy-Vee grocery. It is in Burlington, IA, population 26,839 and Des Moines County population of 62,000
2	<b>Former Walmart</b> 3320 Agency Street Burlington, WA	1987 remodel in 1992	Listing	\$4.50	44,460	NNN	15,000	This is a listing for a former Walmart that went dark after there new Supercenter was completed. Other tenants include Big Lots and Dollar General. It is located in Burlington, IA, population 26,839 and Des Moines County population of 62,000
3	<b>Former Hobby Lobby</b> 2066 E Ridgeway Avenue  Waterloo, IA	1972 Remodeled	Listing	\$4.75	61,900	NNN	11,000	This is former Hobby Lobby that moved to a newer location. It is located in Waterloo, population 39,203 and Black Hawk County (127,680) and is part of the Waterloo/Cedar Falls metropolitan area.
4	<b>Former Steinmart</b> 2121 East Kimberly Bettendorf, IA	1971 remodeled 1998	Listing	\$6.50	14,750	NNN	12,300	This asking rate is for a former Steinmart. It is in Bettendorf, IA, population 31,547 in Scott County, population 159,637
5	<b>Big Lots!</b> 1645 East San Marnan Waterloo, IA	1975 remodeled 1998	2002	\$3.39	31,808	NNN	11,000	This is the lease rate for a Big Lots! This space was originally marketed for \$6.00/SF then decreased to \$4.50/SF and finally leased for \$3.39/SF. This space is located in Waterloo, population 39,203 and Black Hawk County (127,680) and is part of the Waterloo/Cedar Falls metropolitan area.

## INCOME CAPITALIZATION APPROACH (CONTINUED)

Current asking rents in larger markets are similar to achieved rents in rural Pamida locations. Though the Pamida leases are somewhat dated there really hasn't been much change in lease rates in the overall market for discount retailers.

### Market Rent Conclusions

In final analysis, market rent for the subject is concluded to be similar to Comparables 2, 3 and 5 (\$4.20 to \$4.52/SF), but at the low end of the range due to the subject's declining population and age and condition. Market rent would be above that of Comparables 1 and 4 due to the subject's superior demographics and sales. Therefore, market rent for the subject is concluded at **\$4.00/SF** per year.

### Gross Sales/Market Rent Comparison this out. It doesn't add anything

Total rent paid by retail is typically related to the amount of gross sales. The *Dollars & Cents of Shopping Centers®: 2004* reports total rent (base & overage) equating to 4.0% and 4.3% of total sales for discount department stores located in neighborhood and community centers in the Mid-West Region. The subject has experienced gross sales from \$70.55 to \$76.53 per square foot over the last four years. This infers an average rent of \$2.92 to \$3.14/SF between 2001 and 2004, as shown below:

SUBJECT SALES COMPARISON			
Year	Sales/SF	4.0% of Sales	4.3% of Sales
2001	\$101.00	\$4.04	\$4.34
2002	\$90.65	\$3.63	\$3.90
2003	\$94.30	\$3.77	\$4.05
2004	\$97.05	\$3.88	\$4.17
<b>Average</b>	<b>\$95.75</b>	<b>\$3.83</b>	<b>\$4.12</b>

Our market rent conclusion of \$4.00/SF is within the range (\$3.83 to \$4.12/SF), and inline with the comparables. It is noted that the subject's sales are lower than the medians in the Mid-West Region for discount department stores (\$145.58 to \$161.95/SF), which overall suggests the subject may carry more risk. This will be treated in our capitalization rate conclusion.

### Reimbursable Expense Income

Triple net (NNN) lease terms are assumed. This is the most common lease structure for retail space in the market and the lease structure of all the rent comparables. Under a NNN structure, the tenant is responsible for all operating expenses (property taxes, insurance, repairs & maintenance). As the subject is a single-tenant building, it is assumed all these expenses will be paid directly by the tenant and not passed through by the landlord; therefore, no reimbursable expense income is projected.

### Vacancy & Collection Loss

This category accounts for the period between tenants, when the units are vacant. This assignment reflects the probable vacancy during the economic life of the property and not necessarily the current or short-term vacancy.

As discussed in the Market Analysis section, supply in the market is minimal. For the subject, the probability of new supply is regarded as minimal as the population is small, the trade area is

## INCOME CAPITALIZATION APPROACH (CONTINUED)

limited and the subject appears to meet most of the demand. A newer store that provides a higher level of appeal may capture a significant portion of the town's business away from the subject but it is viewed as unlikely that a national retailer would not consider the subject's market area as large enough to expend the capital.

If the subject were leased, a 10-year (120-month) term would be reasonable, and there would likely be a 12 month vacancy period between tenants if a lease were not renewed. Therefore, a 5% vacancy factor is used for the analysis. This would assume a six-month vacancy period every 120 months and a 50% renewal probability, or  $[(50\% \times 12 \text{ months vacant}) \div 120\text{-month lease term}] 5.0\%$ .

### **Non-Reimbursable Operating Expenses**

Non-reimbursable expenses include management, structural repairs (reserves for replacement) and re-tenanting expenses, which include leasing commissions and tenant improvement costs.

**Management** – Management fees are typically incurred to provide for periodic contact with the tenants, collection of rents, supervision of required maintenance and replacement items, and accounting. Professional management fees are typically 3% to 5% of collected revenues (effective gross income) in this market depending upon the size of the facility, number of tenants and lease structure. The subject is a single-tenant building, operating on a triple net lease structure, thus, all regular expense items, such as utilities, real estate taxes, and insurance, are billed directly to the tenant. Management, therefore, is generally a matter of depositing the check, and not considered significant. Therefore, a minimal management expense is suggested and 1.0% is concluded.

**Reserves for Replacement** – Reserves for replacement are typically assigned by buyers and sellers in the market for this character of property at either a percentage of effective gross income or as an amount per square foot. The *Korpacz Survey* reports reserves for replacement ranging between \$0.10 and \$0.50/SF for shopping center properties. However, a large majority of respondents reported reserves ranging from \$0.10 to \$0.30/SF. Considering the subject's quality and condition, a reserve of \$0.15/SF is used for the analysis.

**Re-tenanting Expense** – Leasing commissions would be 5% for new leases and 0% for renewals. Tenant improvement (TI) allowances are typically not granted on large anchor spaces like the subject. In cases where TIs are given, a higher rent is charged to reflect the amortization of these improvements over the lease term. This trend is reflected by the rent comparables. Therefore, no TI allowance is concluded based on the market rent conclusion.

While re-tenanting expenses are real property expenses experienced by property owners over the life of the improvements, commissions and TIs are not recognized as a stabilized operating expense by typical buyers and sellers in the marketplace, and therefore, are not treated in the direct capitalization approach.

### **Expense/NOI Conclusion**

The total operating expenses and projected net operating income are summarized on the income capitalization chart at the end of this section.

### **Direct Capitalization**

The next step in the Income Capitalization Approach is capitalization of net income into an indication of value. Direct capitalization is a method used to convert a single year's income

## INCOME CAPITALIZATION APPROACH (CONTINUED)

estimate into a value indication. This conversion is accomplished in one step, by dividing the income estimate by an appropriate income rate.

In direct capitalization no precise allocation is made between the return on and the return of capital because the method does not simulate investor assumptions or forecasts concerning the holding period, the pattern of income, or changes in the value of the original investment. However, a satisfactory rate of return for the investor and recapture of the capital invested are implicit in the rates applied in direct capitalization because they are derived from similar investment properties.

The income rates reflect the relationship between income and value and are derived from market data. It is essential that the properties used as comparables reflect risk, income, expense, and physical and locational characteristics that are similar to the property being appraised. Consequently, income multipliers and rates must be extracted from properties that reflect similar income-expense ratios, risk characteristics, and expectations as to change in income and value over a typical investment-holding period.

**Local Comparable Sales** – Presented in the following table below are the capitalization rates derived from sales of retail stores located throughout the Iowa region.

<b>OAR COMPARABLES – IOWA RETAIL CENTERS</b>					
<b>Identification/Location</b>	<b>Sale Date</b>	<b>Size (SF)</b>	<b>Year Built</b>	<b>Sale Price</b>	<b>OAR</b>
<b>Pamida</b> Grundy Center, IA	Nov-03	18,750	1995	\$590,000	9.15%
<b>Pamida</b> Winterset, IA	Jun-04	42,961	1996	\$2,105,263	9.03%
<b>Staples</b> Marshalltown, IA	Jan-03	24,204	1997	\$1,810,000	9.81%
<b>Retail Building</b> Cedar Rapids, IA	Apr-02	111,179	1984	\$5,500,000	9.22%
<b>Kmart</b> Atlantic, IA	listing	40,318	N/A	\$1,600,000	9.22%
<b>Average</b>					<b>9.28%</b>

*All Single-Tenant*

The capitalization rates from the sales presented in the above table indicate a relatively narrow range of 9.03% to 9.81% with an average of 9.28%. The comparables are all single tenant retail buildings located throughout Iowa. All but one of the comparables reflect sales activity within the last 2 years.

The primary factors influencing the overall capitalization rates are location (including identity/exposure), age, quality, condition, appeal, occupancy rates, rental rates (with respect to market levels), upside potential, and the perceived risk in the property.

The subject is an average quality single tent retail development that is in average condition. The property has average appeal and a good location in its market. Perceived risk is higher than average due to the declining population trends and the forecasts for those trends to continue. Further, the average sales on a square foot basis at the subject are lower than the median average for the Mid-west. Although sales have been relatively stable at the subject, they have not been growing, likely a result of decreasing population trends and potential patrons going

## INCOME CAPITALIZATION APPROACH (CONTINUED)

outside of the market area to do shopping. Our income conclusion assumes market rent, so there will be average upside potential. The subject has adequate parking and its site coverage is in-line with other similar developments.

Considering all relevant factors, a rate similar to the Pamida sale (9.03%) is suggested for the subject. This considers the subject sales growth below the range of median sales for the Midwest. A capitalization rate at the low end of the range of **9.00%** is reasonable for the subject.

**National Comparable Sales** – The table below includes several sales of leased retail properties that bracket the subject's current tenancy.

NATIONAL OAR COMPARABLES						
Identification/Location	S & P Rating	Setting	Sale Date	Size (RSF)	Sale Price	OAR
<b>Pamida*</b> Syracuse, NY	B	Suburban	Jun-04	46,127	\$1,150,000	8.10%
<b>Big Lots *</b> Vista, CA	B-	Suburban	Oct-03	52,000	\$4,512,500	6.90%
<b>Big Lots</b> North Hollywood, CA	B-	Suburban	Sep-04	16,257	\$1,650,000	6.41%
<b>Dollar General</b> Mauston, WI	A+	Rural	Dec-04	9,014	\$765,000	8.00%
<b>Dollar General</b> Manor, TX	A+	Suburban	Feb-05	9,014	\$904,000	7.20%
<b>Dollar General</b> Coolidge, AZ	A+	Rural	Dec-04	9,014	\$787,355	7.75%
<b>Family Dollar</b> Las Vegas, NV	A+	Suburban	Jan-05	10,000	\$1,800,000	4.70%
<b>Family Dollar</b> Las Cruces, NM	A+	Suburban	Feb-05	8,000	\$914,000	7.00%
<b>Family Dollar</b> Safford, AZ	A+	Rural	Jan-05	9,180	\$777,000	7.60%
<b>Dollar General</b> Cottonwood, AL	A+	Rural	Jan-05	8,000	\$360,000	8.00%
<b>Dollar General</b> Albion, IN	A+	Rural	Jan-05	9,100	\$510,000	7.60%
<b>Dollar General</b> Boscobel, WI	A+	Rural	Jan-05	9,014	\$648,000	8.10%
<b>Dollar General</b> Columbus Junction, IA	A+	Rural	Jan-05	8,125	\$579,000	8.00%
<b>Dollar General</b> Cleveland, TN	A+	Rural	Oct-04	9,014	\$630,000	8.40%
<b>Family Dollar</b> Commerce City, CO	A+	Suburban	Sep-04	7,864	\$1,000,000	8.00%
<b>Subject – ShopKo/Pamida</b> Various	B		—		—	—
<b>Average Suburban</b>						<b>6.76%</b>
<b>Median Suburban</b>						<b>7.00%</b>
<b>Average Rural</b>						<b>7.93%</b>
<b>Median Rural</b>						<b>8.00%</b>
<b>Average Overall</b>						<b>7.40%</b>
<b>Median Overall</b>						<b>7.68%</b>

\*Includes in-line space

## INCOME CAPITALIZATION APPROACH (CONTINUED)

The subject is occupied by Pamida, a subsidiary of ShopKo Stores, Inc., which has a current credit rating of B by Standard & Poor's (S&P). The above comparables bracket the subject's credit rating with ratings of B- to A+, and have average and median OARs of 7.40% and 7.68%, respectively. The median for properties located in suburban areas is 7.00%; the rural median is 8.00%.

**Band of Investment** – To analyze the capitalization rate from a financial position, the Mortgage Equity Analysis is utilized. This is the analysis that most buyers of leased commercial properties analyze and essentially mirrors the cash-on-cash perspective.

The subject's actual loan terms currently being offered is summarized in the table below:

<b>MORTGAGE EQUITY ANALYSIS</b>	
Loan Amortization Period (years)	30
Interest Rate	6.00%
Loan to Value Ratio	75%
<b>Mortgage Constant</b>	<b>0.07195</b>

Equity dividend rates for investment properties vary depending upon the motivations of buyers and financing terms. Facilities similar to the subject generally range from 8.00% to 12.00%, depending on tenancy and loan terms. Our OAR conclusion of 9.25% infers an equity dividend of (0.15416) 15.4%. This is higher than the typical equity dividend, but given the rural nature of the subject market, sparse demographics, and below average sales based on the median for the Midwest, and decreasing population trends in the subject market, an investor would arguably anticipate a higher rate than is typical in more metropolitan markets.

Therefore, the above terms are utilized in the following Band of Investment calculation:

<b>BAND OF INVESTMENT</b>					
<b>Component</b>	<b>%</b>	<b>x</b>	<b>Rate</b>	<b>=</b>	<b>Weighted Average</b>
Mortgage Component	75%	x	0.07195	=	0.05396
Equity Component	25%	x	0.15416	=	0.03604
Indicated Capitalization Rate					0.0900
<b>Capitalization Rate (R/O)</b>					<b>9.00%</b>

**OAR Conclusion** – With the above conclusions, an OAR of 9.00% is used for the direct capitalization method.

### **Conclusion – Direct Capitalization**

An Income Capitalization Approach Summation Table is shown on the following page and summarizes the information discussed in this section of the report. In summary, the as-is fee simple value indication by this approach is:

**\$800,000**

## INCOME CAPITALIZATION APPROACH SUMMATION TABLE

**POTENTIAL GROSS INCOME**

<u>RSF</u>	<u>Rent/SF Per Month</u>	<u>Potential Gross Rent</u>	<u>Potential Reimb. Exp. Income</u>	<u>Total PGI</u>
20,000	\$4.00	\$80,000	\$0	\$80,000
<b>20,000</b>	<b>\$4.00</b>	<b>\$80,000</b>	<b>\$0</b>	<b>\$80,000</b>

POTENTIAL RENT INCOME: = \$80,000  
 REIMBURSABLE EXPENSE INCOME: = \$0

TOTAL POTENTIAL GROSS INCOME (PGI): = \$80,000  
 LESS: VACANCY AND CREDIT LOSS 5.0% of PGI = (\$4,000)  
 TOTAL EFFECTIVE GROSS INCOME (EGI): = \$76,000

<u>LESS OPERATING EXPENSES:</u>	<u>Total</u>	<u>Per SF</u>	<u>% of EGI</u>	
Management	\$760	\$0.04	1.0%	
Reserves	\$3,000	\$0.15	3.9%	
<b>TOTAL OPERATING EXPENSES:</b>	<b>\$3,760</b>	<b>\$0.19</b>	<b>4.9%</b>	<b>(\$3,760)</b>

NET OPERATING INCOME (NOI): = \$72,240  
 NOI/SF Building Area: = \$3.61

**INCOME CAPITALIZATION**

<u>NOI</u>	<u>Divided By</u>	<u>OAR</u>	<u>Value</u>
\$72,240	Divided By	9.00%	\$802,667

AS-IS FEE SIMPLE VALUE INDICATION (ROUNDED): **\$800,000**

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## ■ SALES COMPARISON APPROACH ■

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### **Methodology**

In this section, the market value of the subject property will be estimated by direct comparison analysis. Direct comparison analysis compares improved sales to the subject property on a price per square foot basis. The price per square foot is based upon the physical characteristics of the property, and care must be taken in the comparable selection process.

### **Comparable Selection**

The subject is an average to good condition retail building that is 100% occupied by the owner. We have utilized five comparables of similar free standing retail buildings throughout the region. The comparables generally bracket the subject in location and other physical characteristics.

### **Adjustments**

Adjustments for property rights conveyed, financing and conditions of sale are made on the Improved Sales Summation Table (if applicable). Adjustments for market conditions, quality, condition, location, site coverage are made following a discussion of the comparables on the following pages. When analyzing the comparables, primary consideration was given to: (1) physical characteristics such as age and condition; (2) location; (3) construction quality; and (4) utility.

### **Presentation**

On the following page, an Improved Sales Summation Table is presented, which shows all pertinent information regarding the improved sale comparables. A location map is also provided showing their distance from the subject. Following the location map are photographs of each comparable, our analysis of the comparables and conclusion for the subject.



IMPROVED SALES SUMMATION TABLE						
LOCATION	SUBJECT	COMP. NO. 1	COMP. NO. 2	COMP. NO. 3	COMP. NO. 4	COMP. NO. 5
Identification: Street Address: City, State:	Pamida 2702 Central Avenue Estherville, IA	Pamida 2201 Commerce Drive Grundy Center, IA	Pamida 405 State Highway 92 Winterset, IA	Retail Building 224 Highway 92 Winterset, IA	Staples 27 West Berle Road Marshalltown, IA	Kmart 1200 East 7th Street Atlantic, IA
<b>SALE INFORMATION</b>						
Buyer:	--	Grundy Center Development	Winterset Wages (Paigen Properties)	JR Sheffer & Associates	BPBH Limited Partnership	Listing
Seller:	--	Brian and Michelle Power	JSV Community Properties	KC Holdings, Inc.	Marshalltown, LLC	Listing
Document No.:	--	2003/4461	2004/2863	2003/1612	300667	Listing
Sale Date:	--	Nov-03	Jun-04	Mar-03	Jan-03	Listing
Rights Transferred:	Fee simple	Leased Fee	Leased Fee	Fee simple	Leased Fee	Listing
Financing:	--	All cash to seller	All cash to seller	All cash to seller	All cash to seller	Listing
Market Time:	--	N/A	Not marketed	N/AV	N/A	Listing
Sale Price:	--	\$590,000	\$2,105,263	\$375,000	\$1,810,000	\$1,600,000
Cash Equivalent Sale Price:	--	\$590,000	\$2,105,263	\$375,000	\$1,810,000	\$1,600,000
<b>PHYSICAL CHARACTERISTICS</b>						
Site Size (Acres):	4.70	1.44	3.52	3.79	2.20	3.75
Site Coverage:	10%	30%	28%	14%	25%	25%
Parking Ratio (spaces/RSF):	4.5	N/A (adequate)	N/A (adequate)	N/A (adequate)	N/A (adequate)	N/A (adequate)
Zoning:	Commercial	GC, General Commercial	Commercial	Commercial	Commercial	Commercial
Year Built:	1976	1999	1996	1994	1997	1985
Construction Type:	Metal building	Block	Block	Block frame	Block	Block
Building Size (RSF):	20,000	18,750	42,961	22,584	24,204	40,318
Quality:	Average	Average	Average	Average	Average	Average
Condition:	Average	Average to good	Average to good	Average to good	Average to good	Average to good
<b>ANALYSIS</b>						
NOI	--	\$54,000	\$190,080	N/Ap	\$177,651	\$147,552
Capitalization Rate:	--	9.15%	9.03%	N/A (fee simple)	9.81%	9.22%
Sale Price/RSF:	--	\$31.47	\$49.00	\$16.60	\$74.78	\$39.68
<b>COMMENTS:</b>						
		This was the sale of a four year old Pamida Store in Grundy Center, IA. The initial term is for 20 years. Pamida has two five year options to renew. Pamida is a subsidiary of ShopKo which had a credit rating of BB- at the time of the sale. The comparable is located along a main arterial in a county seat community.	This was the sale of a eight year old Pamida Store in Winterset, IA. The initial term runs through May 2017 and Pamida has two five year options to renew. Pamida is a subsidiary of ShopKo which had a credit rating of BB- at the time of the sale. Prior to sale in 4/1997 was \$1,622,568 or \$37.76/SF and suggests a 3.80 annual increase.	The seller had been negotiating a deal with a grocery store, but the deal fell through and he was motivated to get rid of the property. The building was vacant for over 2 years. The buyer's intended use was a Sports Bar in a portion of the building.	This is the sale of a Staples store that had been built to suit in 1997. The original lease term was 15 years. The building was located in an area of retail synergy, but has no frontage on the main arterial.	This is a listing for a Big K in Atlantic, IA. It is a freestanding retail building and Kmart's lease is until 11/2005. Kmart has eight 5 year options to extend.



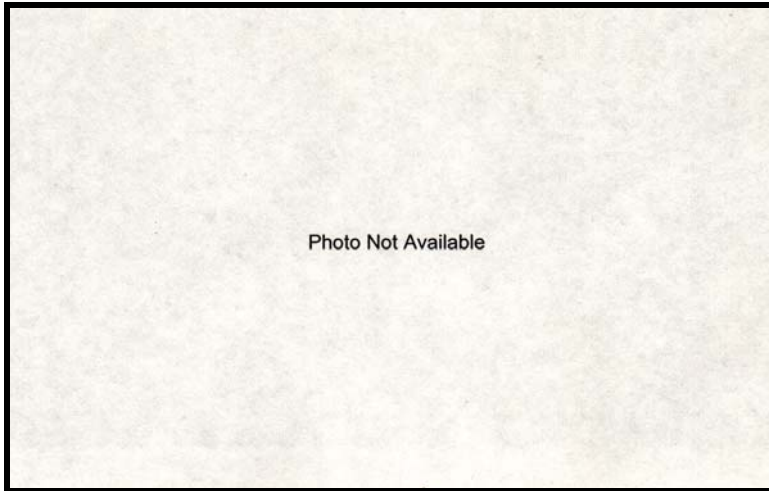




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SALES COMPARABLE PHOTOGRAPHS

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Comparable 1 – Pamida – Grundy Center, IA



Comparable 2 – Pamida – Winterset, IA



Comparable 3 – Retail Building – Winterset, IA

SALES COMPARABLE PHOTOGRAPHS (CONTINUED)



Comparable 4 – Staples – Marshalltown, IA



Comparable 5, Kmart – Atlantic, IA

## SALES COMPARISON APPROACH (CONTINUED)

### Price per Square Foot Analysis

The comparables used in this analysis indicate a range in prices of \$16.60 to \$74.78 per square foot (SF). Four of the comparables have sale dates between January 2003 and June 2004. One of the comparables sold in 2002. Overall, the comparables bracket the subject in quality, condition and location. Below is a discussion and analysis of each comparable followed by an adjustment grid and our conclusion for the subject:

**Comparable 1 (\$31.47/SF)** is the November 2003 sale of an 18,750-square foot, four year old Pamida Store in Grundy Center, IA. The initial term is for 20 years, with a flat lease rate, and two five year options to renew. Pamida is a subsidiary of ShopKo Stores, Inc. which had a credit rating of BB- at the time of the sale. The comparable is located along a main arterial with good exposure in a county seat community. This was a build to suit project, developed by the Grundy Center Economic Development Corporation. According to the owner there were virtually no land costs. The lease rate for this building is low comparatively for a newer building in the marketplace and there appears to have been motivation on the part of the Economic Development Corporation to make this deal come to fruition from start (in negotiating the lease) to finish. The median income is \$40,648 and the population is 6,744 within a ten mile radius of this property. The subject median income is lower (\$35,851) in 10 mile ring. The comparable's market area has been losing population for the last 15 years and is forecasted to continue to do so. The subject population has also been declining and is forecasted to continue to do so. The comparable store sales have been declining; the subject's store sales have been mixed, but climbing since a low in 2002. Based on the motivations of the Economic Development Corporation, inferior population base and inferior store sales this is considered to be a slightly low indicator for the subject.

**Comparable 2 (\$49.00/SF)** is the June 2004 sale of a 42,961, eight year old Pamida Store in Winterset, IA. The initial term runs through May 2017 and Pamida has two five year options to renew. Pamida is a subsidiary of ShopKo Stores, Inc which had a credit rating of BB- at the time of the sale. There was a prior sale for this comparable in 4/1997 for \$1,622,568 or \$37.76/SF and suggests a 3.27% annual increase. The median income is \$43,024 for the comparable and is superior to the subject's (\$35,851). The population is 9,633 within a ten-mile radius of this property, slightly lower than the subject's population base of 10,598 within a ten-mile radius. The subject is an older, smaller store, is in an area with inferior income demographics, and lower sales on a SF basis. Overall, this is considered to be a high indicator for the subject.

**Comparable 3 (\$16.60/SF)** is the March 2003 sale of a retail building that had been vacant for 2 years. The prior owner had been in negotiations with a grocer, but that deal fell, through. Reportedly, after the deal fell through he become motivated to sell the building. The buyer intends to be an owner user and have a Sports Bar in a portion of the building. The building is located along a main arterial and has good exposure. The median income is \$43,041 and the population is 9,285 within a ten-mile radius of this property. Because of the seller motivation and the owner user nature of this building it is considered to be a low indicator for the subject.

**Comparable 4 (\$74.78)** is the January 2003 sale of a 24,204 square foot Staples store that had been built to suit in 1997. The original lease term was 15 years. The building was located in an area of retail synergy, but has no frontage on the main arterial. The median income is \$40,508 and the population is 33,410 within a ten-mile radius of this property. Staple's is a nationally recognized discount office product chain, this along with the superior demographics suggest this is a high indicator for the subject.

**Comparable 5 (\$39.68/SF)** is a listing for a Big K in Atlantic, IA. It is a freestanding retail building and Kmart's lease is until 11/2005. Kmart has eight 5 year options to extend. The

## SALES COMPARISON APPROACH (CONTINUED)

building is located along a main arterial and has good traffic counts. The median income is \$36,367 and the population is 10,068 within a ten-mile radius of this property. The subject has a similar demographic base. Big K has been going through some financial restructuring and has closed several locations. It was not known whether Big K intends to exercise their options or not, but marketing the building for sale near the end of the lease term suggests some possible motivation. Overall, placing emphasis on the locational and demographic similarities, this is considered a reasonable indicator for the subject.

### Adjustment Grid

In order to analyze the comparable sales, we have adjusted them for major differences from the subject. The adjustments are not intended to be exact measurements of the differences but an attempt to bracket the reasonable range of conclusions. A grid outlining the adjustments applied to the comparables is provided on the following page, followed by an explanation of each adjustment considered and a summary of our conclusions:

ADJUSTMENT GRID					
Comp #	1	2	3	4	5
<b>Unadjusted \$/SF</b>	<b>\$31.47</b>	<b>\$49.00</b>	<b>\$16.60</b>	<b>\$74.78</b>	<b>\$39.68</b>
Property Rights/Sales Conditions	10%	0%	10%	0%	0%
Market Conditions	6.50%	3.25%	6.50%	6.50%	0%
Location/Exposure	5%	0%	0%	-10%	0%
Age/Quality & Condition	-5%	-5%	-5%	-5%	-5%
Size	0%	5%	0%	0%	5%
<b>Total Adjustment</b>	<b>17%</b>	<b>3%</b>	<b>12%</b>	<b>-9%</b>	<b>0%</b>
<b>Adjusted \$/SF</b>	<b>\$36.66</b>	<b>\$50.60</b>	<b>\$18.51</b>	<b>\$68.42</b>	<b>\$39.68</b>
<b>Average</b>	<b>\$42.78</b>				

**Property Rights Conveyed, Financing Terms & Conditions of Sale** – All of the comparables represent fee simple property rights. All of the sale transactions were cash to seller, with no favorable financing. None of the above sales were foreclosed properties, and all transactions were considered to be arms-length. Comparables No 1 and No 3 had significant seller motivations. Therefore, these comparables have been adjusted upward 10% for comparison.

**Market Conditions** – This adjustment is made to account for changes in the market over time. As mentioned in the Market Analysis section, asking rents in the regional market have not changed much historically. However, capitalization rates have decreased over this period, which has caused appreciation in real estate. There are no published appreciation rates for Des Moines or Iowa, however Comparable No. 2 sold in 1997 and then again in 2004 and appreciated at 3.27% a year. This is a reasonable appreciation rate and is similar to consumer price index appreciation rates. Therefore, Comparables 1-4 have been adjusted upward on a basis of 3.25% per year.

**Location** – This adjustment is made for differences in neighborhood demographics and exposure. Comparable 1 was adjusted upward 5% to reflect inferior demographics, traffic counts and exposure. Comparable 4 was adjusted downward to reflect superior demographics, traffic counts and exposure.

## SALES COMPARISON APPROACH (CONTINUED)

**Age, Quality/Condition** – This adjustment is made to account for differences in effective age, quality, condition and appeal. The subject is older than all of the comparables. Adjustments downward have been made to all of Comparables by 5%.

**Size** – This adjustment is made to account for significant differences in size. All else being equal, smaller buildings tend to sell at higher prices per square foot than larger buildings. The subject is 20,000 square feet. Comparables 2 and 5 were adjusted 5% upward for their larger size.

### Conclusion

After adjustment, the comparable sales indicate an adjusted range of values of \$18.51 to \$68.42 per square foot and an average of \$42.78/SF. Eliminating superior Comparables 2 and 4 and Inferior Comparable No. 3 the range is narrowed and Comparables 1 and 5 bracket the subject with an adjusted range of \$37 to \$40/SF (rounded). Therefore, with weight placed on the average of the five comparables and Comparables 1 and 5, a unit value of \$40/SF is concluded. The total as-is fee simple value indication by this approach is (20,000 SF x \$40) \$800,000 rounded to:

**\$800,000**

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## ■ ANALYSIS OF VALUE CONCLUSIONS ■

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The Analysis of Value Conclusions is the final step in the appraisal process and involves the weighing of the individual valuation techniques in relationship to their substantiation by market data, and the reliability of each valuation technique to the subject property.

### As-Is Value Indications

Cost Approach:	Not applicable
Income Capitalization Approach:	\$800,000
Sales Comparison Approach:	\$800,000
<b>Final Value Conclusion</b>	<b>\$800,000</b>

The Cost Approach provides a good indication of value for properties that are new or that have experienced no significant amount of depreciation. It also helps to determine the feasibility of a new development. For properties that are older or that have suffered substantial amounts of depreciation or obsolescence, the Cost Approach becomes a less reliable indicator of value. Due to the age of the subject improvements, this approach is not applicable and was not formulated.

The Income Capitalization Approach most closely resembles the type of analysis utilized by investors in income producing properties. Most participants involved in buying and selling multi-tenant commercial properties are mainly concerned with the income producing capability of the property. This is less true of owner-occupied properties like the subject; however, potential owner-users do view leasing as an option to buying and this approach contains good samples of rents and capitalization rate data. Therefore, this approach is given equal weight.

A comparative analysis of the sale price per square foot was used in the Sales Comparison Approach. A number of relevant (fee simple) sales were available to support the value estimate by this approach. The comparables were then adjusted for significant differences from the subject. The approach is given equal weight.

After considering all factors relevant to the valuation of the subject property, the final as-is fee simple value opinion, as of May 05, 2005, is:

**\$790,000**





# INSURABLE VALUE ESTIMATE

## *Marshall & Swift Calculations*

MVS Definition	Discount Store (319)
Size (SF)	20,000
Class	S - Average
Marshall Valuation	Section 13; Page 28
Service Reference:	(May 2004)
Base Cost PSF:	\$40.31
Sprinklers	\$2.15
Subtotal:	\$42.46
Number of Stories:	1.000
Height Per Story:	1.000
Perimeter:	1.000
Current Cost Multiplier:	1.080
Local Cost Multiplier:	1.030
Non-Perishable Items:	1.000
Adjusted Cost PSF:	\$47.23
Building Replacement Cost:	\$944,650
Perishable Site:	
FF&E:	
Total Insurable Estimate:	\$944,650

**Total (Rounded):                      \$940,000**

**Insurable Value Disclaimer**

Insurance coverage is usually specific to a given project. We have not been provided with the specific policy requirements, which limit the reliability of the conclusion. Insurable Value is a matter of underwriting as opposed to valuation. Users of this report should not construe the conclusion of insurable value to be an indication of market value.

It is also noted that the insurable estimate is made using base costs and multiplier adjustments for market conditions and location from Marshall Valuation Service, which is assumed to accurately reflect replacement cost of the subject. We assume no liability as to the subject's insurable replacement cost and recommend that an estimate from a reputable insurance company be obtained if further assurance is required.



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# PHILIP L. STEFFEN, MAI

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**PRINCIPAL**  
Real Estate Analyst & Consultant

## **PRESENT EMPLOYER**

PGP VALUATION INC  
1325 4th Avenue, Suite 500  
Seattle, Washington 98101  
Telephone: 206.343.7477

## **PRESENT POSITION**

Principal in the regional appraisal firm of PGP VALUATION INC, with offices in Seattle and Vancouver, Washington; Portland, Oregon; Sacramento and San Diego, California

## **PROFESSIONAL LICENSES**

MAI (Member Appraisal Institute) Certificate No. 7141  
Washington Certified Real Estate Appraiser (General) No. 27011 1100342  
Idaho Certified Real Estate Appraiser (General) No. CGA-000235  
Montana Certified General Real Estate Appraiser No. 528  
Nevada Certified General Real Estate Appraiser No. 03837

## **PROFESSIONAL AFFILIATIONS**

Member of the Washington/B.C. Chapter of the Appraisal Institute  
Panel Member of the Northwest Regional Ethics and Standards Committee  
Affiliate member of the Seattle Mortgage Banker/Income Property Division

## **APPRAISAL EXPERIENCE**

1984 to Present: Principal at PGP VALUATION INC, Seattle, Washington  
1979 to 1983: Senior Appraiser at PGP VALUATION INC, Portland, Oregon  
1978 to 1979: Senior Appraiser at Equitable Savings and Loan, Portland  
1977 to 1978: Associate Appraiser at State Mutual Savings and Loan, Newport Beach, California  
1975 to 1977: Associate Appraiser at Great Western Savings, (Orange County, Los Angeles County, and San Diego County)

## **GEOGRAPHIC AREA SERVED**

State of Washington; State of Oregon; Northern and Southern California; Reno/Carson, Nevada; Boise, Idaho; Salt Lake City, Utah

## **APPRAISAL AND RELATED EDUCATION**

Claremont McKenna College, Claremont, California  
Graduated Cum Laude with a degree in Economics. Emphasis included "Money and Banking" and "Cost Benefit Analysis"

### Appraisal Institute Courses (formerly AIREA)

Principles of Real Estate Appraisal  
Basic Valuation Procedures  
Theory of Income Capitalization parts 1,2 & 3  
Case Studies in Real Estate Valuation  
Valuation Analysis and Report Writing  
Standards of Professional Appraisal Practice  
Real Estate Investment Analysis

### Seminars sponsored by the Appraisal Institute

Issues in Appraising Low-Income Rental Housing  
Financing Commercial Real Estate In The 90's  
Highest and Best Use Concepts  
Advanced Electronic Spreadsheets  
Depreciation Analysis  
H.U.D. Multifamily Training Seminar  
Real Estate Law for Real Estate Appraisers  
Standards of Professional Practice Update

Office Leasing and Management  
Technical Inspection of Real Estate  
Environmental Appraisal Issues  
Appraising for Pension Funds  
Real Estate Appraisal Reform (OTS)  
Federal Home Loan Bank Board Regulations  
FIRREA: Overview and Practical Applications  
HUD MAP Training Seminar

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# KENNETH R. HARRISON, MAI

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## PRINCIPAL

Since opening PGP Valuation's Southern California office in the 1990s, Ken Harrison has developed a reputation as one of the leading authorities in commercial/income property analysis on the West Coast. Mr. Harrison has been a guest lecturer at North San Diego County Association of Realtors and Portland State University and sits on the boards of one corporation and two national charitable organizations. Ken has analyzed real property in 32 states from Hawaii to Florida to Vermont consisting of nearly every property type. Mr. Harrison has prepared appraisals on many of the most significant properties in California such as the HBO Television Studios, numerous high-rises, the Verizon Headquarters, the Burbank Regional Mall, the NBC Tower, the Queen Mary historic ship and resort, the San Francisco Medical Center, and several resorts.

### Education

Graduate: Western Baptist College, Salem, Oregon  
Bachelor of Science  
Attended: George Fox University, Newberg, Oregon  
Marine Corps. Officer  
Candidate School, Quantico, Virginia

Real estate courses sponsored by the Appraisal Institute:

Course SPPA, Standards of Professional Practice, Parts A & B  
Course 110, Appraisal Principals  
Course 120, Appraisal Procedures  
Course 310, Basic Income Capitalization  
Dynamics of Office Building Valuation  
Course 410, National Uniform Standards of Professional Appraisal Practices (*USPAP*)  
Course 510, Advanced Income Capitalization  
Course 520, Highest and Best Use Analysis  
Course 530, Advanced Sales Comparison and Cost Approaches  
Course 540, Report Writing  
Course 550, Advanced Applications  
Course 700, Appraiser as an Expert Witness  
Nevada Real Estate Appraisal Statutes

### Real Estate Experience

<b>Position</b>	<b>Company</b>
Principal/Real Estate Appraiser	PGP Valuation, Inc. (San Diego)
Group Manager/Senior Analyst	PGP Valuation, Inc. (Portland)
Senior Appraiser	C. Spencer Powell & Associates (Salem)

### Professional Organizations

MAI - Appraisal Institute, Member #11480  
International Council of Shopping Centers, Member # 1105046  
Regional Board of Directors, Fellowship of Christian Athletes  
OMBA Commercial Real Estate Committee  
National Board of Directors, Iseli Foundation

### State Certifications

▪ California	▪ Georgia
▪ Arizona	▪ Michigan
▪ Nevada	▪ Missouri
▪ Colorado	▪ North Carolina

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■ **LISA A. CARTER** ■

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Real Estate Analyst

Lisa Carter is a graduate of Mississippi University for Women, Columbus, Mississippi. After a career in sales and marketing, she joined PGP VALUATION INC. in June of 2001.

**REAL ESTATE EMPLOYMENT**

PGP VALUATION INC  
Real Estate Analyst  
June 2001 to present

**EDUCATION**

**Mississippi University for Women, Columbus, Mississippi**  
Bachelor of Science in Business Administration, 1991

**PROPERTY TYPES EXPERIENCE**

Office: (Professional and Medical)  
Retail:  
    Shopping Centers  
    Single-Tenant  
    Mixed Use  
Mixed Use/Multi-family Residential  
Commercial Land  
Residential Land Valuation  
Single Family Residential -Subdivision Analysis; Land and Lots  
Industrial

**APPRAISAL AND RELATED EDUCATION**

Principals of Real Estate Appraisal  
Principals of Real Estate Appraisal Procedures  
Basic Income Capitalization  
Uniform Standards of Professional Appraisal Practice (USPAP)  
Urban Land Planning and Development  
Introduction to Real Estate Investment



# STATE OF IOWA

THOMAS J. VILSACK  
GOVERNOR  
SALLY J. PEDERSON  
LT. GOVERNOR

IOWA DEPARTMENT OF COMMERCE  
PROFESSIONAL LICENSING & REGULATION

## NON-RESIDENT TEMPORARY PRACTICE

### 193F-10.2 (543D) Non-resident temporary practice.

10.2(1) The Board will recognize, on a temporary basis, and for a maximum of two assignments per year, the certification or licensure of an appraiser issued by another state.

10.2(2) The appraiser must register with the board and identify the property(ies) to be appraised, the name and address of the client and the estimated length of time the appraiser will be in the state and provide a copy of the appraiser's current license/certificate/registration. Registration may be upon the appraiser's letterhead and submitted to the Board office prior to the performance of the appraisal. There is no fee to register with the Board.

**NOTE:** No license, certificate or number will be issued. The registration will be kept on file at the Board's office.

Today's date: 04.05.2005

Appraiser's Name: Philip L. Steffen

Location of property(ies):

Please see attachment

Name and address of client:

Bank of America Corporation #1  
600 Peachtree St., NE 6 Plaza North  
GA1-006-06-18  
Atlanta, GA 30308

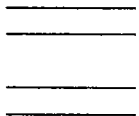
Estimated dates and length of time appraiser will be in Iowa:

Between 4.15.2005 and 6.15.2005

Appraiser's social security number:

545-82-8822

PHILIP L STEFFEN  
PGP VALUATION INC  
1325 4TH AVENUE STE 500  
SEATTLE WA 98101



STATE OF WASHINGTON

CERTIFIED GENERAL REAL ESTATE APPRAISER

PHILIP L STEFFEN  
PGP VALUATION INC  
1325 4TH AVENUE STE 500  
SEATTLE WA 98101



CERT/LIC NO. 1100342      EXP. DATE 05/05/2007

*Jul Stephens*  
Director

STATE OF WASHINGTON

DEPARTMENT OF LICENSING - BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THAT THE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A

CERTIFIED GENERAL REAL ESTATE APPRAISER



PHILIP L STEFFEN  
PGP VALUATION INC  
1325 4TH AVENUE STE 500  
SEATTLE WA 98101

Cert/Lic No.  
1100342

Issued Date  
10/11/1991

Expiration Date  
05/05/2007

*Jul Stephens*  
Director



Business, Transportation & Housing Agency

OFFICE OF REAL ESTATE APPRAISERS

REAL ESTATE APPRAISER LICENSE

OREA APPRAISER IDENTIFICATION NUMBER

AG027202

KENNETH R. HARRISON

has successfully met the requirements for a license as a general real estate appraiser in the State of California and is, therefore, entitled to use the title "Certified General Real Estate Appraiser".

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

OFFICE OF REAL ESTATE APPRAISERS

*Anthony F. Majumdar*

Date Issued: October 15, 2003

Date Expires: October 14, 2005

Audit No. 52444

