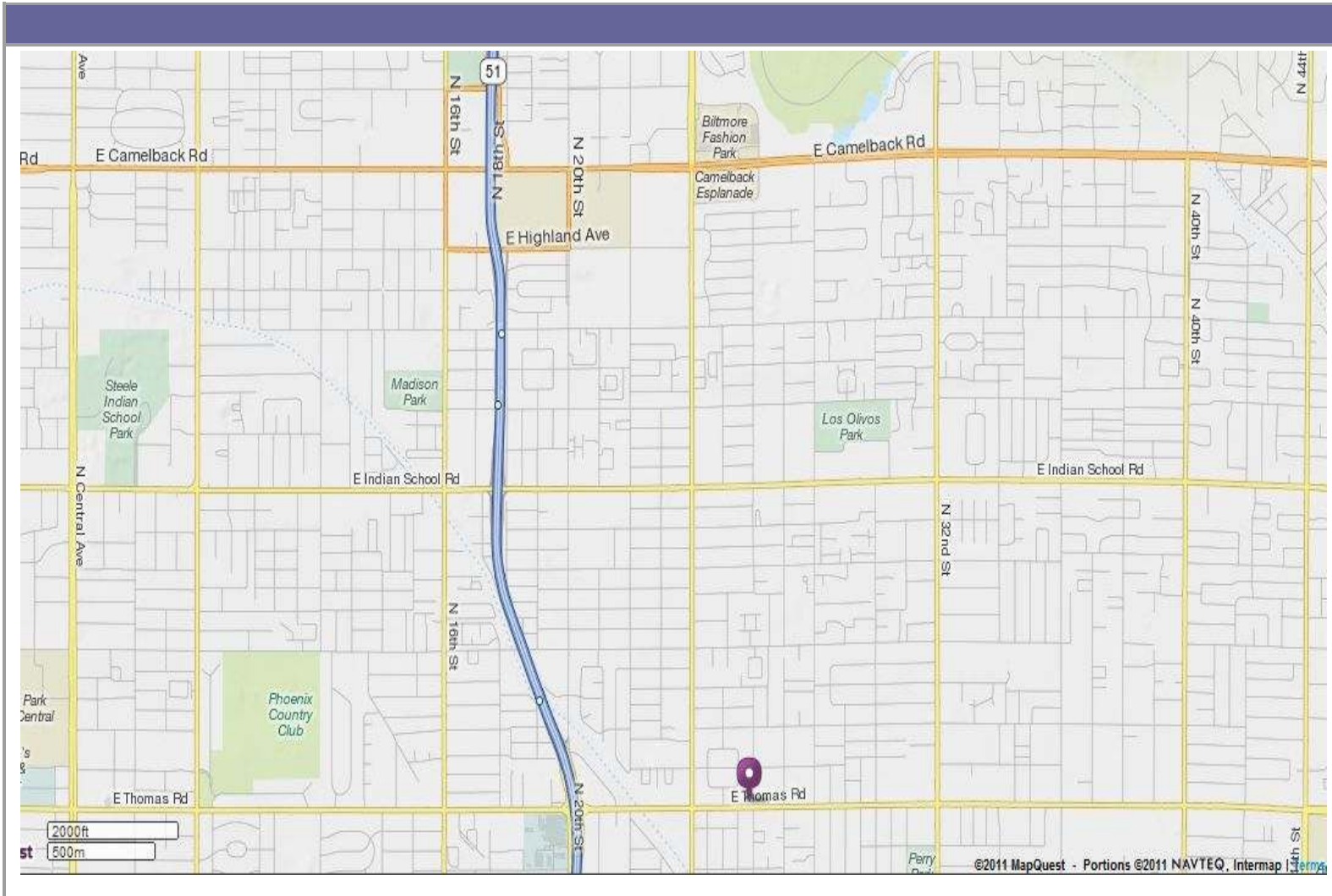


# LOCAL AREA MAP



## LOCAL AREA ANALYSIS

A local market area can be described as a portion of a larger community, or an entire community, in which there is a heterogeneous grouping of buildings, or business enterprises. Area occupants usually have a common interest in the area. Local market area boundaries may consist of well-defined natural (rivers or parks) or man-made barriers (freeways) or they may be more or less defined by a distinct change in land use.

## LOCATION

The property is located in the Central portion of the metropolitan Phoenix area. Generally, the boundaries of the local market area are considered to be Indian School Road on the north, McDowell on the south, State Route 51 on the west, and 32<sup>nd</sup> Street on the east. The subject's location is depicted on the above map. The Central Business District of Phoenix is approximately 2.5 miles west of the subject's market area.

## ACCESS

Local area accessibility is generally good, relying on the following transportation arteries:

- North/South Arterials:                   The major north/south transportation arteries for the area are 44<sup>th</sup> Street, 24<sup>th</sup> Street, 16<sup>th</sup> Street, and 7<sup>th</sup> Street.
- East/West Arterials:                    The major east/west transportation arteries for the area are Camelback Road, Indian School Road, Thomas Road, and McDowell Road.
- Highway Systems:                        The major highway systems for the area are the Squaw Peak Parkway (SR-51), Interstate 10, Loop 202 and the Black Canyon Freeway (I-17).

The Squaw Peak Parkway, Interstate 10 and the Black Canyon Freeway are the most significant transportation systems for the area. All of these divided highways provide access to other market areas and communities within the greater Phoenix area. Additionally, the Black Canyon Freeway provides transportation to the City of Flagstaff to the north and connects with Interstate 10 near downtown Phoenix. Interstate 10 provides transportation to California to the west and Tucson to the south.

## LOCAL AREA CHARACTERISTICS

The local area is considered an urbanized and highly developed area of central Phoenix and is currently in the stabilized stage of its economic life cycle. The area is primarily made up of commercial and residential land uses and is estimated to be approximately 95 percent built-out. The majority of commercial development consists of professional office and retail developments along the major arterial roadways and at section-line corners.

The area has evolved into a major employment area. Major employers include State of Arizona (49,282 employees), Banner Healthcare (28,220 employees), City of Phoenix (15,544 employees), Apollo Group (13,000 employees) and Bank of America (12,000 employees). Other employers include the Phoenix Children's Hospital, Maricopa Medical Center, St. Luke's Medical Center, large law firms like Tiffany and Bosco and worldwide real estate brokerages like Cushman and Wakefield. Also, there are a lot small medical service related firms, financial service companies, law firms, etc. located in the area.

The market area is primarily composed of professional office, retail and residential uses. The Camelback Esplanade, the Biltmore Fashion Park, Town and Country Shopping Center and the Camelback Colonnade is located approximately three miles north the subject property.

The area is located within the stabilized area of the greater Phoenix area and appears to be in the stabilized stage of its economic life cycle. The majority of available land is zoned for retail or office use.

## **MAJOR AREA INFLUENCES**

### **Phoenix Children's Hospital**

Phoenix Children's Hospital was the first pediatric center in the country to establish a Children's Advisory Board (CAB), and they made the most of the opportunity. Since its creation in 1995, the CAB has been instrumental in bringing the child's-eye view to the hospital's procedures and facilities, contributing a multitude of suggestions that have consistently deepened Phoenix Children's understanding of what it means to be a hospital geared towards children.

Beyond medical care, the Phoenix Children's staff is trained to care for the developmental, emotional, and physical needs of children. Our nationally acclaimed Child Life program uses specialists who ease children's fears using therapeutic play and other techniques. We coordinate special events and programs that encourage an environment where kids can be kids.

### **Biltmore Fashion Park**

Biltmore Fashion Park is one of Arizona's premier specialty shopping and dining destinations set in an appealing open-air environment with resortquality landscaping and architecture. This design, paired with a prime location surrounded by upscale businesses, elite residences and luxury resorts, including The Arizona Biltmore Resort & Spa, The Ritz Carlton, The Phoenician, Royal Palms and the Sanctuary Camelback Resort and Spa, lends itself as an established destination for year-round visitors. Located in the middle of one of the largest office corridors, the area office workers are frequent diners at the vast restaurant and eatery selections at the center.

Anchored by Macy's and the state's only Saks Fifth Avenue, Biltmore Fashion Park offers a unique selection of one-of-a-kind retail including Alessi, Brooks Brothers, Calypso St. Barth, Cornelia Park, Escada, Hyde Park Jewelers, Ralph Lauren, Stuart Weitzman and Vera Bradley. The shopping center has evolved into a major dining destination with a plethora of options that include James Beard award winning chef Christopher Gross' Christopher's Restaurant & Crush Lounge, The Capital Grille, Seasons 52, Stingray Sushi, True Food Kitchen and Zinburger Wine & Burger Bar.

The average Biltmore Fashion Park shopper is 42.4 years of age with an average household income of \$115,810 in comparison to the trade area market's average age of 37.1 earning an average household income of \$78,355.

### **Camelback Esplanade**

Esplanade III includes a total of ten stories and was completed in 1997. The building exteriors consist of reflective glass with polished granite. The site is well landscaped with grass, various trees, and plants surrounding the project. The multi-level parking garage provides ample parking. Esplanade III's lobby interiors consists of granite floors with cherry finished wood walls and trim, glass is trimmed in brass.

The building has also recently achieved the prestigious Gold Certification under the US Green Building Council's LEED for Existing Buildings: Operations and Maintenance rating system!

### Camelback Financial Corridor

Along Camelback Road and the surrounding area is the financial corridor for the Phoenix Metropolitan Area. There are a number of large financial institutions, law firms, and real estate companies that have offices on Camelback Road and a few of these companies are Bank of America, Chase Bank, Prudential, Mercer, National Bank of Arizona, Compass Bank, Cushman & Wakefield, CB Richard Ellis, Lee and Associates, Tiffany and Bosco, Chicago Title, Keller William and many more.

### Maricopa Medical Center

Maricopa Medical Center is a premier training center for the nation's physicians. Our medicine, surgery, pediatrics and ob/gyn programs, in particular, contribute to the body of knowledge of patient care. Maricopa Medical Center ensures that health care is available to all area residents giving paying and non-paying patients access to top quality medical care.

### St. Joseph's Hospital

Located in the heart of Phoenix, Arizona, St. Joseph's Hospital and Medical Center is a 542-bed, not-for-profit hospital that provides a wide range of health, social and support services, with special advocacy for the poor and underserved. Founded in 1895 by the Sisters of Mercy, St. Joseph's was the first hospital in the Phoenix area. The hospital is part of Catholic Healthcare West (CHW), one of the largest healthcare systems in the West with 40 hospitals in Arizona, California and Nevada.

### St. Lukes Medical Center

St. Luke's Medical Center has provided Phoenix with 100 years of expert healthcare. Over the years, it has become a premier medical center, known for its pioneering work in the fields of cardiac medicine, robotic surgery, orthopedics and bariatric procedures.

Throughout its history, St. Luke's has maintained its commitment to excellence while also embracing new technologies and medical breakthroughs. The result is a hospital that consistently delivers on its promise to provide outstanding healthcare.

## **COMMUNITY SERVICES**

In addition to what has been previously discussed, other residential support facilities are located within reasonable proximity to the subject. The area is a full service community including adequate police and fire protection provided by the City of Phoenix.

The nearest hospital to the subject is the Maricopa Medical Center and St. Luke's Medical Center, which are full service hospitals that includes emergency room, in and out-patient services and provides a complete range of medical services to the area. Other hospitals in the immediate area are the St. Joseph's Hospital on Northwest corner of Thomas and 7<sup>th</sup> Avenue, and the Banner Good Samaritan Medical Center just east of 7<sup>th</sup> Street on McDowell.

There are several schools in the immediate area including the The Phoenix Christian Grade School, Sage Elementary School, William T Machan Elementrary School, Loma Linda Elementary School, Villa Montessori Middle School and Camelback High School.

In addition, the Phoenix International Sky Harbor Airport is located approximately 4 miles south of the subject property. Phoenix Sky Harbor International Airport is one of the ten busiest in the nation for passenger traffic with a \$90 million daily economic impact. On a typical day more than 1,200 aircraft arrive and depart, more than 100,000 passengers arrive and depart, more than 600 tons of air cargo is handled.

## **SPECIAL HAZARDS OR ADVERSE INFLUENCES**

There are no apparent hazards or conditions that would have an adverse effect on the subject neighborhood.

## **CONCLUSION**

Overall, the subject's local area is in a stabilized area located within Metropolitan Phoenix. The market area is primarily composed of professional office and retail uses and is considered an employment area. The major driving forces for the area are the Biltmore Fashion Park and the Financial Corridor along Camelback Road and the surrounding area.

The local market area is in the central portion of Metropolitan Phoenix area and influenced by several factors including its location and the associated transportation linkages provided by Phoenix Sky Harbor International Airport and several freeways/expressways. The area is developed with a mixture of office, retail, some industrial and residential improvements. There is a declining number of vacant land parcels available.

Our inspection of the subject market area indicates the surrounding areas have been developed with supportive residential and complimentary business park uses consistent with existing patterns. Added support from nearby commercial (retail) and public uses provides balance to the local market area. We do not anticipate any substantive change in land use.

In recognition of the subject's above-average location currently benefiting from interest from investors, it is our opinion that the subject's local market will maintain its overall existing value structure. The local market's social, governmental, environmental and economic considerations warrant a favorable local market area analysis from a long-term projection and investment perspective. These factors should provide a positive outlook for the subject over a typical holding period.

## IMPROVEMENTS DESCRIPTION

The following description of improvements is based on our physical inspection of the improvements, public records and our discussions with the subject property's Owner.

### GENERAL DESCRIPTION

Year(s) Built:	1973
Year(s) Renovated:	N/A
Building Class:	Class C
Number of Buildings:	1
Number of Stories:	1-story
Land To Building Ratio:	4.385 to 1
Gross Building Area:	3,377 square feet
Net Rentable Area:	Tenant leases the building based on the Gross Building Area

### CONSTRUCTION DETAIL

Basic Construction:	Brick Masonry
Foundation:	Reinforced concrete slab
Framing:	Brick
Floors:	Reinforced concrete
Exterior Walls:	Wood Paneling
Roof Type:	Flat deck roof with waterproof membrane cover
Roof Cover:	Water-proof membrane cover
Windows:	Single Pan Windows
Pedestrian Doors:	Metal Doors

### MECHANICAL DETAIL

Heat Source:	Gas
Heating System:	Hot Water System
Cooling:	Central HVAC
Cooling Equipment:	The cooling equipment is roof mounted

Plumbing:	The plumbing system is assumed to be adequate for existing use and in compliance with local law and building codes. The plumbing system is typical of other properties in the area with a combination copper and cast iron piping throughout the building.
Electrical Service:	Electricity for the building is obtained through low voltage power lines. The building features 2000 amp, 480 volt electric service.
Electrical Metering:	The building has a individual meters.
Emergency Power:	None
Elevator Service:	None.
Stair Wells:	None.
Fire Protection:	None
Security:	Exterior and interior monitors.

#### **INTERIOR DETAIL**

Layout:	The building has a mixture of general and specialized tenant improvements. Per the property management, approximately 50% of the building is set up for administrative office uses (individual private offices, conference rooms, reception areas) and the remaining 50% is set up for specialized uses (full service commercial kitchen, restaurant, commercial ovens and refrigeration units and large meeting/instruction rooms).
Floor Covering:	Carpet and Tile
Walls:	Painted Drywall
Ceilings:	2 x 2 acoustical tile
Lighting:	Fluorescent
Restrooms:	The property features adequate restrooms for men and women. Restrooms are equipped with one stall and one sinks in the women's restroom and one urinals, one stall and one sinks in the men's restroom.

#### **SITE IMPROVEMENTS**

Parking Capacity:	18 spaces
Parking Ratio:	The subject has 18 spaces for 14,810 square feet which equates to over 3 spaces per 1,000 square feet of gross leasable area.
Parking Description:	The subject has a surface parking lot.
Onsite Landscaping:	The site is landscaped with a variety of trees, shrubbery and grass

Other: The site improvements include asphalt paved parking areas, curbing, signage, landscaping, yard lighting and drainage.

### PERSONAL PROPERTY

Personal property is included in the sale.

### SUMMARY

Condition: Average

Quality: Average

Property Rating: After considering all of the physical characteristics of the subject, we have concluded that this property has an overall rating that is Average, when measured against other properties in this marketplace.

Roof & Mechanical Inspections: We did not inspect the roof nor did we make a detailed inspection of the mechanical systems. The appraisers are not qualified to render an opinion regarding the adequacy or condition of these components. The client is urged to retain an expert in this field if detailed information is needed.

Actual Age: 38 years

Effective Age: 38 years

Expected Economic Life: 50 years

Remaining Economic Life: 12 years

### CAPITAL EXPENDITURES

Known Costs: We are not aware of any needed capital expenditures in the immediate future that would have an impact on the subject property.

### DEFERRED MAINTENANCE

Cost to Cure: No apparent deferred maintenance that would require immediate repair except some texturing of a drywall repair.

## FINANCIAL INFORMATION

5-Year Property Analysis				
Property Profile				
Property Name	Biltmore Office	Size of Property (ft. <sup>2</sup> )	3,377	
Location	XXX East Thomas Road	Asking Price		\$ 150,000
Property Type	Executive Office	Projected Cap. Rate at Asking Price		6.2%
Size of Property (# Units)	8	Price per SF at Asking Price		\$ 44.42
Investment Summary				
Proposed Purchase Price	\$ 90,000	<b>Before-Tax Results</b>		
Proposed Cash Down Payment (%)	100%	Income Earned over 5 years		\$ 41,596
Proposed Down Payment	\$ 90,000	Average Annual Income		\$ 8,319
Rehab Costs	\$ -	Avg. Annual Cash Return on Investment		8.8%
Other Startup Costs	\$ -	Profit from Appreciation		\$ 59,577
Initial Reserves	\$ -	Avg. Annual Return from Appreciation		12.56%
Bank-Approved Seller Credits to Buyer	\$ -	Internal Rate of Return (IRR)		17.37%
Post-Closing Rebate to Buyer	\$ -	<b>After-Tax Results</b>		
Total Initial Investment	\$ 94,850	Income Earned over 5 years		\$ 37,574
Debt Coverage Ratio, All Mortgages, Year	#DIV/0!	Average Annual Income		\$ 7,515
Debt Coverage Ratio, Mortgage1, Year1	#DIV/0!	Avg. Annual Cash Return on Investment		7.9%
Cap. Rate at Purchase (projected)	10.3%	Profit from Appreciation		\$ 57,297
Proposed Cap. Rate at Sale	8.0%	Avg. Annual Return from Appreciation		12.08%
Purchase Price per SF	\$ 26.65	Internal Rate of Return (IRR)		15.22%
Expenses, % of Future GOI, Year 1	71.0%			
Expenses, per SF, Year 1	\$ 6.71			
Gross Rent Multiplier, Future Rents	2.8			
Selling Date	2/25/2017			
Assumptions				
Appraisal Fee	\$ 3,500	Use Year 6 Cap Rate to Estimate Selling Price?		N
Estimated Closing/Acquisition Costs	\$ 1,350	Owner Managed? (Y or N)		N
Vacancy Rate, Year 1	10.0%	Residential Property? (Y or N)		N
Vacancy Rate, Year 3	5.0%	1031 Exchange?		Y
Credit Loss	2.5%	Owner's Ordinary Income Tax Bracket (incl. State)		10%
Rent Concessions	3.0%	Capital Gains Tax Rate, (incl. State)		15%
Rent Income Escalator, per year	3.0%	Tax Rate on Straight Line Recapture		25%
Other Income Escalator, with vacancy	2.0%	Expenses of Sale		4.5%
Other Income Escalator, without vacancy	0.0%	Primary Tax Rate, % of Assessed Value/Yr.		7.3118
Expense Escalator, per year	3.0%	Secondary Tax Rate, % of Assessed Value/ Yr.		3.5496
Management Fee, % of Effective Income	3.0%	Special Tax Rate, % of Assessed Value/Yr.		-
Mortgage Data		Assessed/Appraised Values		
LTV	1st	2nd		
Loan Amount	\$ -	\$ -	Full Cash Value	\$ 422,579
Interest Rate	7.0%	9.0%	Limited Value	\$ 376,177
Amortization Period	15	5	Future Full Cash Value	\$ 380,321
Points + Fees Paid to Acquire Loan, %	1.0%	1.0%	Future Limited Value	\$ 338,559
Points + Fees Paid to Acquire Loan, \$	\$ -	\$ -	Land	\$ 22,500 25.0%
Mortgage Payments - Monthly	\$ -	\$ -	Building Improvements	\$ 67,500 75.0%
			Landscape Improvement	\$ - 0.0%
			Personal Property	\$ - 0.0%
			<b>Total</b>	<b>\$ 90,000 100.0%</b>

Year One Income Summary							
Description	Price per SF	Size (sq. ft.)	Current Rent	Projected Future Rent	Current Annual Income	Projected Annual Income	Projected Rent per SF
A1 - Full Service	\$ 10.00	380	\$ -	\$ 317	-	3,800	\$ 10.00
A2 - Full Service	\$ 10.00	380	\$ -	\$ 317	-	3,800	\$ 10.00
A3 - Full Service	\$ 10.00	380	\$ -	\$ 317	-	3,800	\$ 10.00
A4 - Full Service	\$ 10.00	380	\$ -	\$ 317	-	3,800	\$ 10.00
A5-7 - Full Service	\$ 10.26	760	\$ 650	\$ 650	7,800	7,800	\$ 10.26
A7-8 - Full Service	\$ 15.79	760	\$ 1,000	\$ 1,000	12,000	12,000	\$ 15.79
<b>Base Rental Revenue - Office Only</b>	<b>\$ 11.01</b>	<b>3,040</b>	<b>\$ 1,650</b>	<b>\$ 2,917</b>	<b>\$ 19,800</b>	<b>\$ 35,000</b>	<b>\$ 11.51</b>
<b>Adjusted Rental Income</b>						<b>\$ 35,000</b>	<b>\$ 11.51</b>
Common Area Maintenance	1.84	1,520	\$ 233	\$ 233	\$ 2,797	\$ 2,797	\$ 0.92
<b>Base Rental Revenue - Total</b>						<b>\$ 37,797</b>	<b>\$ 12.43</b>
<b>Other Income (affected by vacancy)</b>							
Covered / Reserved Parking						\$ -	\$ -
Vending						\$ -	\$ -
Storage						\$ -	\$ -
<b>Total Other Income (affected by vacancy)</b>						\$ -	\$ -
<b>Other Income (not affected by vacancy)</b>						\$ -	\$ -
<b>Total Other Revenue</b>						\$ -	\$ -
<b>Total Potential Gross Revenue</b>						<b>\$ 37,797</b>	<b>\$ 12.43</b>

## First-Year Property Operating Data

Property Name	Biltmore Office	
Location	XXX East Thomas Road	
Type of Property	Executive Office	
Size of Property	8	(Units)
Size of Property	3,040	(Square Feet)
Avg. Mo. Rent/SF	\$0.96	

Purchase Price	90,000
+ Acquisition costs	4,850
+ Loan Points/Costs	
+ Rehab Costs	
+ Other Startup Costs	
+ Initial Reserves	
- Mortgages	
- Closing Credits to Buyer	
= Initial Investment	<b>\$94,850</b>

Assessed/Appraised Values		
Land	22,500	25.0%
Land Improvements		
Buildings	67,500	75.0%
Personal Property		
<b>Total</b>	<b>90,000</b>	<b>100.0%</b>
Adjusted Basis as of March-12		\$94,850

Financing Summary					
(See CashFlows sheet for details.)					
Balance	Periodic Pmt	Pmts/Yr	Interest	Amort Period	Loan Term
		12	7.00%	15	15
1st					
2nd					
<b>Total</b>					

ALL FIGURES ARE ANNUAL		\$/SF	% of GOI	COMMENTS / FOOTNOTES	
1	PROJ. GROSS RENTAL INCOME	\$ 10.36		\$ 35,000	
2	Plus: Common Area Maintenance			2,797	
5	Plus: Other Income (affected by vacancy)				
6	Less: Vacancy		( 10.0% of 37,797 )	-3,780	
7	Less: Credit Losses		( 2.5% of 37,797 )	-945	
8	Less: Rent Concessions		( 3.0% of 37,797 )	-1,134	
9	<b>EFFECTIVE RENTAL INCOME</b>			<b>31,939</b>	
10	Plus: Other Income (not affected by vacancy)				
11	<b>GROSS OPERATING INCOME</b>	<b>\$ 9.46</b>		<b>31,939</b>	
<b>ACTUAL OPERATING EXPENSES</b>					
12	Real Estate Taxes	1.95	20.6%	\$ 6,571	
13	City Sales Tax				
14	Property Insurance	0.40	4.3%	1,364	
15	Off Site Management	0.28	3.0%	958	
16	Payroll - Wages				
17	Common Area Maintenance				
18	Painting & Decorating				
19	Repairs and Maintenance	0.44	4.7%	1,500	
20	Utilities - Electricity:	0.23	2.4%	780	
21	Gas and Oil	0.42	4.4%	1,420	
22	Water & Sewer	0.19	2.0%	636	
23	Trash	0.41	4.3%	1,380	
24	Television, Telephone & Internet	0.11	1.1%	360	
25	Auto & Travel				
26	Accounting and Legal	0.30	3.1%	1,000	
27	Licenses/Permits/Dues/Subscriptions:				
28	Advertising & Promotion	0.15	1.6%	500	
29	Office Expense & Supplies	0.06	0.6%	200	
30	Services - Janitorial	1.42	15.0%	4,800	
31	Landscaping	0.36	3.8%	1,200	
32	Security				
33	Garbage Collection				
34	Pest Control				
35	Roads and Grounds				
36	Uncategorized Expenses				
37	<b>TOTAL OPERATING EXPENSES</b>	<b>6.71</b>	<b>71.1%</b>	<b>\$ 22,669</b>	<b>22,669</b>
38	<b>NET OPERATING INCOME</b>			<b>9,269</b>	<b>Cap Rate: 10.3%</b>
39	Less: Annual Debt Service				<b>Debt Coverage Ratio: #####</b>
40	Less: Funded Reserves	\$0.89	9.39%	\$3,000	
41	Less: Leasing Commissions	\$0.41	4.28%	\$ 1,368	
42	Less: Capital Additions				
43	Less: Personal Property Replacements				
44	<b>CASH FLOW BEFORE TAXES</b>			<b>\$4,901</b>	<b>Cash on Cash Return: 5%</b>