

# REVIEW OF TWO APPRAISALS & RESTRICTED USE REPORT

Three Buildings  
Excess Land  
Midtown Project

Santa Fe, NM

## Prepared for:

Ms. Karen Iverson  
City of Santa Fe  
200 Lincoln Avenue  
Santa Fe, NM

Prepared by Arthur Neudek, MAI, AI-GRS  
Date of Report – March 20, 2024

March 20, 2024

Ms. Karen Iverson  
City of Santa Fe  
200 Lincoln Avenue  
Santa Fe, NM

Review of Two Appraisals – Three Buildings in Midtown Project, Santa Fe, NM  
Restricted Use Report of Alternative Valuation

Dear Ms. Fauver:

In response to your request, we have prepared this Review of a Two Appraisals and Restricted Us. The real estate consists of three buildings and excess land in the Midtown Project in Santa Fe, New Mexico. The appraisal values the as is fee simple interest of the subject.

The conclusion stated herein is based on our understanding of the site and improvement descriptions as represented to us by the appraisal reports prepared by Tim Connelly, MAI, with as is fee simple value as of November 15, 2023, of \$11,400,000 and the report prepared by Ian Valenzuela, MAI of \$4,800,000.

The conclusion stated herein is based on our understanding of the subject's use and development as well as the specific characteristics of the subject property as represented to us by the appraisal reports.

The intended users of this review appraisal are: City of Santa Fe, its administrators, employees, and appropriate regulatory agencies. The purpose of the review is to determine if the appraisal has been prepared in conformance with acceptable appraisal guidelines and techniques and utilized appropriate data in arriving at the value conclusions.

This review follows the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) under Standard 3. The report also complies with the Supplemental Standards of Appraisal Practice and Code of Professional Ethics of the Appraisal Institute. We have read, understood, and satisfied the Competency Provision of the USPAP.

Based on the information contained in the reviewed reports and the appraisers additional research and analysis, our estimated values for each tract, subject to the following extraordinary assumptions and limiting conditions, as of November 15, 2023, are as follows:

<u>Property</u>	<u>Value</u>
Driscoll Building	\$3,500,000
Benildus Hall	\$3,300,000
Garson	\$7,300,000
Vacant Parcel 8	\$1,300,000
Vacant Parcel 11	\$1,000,000
Vacant Parcel 12	\$210,000
<b>FINAL VALUE</b>	<b>\$16,600,000</b>

It is the opinion of the appraiser that there is no incremental assemblage value or discount applicable to the bulk value of these properties.

Respectfully Submitted



Arthur O. Neudek, MAI, AI-GRS

Our work is subject to the following certification:

### CERTIFICATION

We certify that, to the best of our knowledge and belief,

- the facts and data reported by the review appraiser and used in the review process are true and correct.
  - the analyses, opinions, and conclusions in this report are limited only by the assumptions and limiting conditions stated in this review report, 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 no personal interest with respect to the parties involved.
  - we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
  - our engagement in this assignment was not contingent upon developing or reporting predetermined results.
  - our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review.
  - our analyses, opinions, and conclusions were developed, and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
  - Mr. Neudek completed an interior and exterior inspection of the subject on March 14, 2024.
- The original appraisers, Tim Connelly, MAI, and Ian Valenzula, MAI provided verbal comments on their valuations and furnished additional comparable sales. No one else provided professional assistance in the preparation of this report.
- as of the date of this report, Arthur O. Neudek, MAI has completed the requirements of the continuing education program of the Appraisal Institute.
  - the undersigned hereby acknowledge that they have the necessary education and appropriate experience to complete this assignment in a competent manner.
  - Mr. Neudek prepared a rent survey on the subject buildings in 2022. Other than that, he has not performed an appraisal or any other services on the subject property in the past three years.



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Arthur O. Neudek, MAI  
# 03468-G, New Mexico State Certified General

March 20, 2024

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Date

## PURPOSE OF REVIEW

The primary purpose of this review is to determine if the appraisal reasonably reflects the market value of the property as of the appraisal date. Our standards of review are based on Standards of Professional Practice SR 3.2, which states

- (b) When necessary for credible assignment results in the review of a report, the reviewer must:**
  - (i) develop an opinion as to whether the report is appropriate and not misleading within the context of the requirements applicable to that work; and**
  - (ii) develop the reasons for any disagreement.**

Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the report, given law, regulations, or intended user requirements applicable to that work.

*SR 3.2, USPAP, 2020-2021, The Appraisal Foundation*

## SCOPE OF THE REVIEW

### ALTERNATIVE VALUE OPINION IN RESTRICTED USE FORMAT

This report is a Restricted Appraisal Report in accordance with Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice. Additional supporting documentation is retained in the appraiser's workfile and consistent with Standards Rule 3.2 which is an alternative opinion of value as part of an appraisal review. The appraiser's opinions and conclusions set forth in this report may not be understood properly without additional information which is either in the reviewed appraisals or in the appraiser's workfile. The sales data in the reviewed report and the additional sale comparables were not confirmed. This review is not able to make any conclusions or representations as to any other information, conditions, or restrictions that may be found at a later date concerning the subject or the appraisal.

The scope of this review includes forming an opinion as to the apparent adequacy and relevance of the data, the propriety of any adjustments to the data, form an opinion as to the appropriateness of the appraisal methods and techniques used, develop the reason for any disagreement (if any), form an opinion as to whether the analyses, opinions, and conclusions in the appraisal are appropriate and reasonable, and develop the reasons for disagreement (if any).

The scope of work for the development of an alternative opinion of value included a personal inspection of the properties on March 14, 2024, review of engineering reports of deferred maintenance, and collection of additional comparable sales from the original appraisers.

## INTENDED USER

The intended users of this Appraisal Review Report and Alternative Opinion of Value are City of Santa Fe, its administrators, employees and appropriate agencies.

## Extraordinary Assumptions

As part of the due diligence on the subject properties, Facility Assessment Reports were prepared by Wilson and Company, January 11, 2023. These reports listed items as (1) deferred maintenance (items are required to be replaced/repared immediately due to code or required to prevent further damage to the improvements; (2) upgrades to mechanical and electrical systems. Each report contained significant recommended expenses for replacement of light fixtures with LED bulbs and upgrades for mechanical and electrical systems. The reports contained discussions of the deferred maintenance items but no rationale for the expenditures for upgrades for mechanical and electrical systems. All buildings are currently occupied and operational with no reported mechanical system deficiencies. Therefore, it is an extraordinary assumption that the expenses for the mechanical and electrical expenses would not qualify as deferred maintenance and are not deducted from value estimates. If the mechanical and electrical upgrade expenses are justified to be deferred maintenance, an alternative value may be appropriate.

The effective date of valuation is November 15, 2023, and the independent valuation opinions are retrospective. It is an extraordinary assumption of this report that there have been no significant changes in the physical condition of the properties from November 15, 2023, and the inspection date. If this is not the case an alternative value may apply.

The subject properties are zoned C-2 with an overlay district restricting the use of the subject properties to film production and related activities. As the subject properties have been and currently been utilized in this manner for many years, these uses are market supported. It is an extraordinary assumption that building occupancies in the subject buildings will remain consistent with the overall real estate occupancies in Santa Fe. Additionally, based a comment from a City Representative, if there is a significant decline in demand film production space the City would “absolutely go through a public process of rezoning/modifying the master plan to achieve other community goals, whether that be trying to attract a different industry, build more housing, try again for a school, etc.”. If this is not the case an alternative value may apply.

Additional parking is required for the office use of Benildus Hall and the City has reportedly agreed to a land lease for additional parking for 52 cars. The Hippauf appraisal indicates that the lease term will be twenty years at an annual rate of \$15,000 a year. However, according to verbal representation to the appraiser from a City Representative the annual lease rate will be \$3,000 a year. It is an extraordinary assumption of this report that the lease rate of \$3,000 a year is accurate and of sufficient time consistent with the age of the improvements. Additionally, it is assumed that the purchaser is required to complete parking lot improvements. If this information is not correct an alternative value may apply.

## Hypothetical Conditions

Utilities serving the subject improvements are currently master metered for the entire campus. In order for the subject buildings to operate as individual entities the utilities to each building need to be separately metered. An estimate for this cost was requested by the reviewer but it is currently not available. It is a hypothetical condition of this valuation that all utilities will be separately metered.

**COMPARISON OF VALUE ESTIMATES**

03/20/24

*Prepared by Arthur Neudek, MAI, AI-GRS*

Property	CBRE Report		Hippauf Report		As Cured & Renovated	Defrd Maint & Reno Costs	As Is Value	Size SF	Value \$/SF
	<i>Sales Comparison - did not value individual bldgs</i>		As Renovated	\$/SF					
Driscoll Building	N/A	N/A	\$950,000	\$43	\$3,663,000	\$140,000	\$3,500,000	22,200	\$157.66
Benildus Hall	N/A	N/A	\$4,500,000	\$162	\$4,024,765	\$662,200	\$3,300,000	27,757	\$118.89
Garson	N/A	N/A	\$8,800,000	\$179	\$7,998,160	\$700,000	\$7,300,000	49,200	\$148.37
<b>Buildings Sub- Total</b>	<b>\$11,500,000</b>	<b>\$115.98</b>	<b>\$14,250,000</b>	<b>\$143.71</b>	<b>\$15,685,925</b>	<b>\$1,502,200</b>	<b>\$14,100,000</b>	<b>99,157</b>	<b>\$142.20</b>
Parcel 8							\$1,300,000		
Parcel 11							\$1,000,000		
Parcel 12							\$210,000		
<b>Excess Land Total</b>	<b>\$0</b>		<b>\$1,760,000</b>				<b>\$2,510,000</b>		
Total Value	\$11,500,000		\$16,010,000				\$16,610,000		
<b>FINAL VALUES</b>	<b>\$4,800,000</b>		<b>\$11,400,000</b>				<b>\$16,610,000</b>		
<i>Deduction for recommended engineering items</i>	\$6,314,633 Sales Approach		Bendilis	\$1,759,268		See above			
	\$7,176,661 Income Approach		Garson	\$2,696,459					
			Driscoll	\$0					
			Total	\$4,455,727					
<i>Deduction for other update/renovation items</i>	\$0		Benildus Parking	\$250,000		Benildus Parking (lease for lot)	\$42,857		
						Benildus Interior Reno	\$662,200		
						Driscoll Misc Renovatio	\$60,000		
<i>Deduction for final plats/administration</i>	\$0			\$0					\$0

**NOTES FOR SPREADSHEET**

CBRE did not break-out individual values but primarily used sales of schools. No analysis of excess land  
 CBRE deducted different deferred maintenance for Sales Approach and Income Approach. Very incorrect  
 Hippauf appraisal did not deduct any deferred maint on Driscoll Building and no explanation. Incorrect.  
 In calculation deferred maint it is typical to include some developer profit/overhead. Hippauf did not include it.  
 Hippauf appraisal used different parking rental terms. No deduction for finishing parking lot.  
 This appraiser's estimate of deferred maint charts to follow.

## Review of Report Sections

This is supplemental information and analysis which is beyond the information contained in the reviewed appraisals. Some of this information contradicts the information contained in the reviewed appraisals, which was deemed to be incomplete or incorrect based on research conducted by the review appraiser.

Property History: The three tracts are currently subject to Exclusive Negotiating Agreement, dated August 4, 2023, which appears to be similar to an option to purchase contingent on completion of due diligence. According to representative of the City there is not pending contract on the subject (information in the CBRE appraisal indicates there is a pending contract.)

Property Descriptions:

*Site Areas:* According to a site plan from the City, the individual parcel areas as follows:

### Parcel Sizes

Parcel #	Use	Size (Acres)	Comments
4	Benildus Hall	0.807	Office Building
8	Vacant Development Land	2.094	Improved with Small Building
9	Garson Studios	3.898	Studio Building
10	Driscoll Hall	1.219	H&B Use - Office/Warehouse
11	Vacant Studio Land	3.166	Vacant Studio Land
12	Vacant Studio Land	0.644	Vacant Studio Land
		<u>11.828</u>	

*Source: Plat from City*

The Hippauf appraisal estimates that there is 195,275 square feet (4.48 acres) of excess land exists. According to the above chart there is 5.904 acres of surplus land. The operating agreement (lease) for the studio is for slightly over 4 acres. It is unclear the source of this area. The appraiser acknowledges that the studio operations may require more than the 3.898 acres, however, the appraiser is unable to do an allocation of the vacant land to the studio operation.

*Interior Finishes:* The Facility Assessment Reports indicate that the floor finishes need to be replaced in all the buildings and both appraisals reviewed deducted these expenses as deferred maintenance. After an inspection by the reviewer they are of the opinion that this is not the case. The office space in both the studio building and Benildus Hall would be considered Class B office space and is in fair to average condition. The office space in Driscoll Hall is likely superior to typical office space for office/warehouse properties in the market. A new owner would likely upgrade these finishes over time.

*Interior Renovations:* In order to be consistent with the highest use both Benildus and Driscoll Hall will need some renovations. If leased on the open market, Benildus would need some interior renovations to some of the office space. We have estimated that about half the space would need to be built-out into a new configuration. Based on comparable build-out expenses we have utilized \$30 a square foot for renovation costs for half the building area.

For Driscoll Hall it is our opinion that there are a few necessary modifications for its highest and best use. We have projected that the shower room be demolished and renovated into office space. We have also assumed that, at a minimum, two overhead 10'x10' overhead doors be installed for easier loading and unloading of goods.

**Estimated Deferred Maintenance and Renovation Costs:** We have reviewed Facility Assessment Reports prepared by Wilson and Associates, dated January 11, 2023, on the subject improvements. It should be noted that the engineering studies noted *“This report highlights our architectural findings and provides probable short and long-term issues that should be addressed to maintain the building.”* The report did not note all these items as deferred maintenance. Deferred maintenance are items which need to be repaired immediately to maintain the integrity of the improvements and meet all code requirements. The following are the basis which on which expenses we included:

- All expenses which are labeled “Required per 2015 IBC”

- All ADA expenses

- All repairs required to prevent damage

- Select recommendations for interior updates based on appraiser observations

We excluded the following expenses from these estimates of deferred maintenance under the following rationale:

- Replace light fixtures with LED – not currently required by Code in New Mexico

- Parking improvements – parking lots appear to be in adequate condition

- Fire Sprinkler System – not required by Code in New Mexico

- HVAC Repair – the reports included 2022 inspection reports on HVAC and no units were listed as needing replacement

- Upgrade electrical system – All three buildings are currently operational and occupied. The report did not document the electrical systems were sub-standard or not to code.

On the following pages we have itemized each report based on the above criteria. To the total of all the recommended items we have included NMGRT and 10% developer profit/overhead. We have also estimated required renovation costs for both Driscoll and Benildus buildings which are discussed in this section.

## ESTIMATED DEFERRED MAINTAINENCE Garson Studios

Architectural	Required	Recommended
Exterior Stucco	\$33,906	
Railings	\$1,800	
Roof Hatch	\$2,000	
Cross-over Ladders	\$10,000	
Floor Finishes	\$187,211	
Repainting		\$33,698
Flashings		\$12,000
ADA Restrooms	\$228,771	
Concrete Floors		\$22,645
Damaged Ceiling	\$11,232	
Door Hardware ADA	\$87,750	
Door Hardware ADA	\$1,800	
Railings ADA	\$12,600	
Signage	\$20,000	
	\$597,070	\$68,343
Electrical		
LED		\$397,345
Upgrade Electrical		\$611,300
Site	\$0	\$1,008,645
Paving	\$0	\$3,200
Parking	\$0	\$357,000
	\$0	\$360,200
Mechanical		
<i>Sprinkler</i>	\$0	\$733,560
HVAC	\$0	\$244,520
	\$0	\$244,520
TOTAL	\$597,070	\$1,681,708
Developer Profit = 10%	\$59,707	
NMGRT - 8.3125%	\$49,631	
	\$706,408	
<b><i>Rounded</i></b>	<b>\$700,000</b>	

*Source: Wilson Engineering*

## ESTIMATED DEFERRED MAINTAINENCE Driscoll Fitness

Architectural	Required	Recommended
Sealants	\$12,000	
Floor Finishes		\$113,560
Repainting		\$20,440
Splashblocks		\$600
Exterior finishes	\$17,034	
Ceiling Tiles		\$17,200
Walk-off Mat	\$400	
ADA Restrooms	\$48,000	
ADA Locke rooms (not needed)		\$120,000
	\$77,434	\$271,800
 Electrical		
LED		\$147,628
Upgrade Electrical		\$272,544
		\$420,172
Site	\$0	
		\$420,172
	\$0	\$4,800
	\$0	\$130,075
	\$0	\$134,875
 Mechanical		
<i>General</i>	\$0	\$181,696
	\$0	\$181,696
 TOTAL	\$77,434	\$1,008,543
 Developer profit/overhead - 10%	\$7,743	
NMGRT - 8.3125%	\$6,437	
	\$91,614	
<b><i>Rounded</i></b>	<b>\$90,000</b>	

*Source: Wilson Engineering*

## ESTIMATED DEFERRED MAINTAINENCE Benildus Hall

	Required	Recommended
Architectural		
Sealants	\$10,000	
Floor Finishes	\$55,514	
Repainting		\$24,981
Splashblocks	\$800	
Ceiling Tiles		\$55,514
Handrails	\$1,000	
Door Hardware	\$3,000	
	\$70,314	\$80,495
Electrical		
LED		\$180,420
Upgrade Electrical		\$333,084
Site	\$0	\$513,504
Sidewalk	\$3,000	
Parking	\$0	\$209,000
	\$3,000	\$209,000
Mechanical		
<i>General</i>	\$0	\$610,654
	\$0	\$610,654
TOTAL	\$73,314	\$1,413,653
Developer Profit/Overhead	\$7,331	
NMGRT - 8.3125%	\$6,094	
	\$86,740	
<b><i>Rounded</i></b>	<b>\$90,000</b>	

*Source: Wilson Engineering*

#### Highest and Best Use, As Improved:

The Hippauf appraisal offers a conclusion that the highest and best use of the buildings are related to film and media production with no individual analysis of the buildings. The Hippauf appraisal includes an extraordinary assumption regarding the use of Driscoll Hall as a sound stage but does not discuss it in the highest and best use. The assumption in the Hippauf appraisal is not valid or relevant.

The appraisal notes that the “the buyers and sellers have entered into a land lease to account for parking at Benildus Hall.” It is this appraiser’s understanding that no land lease for this parking has been signed but it is an extraordinary assumption of this appraisal that a land lease will be signed.

The CBRE appraisal indicates the highest and best use of the property, as improved, is consistent with the existing use as a development, related to film production including studio use.

The valuation approaches used in the Hippauf appraisal were inconsistent and incorrect. The subject buildings are leased on a licensing agreement in which an operator leases the space, and offers additional services. The rental income from these buildings is part of a going concern (similar to a hotel with one building being the rooms department, another building being food and beverage department, etc). In hospitality valuation there is a significant amount of comparable operating data. There is no such data available for film production space. The Hippauf appraisal used the going concern income for the studios and Driscoll building and a fee simple value for the office building.

This appraisal valued the fee simple interest for all three buildings. This valuation considered the income from Garson studios as we were not able to identify any relevant sales, and used the Sales Comparison Approach for the other two buildings.

Neither appraisal discussed the highest and best use of land tracts. As noted, the two tracts directly south of are designated for studio expansion. These tracts have value due to the proximity to the existing studio improvements as they can be used for outdoor sets, even if not developed.

According to a representative of the City, the purchaser would like to utilize Tract 8 for multi-family development even though it is currently zoned mixed-use film. This would be a reasonable use as the site has excellent frontage on a designated main street and has an oblong shape. It is not shaped well to development of a studio related use.

# Property Valuations

## *Driscoll Hall*

### *Analysis of Reviewed Appraisals*

The CBRE indicates that all the buildings are currently vacant and applies an overall value per square foot to the entire campus. This is not correct, as the buildings have radically different economic and physical characteristics. This appraisal does not provide any meaningful analysis for the valuation of Driscoll Hall.

The Hippauf appraisal relies only on the existing income, does not recite any terms of the lease (which is actually an operating license and not a lease), provide rental comparables, or does not source any expense estimates. No Sales Comparison analysis was included. This appraisal does not provide any meaningful analysis for the valuation of Driscoll Hall.

### *Alternative Valuation Approach*

We indicate that the highest and best use of Driscoll Hall would be for office/warehouse use. This use would require minimal upgrades and improvements. Consequently, we have gathered relevant sales and adjusted these sales for relevant characteristics. Our comparable sales and adjustment grid is on the following page.

**IMPROVED SALES COMPARISON DRISCOLL BUILDING**

	<b>SUBJECT</b>	<b>SALE 1</b>	<b>SALE 2</b>	<b>SALE 3</b>	<b>SALE 4</b>
Address	Driscoll Building	1526 Pacheco	2872 Trades West Rd	2350 Fox Road	1143 Siler Park Lane
City	Santa Fe	Santa Fe	Santa Fe	Santa Fe	Santa Fe
APN	N/A	10157952	019210796	960002231	059216152
Property Type	Adaptive Re-use of Gym	Industrial Building	Industrial Building	Industrial Building	Industrial Building
Sale Date	N/A	7/17/2023	12/14/2022	7/16/2022	7/29/2022
Sale Price	N/A	\$737,500	\$950,000	\$1,295,000	\$2,417,679
Site (SF)	56,192	14,617	21,344	47,458	43,560
GBA (SF)	22,200	5,000	4,893	7,026	17,100
Year Built	1990's	1990's	2000's	2000's	1980
FAR	0.40	0.34	0.23	0.15	0.39
Land to Building Ratio	2.53	2.92	4.36	6.75	2.55
Utilities	City Water/Sewer	City Water/Sewer	City	City	City
Occupancy	To be owner occupant	Owner-occupant	Owner-occupant	Multi-tenant	Multi-Tenant
Clear Height	25 Ft	10 Ft	12 Ft	Varies	Varies
Percent Office	47%	15%	Nav	36%	Estimated 50%
Number Overhead Door	Two Proposed	One	Four	Three	Three
Visibility/Frontage	Average	Similar	Similar	Similar	Similar
Quality of Interior	Open office areas	Slightly Inferior	Slightly Inferior	Slightly Inferior	Slightly Inferior
Condition	Average	Comparable	Comparable	Comparable	Inferior
Additl. Consideration	Film production related	None	Seller Note	Excess Land	None
<b>\$/SF</b>	<b>***</b>	<b>\$148</b>	<b>\$194</b>	<b>\$184</b>	<b>\$141</b>
	Adjustments				
	Time	0%	0%	0%	10%
	Seller Financing	0%	-15%	0%	0%
	Total Adjustment	0%	-15%	0%	10%
	<b>Adjusted Price</b>	<b>\$148</b>	<b>\$165</b>	<b>\$184</b>	<b>\$156</b>
	<b>Location</b>	0%	0%	0%	0%
	<b>Clear Height</b>	10%	10%	10%	10%
	<b>Percent Office</b>	10%	10%	5%	0%
	<b>Excess Land</b>	0%	0%	-10%	0%
	<b>Size of Improvements</b>	-10%	-10%	-10%	-5%
	<b>Total Adjustment</b>	10%	10%	-5%	5%
	<b>Indicated Value - \$/SF</b>	<b>\$162</b>	<b>\$182</b>	<b>\$175</b>	<b>\$163</b>

<b>Indicated Value - \$/SF</b>	\$165
<b>Size - SF</b>	22,200
<b>As Renovated Value</b>	\$3,663,000
<b>Less: Deferred Maint</b>	\$90,000
<b>Renovation Cost</b>	\$50,000
<b>As Is Value</b>	\$3,523,000
<b>Rounded</b>	<b>\$3,500,000</b>

We have assembled four recent sales of office/warehouse properties in Santa Fe and made minimal adjustments to these sales. The subject had a basketball court and bleachers with approximate clear height of 25 feet, this may not have significant incremental value for the warehouse space. We have assumed that two overhead doors will be added and that the locker rooms will be converted into office space.

We have not included an Income Analysis as this type of building is usually owner-occupant in the Santa Fe area and buyers typically do not use this approach. We have assumed that this property would be master-leased on a triple net basis to a studio operator.

A Cost Approach was not included due to the super-adequacy of the clear height and lack of comparable vacant land sales in this zone.

## *Benildus Hall*

### *Analysis of Reviewed Appraisals*

The CBRE indicates that all the buildings are currently vacant and applies an overall value per square foot to the entire campus. This is not correct, as the buildings have radically different economic and physical characteristics. This appraisal does not provide any meaningful analysis for the valuation of Benildus Hall.

The Hippauf appraisal utilizes both the Sales Comparison and Income Approach.

The appraisal indicates that "It should be noted that this analysis is performed "as if" all the deferred maintenance on the subject is repaired – the subject is completely renovated." The statement in the appraisal covers two different aspects 1. That all deferred maintenance is repaired, and 2. That the building is completely renovated. A complete renovation can encompass many items and is superior to simply curing all deferred maintenance. The reviewed appraisal does not elaborate on what "complete renovation" may entail. This complete renovation also may not be financially feasible.

Based on the reviewed appraisal's assumption that the building will experience all deferred maintenance will be cured and "completely renovated" . in the Sales Comparison Approach the appraisal estimated an effective age of ten years and adjusted ALL the comparable sales upward by at an average of 7%. This adjustment is not warranted based on speculative renovation. A downward adjustment may be more warranted. The reviewed appraisal arrives at a "renovated value" of \$175 a square foot. It is the reviewer's opinion that the value of the subject, based on the comparable sales assembled, the value of the subject would be \$145 a square foot, after deferred maintenance was cured and an allowance for reconfiguration of some of the spaces is included.

The Income Approach in the Hippauf appraisal is a mess. Again, the appraisal assumes "complete renovation" without defining what that is. The appraisal also assumes that the office space will be leased out on short term basis. This existing operation is part of the going concern as previously discussed as the subject is currently being leased under an operating agreement, not a real estate lease. The cap rate of 7.25% in the Hippauf has no support. We have assumed that this property would be master-leased on a triple net basis to a studio operator.

A Cost Approach was not included due to the age of the property and lack of comparable vacant land sales in this zone.

*Alternative Valuation Approach*

As noted above, based on the assembled sales in the appraisal, as well as additional sales in the appraiser's file, it is the opinion of the appraiser that the sales support a value, subject to the renovation of all deferred maintenance, of \$145 a square foot. Even after renovation the subject will still be a Class B office building. The estimate of final value is as follows:

**IMPROVED SALES COMPARISON BENILDUS HALL**

Estimated Revised Value, as Renovated	<u>Size (SF)</u>	<u>\$/SF</u>	
	27,757	\$145	\$4,024,765
Less:			
Deferred Maintenance			\$90,000
Interior Renovation Costs - SF/ \$/SF	13,900	\$30.00	\$417,000
Leased Parking Lot Paving (# Cars/\$1900)	50	\$1,900	<u>\$95,000</u>
Sub-Total			\$602,000
Developer Overhead@10%			<u>\$60,200</u>
Deferred Maintenance/Renovation Costs			(\$662,200)
	<u>Annual</u>	<u>Cap Rate</u>	
	<u>Rent</u>		
Capitalized Ground Lease	\$3,000	7%	<u>(\$42,857)</u>
Estimated As Value			\$3,319,708
Rounded			\$3,300,000

## *Garson Studios*

### *Analysis of Reviewed Appraisals*

The CBRE indicates that all the buildings are currently vacant and applies an overall value per square foot to the entire campus. This is not correct, as the buildings have radically different economic and physical characteristics. This appraisal does not provide any meaningful analysis for the valuation of Garson Studios Hall.

The Hippauf appraisal attempts to utilize the “lease” to Aspect Studios. This is incorrect as the “lease” is an operating license for one of numerous properties on the Midtown Campus. Using this agreement is analogous to estimating the value of a hotel room as part of a going concern (or a stall at a food court) – both involve a high level of management, shared utilities, and sometime multiple profit centers. The reviewed appraisal analyzes monthly income for operation of the studios and deducts a vacancy allowance (which is not based on any historic long-term usage or projected demand). Expenses are estimated based on typical office expenses. As the sound stages are utilized in production and would use a significant more amount of electricity than standard office space, estimated expenses for operation would not be accurate.

The reviewed appraisal utilizes an 8% cap rate. The income analyzed would reflect some aspect of going concern operation and the income might be priced in terms of an income multiplier. The 8% cap rate does not reflect the going concern aspect of a studio operation.

### *Alternative Valuation Approach*

The studio building consists of three components – three sound stages containing 23,600 square feet, two-story professional offices containing 23,600 square foot, and a 2,000 square foot projection theater. As noted, our estimate of value attempts to value the underlying real estate. We have made the following assumptions in our valuation:

**Sound Stage & Office Rental:** The Hippauf appraisal indicated “The management of the Shellaberger facility were contacted. They stated that full-service lease for the soundstage portion of the facility will rent for between \$2.50 and \$3.00 per square foot per month”. Additionally, this appraiser had prepared an analysis and surveyed sound stage rentals in Los Angeles and concluded that rent for sound stages should be \$25 a square foot a year on a triple net basis. The Garson studios do not have a separate electricity meter so it is impossible, due in part to the required amount of energy for filming, so we estimated the rent on the basis of the cost of electricity being billed, on a pro rata basis, to the production companies using the space. We have estimated, on this basis, the rent for the production stages, would be \$2.50 a square foot a month. Based on the office comparable rentals in the Hippauf appraisal, we have estimated the office rent at \$18.00 a square foot on annual basis, excluding electricity.

**Expense:** We have estimated real estate operating expenses (not expenses associated with the operation of a going concern) based on typical real estate norms.

Cap Rate: The Hippauf appraisal utilizes a cap rate of 8.0%. This value reflects some going concern value and not appropriate. The CBRE appraisal used a 9.0% cap rate, and this included all the buildings. We have selected a cap rate of 10.0% since the building is a special use property, and would require some risk premium. A comparable risk profile could be a full-serve lodging facility – something with multiple income streams and management intensive. The Income Analysis follows:

INCOME ANALYSIS GARSON STUDIOS					
		Monthly			
		Rent/SF	Annual	SF	
	Sound Stages Rental*	\$2.50	\$30.00	23,600	\$708,000
	Office Rental*	\$1.50	\$18.00	23,600	\$424,800
					\$1,132,800
		\$/SF			
Less:	Maintenance	\$3.00	\$147,600		
	RE Taxes		\$80,000		
	Property Insurance	\$0.30	\$14,760		
	Management (3%)		\$33,984		
	Vacancy (5%)		\$56,640		-\$332,984
					\$799,816
					10.00%
					\$7,998,160
Less:	Deferred Maint				\$700,000
	Indicated Value				\$7,298,160
	<b>Rounded</b>				<b>\$7,300,000</b>

\* Rent is modified gross with tenant paying pro rata electric & utilities

We did not locate the sales of any comparable buildings. The indicated renovated Garson studios reflected a value of almost \$8,000,000 or \$162 a square foot. The value of Benildus Hall was estimated at \$145 a square foot and the office space in the studios should have a higher value, due to the ability to charge higher rents with the being adjacent to the stages. The underlying real estate for the stages is a metal building with 400-amp electrical service, high span clear space and sound proofing between the stages. The appraiser has sales of basic metal buildings in the \$100 to \$120 a square foot. These additional build-out aspects should add \$35 to \$50 a square foot, which would support a range of \$135 to \$170 a square foot. This analysis would support a final estimated value of \$162 a square foot for the Garson studios with deferred maintenance cured.

# Excess Land

## Analysis of Reviewed Appraisals

The Hippauf appraisal estimates that there is 195,275 square feet (4.48 acres) of excess land exists. According to the chart below there is 5.904 acres of surplus land. The appraiser acknowledges that the studio operations may require more than 3.898 acres, however, the appraiser is unable to do an allocation of the vacant land to the studio operation.

The CBRE did not acknowledge any excess land.

## Alternative Valuation Approach

The following are relevant land sales from the Hippauf appraisal and additional research by the reviewer.

COMPARABLE LAND SALES				
Location	Sale Date	Size (Acres)	Price \$/SF	Proposed Use
5376 Beckner Road	Oct-17	6.70	\$4.11	Medical Office
2977 Rodeo Park East	Dec-17	3.41	\$8.00	Self-storage Units
2981 Galisteo Road	Jan-20	6.33	\$3.99	Office
294 Dinosaur Trail	May-23	0.69	\$5.32	Retail
5704 Agua Fria	Feb-23	1.80	\$5.21	Industrial

Although Parcels 11 and 12 could have value to the studio operations it is beyond the appraiser’s ability to measure this. We have estimated the value of these parcels at \$7.50 a square foot.

As noted in the highest and best use, Parcel 8 has the potential for either a multi-family or supporting commercial use, subject to city approval . We have estimated the value of this parcel at \$15.00 a square foot.

Our valuation for the excess land parcels is as follows:

EXCESS LAND VALUES									
Parcel #	Use	Parcel Sizes		Demo Costs			Value	Rounded	
		Size (Acres)	\$/SF	Building Area	Cost				
8	Vacant MF Land	2.094	\$15.00	\$1,368,220	5,900	\$20.00	\$118,000	\$1,250,220	\$1,300,000
11	Vacant Studio Land	3.166	\$7.50	\$1,034,332	N/A			\$1,034,332	\$1,000,000
12	Vacant Studio Land	0.644	\$7.50	\$210,395	N/A			\$210,395	\$210,000
		<u>5.904</u>							

*Reconciliation*

For each of the improved properties all three approaches were considered in each valuation.

The final valuation for each property and the entire portfolio is as follows:

<u>Property</u>	<u>Value</u>
Driscoll Building	\$3,500,000
Benildus Hall	\$3,300,000
Garson	\$7,300,000
Vacant Parcel 8	\$1,300,000
Vacant Parcel 11	\$1,000,000
Vacant Parcel 12	\$210,000
<b>FINAL VALUE</b>	<b>\$16,600,000</b>

It is the opinion of the appraiser that there is no incremental assemblage value or discount applicable to the bulk value of these properties.