

**COMPLETE, SUMMARY APPRAISAL OF  
PAMIDA BIG BOX RETAIL STORE  
314 STURGIS RD  
MARION, CRITTENDEN COUNTY, KENTUCKY 42064  
PROPERTY IDENTIFICATION NUMBER 3106**

**For  
Spirit Finance Corporation;  
Spirit SPE Portfolio 2006-1, LLC;  
Spirit SPE Portfolio 2006-2, LLC;  
Spirit SPE Portfolio 2006-3, LLC;**

**and**

**Citigroup Global Markets Realty Corp.  
Its Successors and Assigns**

**As of April 28, 2006**

**Prepared by:**

**Duff & Phelps, LLC  
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April 30, 2006

Ms. Joni G. Barrett  
Closing Manager  
Spirit Finance Corporation  
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Scottsdale, Arizona 85254

Mr. Jay DeWaltoff  
Citigroup Global Markets Realty Corp.  
Its Successors and Assigns  
388 Greenwich Street, 19th Floor  
New York, New York 10013

Re: Appraisal of Pamida Big Box Retail Store  
314 Sturgis Rd, Marion, Crittenden County, Kentucky 42064  
Property Identification Number 3106

Dear Ms. Barrett:

As you requested, we have reviewed and appraised the Pamida Big Box Retail store located at 314 Sturgis Rd, Marion, Crittenden County, Kentucky. The purpose of this appraisal is to estimate the market value of the Fee Simple Interest as of April 28, 2006, subject to the definition of market value, the general assumptions, limiting conditions, and certification set forth in the attached appraisal report. The intended use of this appraisal is to assist Spirit Finance Corporation (“Spirit”), a Maryland corporation, and its affiliates:

- Spirit SPE Portfolio 2006-1, LLC, a Delaware limited liability company;
- Spirit SPE Portfolio 2006-2, LLC, a Delaware limited liability company;
- Spirit SPE Portfolio 2006-3, LLC, a Delaware limited liability company;

Furthermore, this report is addressed to Citigroup Global Markets Realty Corp., such other persons as may be designated by Citigroup Global Markets Realty Corp. and their respective successors and assigns. Special Conditions include (i) the Report may be relied upon by Citigroup Global Markets Realty Corp. in determining whether to make a loan evidenced by a note (“the Property Note”) secured by the Subject Property, (ii) the Report may be relied upon by any purchaser in determining whether to purchase the Property Note from Citigroup Global Markets Realty Corp. and any rating agency rating securities issued by or representing an interest in the Mortgage Note, (iii) the Report may be referred to in and included with materials offering for sale the Property Note or an interest in the Property Note, (iv) persons who acquire the Property Note or an interest in the Property Note may rely on the Report, (v) the Report speaks only as of its date in the absence of a specific written update of the Report.

The appraisal has been prepared in accordance with the Code of Professional Ethics and Standards of Professional Practice set forth by the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Foundation. This report is a complete, summary report in compliance with USPAP Standards Rule 2-2(b).

Based upon the data and conclusions presented in the attached report, it is our opinion that the market value of the Fee Simple Interest as of April 28, 2006, is:

**\$1,270,000**

The following report contains a study and analysis of data and other material upon which our value conclusions have been predicated.

Yours sincerely,

A handwritten signature in cursive script that reads "Duff & Phelps, LLC".

Duff & Phelps, LLC

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## SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Appraised:	Pamida retail facility
Location:	314 Sturgis Rd, Marion, Crittenden County, Kentucky 42064
Date of Value:	April 28, 2006
Date of Inspection:	Not inspected
Interest Appraised:	Fee Simple
Premise of Value:	Market Value
Purpose and Use of Appraisal:	Estimate the market value of the real property to assist Spirit Finance Corporation ("Spirit") and Citigroup in analyzing the real property collateral for financing purposes.
Owner of Record and 3-Year History:	The store is owned by Pamida SPE Real Estate, LLC.  We are not aware of any transfers of ownership associated with the property in the past three years.
Parcel Number:	Report was unable to determine

### Site Information

Gross Land Area:	4.56 acres, or 198,634 square feet
Excess Land Area:	None
Net Land Area:	4.56 acres, or 198,634 square feet
Zoning:	Report was unable to determine
Floodplain:	
Zone:	Report was unable to determine
Map Panel Number:	Report unable to determine
Date of Map:	Report unable to determine

**Improvement Information**

Number of Buildings: 1

Gross Building Area: 36,047 square feet

Year Built: 2000

Year(s) Renovated: N/A

Floor Area Ratio (FAR): 0.18

Occupancy: The property is 100 percent occupied by Pamida

Marketing Time: Our estimate of marketing time for the subject property is 6 - 12 Months.

Exposure Period: Historical and prospective marketing conditions are considered to be similar, thus, the exposure period is equal to our conclusion of marketing time. Thus, 6 - 12 months for the subject property

Highest and Best Use:  
 As Vacant: retail development  
 As Improved: current use as a free-standing retail development

Indications of Market Values:

<b>VALUE CONCLUSIONS</b>	
<b>Sales Comparison Approach</b>	\$1,260,000
Per sq. ft. conclusion	\$34.95
<b>Income Approach</b>	\$1,270,000
Per sq. ft. conclusion	\$35.23
<b>FINAL VALUE "As Is"</b>	<b>\$1,270,000</b>
<b>Value per Sq. Ft.</b>	<b>\$35.23</b>
<b>Imputed "Going-In" Capitalization Rate</b>	<b>9.26%</b>

## CERTIFICATION

The undersigned do hereby certify that, to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial and unbiased professional analyses, opinions, and conclusions.

we have no present or prospective interest in the property that is the subject of this report and have no personal interest or bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal, such as the approval of a loan.

Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation and the requirements of the Code of Professional Appraisal Practice of the Appraisal Institute.

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

a personal inspection of the property that is the subject of this report was not made by any member of our staff

Ross Prindle, MAI, Michael Kendzior, MAI, Brett Matzek, MAI and John Corbett did not inspect the property that is the subject of this report.

As of the date of this report Ross Prindle, MAI, Michael Kendzior, MAI, Brett Matzek, MAI and John Corbett have completed the requirements of the continuing education program of the Appraisal Institute.

Kelly Hogberg provided professional real estate appraisal assistance to the person signing this certification.

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



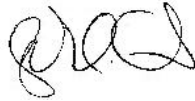
Ross Prindle, MAI  
Managing Director  
Duff & Phelps, LLC



Michael Kendzior, MAI  
Director  
Duff & Phelps, LLC  
Kentucky State Certified Appraiser #002103  
Expires 6/30/2006



Brett A. Matzek, MAI  
Director  
Duff & Phelps, LLC



John P. Corbett  
Manager  
Duff & Phelps, LLC



## STATEMENT OF GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is subject to the following general assumptions and limiting conditions:

1. No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is further assumed to be free and clear of liens, easements, encroachments and other encumbrances unless otherwise stated, and all improvements are assumed to lie within property boundaries.
2. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information.
3. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been, or can readily be obtained, or renewed for any use on which the value estimates provided in this report are based.
4. Full compliance with all applicable federal, state and local zoning, use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated.
5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the appraisal date hereof.
6. Responsible ownership and competent property management are assumed.
7. The allocation, if any, in this report of the total valuation among components of the property applies only to the program of utilization stated in this report. The separate values for any components may not be applicable for any other purpose and must not be used in conjunction with any other appraisal.
8. Areas and dimensions of the property were obtained from sources believed to be reliable. Maps or sketches, if included in this report, are only to assist the reader in visualizing the property and no responsibility is assumed for their accuracy. No independent surveys were conducted.
9. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that affect value. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
10. No soil analysis or geological studies were ordered or made in conjunction with this report, nor was an investigation made of any water, oil, gas, coal, or other subsurface mineral and use rights or conditions.
11. Neither Duff & Phelps, LLC nor any individuals signing or associated with this report shall be required by reason of this report to give further consultation, to provide testimony or appear in court or other legal proceedings, unless specific arrangements thereto for have been made.
12. This appraisal has been made in conformance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice.

13. We have not been engaged nor are we qualified to detect the existence of hazardous material which may or may not be present on or near the property. The presence of potentially hazardous substances such as asbestos, urea-formaldehyde foam insulation, industrial wastes, etc. may affect the value of the property. The value estimate herein is predicated on the assumption that there is no such material on, in, or near the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is desired.
14. The date of value to which the conclusions and opinions expressed in this report apply is set forth in the opinion letter at the front of this report. Our value opinion is based on the purchasing power of the United States' dollar as of this date.
15. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property along with a detailed study of ADA requirements could reveal that the property is not in compliance with the act. If so, this would have a negative effect on the property value. We were not furnished with any compliance surveys or any other documents pertaining to this issue and therefore did not consider compliance or noncompliance with the ADA requirements when estimating the value of the property.

## INTRODUCTION

### **Property Identification**

The subject of our appraisal is an existing Pamida retail store. The retail establishment is located at 314 Sturgis Rd, Marion, Crittenden County, Kentucky. The property is developed with a 36,047± square foot structure on 4.56± acres of land. The subject was originally constructed in 2000 and possesses a floor to area ratio (FAR) of approximately 0.18.

### **Purpose and Date of Appraisal**

The purpose of this appraisal report is to estimate the market value of the Fee Simple interest in the real property described above as of April 28, 2006.

### **Intended Use of the Appraisal**

It is understood that the primary function of this report is to assist Spirit Finance Corporation ("Spirit") and Citigroup in analyzing the real property collateral for financing purposes as of April 28, 2006.

### **Extent of Data Collection**

As part of this assignment, the appraisers made a number of independent investigations and analyses. The valuation is based upon the findings contained in this report and is subject to all the assumptions and limiting conditions contained herein.

### **Property Rights Appraised**

The property rights being appraised are the Fee Simple interests in the real property as of April 28, 2006. A Fee Simple estate is defined by the Dictionary of Real Estate Appraisal (third edition), published by the Appraisal Institute, as follows:

*" 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."*

## **Scope of Work**

Descriptive data was collected for the subject property by means of public record and information provided by the Client. An understanding of the subject market was derived through interviews of local market participants, and publicly produced market reports (e.g. IREM, Standard & Poor's, Korpacz, etc.). Market data, including comparable sales and rental data, have been confirmed when possible. Market data, with regard to building sales and market rents, were obtained from local market participants, brokers, appraisers, local governmental authorities, our internal database, and other sources. This report has been written as a complete appraisal report in a summary format.

## **Legal Description**

A copy of the legal description associated with the subject was provided by the client. However, it is recommended that legal counsel confirm the legal description before any transfer or conveyance of the property is made. A copy of the legal description is retained in our files. According to assessment records obtained by the appraiser, the subject property is generally considered to be Assessor Parcel Number Report was unable to determine by Crittenden County, of the State of Kentucky.

## **Competency Provision**

We have the knowledge and experience to complete this appraisal assignment and have appraised this property type before.

## **Property History and Current Ownership**

Pamida SPE Real Estate, LLC currently owns the property. To the best of our knowledge, the subject has not been sold in the last three years. Currently, there exists the potential for this asset, in conjunction with several other similar assets, to be transferred as part of a larger portfolio sale. Terms of this arrangement have not been divulged to the appraiser.

## Definition of Market Value

The following definition of market value as adopted by the Appraisal Foundation in the Uniform Standards of Professional Appraisal Practice is as follows:

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.*

*Implicit in this definition is the consummation of a sale as of a specified date and the passing of 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;*
- 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."*

*Source: Uniform Standards of Professional Appraisal Practice (USPAP) 2004*

## Estimated Marketing Time/Exposure Period

Due to the characteristics of the subject property in conjunction with a review of select surveys related to comparable assets we estimate an exposure and marketing period of approximately 6 - 12 months to be appropriate.

<b>EXPOSURE/MARKETING TIME INFORMATION</b>		
Data Source	Exposure/Marketing Time (Months)	
	Range (Months)	Average
<i>Korpacz Real Estate Investor Survey</i>		
Net Leased Market	1 - 6	3.40
National Shopping Center	2 - 12	6.94
<i>National Investor Survey</i>		
Class A Net Leased Investment	3 - 12	6.60
Class B Net Leased Investment	6 - 12	7.80
Class C Net Leased Investment	6 - 12	9.00

## MARKET ANALYSIS

### General Retailing Introduction

The health of the US economy depends heavily on retail trade. In 2004 retail trade accounted for 30 percent of the US gross domestic product (GDP) or \$11.7 trillion. Sales of general merchandise, apparel, furnishings, and “other” goods rose 6.4 percent in 2004 to \$1.0 billion. Sales of nondurable goods, which are defined as goods sold by department and general merchandise stores, apparel and accessory stores, food and drug stores, and restaurants, totaled \$2.4 trillion or 29 percent of personal consumption expenditures.

Retail is a mature business, with the largest operators reporting the most sales. With more than 1.4 million establishments ranging from automobile dealers and gas stations to apparel and grocery stores, retailing is a major employer in the United States. The most significant trends currently affecting retailers relate to the industry’s maturity. First, with the number of competitors in the market, there is a desire to capture the consumers attention and, thus, heavy competition. Second, consumer spending is growing slowly due to the moderate growth in the economy and changing demographics. Lastly, consumers are more inclined today than a decade previous to favor shopping at retailers offering the best price/value propositions.

The combination of this mature, highly saturated market, a slow sales growth environment, and merchants’ inability to raise prices makes it imperative to drive down costs and improve economies of scale.

## **Discount Merchandisers**

Due to the saturation in the market and positioning of certain retailers within a specialty category, many general merchandisers have increasingly relied on discounting to draw value-conscious customers to their stores. Today's industry comprises full-line discount stores, discount specialty stores, supercenters, and hypermarkets. It is within this category of retailers that the subject property directly competes.

The popularity of discounters is no longer confined to shoppers at the low end of the economic scale. Like department stores, discounters target various economic strata with their price points. Target stores seek a more affluent clientele than other discounters; customers' median household income is \$57,000. At WalMart and Kmart, customers' average household incomes are typically \$35,000. Each of these markets covers a sizable number of households.

## **Investment Criteria and Patterns**

The subject property currently represents a retail establishment which is presently owner occupied. With consideration given to the physical, functional and economic characteristics surrounding the asset, the most probable investment scenario is a sale-leaseback. Under this scenario, the current occupant is then the tenant with the lease structured on a net basis. Investor demand for single-tenant net-leased retail assets has been and is anticipated to remain strong through 2006 as investors recognize the advantages of net retail in relation to other real estate investments. Further, companies continue to search for cash infusion to facilitate the desired growth without incurring additional debt.

According to recent published surveys, investment activity related to discounter related leased assets over the last year was comparable to the preceding 12 months, which is relatively low, due to a limited supply available for sale. Demand, however, has placed continued upward pressure on prices with the median climbing 23 percent to \$64.00 per square foot. This supply and demand relationship, coupled with relatively low interest rates, has served to drive the implied overall capitalization rates down from approximately 9.0 percent to less than 7.0 percent, between 1999 and 2005.

Due to the relatively low to nominal maintenance required for this investment type, buyers can search nationwide for properties that fit their specific investment criteria. It is reported that close to three-quarters the transactions in 2005 involved buyers from another state. Sellers are benefiting from these expanded searches as properties in markets, which may have been previously overlooked, are generating strong interest.



## **NEIGHBORHOOD ANALYSIS**

### **Neighborhood Description**

The subject property is located in the Town of Marion, Kentucky in Crittenden County. Marion is 10 miles southeast of the Illinois border, 30 miles northeast of Paducah, and 100 miles from northwest Nashville. The Tradewater River flows along the northeastern border of Crittenden County, while the northwestern boundary is formed by the Ohio River. Marion is located in the Pennyrile region of the state. Access to the site is provided by Sturgis Road (State Route 60).

The greater area surrounding the subject property is considered rural with under 25 percent of the available land having been improved upon. Slow growth of construction activity in the market has led to generally stable property values in recent years. Overall, improvements of retail oriented establishments are considered to be in balance.

### **Development Trends**

Development along the commercial thoroughfares within the subject's immediate area consists of limited retail and small commercial facilities. New development within the area is limited to mostly residential with minimal commercial space available. Arterial streets contain mostly small commercial sites promoting and supporting with rural living and limited tourism. Side streets contain single-family residential uses. The subject is located in an older area, however, Crittenden County is experiencing stable economic conditions which has contributed to historically stable property values.

## Competition

The big-box retail store industry is highly competitive with respect to price, location, and convenience. It is also affected by changes in local and national economic conditions affecting consumer confidence.

However, due to the small population in Marion and the surrounding areas, direct big-box retail competition is limited. Competition within the subject market is best described as all discount general merchandisers (e.g. dollar stores) as well as local hardware and drug store establishments.

A chart listing the primary competition for the subject property is found below:

Name	Location	Distance from Subject
Family Dollar	Sturgis Road	0.1 miles
CVS	Sturgis Road	0.1 miles

## Conclusion

The predictions for Minerva and Crittenden County is for stable economic conditions. While fast-paced growth is not anticipated, a steady economy is likely. Given Marion's community mix and proximity to certain local attractions, moderate growth may be expected.

## SITE SUMMARY AND ANALYSIS

### Physical Description

Net Site Area:	4.56 acres, or 198,634 square feet
Corner Site:	No
Primary Road Frontage:	Sturgis Road
<i>Number of lanes (direction)</i>	North/South
Excess Land Area:	0.00
Zoning Change Likely:	No
Soil Conditions:	Assumed stable
Shape:	Irregular
Topography:	Slightly sloping
Zoning District:	Report was unable to determine
Flood Map Panel No.:	Report was unable to determine
Flood Map Date:	Report unable to determine
Flood Insurance Required:	Unknown

### *Adjacent Land Uses*

<i>North</i>	Sturgis Road (SR 60) followed by Family Dollar and CVS
<i>South</i>	Vacant Land
<i>East</i>	Single-family residential Development
<i>West</i>	Multi-family residential Development

## Comparative Analysis

Access	Average
Visibility	Average
Functional Utility	Good
Traffic Volume	Fair
Controlled Traffic Intersection	None
Adequacy of Utilities	Average
Landscaping	Minimal
Drainage	Adequate

## Utilities

<i>Class</i>	<i>Provider</i>	<i>Adequacy</i>
Water	Public	Yes
Sewer	Public	Yes
Natural Gas	Public	Yes
Electricity	Public	Yes
Telephone	Public	Yes

## Other

<i>Class</i>	<i>Yes</i>	<i>No</i>	<i>Unknown</i>
Toxic Hazards			X
Detrimental Easements			X
Encroachments			X
Deed Restrictions			X
Reciprocal Parking Rights		X	
Common Ingress/Egress		X	

## IMPROVEMENT SUMMARY AND ANALYSIS

### Property Description

The subject property is free-standing big-box retail store. The retail building is of concrete slab construction with concrete exterior, automated glass doors in front, and no windows. Adequate parking is on site. According to the information provided by the client, the building area is 36,047 square feet. The property has been well maintained since original construction and the improvements were finished in 2000 per county records. No deferred maintenance was evident. Overall, the improvements represent adequate quality retail construction that is in average condition.

### Improvement Summary and Analysis

<i>Construction Details</i>	<i>Description</i>	<i>Comparative Rating</i>
Foundation	Reinforced concrete	Average
Frame	Concrete block	Average
Structural System	Concrete slab load bearing walls	Average
Exterior Walls	Painted cinder block	Average
Roof	Flat composition	Average
Exterior Doors	Automated glass doors in frames	Good
HVAC System	Roof mounted HVAC units	Average
Lighting	Fluorescent fixtures	Average
Interior Partitions	Painted gypsum wallboard	Average
Interior Doors	Metal	Average
Flooring	Primarily asphalt tile and carpet	Average
Ceiling	Drop-in acoustical tile	Average
Sprinkler System	Fire sprinklers	Good
Plumbing	Assumed adequate/Public Service	Average
Parking Lot	Asphalt Parking	Good
<b>OVERALL PROPERTY CONDITION</b>		<b>AVERAGE</b>

## PROPERTY TAXES AND ASSESSMENTS

The subject property, 314 Sturgis Rd, Marion, Crittenden County, Kentucky, is identified for real estate tax purposes by Parcel Number Report was unable to determine. Commercial real property in Marion is annually assessed for property taxes by Crittenden County. The commercial real property assessment is comprised of a land component and a building improvements component. The assessed values shown in the table below are reflective of the assessed market value by the respective jurisdiction.

Real Estate Tax Assessment 314 Sturgis Rd Marion, KY	
<i>Component</i>	<i>Assessment</i>
Land	\$225,000
Improvements	1,400,000
<b>Total Assessment</b>	<b>\$1,625,000</b>

By applying the appropriate tax rate as set forth by the Crittenden County Tax Assessor and Collector the following chart shows the current and historical tax liability for the subject property.

Current & Historical Real Estate Taxes 314 Sturgis Rd Marion, KY				
<i>Parcel #</i>	<i>Real Estate Taxes</i>			<i>Estimated</i>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Report was unable to determine	23,836.10	22,545.43	22,307.36	<b>22,976.58</b>

We have estimated real estate taxes for 314 Sturgis Rd to equate to \$22,976.58 in Year 1 of analysis.

## HIGHEST AND BEST USE ANALYSIS

Highest and best use is defined in The Dictionary of Real Estate Appraisal, (1993) as:

*The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are:*

- *Legal Permissibility*
- *Physical Possibility*
- *Financial Feasibility*
- *Maximum Profitability*

The above definition of highest and best use applies to use of a site as though vacant, as well as to the property as improved. When a site contains improvements, the highest and best use may be determined to be different from the existing use. The existing use will continue unless and until the land value in its highest and best use exceeds the sum of the value of the entire property in its existing use plus the cost to remove the improvements. The highest and best use of both the land as vacant and the site as improved is analyzed in the following paragraphs.

### **As Vacant**

The subject site is located in an area zoned Report was unable to determine. Allowable uses for the Report was unable to determine zoning area are retail and neighborhood service uses, residential and/or limited service/office uses. The surrounding uses include:

- Sturgis Road (SR 60) followed by Family Dollar and CVS to the north
- Vacant Land to the south
- Single-family residential Development to the east
- Multi-family residential Development to the west

With consideration given to the four criteria associated with determining the highest and best use of land as though vacant, it is our opinion that the highest and best use of the subject site is for retail development.

## **As Improved**

The primary test of financial feasibility is a comparison of the value of the site as vacant, with the value estimate of the site as improved. The subject property is currently fully occupied and the improvements appear to be structurally sound. Compared with the market value of the site, as if vacant, the subject's existing improvements clearly contribute to the total value of the property and are representative of the highest and best use of the property as improved. Therefore, it is our opinion that the highest and best use of the subject property, as improved, is for current use as a free-standing retail development.



## **VALUATION THEORY**

There are three conventional approaches to real estate valuation under its highest and best use, namely; Cost, Income Capitalization, and Sales Comparison. The type and age of the property under analysis as well as the quantity and quality of data available from the market will affect the applicability of those methods to a specific case. Our estimate of the market value for the subject property is concluded through an application of the sales and Income approaches to value.

### **Cost Approach**

The Cost Approach considers the cost to replace the existing improvements, less accrued depreciation, plus the market value of the land. The subject property is an income producing asset that does not trade on replacement value. Therefore, the Cost Approach was not developed as part of our valuation of the subject property.

### **Sales Comparison Approach**

The Sales Comparison Approach renders an estimate of value based upon the competitive prices at which an equally desirable substitute property can be acquired in the open marketplace. By analyzing the differences between comparable properties and the subject against prices paid, we are able to discern value parameters established by buyers and sellers active in the market for a specific property type.

### **Income Capitalization Approach**

The Income Capitalization Approach renders an estimate of value based upon the present worth of the potential future benefits derived from ownership of the real estate.

### **Applicability of the Three Approaches to Value**

We are valuing the fee simple market value of the subject property. After developing the two pertinent valuation methods, the strengths and weaknesses of each are then reviewed. Outstanding differences are then reconciled toward a point estimate of value. Finally, a concluding opinion is formed as to the market value of the subject property on April 28, 2006.

## **SALES COMPARISON APPROACH**

The sales comparison approach is based on the premise that an informed purchaser will ordinarily pay no more for an available property than the cost of acquiring a property with similar utility. This approach presumes that a market exists for the type of property being appraised. It also presumes that data on recent arm's-length sales of similar competitive properties in the same market are an appropriate guide to the market value of the property in question.

For property like the subject, two methods of comparison leading to an indication of value are available. The first involves a direct comparison of the market data in which subjective adjustments are made for differences in certain major elements. The second entails an analysis that quantitatively adjusts the prices paid for the comparable properties by the relative differences between the net income expected from the subject and that generated by the sales.

## **Direct Comparison Method**

In this analysis, adjustments are made to the market data for significant differences with the subject property. After adjustment, the resulting pattern is a good indication of the market value for the subject property. In conducting our search for market data, we interviewed real estate brokers and appraisers to obtain additional information about each property transaction. We made adjustments for differences in such factors as market conditions, location, size, age, condition and use. The unit of comparison used is the price per square foot of net leaseable area, chosen because it is the industry standard for this type of property and generally gives reliable results.

Following is a summary of the market data assembled for this comparative process. A map indicating their location in relation to the subject is included in the Addenda section of this report. The adjustments are presented to summarize the logic of our thought processes with the ultimate result being a plausible market value conclusion for the subject property. A positive adjustment is made to the comparable sale where it is somehow inferior to the subject property while a negative adjustment is appropriate when some trait of the comparable sale is superior to that of the subject property.

It is important to note that there exists limited market activity for assets similar to the subject property. Hence, we have extended our search parameter to include regional and/or national sales of comparable properties. We believe an investor in this asset would act in a similar fashion. The following page includes a summary of these assets.

**IMPROVED SALES COMPARISON GRID**

for Pamida

314 Sturgis Rd Marion, KY

April 28, 2006

	SUBJECT	SALE NO. 1	SALE NO. 2	SALE NO. 3	SALE NO. 4	SALE NO. 5				
Property Name	Pamida	Pamida	Free Standing Retail	Former K-Mart Building	Family Dollar	Former Wal-Mart Building				
Location	314 Sturgis Rd	1678 Cookville Hwy	2326 Russellville Rd	7813 Beulah Church Rd	Hwy 421 Store No. 838	107 Southgate Dr				
City, State	Marion, KY	Livingston, TN	Bowling Green, KY	Louisville, KY	McKee, KY	Georgetown, KY				
Sale Date	----	Active	Active	Sep-04	Mar-04	Jul-04				
Grantor	----	N/A	N/A	N/A	N/A	N/A				
Grantee	----	N/A	N/A	N/A	White Reach/Hammond Development, LLC	N/A				
Sale Price	----	\$1,300,000	\$1,250,000	\$1,500,000	\$609,371	\$2,100,000				
Overall Capitalization Rate	----	0.00%	0.00%	0.00%	9.80%	0.00%				
Sale Price per SF	----	\$37.14	\$42.57	\$19.62	\$61.77	\$20.25				
<b>Adjustments</b>										
Property Rights Conveyed	Fee Simple	Assumed Fee Simple	=	Assumed Fee Simple	=	Leased Fee	=	Fee Simple	=	
Adjusted Unit Sales Price	----	\$37.14		\$42.57		\$19.62		\$61.77		\$20.25
Financing Terms	Conventional	Assumed Market	=	Assumed Market	=	All Cash to Seller	=	All Cash to Seller	=	All Cash to Seller
Adjusted Unit Sales Price	----	\$37.14		\$42.57		\$19.62		\$61.77		\$20.25
Conditions of Sale	Normal	Similar	=	Similar	=	Similar	=	Similar	=	Similar
Adjusted Unit Sales Price	----	\$37.14		\$42.57		\$19.62		\$61.77		\$20.25
Immediate Capital Expenditures	None	None Noted	=	None Noted	=	None Noted	=	None Noted	=	None Noted
Adjusted Unit Sales Price	----	\$37.14		\$42.57		\$19.62		\$61.77		\$20.25
Market Conditions	Apr-06	Listing	-	Listing	-	Inferior	+	Inferior	+	Inferior
Adjusted Unit Sales Price	----	\$35.29		\$40.44		\$20.79		\$65.48		\$21.47
<b>Location/Physical/Economic</b>										
Location	Good	Superior	-	Superior	-	Superior	-	Superior	-	Superior
Access/Visibility	Average/Average	Similar/Similar	=	Similar/Similar	=	Similar/Similar	=	Similar/Similar	=	Similar/Similar
Building Rentable Area	36,047	35,000	=	29,364	=	76,461	+	9,865	=	103,701
Year Built/Condition	2000	2000	=	1963	+	1981	+	2003	=	1990
L:B Ratio	1 : 5.5	4.60	=	4.12	=	5.92	=	2.74	=	8.40
Tenancy	Average	Similar	=	Similar	=	Similar	=	Similar	=	Similar
Occupancy	100%	100%	=	Vacant	+	Vacant	+	100%	=	Vacant
Non-Realty Items	None	None	=	None	=	None	=	None	=	None
Total Location/Physical/Economic Adjustments			-		+		+		-	
Adjusted Price/SF		\$33.52		\$46.51		\$22.87		\$62.20		\$22.54
Minimum Adjusted Price:	\$22.54									
Maximum Adjusted Price:	\$62.20									
Average Adjusted Price:	\$37.53									
Median Adjusted Price:	\$33.52									
<b>Concluded Price/SF:</b>	<b>\$35.00</b>									
<b>Concluded Value:</b>	<b>\$1,261,645</b>									
<b>Less Major Capital Ex:</b>	<b>\$0</b>									
<b>Preliminary Value:</b>	<b>\$1,261,645</b>									
<b>Rounded:</b>	<b>\$1,260,000</b>									

## **Indicated Value via Direct Comparison**

Considering all available data making reasonable, subjective adjustments for the many factors affecting value, it is our conclusion that the data indicate a current market value for the subject property “As Is” of approximately \$35.00 per square foot by direct comparison or Direct Sale Comparison Value Conclusion as follows:

36,047 square feet at \$35.00 per square foot:	\$1,261,645
<b>ROUNDED VALUE:</b>	<b>\$1,260,000</b>

## **INCOME CAPITALIZATION APPROACH**

The income capitalization approach is based on the premise that value is created by the expectation of future benefits. We estimated the present value of those benefits to derive an indication of the amount that a prudent, informed purchaser-investor would pay for the right to receive them as of the valuation date.

This approach requires an estimation of the net operating income of a property. The estimated net operating income is then converted to a value indication by use of either the direct capitalization method or the discounted cash flow analysis.

The discounted cash flow ("DCF") analysis focuses on the operating cash flows expected from the property and the anticipated proceeds of a hypothetical sale at the end of an assumed holding period. These amounts are then discounted to their present value. The discounted present values of the income stream and the reversion are added to obtain a value indication. Because benefits to be received in the future are worth less than the same benefits received in the present, this method weights income projected in the early years more heavily than the income and the sale proceeds to be received later.

Direct capitalization uses a single year's stabilized net operating income as a basis for a value indication. It converts estimated "stabilized" annual net operating income to a value indication by dividing the income by a capitalization rate. The rate chosen includes a provision for recapture of the investment and should reflect all factors that influence the value of the property, such as tenant quality, property condition, neighborhood change, market trends, interest rates and inflation. The rate may be inferred from local market transactions or, when transaction evidence is lacking, obtained from trade sources.

In some situations, both methods yield similar results. The DCF method is more appropriate for the analysis of investment properties with multiple or long-term leases particularly leases with cancellation clauses or renewal options, and especially in volatile markets. The direct capitalization method is normally more appropriate for properties with relatively stable operating histories and expectations.

The strength of the DCF method is its ability to recognize variations in projected net income, such as those caused by inflation, stepped leases, neighborhood change, or tenant turnover. Its weakness is that it requires many judgements about how likely buyers and sellers of the property would predict the future performance of the property and the market. Due to the single-tenanted nature of the asset and the typical

lease structure, we have only utilized the direct capitalization method in the valuation of the subject property.

## **Direct Capitalization**

In developing this method of capitalization, we first estimate the revenues that the real estate can effectively produce. Expenses incurred to generate those revenues are deducted therefrom. The residual net income is then capitalized at a rate extracted directly from the market for an indication of the subject property's value.

### ***Revenues***

The total gross revenues generated by a property like the subject are typically composed of several distinct elements: a minimum base rent determined by lease agreement, reimbursement of certain expenses incurred in the ownership and other income. Those revenues are then adjusted for the possibility of vacancy and credit loss. The resulting amount becomes the gross revenues that an informed investor can expect the real estate to effectively produce.

### **Base Rental Income**

The base rent which the subject property will generate for an investor reflects a review of what is presently now being paid for comparable space and services in the competitive open market.

We have analyzed many factors in order to determine market rental rates at the subject property. Typically such factors considered in determining market rental rates include:

- Asking rates at the subject property
- Current contract rents and recently signed leases at the subject property
- Asking rates at competitive properties
- Recently signed leases at comparable properties

As the subject property currently represents an owner occupied retail facility we have analyzed asking rents and actual leases at comparable retail developments.

### **Comparable Rates at Competitive Properties**

The subject is characterized as a “Big Box” retail building. There is a limited supply of competitive properties in the subject’s immediate market. Therefore, we collected asking rates and exercised leases within comparable properties on a regional basis. The table on the following page summarizes the comparable asking and actual rate information collected from our market research.



**COMPARABLE RENTAL RATES  
FOR SHOPKO  
314 Sturgis Rd, Marion, Kentucky**

<i>Comp#</i>	<i>Identification / Location</i>	<i>City, State</i>	<i>Tenant</i>	<i>Commencement Date</i>	<i>Leased Area</i>	<i>Term (Years)</i>	<i>Base Rent (PSF)</i>	<i>Escalations</i>	<i>Reimbursement</i>	<i>TI's (PSF)</i>	<i>New/Renewal</i>	<i>Comments</i>
1	Freestanding Retail Hwy 421 Store No. 421	McKee, KY	Family Dollar	May-03	9,865	10.0	\$6.00	5%/5 years	NNN	None	New	Located in a rural community Lease can be renewed every 5 years at 5% increase
2	Freestanding Retail 777 ByPass Rd	Bradenberg, KY	Pamida	Current	34,498	10.0	\$4.35	N/A	NNN	None	N/A	Anchor tenant, along with Kroger. Lease expires in 2019. Located in River Ridge Neighborhood Ctr.
3	Fairview Plaza 600 US Hwy 31 W Bypass	Bowling Green, KY	Dollar Tree	January-03	20,000	10.0	\$4.180	N/A	NNN	N/A	N/A	This is a 176,450 SF Neighborhood Cntr anchored by Ace Hardware.
4	Freestanding Retail 400 Campbellsville Bypass	Campbellsville, KY	Big Lots	January-04	33,460	10.0	\$3.50	N/A	NNN	N/A	N/A	Lease is within a larger former K-Mart building
5	Gateway Plaza 259 Indian Mound Dr	Mount Sterling, KY	Dawahares	September-02	18,000	10.0	\$3.80	N/A	NNN	N/A	N/A	An in-line space leased in Dawahares at the Gateway Plaza (large Neighborhood Cntr).
6	Freestanding Retail 2809 W Broadway	Louisville, KY	Vacant	Asking	44,984	N/A	\$8.00	N/A	NNN	N/A	New	Former Winn Dixie Active redevelopment area
				MIN		10.0	\$3.50					
				MAX		10.0	\$8.00					
				MEDIAN		10.0	\$4.27					
				AVERAGE		10.0	\$4.97					
				<b>CONCLUDE</b>		<b>10.0</b>	<b>\$3.75</b>					

### Conclusion of Market Rent

Based upon an analysis of the foregoing data, we must estimate the appropriate economic rent associated with the subject property. In doing so, we conclude a rate of \$3.75 per square foot of rentable area to be economic for the subject property. Therefore, we estimate the subject would generate approximately \$135,176 in base rental revenue.

### Expense Reimbursements

Leases at similar retail properties typically call for the tenant to reimburse ownership for certain expenses incurred in operating the property. These expenses and responsibilities include common area maintenance, repairs, utilities, real estate taxes, and insurance.

Based upon our review, the subject property is projected to generate \$ 93,259 in expense reimbursement revenue during the initial year of our analysis.

### Allowance for Vacancy & Credit Loss

Accepted appraisal practice calls for a global deduction to be made from the total gross revenues due an investor to account for the possibility of vacancy and the non-collection of rent. With consideration to the overall market we utilize a 2.00% allowance for credit loss to typical tenants. Further, we have modeled 3.00% general vacancy.

### Operating Expenses

The expenses incurred in the operation of assets similar to the subject property include real estate taxes, insurance, maintenance, management, and miscellaneous administrative items. The responsibility of payment for these operating expenses is provided previously in this section.

In projecting operating expenses for the subject property, we reviewed ownership's historical data and pro forma. Further, we considered nationally recognized third party surveys to benchmark our operational expense data. This process is not intended to set a standard for the industry or to determine an ideal operating ratio. It is, however, useful for comparing total operating expenses associated with the subject property versus the comparable properties surveyed.

Additionally, we spoke with local professionals concerning the appropriate level of operating expenses for a property like the subject. Based on the foregoing, we anticipate Year 1 operating expenses to be \$99,402 or \$2.76 per square foot of rentable area.

### Net Operating Income

The total expenses of the subject building is deducted from the effective gross income, thereby leaving a net operating income to the investors. On a stabilized basis, the subject property is projected to generate net operating income of \$117,612 or \$3.26 per square foot of building area. It is this figure which is employed for the direct method of income capitalization.

### Overall Capitalization Rate

An overall capitalization rate is the direct relationship between the net operating income generated by the real estate and its price or value in the market. Overall capitalization rates are affected by investors' perception of risk in a particular property, its environs, and the marketplace in which it competes for tenants. Overall rates can also be affected by lease expiration schedules and any debt which might be incorporated into the capital structure of the investment.

We employed the following techniques in the derivation of an overall capitalization rate for the subject property. Following is an explanation of the methodology employed to derive the appropriate capitalization rate.

#### **Band of Investment Technique**

On the date of value, long-term mortgage debt funds for the subject property could most likely be obtained from local lending sources in an amount equal to 75.00% of value at an annual interest rate of 6.50% for a ten year term with a 30 year amortization schedule. The combination of this interest rate and amortization schedule results in an annual mortgage constant of 7.58%. The constant is the total annual requirement to service the debt, principal payments including interest.

In the current real estate market, an investor would require a minimum annual return of 9.50% on an equity investment in a property such as the subject. It should be emphasized that this return is not the same as an equity yield rate or true rate of return on equity capital. This equity requirement is simply that rate of return necessary to initially attract investment capital. Long-term appreciation and the benefits of

leverage will serve to attract investors to an initial rate that is not a full measure of real expectations of true returns.

Based upon this set of market oriented criteria, the weighted-average cost of capital to be invested in a property like the subject property is estimated to be 8.06%. Below is a presentation of our computations for an overall rate via the Band of Investment Technique:

<b>Band of Investment Technique</b>					
<i>Source of Capital</i>	<i>Capital Structure</i>	<i>X</i>	<i>Required Rate</i>	<i>=</i>	<i>Weighted Rate</i>
Mortgage Debt	75%	X	7.58%	=	5.69%
Equity Funds	<u>25%</u>	X	9.50%	=	<u>2.38%</u>
Total Capitalization	100%	X	Overall Capitalization Rate	=	8.06%

### Market Surveys

Additionally, for insight into the current real estate segment of capital markets, we consulted the investor criteria produced by the Korpacz Real Estate Investor Survey and CBRE National Investor Survey. The following chart displays the initial overall capitalization rate ranges according to Korpacz's First Quarter 2006 Survey for the National Strip Shopping Center market:

<b>KORPACZ REAL ESTATE INVESTOR SURVEY</b>			
National Strip Shopping Center Market			
FIRST QUARTER 2006			
<i>Institutional Grade Property</i>			
First Key Indicators	Current Quarter	Last Quarter	Year Ago
Overall Cap Rate (OAR)			
RANGE	5.80%-9.00%	6.00%-9.00%	6.25%-9.50%
AVERAGE	7.36%	7.42%	7.86%
CHANGE (Basis Points)	-	-6	-50
<i>Non-Institutional Grade Property</i>			
First Key Indicators	Current Quarter	Last Quarter	Year Ago
Overall Cap Rate (OAR)			
RANGE	7.00%-11.50%	7.00%-11.50%	7.25%-11.50%
AVERAGE	9.04%	9.06%	9.50%
CHANGE (Basis Points)	-	-2	-46

Furthermore, we have also considered initial overall rate surveys for NNN leased assets, as this commonly represents how similar assets are managed in the marketplace. The following charts include both the First Quarter 2006 Korpacz Investor Survey and the CBRE 2005 National Investor Survey:

<b>KORPACZ REAL ESTATE INVESTOR SURVEY</b>			
National Net Lease Market			
FIRST QUARTER 2006			
<i>Institutional Grade Property</i>			
First Key Indicators	Current Quarter	Last Quarter	Year Ago
Overall Cap Rate (OAR)			
RANGE	6.50%-10.00%	6.25%-10.00%	6.50%-10.00%
AVERAGE	7.71%	7.67%	7.67%
CHANGE (Basis Points)	-	+4	+4

<b>CBRE NATIONAL INVESTOR SURVEY</b>		
Net Leased Investments		
2005		
<i>Class A</i>		
First Key Indicators	2005	2004
Overall Cap Rate (OAR)		
RANGE	6.50%-7.50%	
AVERAGE	6.90%	7.42%
CHANGE (Basis Points)	-	-52
<i>Class B</i>		
First Key Indicators	2005	2004
Overall Cap Rate (OAR)		
RANGE	7.00%-8.00%	
AVERAGE	7.55%	8.07%
CHANGE (Basis Points)	-	-52
<i>Class C</i>		
First Key Indicators	2005	2004
Overall Cap Rate (OAR)		
RANGE	8.00%-9.00%	
AVERAGE	8.50%	9.10%
CHANGE (Basis Points)	-	-60

### Indicated Value by Direct Capitalization

The applicable techniques for deriving a market-oriented overall capitalization rate for the subject property generate a range of results from which we must select an overall rate to apply to the subject's stabilized income. Considering the locational attributes, physical traits and economic characteristics of the subject property, we conclude an overall capitalization rate of 9.25% to be appropriate for the subject property. Thus, stabilized net income of \$117,612 capitalized at 9.25% computes to \$35.23. We conclude, then, that by direct capitalization, the Income Approach indicates a \$1,271,479 market value for the Fee Simple interest in the subject property.

<b>OPERATING STATEMENT</b>		
for Pamida		
314 Sturgis Rd Marion, KY		
<i>Category</i>	<i>Annual</i>	<i>per SF</i>
<b>INCOME</b>		
Base Rent	\$ 135,176	\$3.75
Percentage Rent	-	0.00
Expense Reimbursement	<u>93,259</u>	<u>2.59</u>
<b>Total Gross Potential Rent</b>	<b>\$228,436</b>	\$6.34
Vacancy Loss	(6,853)	-\$0.19
Credit & Collection Loss	<u>(4,569)</u>	<u>-0.13</u>
<b>Effective Gross Income</b>	<b>\$217,014</b>	\$6.02
Management Fees (2.0% EGI)	4,340	\$0.12
General & Administrative	1,802	0.05
Repairs & Maintenance	35,535	0.99
Utilities	29,341	0.81
Real Estate Taxes	22,977	0.64
Insurance	<u>5,407</u>	<u>0.15</u>
<b>Total Operating Expenses</b>	<b>\$99,402</b>	\$2.76
<b>NET OPERATING INCOME</b>	<b>\$117,612</b>	\$3.26

<b>DIRECT CAPITALIZATION SUMMARY</b>	
Net Operating Income	\$117,612
OAR	9.25%
Indicated Stabilized Value	\$1,271,479
Deferred Maintenance	None Noted
Value Indication	<u>\$1,271,479</u>
Rounded	\$1,270,000
Value Per SF	\$35.23
Matrix Analysis	
	<u>Cap Rate</u> <u>Value</u>
	9.00%      \$1,306,798
	9.25%      \$1,271,479
	9.50%      \$1,238,019
Source: Duff & Phelps LLC	

## RECONCILIATION AND VALUE CONCLUSION

Cost Approach:	N/A
Sales Comparison Approach:	\$1,260,000
Income Capitalization Approach:	\$1,270,000

The Cost Approach considers the cost to replace the existing improvements, less accrued depreciation, plus the market value of the land. The subject property is an income producing asset that does not trade on replacement value. Therefore, the Cost Approach was not developed as part of our valuation of the subject property.

The Sales Comparison Approach renders an estimate of value based upon the competitive prices at which an equally desirable substitute property can be acquired in the open marketplace. By analyzing the differences between comparable properties and the subject against prices paid, we are able to discern value parameters established by buyers and sellers active in the market for a specific property type. The Sales Comparison Approach was based upon recent regional big box retail store sales. The Sales Comparison Approach is best applied to a property which is typically bought and sold on a regular basis. Due to the characteristics of the subject property, the weight applied to the value resulting from this valuation methodology was secondary.

An Income Capitalization Approach is best applied to a property which is planned and designed as an investment or business. The approach renders an estimate of value based upon the present worth of the potential future benefits derived from ownership of the real estate. We have relied primarily on this approach due to the nature of the portfolio transaction.

Based upon the data and conclusions presented in the attached report, it is our opinion that the market value of the Fee Simple interest of the subject property as of April 28, 2006, is:

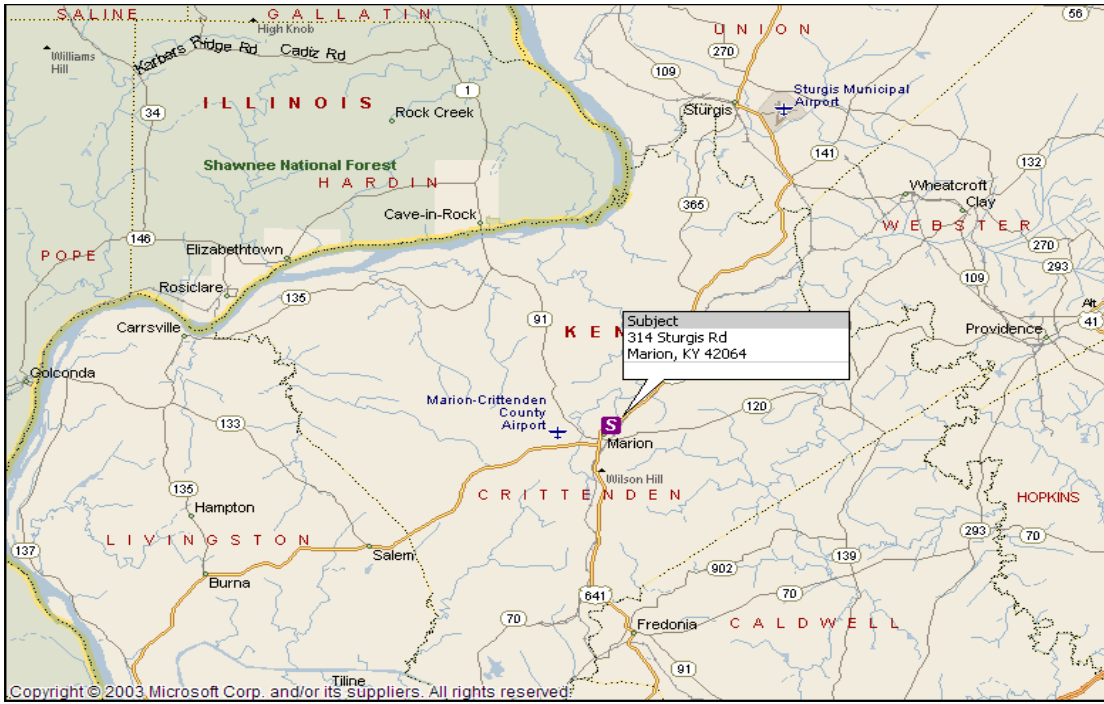
**\$1,270,000**

## **ADDENDA**

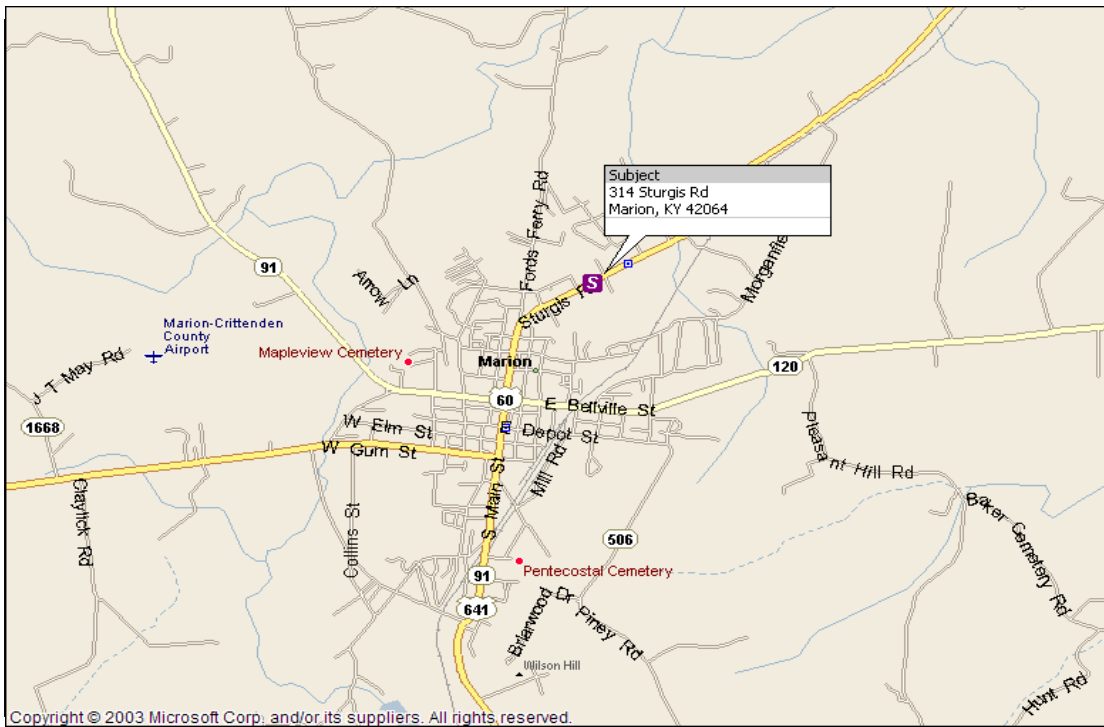
- Area and Neighborhood Maps
- Sales and Rent Comparables Maps
- Local Competition Map



# Pamida 131 – Marion, KY



Area Map



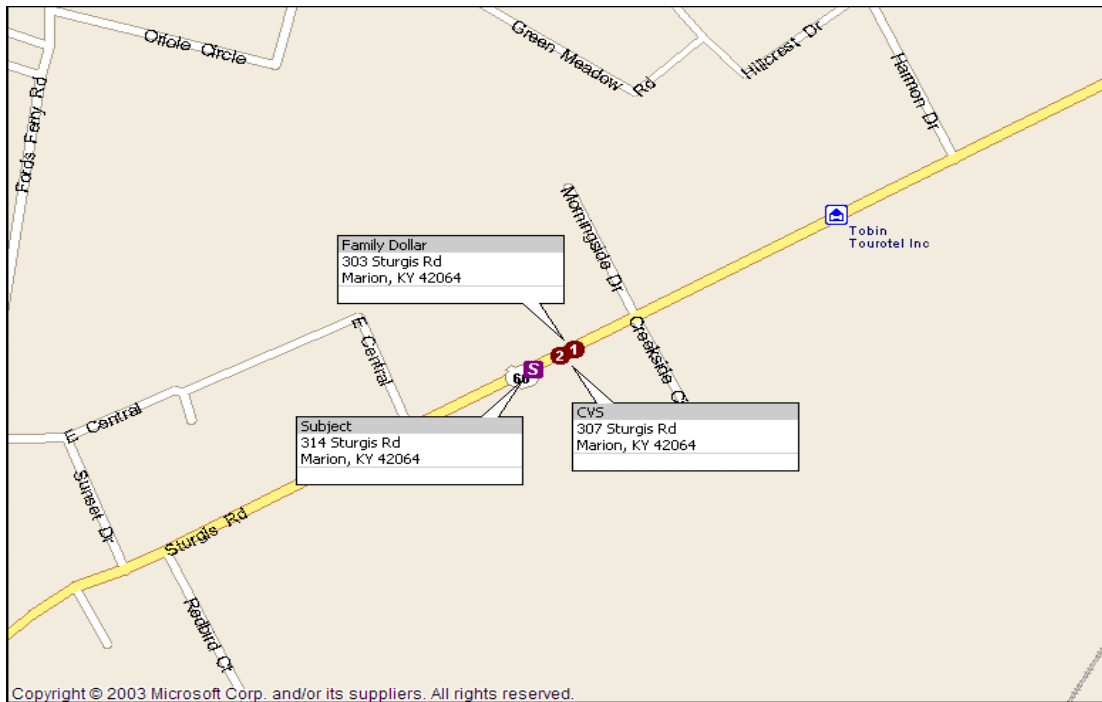
Neighborhood Map



Sales Comparable Map



Rent Comparable Map



**Local Competition Map**