City of Bloomington Township

Board of Review Recommendation

Docket Number 18-974 **100K**

Appellant's Assessed Value $9,332,000.00

Parcel ID 21-02-126-012

Property Address 1615 E EMPIRE

Owner EASTLAND MALL LLC

Lot SF 2269950

Property Use C 0060

Assessment Type Full

Legal Description Eastland Mall Sub - Lots 1 & 3
& Medical Hills Sub - E67' Lot 1
& Medical Hills Sub 2nd Add - Pt Lot 10, Beg SE cor Lot 1 Medical Hills Sub, E154.5', N282', W154.5', S282' to POB & Pt NW NW 2-23-2E - Beg SE cor NW NW, N525.04', W776', SE64.83', S460.78', E773.63' to POB

Sale Price: $73,087,315.00 **Sale Date:** 10/31/05 **Document No.:** 05/35603

Hearing Date/Time: 12/04/18 2:30:00 PM

	2018	Assessor Recommendation
Land	2,862,297	2,862,297
Farmland	0	0
Building	13,088,821	13,137,703
Farm Building	0	0
Total:	**$15,951,118**	**$16,000,000**

Comments

SEE ATTACHED APPRAISAL REPORT

Prepared By Timothy A. Jorczak, CAE, AAS, CIAO **Report Date** 11/27/18

Appraisal Report

Of

Eastland Mall

Located at

1615 E. Empire St.
Bloomington, Illinois 61701

Date of Appraisal

November 15, 2018

Prepared for

City of Bloomington Township

Prepared by

Timothy A. Jorczak, CAE, AAS
City of Bloomington Township
607 S. Gridley St.
Bloomington, IL 61761

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LETTER OF TRANSMITTAL

November 15, 2018

Mr. Steven R. Scudder
Assessor, City of Bloomington Township
607 S. Gridley St. Ste. A
Bloomington, IL 61701

Dear Mr. Scudder:

Attached is an appraisal report of a regional shopping center located at 1615 East Empire Street in Bloomington, Illinois. It sits on two parcels and is legally described as follows:

Parcel 21-02-126-012: “Eastland Mall Sub - Lots 1 & 3 & Medical Hills Sub - E67' Lot 1 & Medical Hills Sub 2nd Add - Pt Lot 10, Beg SE cor Lot 1 Medical Hills Sub, E154.5', N282', W154.5', S282' to POB & Pt NW NW 2-23-2E - Beg SE cor NW NW, N525.04', W776', SE64.83', S460.78', E773.63' to POB”

Parcel 21-02-126-010: “EASTLAND MALL SUB LOT 2”.

This report, containing 83 pages and 11 appendices, is presented for the purpose of estimating the fair cash value of fee simple title to the unencumbered rights to the subject property, as of:

January 1, 2018

In the state of Illinois, “fair cash value” is defined as “The amount for which a property can be sold in the due course of business and trade, not under duress, between a willing buyer and a willing seller.” (Illinois Compiled Statutes 35 ILCS 200/1-50)

This is substantially similar the definition of “market value” as defined by the International Association of Assessing Officers:

“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 are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and both acting in what they consider their own best interests;

- A reasonable time is allowed for exposure in the open market;

- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

- 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."

International Association of Assessing Officers, *Property Assessment Valuation* (Kansas City, MO, 2010), pp. 14-15

The intended user of this report is the City of Bloomington Township Assessor's Office. Other intended users are McLean County Board of Review, Bloomington Public School District 87, Heartland Community College, and the Illinois Property Tax Appeal Board. The intended use of the report is to estimate the market value of the subject property for ad valorem property tax purposes as of the valuation date of January 1, 2018.

This letter is accompanied by a complete appraisal report. On the basis of my analysis, which is detailed in the report, I estimate the market value of the subject property as of the appraisal date as:

FORTY EIGHT MILLION AND NO/100 DOLLARS

$48,000,000

Sincerely,

Timothy A. Jorczak, CAE, AAS

SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

Purpose of the Appraisal:	Ad Valorem Taxation
Property Rights Appraised:	Fee Simple
Address of Property:	1615 E. Empire St., Bloomington, IL 61701
Improvement Description:	Regional Shopping Center
Site Area:	2,366,030 sq. ft.
Site Description:	Irregularly shaped, level lot with adequate drainage high shrink-swell potential
Zoning:	C3 – Community / Regional Shopping District
Assessed Valuation (January 1, 2017):	$18,813,673
Appraised Market Value: (January 1, 2017)	$56,441,019
Real Estate Taxes for 2017:	$1,583,923
Highest and Best Use:	
Property as if Vacant	Community Shopping Center
Property as Improved	Community Shopping Center
Year(s) Built:	1966,1967,1972,1983,1999
Actual Age (Weighted):	36
Effective Age:	25
Total Economic Life:	50
Remaining Economic Life:	25
Unit Breakdown:	72% anchor, 28% inline and free-standing
Building Size:	875,876 (Gross Area), 760,833 sq. ft. (Net Leasable)
Heating and Cooling:	Gas Forced Air / Central AC
Occupancy Rate (January 1, 2018)	Inline – 89%, Anchor – 64%
Parking:	Paved surface lot
Value Indications	
Site Value:	$14,900,000
Sales Comparison Approach:	$46,400,000
Income Approach:	$48,000,000
Final Indication of Value (January 1, 2018 - Fee Simple):	$48,000,000
Final Indication of Value per Square Foot (Approx.):	$63.00
Effective Date of Appraisal:	January 1, 2018
Date of Appraisal Report:	November 15, 2018

IDENTIFICATION OF THE SUBJECT PROPERTY

The subject property is an enclosed regional shopping mall located at 1615 East Empire Street in Bloomington, McLean County, Illinois. It consists of three buildings, including the main mall building with five anchor-type stores, a casual dining restaurant, and a stand-alone retail store. It consists of Permanent Index Numbers 21-02-126-012 (main building, restaurant, and retail) and 21-02-126-010 (north anchor). It is legally described below. (See page 82 for a discussion of value allocation between parcels.)

Parcel 21-02-126-012: “Eastland Mall Sub - Lots 1 & 3 & Medical Hills Sub - E67' Lot 1 & Medical Hills Sub 2nd Add - Pt Lot 10, Beg SE cor Lot 1 Medical Hills Sub, E154.5', N282', W154.5', S282' to POB & Pt NW NW 2-23-2E - Beg SE cor NW NW, N525.04', W776', SE64.83', S460.78', E773.63' to POB”

Parcel 21-02-126-010: “EASTLAND MALL SUB LOT 2”.

HISTORY OF THE SUBJECT PROPERTY

As of the date of appraisal the owner of record is Eastland Mall, LLC, which is a subsidiary of CBL & Associates. Since the last reassessment the subject market area has been experiencing stable growth. The mall portion of the property has not been involved in a sale for the past three years. The north anchor building was acquired from its prior owner, Macy’s, by CBL & Associates on January 27, 2017, for a price of $2,000,000. This sale occurred after Macy’s had closed the location and left the building vacant (Document #17/2782).

PROPERTY RIGHTS APPRAISED

The subject property was appraised assuming fee simple title. “Fee simple title indicates ownership that is absolute and subject to no limitation other than eminent domain, police power, escheat, and taxation.” International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 67

PURPOSE OF APPRAISAL

The purpose of the appraisal is to estimate the market or fair cash value of the subject property as of the effective date of the appraisal (January 1, 2018) for the purpose of ad valorem taxation. In the state of Illinois, “fair cash value” for property tax purposes is defined in statute as “(t)he amount for which a property can be sold in the due course of business and trade, not under duress, between a willing buyer and a willing seller.” (Illinois Compiled Statutes 35 ILCS 200/1-50)

This is substantially similar to the definition of market value, as shown below:

“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 are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and both acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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."

International Association of Assessing Officers, *Property Assessment Valuation* (Kansas City, MO, 2010), pp. 14-15

FUNCTION OF APPRAISAL

The function of this appraisal report is to establish the fair cash value estimate (as defined by Illinois statute 35 ILCS 200/1-50) of the subject property for the purpose of ad valorem taxation as of the statutory assessment date of January 1 for the 2018 valuation year.

SCOPE OF WORK

Sales of regional shopping centers located in market areas throughout the country of similar size to Bloomington-Normal were reviewed for the underlying data used in the three approaches to value. For the income capitalization approach, rents charged to the mall tenants were used as the basis for valuation, verified for similarity against other known rents of similar properties. Capitalization and equity yield rates were taken from market transactions and verified against published rates for large retail properties. For the sales comparison approach, only sales that were shown to conform to the definition of fair cash value above were used for comparison. Adjustments were made to sales prices of comparable properties using market-derived data to account for varying market conditions and differences between comparable properties and the subject.

ASSUMPTIONS AND LIMITING CONDITIONS

1. The final estimate of value developed in this report is as of January 1, 2018. The use of this property at the time determined the distribution of the valuation between site and improvements. Any change in the present use of the property or the date of valuation may affect the final conclusion of value that is stated in this report.

2. The descriptions and analysis of the improvements in this report are based upon visual inspection of the exterior, interior common areas, and several individual units within the property. No liability is assumed for any hidden defects that may exist in any structure or improvement.

3. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes that the title is good and marketable and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership.

4. The appraiser measured the property and has provided a sketch in the appraisal report to show approximate dimensions of the improvements; the included sketch is intended only to assist the reader of the report in visualizing the property and understanding the appraiser's determination of size.

5. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in the appraisal report whether the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he makes no guarantees, express or implied, regarding this determination.

6. The appraiser will not give testimony or appear in court regarding the appraisal of the property in question, unless specific arrangements have been made beforehand.

7. The appraiser has estimated the value of the land in the cost approach at its highest and best use and the improvements at their contributory value. These separate valuations of the land and improvements must not be used in conjunction with any other appraisal and are invalid if they are so used.

8. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the property or adverse environmental conditions (including the presence of hazardous wastes, toxic substances, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property.

9. The appraiser has obtained the information, estimates, and opinions that were expressed in this report from sources that he considers reliable, and believes them to be true and correct. The appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.

10. The appraiser will not disclose the contents of the appraisal report except as provided for in the Uniform Standards of Appraisal Practice.

11. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. Unless otherwise noted within the appraisal report, no specific compliance survey and analysis of this property was made 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, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since no direct evidence relating to this issue was provided, possible noncompliance with the requirements of the ADA in estimating the value of the property was not considered.

ASSESSMENT AND TAX ANALYSIS

The primary purpose of this appraisal is to estimate the fair cash value, for ad valorem property tax purposes, of the subject property; as such, it is important to understand how property taxes are levied and the measures that are used to validate assessments.

Basis of Valuation

According to Illinois statute 35 ILCS 200/1-50, all property (excluding farmland) is valued based on its “fair cash value”, which is defined as “The amount for which a property can be sold in the due course of business and trade, not under duress, between a willing buyer and a willing seller.” In practice, this definition is functionally identical to “market value” as defined beginning on page 6 of this report. In all of Illinois (excluding Cook County and the City of Chicago) the assessed value of a property is one third (33.3 percent) of its fair cash value. In the state of Illinois, property taxes are collected eighteen months in arrears. Taxes are levied based on a combined rate set annually by each unit of government within a taxing district.

Property taxes in the subject’s market area are in line with statewide averages for the rest of Illinois; according to data from the Tax Foundation, however, at 2.32 percent Illinois has the second highest effective property tax rate in the nation – nearly double the national average of 1.21 percent.

Figure 1: National property tax rates (Source: the Tax Foundation)

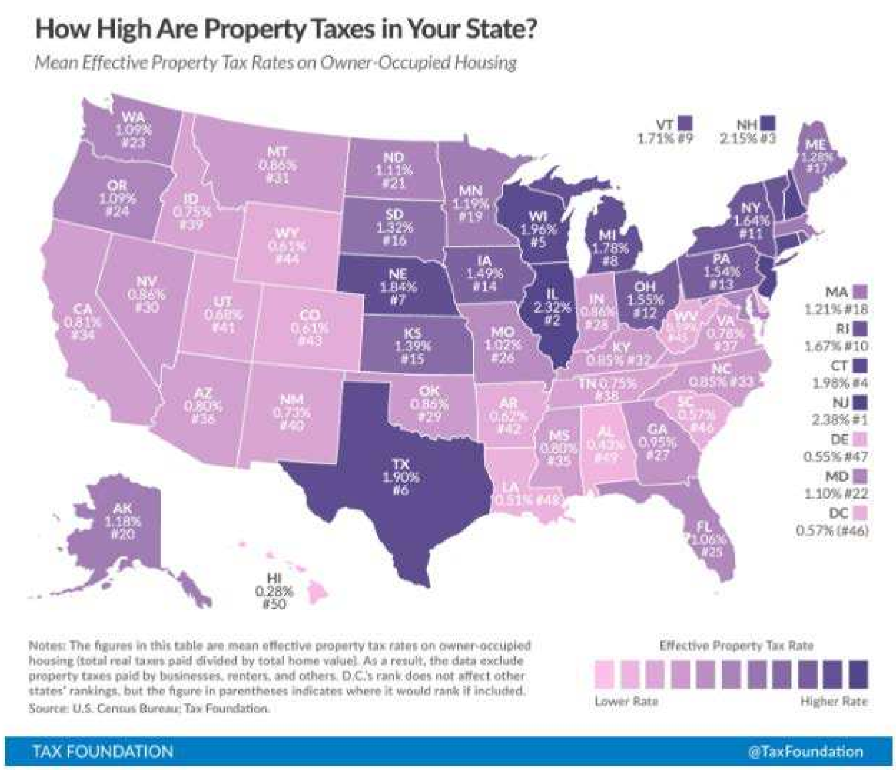


Figure 2: Five-Year Assessment / Appraisal Tax History Analysis for the Subject

Year	Assessed Value	Equalizer (if applicable)	Tax Rate	Annual Real Estate Taxes
2017	$18,813,673	1	0.08419	$1,583,923.13
2016	$18,813,673	1	0.0840435	$1,581,166.93
2015	$18,813,673	1	0.0838037	$1,576,655.41
2014	$18,813,673	1	0.0811422	$1,526,582.82
2013	$18,813,673	1	0.079845	$1,502,177.72

Measures of Assessment Quality

Figure 3 shows the jurisdiction's assessment performance relative to other townships in McLean County, Illinois, inclusive of all property classes, as measured by the assessed value-to-sales-price ratio (the assessed value of a property divided by its sales price) or simply the "sales ratio". This is one of the most important measures in tax assessment. Assessment standards generally demand that the jurisdiction's median ratio be as close to 100 percent of market value as possible; however, the 2013 International Association of Assessing Officers (IAAO) Standard on Ratio Studies indicates that a median ratio that falls between 90 and 110 percent of full market value (30.0 percent and 36.67 percent of the statutory assessment level) is considered acceptable. For retail properties in Bloomington during the last three years, the median ratio is 97.1 percent.

Figure 3: McLean County, Illinois Assessment Ratios by Township, 2015-2017

Illinois Department of Revenue

PTAX-215

Assessment Ratios Adjusted for Changes through 2017 for County: McLean

Non-farm by Township	2015	2016	2017	3-Year Average
Allin / Dale	-	32.28	33.16	--
Bloomington	33.56	31.66	33.11	32.78
Bloomington City	33.20	33.40	33.16	33.25
Danvers	33.53	33.32	-	--
Dry Grove / White Oak	33.98	33.24	32.35	33.19
Empire	32.82	33.39	34.40	33.54
Hudson	32.76	34.73	32.15	33.21
Lexington	-	31.76	33.69	--
Normal	33.44	33.28	32.86	33.19
Old Town	33.86	32.02	31.46	32.45
Randolph	32.64	33.45	32.64	32.91
Towanda	-	-	33.65	--
ALL OTHERS	33.29	32.64	32.41	---
NON-FARM WEIGHTED	33.28	33.21	32.97	33.15

Effective Tax Rate

In order to fully understand the property tax burden in a jurisdiction generally, and on a property specifically, one must understand the effective tax rate (ETR). Tax rates are reported in two ways: the nominal rate and the effective rate. Nominal tax rates are the actual rates based on the levy by the taxing jurisdiction, and are generally applied uniformly to the equalized assessed valuations of all classes of property – that is, after adjusting for any assessment level differences, statutory or otherwise, between classes of properties (in the city of Chicago, for example, state statute allows for different classes of properties to be valued at different percentages of market value), as well as after the application of any exemptions or deductions from the gross assessed valuation (such as for homeowner's exemptions, senior exemptions, and the like). These adjustments have the effect of shifting the tax burden between property owners and different classes of property. The effective tax rate, then, is the actual taxes paid on a property relative to its market value.

In the City of Bloomington, for example, two properties may have identical market values of $100,000, or $33,333 each in gross assessed valuation. One is a rental, however, with no deductions, while the other is owner-occupied and receiving up to $11,000 in assessed value deductions. Both would be taxed at the same nominal rate of 8.42 percent; however, the rental property would pay $2,807 in taxes, while the owner occupied home would only pay $1,880. The rental home's effective tax rate, then, is 2.81 percent ($2,807 divided by $100,000), while the homeowner's effective tax rate is only 1.88 percent.

The assessment level differences above are intentional and specifically designed to provide a benefit to one class of property – homeowners - relative to others. There are often, however, unintentional differences in assessment level as well. Two identical properties could have different assessed valuations due to differences in when they were assessed, how often they've been physically reviewed, or other factors. The differences in tax burden in these cases have no less impact on the discrepancies between properties as intentional ones, and must be considered when evaluating the effective tax rate of a jurisdiction.

Calculating an effective tax rate is an important concept in mass appraisal. As mentioned above, effective tax rates allow for relative comparisons of tax burdens between properties across jurisdictions. They also serve as the method for accounting for taxes in a capitalization rate for the income approach to valuation. In ad valorem tax appraisal, since the resulting value is being used as a basis for taxation, property taxes are not treated as a standard operating expense to a property due to the circular logic of the result; instead, the effective tax rate is added to the discount and recapture rates to arrive at what is known as a "tax-loaded" capitalization rate.

In order to calculate the effective tax rate for a class of property within a jurisdiction, the jurisdiction's nominal tax rate is first multiplied by its statutory level, then multiplied by the median ratio of the class in question. In this instance, the nominal tax rate of the jurisdiction for the assessment date is 8.42 percent. This rate is levied against 33 1/3 percent of the fair cash value of the property for a base rate of 2.81 percent. The median market value ratio of retail shopping properties within the jurisdiction is 97.1 percent.

Nominal Tax Rate		8.4%
Multiplied by:	Statutory Level	33.3%
Multiplied by:	Property Class Ratio	97.1%
Equals:	Effective Tax Rate	2.7%

Based on this analysis, therefore, the effective tax rate for retail properties within the City of Bloomington Township tax assessment jurisdiction is estimated at 2.7 percent.

MARKET AREA ANALYSIS

This market area analysis will review how physical, economic, governmental, and social forces influence the subject property and influence an area's growth or decline. (Data in this section are taken from the United States Census Bureau, unless otherwise noted.)

Physical Factors

The subject property is located in McLean County, Illinois, within the city limits of the county seat and largest city, Bloomington. Bloomington is the larger of the two cities in the Bloomington-Normal metropolitan area, and is centrally located in the state of Illinois, approximately 129 miles southwest of Chicago, 150 miles northeast of St. Louis, 62 miles northeast of Springfield, 40 miles southeast of Peoria, and 50 miles northwest of Champaign. (*See map in Appendix B.*) McLean County is the largest county geographically in the state of Illinois, with 1,183 square miles of total area. The area is located on flat prairie surrounded by farmland classified as prime by the U.S. Department of Agriculture, used primarily for the production of corn, soybeans, and to a lesser extent, wheat. Bloomington and its twin city, Normal, encompass 27.2 and 18.4 square miles, respectively, for a total incorporated area of 45.6 square miles. The area's climate is classified as Köppen Climate Type Dfa (hot-summer humid continental), with hot, humid summers and cold winters.

Highway transportation facilities include Interstates 55, 74, and 39 (which has its southern terminus in Normal), U.S. Route 150, and Illinois Route 9, all of which pass through the area. In addition, historic Route 66 runs through both cities and serves as a tourist attraction. Bloomington-Normal is also served by a network of alternative commuter transportation modes. Connect Transit, the area's joint bus system, operates 11 regular routes serving Bloomington and Normal. Taxis and ride-sharing services like Uber and Lyft are regulated by the city, and are also available to commuters.

Passenger rail service is provided by Amtrak, which offers daily routes between Chicago and St. Louis. The area is also served by both the Norfolk Southern and Union Pacific rail systems for commercial and industrial freight. Central Illinois Regional Airport, located in Bloomington, provides daily service between Bloomington and several major airports including Chicago O'Hare, Minneapolis, Dallas-Fort Worth, Denver, Atlanta, Orlando, and Tampa-St. Petersburg.

Economic Factors

According to the United States Census Bureau's American Community Survey, the median household income in McLean County for the most recent available period is $61,955. The area's economy is well-diversified, with major employers in agriculture, manufacturing, education, and finance. Bloomington is the headquarters of State Farm Insurance Company, who is the area's largest employer with 14,109 employees. Illinois State University is second, employing 3,639. Country Financial is third with 1,905 employees. Other major employers in the top 10 are Unit 5 School District (1,549), Advocate BroMenn Medical Center (1,372), OSF St. Joseph Medical Center (1,225), McLean County (806), AFNI, Inc. (765), District 87 Schools (664), and Heritage Enterprises (550). Key manufacturers in the community include Bridgestone, Nestle-Beich, and Beer Nuts.

Because of the area's economic diversity, the Bloomington-Normal area consistently has among the lowest unemployment rate in the state of Illinois. Total unemployment for McLean County as of the most recent year prior to the appraisal date stood at 4.1 percent. This was lower than the statewide rate of 5.0 percent, and lower than the rate for the counties of Peoria, Tazewell, Champaign, Macon, Logan, Livingston, and Sangamon (neighboring counties with similar populations, demographics, and economic bases). According to Sperling's Best Places (http://www.bestplaces.net/cost_of_living/city/illinois/bloomington), the area's cost of living is approximately 92 percent as of the date of this report, or slightly higher than the national average. Similarly, building costs as of the date of the appraisal were slightly above the national average, as evidenced by Craftsman Book Company's estimated area modification factor of 99 percent. (Craftsman Book Company, 2018 National Building Cost Manual, Carlsbad, CA: 2018, 7)

Until 2010, led by State Farm Insurance Company and its long-term path of growth in the market area, the area experienced net in-migration and moderate population growth. Beginning in 2014, however, the company began a nationwide expansion of operations into the Dallas-Fort Worth, Phoenix, and Atlanta metropolitan areas, which has led the relocation of many employees to staff the new regional offices. This in turn has created a period of net out-migration over the last few years. The company remains headquartered in the area and has stated it will continue to have a strong presence in the employment market; however, this has created a slowdown in demand within the housing sector, with the number of permits obtained for single-family homes at a fifteen year low in the years 2014 and 2015. Home ownership rates, however, have enjoyed a long period of stability, declining only slightly since 2000, with 66.7 percent of residents owning a home in 2016 versus 67.4 percent in 2000. This rate was 63.5 percent in 1990. (Comprehensive Market Analysis of Bloomington-Normal, Illinois, U.S. Department of Housing and Urban Development) Changes like these have downstream effects on the entire local economy, changing demand patterns for consumers who utilize the commercial properties in the area like the subject.

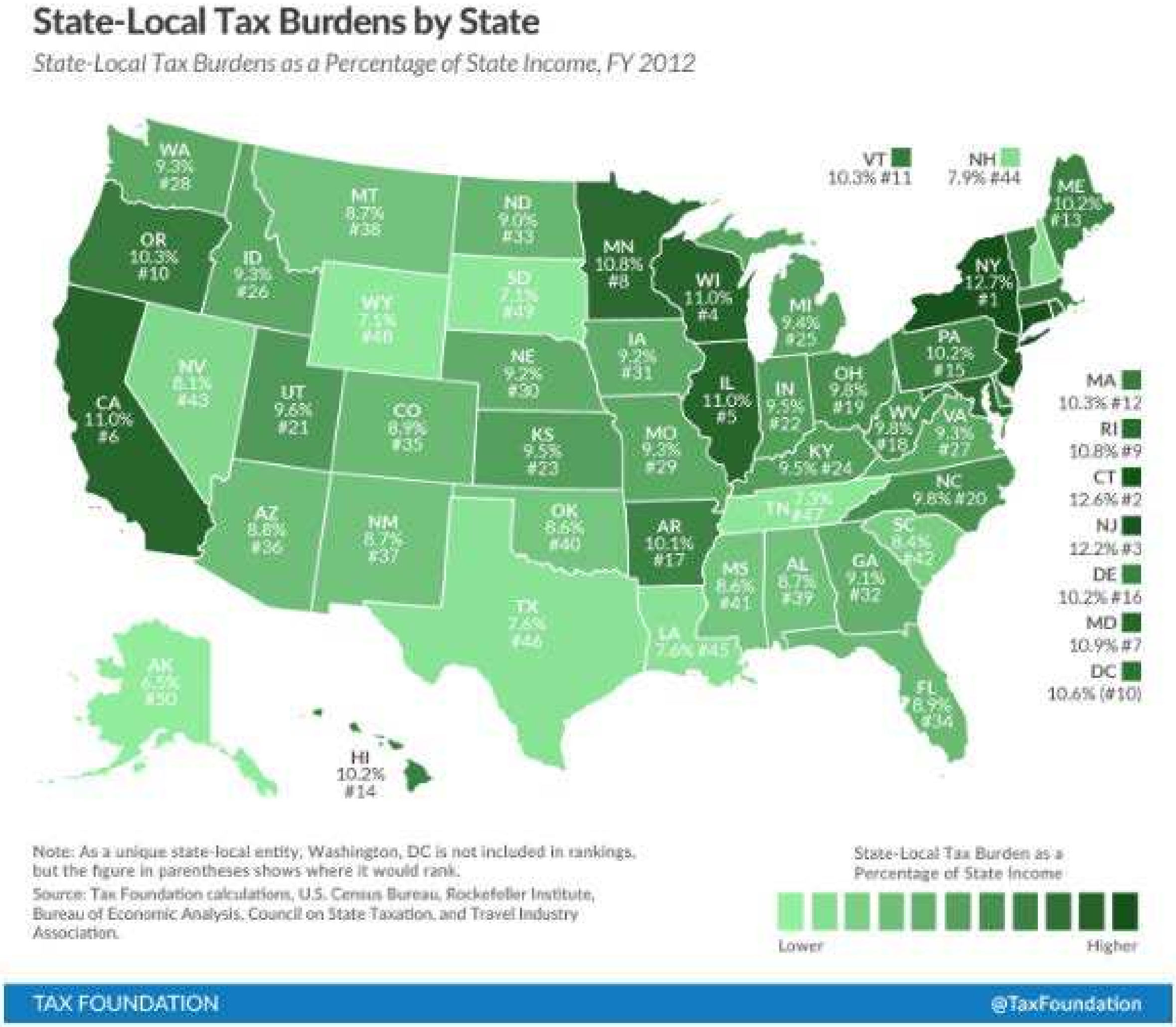
Governmental Factors

The subject is located within the corporate boundaries of the city of Bloomington. The city of Bloomington is located directly adjacent to the town of Normal, a jurisdiction of similar (though slightly smaller) size. Together the two municipalities function as "twin cities", an informal designation used to describe jurisdictions similar in size and proximity to where no recognizable buffer zone exists between them. The two jurisdictions function more or less in harmony, and many inter-local governmental agreements exist to provide mutual services and assistance to one another in areas such as transit and public safety.

Bloomington is the twelfth largest city in the state of Illinois and the fifth largest outside of the Chicago metropolitan area. The city is governed by an elected mayor and city council comprised of nine aldermen. The city council is the chief policy making body affecting the subject, with responsibility for functions including but not limited to planning and zoning, public safety (including police and fire protection), road and street maintenance, parks and recreation, and public works (including water and sewer). The subject is also served by City of Bloomington Township, an independent corporate entity responsible for property assessment for ad valorem property taxation and public assistance. McLean County also provides some services, mainly tax collection, civil and criminal courts, elections, document recording, and public health services (including birth and death certificates).

As mentioned in the "Assessment and Tax Analysis" section, the Tax Foundation notes that Illinois is home to the nation's second highest property tax burden; it also notes that this high property tax rate is in conjunction with high rates of other taxes levied at the state and local levels, including income and sales. When combined, Illinois' overall state and local tax burden of 11 percent of personal income was the fifth highest in the nation as of the Tax Foundation's most recent analysis in 2012. This represents a drastic increase in overall burden from 2002, when the state's overall rate was 9.6 percent and only 26th in the nation.

Figure 4: Overall Tax Burden by State, 2012 (Source: the Tax Foundation)



This jump is especially dramatic in light of the fact that the state of Illinois has also faced, and still continues to face, issues related to its fiscal health, with lawmakers unable to reach, until fairly recently, an agreement on a fully-funded state budget. This has directly led to uncertainty at the local level, as school districts and municipalities are forced to consider making up shortfalls through other means such as increased local taxes, service cuts, and layoffs, which directly impact individual residents and have an overall negative impact on the local economy.

Social Factors

The 2010 census reported the population of Bloomington at 76,616 and Normal at 52,535, for a total of 129,151. Population in the area shows continued growth – as of 2014, the United States Census Bureau estimated a population for both cities at 133,324, which is a 3.2 percent increase from 2010. The population density for the two cities is approximately 2,924 people per square mile. The two cities are the population center of McLean County, accounting for 3.9 percent of its total area but 76.6 percent of the total population.

The 22.1 percent of the population of McLean County is eighteen years of age or younger, which is slightly lower than the state and national averages of approximately 23 percent. The median age is 32 years, while 14.8 percent of the population of McLean County lives in poverty, which is similar to the state and national averages of 14.3 and 14.4 percent, respectively; however, the city of Bloomington has a lower poverty rate of 12.8 percent.

Bloomington-Normal, as the area's metropolitan center, provides the area with a wide range of activities, including cultural events, recreation, and shopping. Major national "big box" style retailers including Sears, Target, Lowe's, Home Depot, Menards, Wal-Mart, and Sam's Club all have locations in the community, as well as many other smaller and regional providers of home goods, clothing, and groceries. Both major and local restaurants and dining opportunities are represented in the community as well.

The area is further enhanced by parks, nature trails, schools, and other recreational facilities that enhance the quality of life for residents. Post-secondary educational opportunities are available at all levels, with Illinois State University, Illinois Wesleyan University, Heartland Community College, and Lincoln College offering a variety of certificates and degrees to students in the area. 94 percent of residents older than twenty-five years of age have a high school diploma, while 45.9 percent have at least bachelor's degree and 14.3 percent have a graduate or professional degree. These figures show the area with above both the national and state of Illinois averages for educational attainment.

The area's violent crime rate in 2017 (including reported murders, rapes, robberies, and aggravated assaults, as reported by LawStreet.com based on the FBI's most recent available data), was 385 incidents per 100,000 people. (https://lawstreetmedia.com/blogs/crime/americas-safest-dangerous-states-2017/21) This rate is lower than in neighboring metropolitan areas in central Illinois including Champaign-Urbana, Springfield, Decatur, and Peoria.

Market Area Summary

The market area is emerging from a slight economic slowdown brought on by both the national recession, rapid increases in state and local tax burden, and localized economic factors related to its major employers. This has had an impact on demand for properties like the subject. Despite this, however, interest rates remain low, the area's economy remains relatively strong and diverse with few physical impediments to development (especially in comparison to neighboring areas within the state of Illinois) and the area's transportation infrastructure is multi-faceted and robust; thus, market demand for properties like the subject, though diminished from highs reached in the last decade, is projected to remain steady in the coming years.

SUB-MARKET AREA ANALYSIS

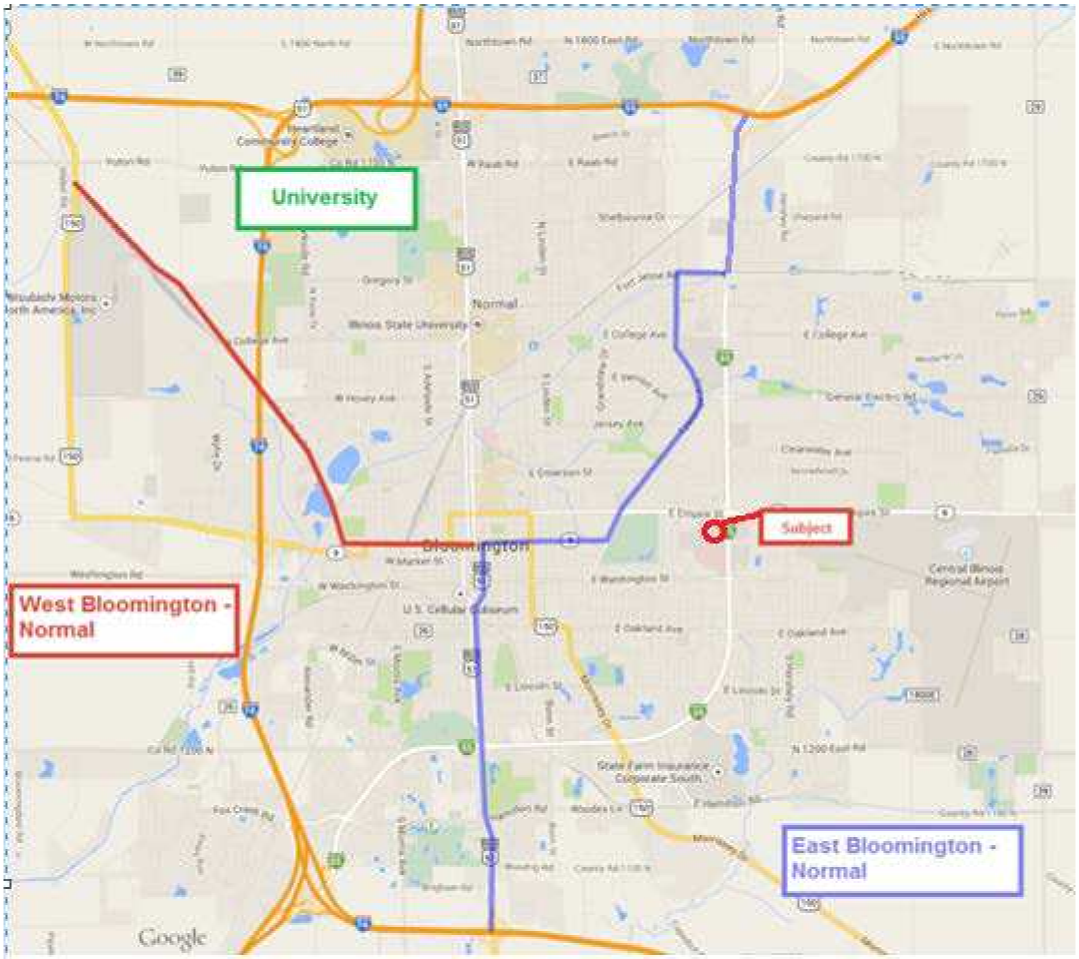
A neighborhood is defined as "a group of properties defined by natural, manmade, or political boundaries and sharing locational and physical similarities."

Gloudemans, Robert J., *Mass Appraisal of Real Property,* 2nd Edition (Chicago, IL: International Association of Assessing Officers, 1999), 16

Since the term "neighborhood" tends to denote a residential use, this report will categorize these kinds of areas as "sub-markets". Sub-markets are always in a state of change, and progress through a cycle that includes growth, stabilization, decline, and ultimately revitalization. In order to adequately describe the subject's sub-market, this report will break the market area into three sub-markets that are being broadly affected by this cycle, describe their stages of change, and then how these forces impact the subject's area itself.

All of the Bloomington-Normal market area can be divided into three parts: East Bloomington-Normal (where the subject is located), West Bloomington-Normal, and University. Each of these sub-markets can be divided into smaller areas of similar composition, influence, and market forces. These three sub-markets run the gamut of change depending on hyper-local forces, either declining or revitalizing.

Figure 5: Map of Bloomington-Normal Area



Areas of West Bloomington-Normal are experiencing relatively modest growth, and it has some areas that are in a period of stabilization; however, a good portion of the area inside of Interstate 55 and moving toward downtown are in a state of decline, with only sporadic pockets of growth and revitalization. The University area, meanwhile, being directly influenced by the real estate needs of students and faculty of the area's three-four-year and one- two-year higher educational institutions, contains eclectic areas of older homes and commercial properties, along with some new construction in areas that are rapidly revitalizing.

East Bloomington-Normal, the area where the subject is located, is mostly comprised of commercial and residential structures built in the post-World War II era during the city's rapid growth and State Farm Insurance Company's subsequent expansion in the 1980's and the continued growth to the present day. The subject is located here and is one of the oldest sections in the sub-market.

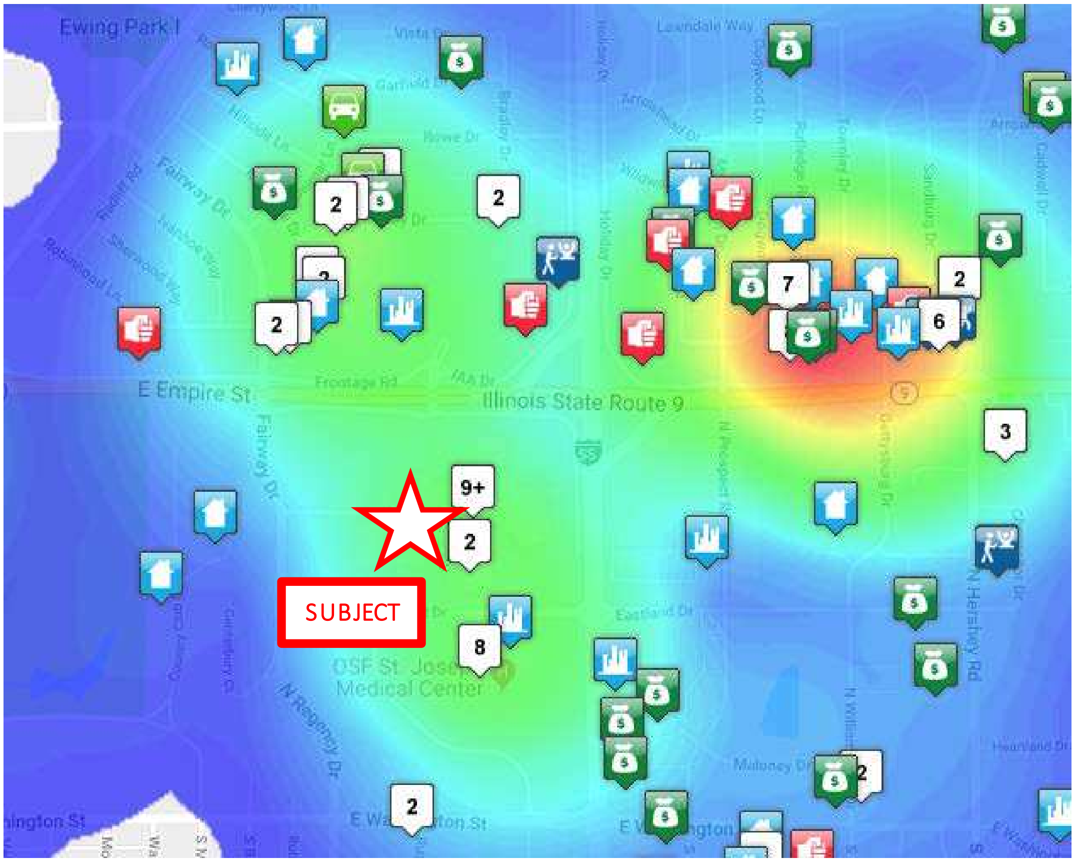
The boundaries of the subject's sub-market are generally everything east of a line formed Veterans Parkway at Interstate 55 to Fort Jesse Road, then west to Towanda Avenue, then following Towanda Avenue southwest to Empire Street and ultimately Main Street. In establishing the subject's sub-market a number of factors were considered, among these land use, building age, and political boundaries. Land use is a primary factor in this delineation. This area contains a mix of single family residences, multi-family residences, and varied commercial properties, Commercial properties form the geographic core, with layers of multi-family and single family moving outward in to the east and west, with the multi-family homes acting as a buffer to the commercial properties along the highly-traveled Veterans Parkway and East Empire Street corridors.

The subject's immediate area is served by Stevenson and Washington Elementary Schools, Bloomington Junior High School, and Bloomington High School within Bloomington Public School District 87 system. Areas further to the east attend schools in the McLean County Unit District 5 system, which is an entirely different taxing jurisdiction.

Commercial areas serve as a major land use boundary between the subject sub-market and other residential areas. The area is bounded to the north by the Country Company and its campus, while the commercial area immediately to the south of the subject is one of the oldest of its type within the Bloomington-Normal area. The first "big box" store in the community, a K-Mart, was located in the sub-market, directly across Empire Street from the subject, and the first modern limited-service motel in the area, a Holiday Inn, was located directly across the street from the subject. The subject was built in 1966 and was among the first generation of enclosed shopping malls to be built in smaller regional cities such as Bloomington. For a long time this area served as one of the key value centers within McLean County. As time has progressed, however, economic trends and consumer tastes have changed. This had ultimately led to the demolition of the original Holiday Inn building in 2013 and the announced closure of K-Mart in late 2014, as newer commercial development has migrated to the north. The area is showing signs of regeneration, however – the site of the Holiday Inn has become regional family-dining restaurant chain and a nationally-based car dealership, and the K-Mart plaza (once facing vacancy rates in the 90 percent range) has been redeveloped into a neighborhood shopping center featuring several national retailers.

The sub-market has seen a stable amount of crimes reported to the Bloomington Police Department in the area in each of the calendar years in the period between 2012 and 2017. The heat map below shows the relative incidence of crime reported in the area for calendar year 2017 (the year immediately preceding the appraisal date), with the colors ramping from blue, to yellow and green, and finally red showing relatively more instances of crime. The area to the northeast of the subject is a multi-family residential area that has recently shown a fairly strong uptick in crime; the subject's immediate area and the area to the north, meanwhile, have a relatively high number of police calls for theft, shoplifting, and other retail-related crimes. The map in Figure 7 shows the most serious personal and property crimes in the area. Police calls in the area immediately adjacent to the subject were mostly property crimes This number is above average for sub-markets in the East Bloomington Normal area; however, the rate is lower than in the more declining areas to the west and downtown in the City of Bloomington.

Figure 6: Sub-Market Crime Rates (Source: City of Bloomington Police Department)



Based on the characteristics described above, the subject 's sub-market is best described as stable, balancing downward trends over time due to migration and modestly higher crime with positive factors such as superior location within the city and the rest of the market area, availability of consumer goods and services, and ongoing efforts in commercial redevelopment. This indicates that this area should continue to experience stability over the next several years.

SITE DESCRIPTION

Location:	East Bloomington-Normal
Shape:	Irregular
Topography:	Somewhat level
Lot Size:	2,366,030 sq. ft.
Zoning:	C3 – Community/Regional Shopping District; S-3 Airport Noise Mitigation District
Frontage:	Empire Street, Veteran's Parkway, Fairway Drive, Eastland Drive
View:	Residential and Commercial
Soil Condition:	902A – Ipava-Sable Complex
Utilities:	
Electric:	Ameren Illinois
Gas:	Nicor Gas
Water:	City of Bloomington
Sewer / Septic:	City of Bloomington
Telephone / Internet:	Frontier, Metronet, Comcast
Site Improvements:	Asphalt Paved Parking Lot
Site Use Restriction:	See Zoning Code in Appendix F
Flood Map:	The flood hazard map shows the subject property is not in a FEMA flood zone; Flood Insurance Rate Map Number 17113C0502E dated 07/16/2008.
Wetlands:	N/A
Hazardous Substances:	None recorded (See "Assumptions and Limiting Conditions", above.)

The subject sits on a 2,366,030 square foot irregularly-shaped lot (see site plan in Appendix G). The site's topography is somewhat level, with a very slight decrease in elevation from the southeast to the northwest of approximately 10 feet and a drop of twenty-five feet to the west end at Fairway Drive. The site soil is classified as 902A, Ipava-Sable Complex. This is a very deep, nearly level soil type with poor drainage and moderate-to-high shrink-swell potential. These features result in a heavy soil that requires some additional handling costs during the development phase.

The subject lot has frontage access along three different through streets. Empire Street (Illinois Route 9) is a heavily-traveled roadway, with daily traffic counts over 20,000 vehicles per day as of the most recent survey in 2008. The rear of the mall can be accessed along Fairway Drive to the west and Eastland Drive to the south (traffic counts of approximately 9,000 and 7,000 per day as of 2009, respectively). While it cannot be directly accessed, Veterans Parkway forms the eastern boundary of the parcel. This is the most heavily traveled roadway in the city at its most heavily traveled section, with counts reaching as high as 45,000 vehicles per day.

The site is fully served by adequate utility services – water and sewer from the City of Bloomington, gas from Nicor Gas, and electricity from Ameren Illinois.

There are no adverse environmental conditions or hazardous substances known or recorded on the property, and it does not contain any designated wetlands; further, it is not located in a FEMA-designated flood zone.

ZONING AND SITE USE RESTRICTIONS

Another key consideration in estimating a property's value is identifying what uses the property is legally able to accommodate under its community's zoning ordinances. At the time of appraisal, the subject site is zoned C3 by the city of Bloomington (See Zoning Map in Appendix E). The city's zoning ordinance describes the intent of the C3 designation as follows: "The intent of this C-3 Community/Regional Shopping District is to facilitate the development of community and region serving retail trade centers. The development contemplated in this district has such distinguishing characteristics as: (1) unified site planning and development that promotes a safe and conducive atmosphere for large volumes of shoppers; (2) site accessibility such that the high volumes of traffic generated create minimal congestion and adverse impact upon surrounding land use; (3) unified architectural treatment of buildings rather than an assemblage of separate, conflicting store and structural types; and (4) a trade area that includes the entire community at a minimum and may include the entire county and surrounding areas outside the county. While recognizing the potential monetary benefits accruing from the development of a large shopping center within the City and the flexibility necessary for such a development, these regulations are intended to insure that a proper location be selected and site planning be performed to better accomplish the purposes of zoning." City of Bloomington Municipal Code Section 44.6-19 A.

The parameters of this zoning designation are broad, with no height limits and a maximum floor area ratio of 80%. This designation does, however, come with enhanced city council oversight of the permitting process. Generally this code requires strict adherence to an approved site plan containing plans for all improvements to the site shown in some detail.

The subject is also physically located within the 60 DNL (Day-Night Average Sound Level) contour of the S-3 overlay zoning district, which was designed to mitigate the impact of airport noise on surrounding properties. The S-3 designation prohibits construction of most new residential type properties within the 65 DNL contour, and places additional noise mitigation requirements on new residential construction projects within the 60 DNL contour. A rating of 65 DNL is the Federal Aviation Administration's benchmark for "significant" noise exposure (Federal Aviation Administration, "Aircraft Noise and Noise Monitoring",
www.faa.gov/airports/airport_development/omp/FAQ/Noise_Monitoring/)

None of these considerations affect the property as currently developed since they pertain to properties whose use is residential in nature, and current zoning does not allow such uses; therefore, the designation has little impact on the property currently.

IMPROVEMENTS DESCRIPTION

ITEM	DESCRIPTION
Architectural Style:	Modern – One and Two Story
Compatibility to Sub-Market:	Fully Compatible
Functional Utility:	Average
Appeal and Marketability:	Average
Year Built:	1966-67 (additions: 1972; 1984; 1999)
Actual Age:	51
Effective Age:	25
Economic Life:	50
Occupancy Rate (January 1, 2018):	Inline – 89%, Anchor – 64%
Effective Tax Rate:	2.7%
Unit of Measure:	Square Feet
Number of Stories:	2 & 1
Use:	Regional Shopping Center
Square Footage:	
First Floor:	740,028sq. ft.
Second Floor:	135,848 sq. ft.
Total Square Footage:	875,876 Gross Building Area, 760,833 sq. ft. Net Leasable Area
Effective Perimeter:	5,472 ft.
Basement Square Footage	4,426 sq. ft.
Basement Use:	Storage
Exterior Wall Type (s):	Concrete Block / Stucco / Brick Veneer
Framing:	Steel
Construction Class:	Average
Building Condition:	Average
Heating Type (s):	Gas Forced Air
Air Conditioning:	Central
Other Equipment:	2 sets of escalators
Sprinklers:	Yes
Elevator(s):	2

Building Condition, Physical Deterioration, and Functional Obsolescence

The mall building itself was built in four phases – the largest portion in begun in 1966, anchored at its opening by Sears and JC Penney, followed in 1973 by Bergner’s and 33,000 additional square feet of inline space to the south end of the lot. In 1984 the mall’s size essentially doubled with the addition of Kohl’s and more inline space, bringing the mall’s total to approximately 640,000 square feet. The final addition came in 1999 with the completion of Famous-Barr (Ultimately Macy’s) and 121,200 square feet of total usable floor space.

The gross leasable area of the mall property is as follows (as reported by the owner):

Main Mall

Northwest anchor:	71,718 sq. ft. (47,256 1st floor)
North anchor:	121,231 sq. ft. (75,327 1st floor)
Bergner's:	131,616 sq. ft. (66,134 1st floor)
Sears:	122,958 sq. ft. (auto center on 4,426 sq. ft. basement)
Kohl's:	83,000 sq. ft.
Old Navy:	15,267 sq. ft.
Inline Space:	205,036 sq. ft.

Mall Campus

Applebee's:	5,437 sq. ft.
Talbot's:	4,570 sq. ft.

Total Leasable Size: 760,833 sq. ft.

The building has foundation of reinforced concrete, with a combination of steel-framed walls and concrete block. The building is almost entirely on slab except for a small unfinished basement under the Sears auto center. The exterior walls are a combination of brick veneer, exposed concrete block, and stucco. The roof is a metal deck with bar joists supporting a built-up tar and gravel roof. The mall has 2 loading docks for deliveries and 2 docks for trash removal. Further, the Sears, Kohl's and the north anchor each have 2 loading docks of their own, and the north anchor has a dock for trash removal. Sears has an automotive bay with six overhead doors, and is built over a 4,426 square foot basement that is used for parts and tire storage. The parking area is a total of approximately 1,500,000 square feet of asphalt paving, with full remediation as of 2007.

The main mall building is predominantly one story on slab, with the exception of the anchor spaces at Bergner's and the north anchor (two stories each), as well as a partial second story above the northwest anchor (24,468 square feet) that is currently abandoned as the space is being re-developed. The main building has approximately 60 entrances – 22 public entrances through the mall and anchor spaces, and an additional 38 employee and emergency doors. The interior of the mall is variable in height. Spaces in the enclosed corridors range from 24'-26' in the corridors to as high as 35' at the Bergner's entrance. Heights in the stores themselves vary, with 12' common in the anchor spaces and inline stores but going to as low as 8' in the mall office area. Ceilings are predominantly acoustical tile, with some drywall in higher places. The property was last renovated in 2000.

The interior finish varies as well, with most floors covered in resilient tile (small stretches of the corridors are carpeted) and most walls covered in drywall. Each store, however, varies based on the type of tenant and use, with entrances done in finishes including but not limited to glass, drywall, tile, and wood paneling. The building has a sprinkler system and is lit primarily by fluorescent lighting, with generous use of skylights to bring natural light into the space. Each unit has its own rooftop climate control system and separate hot water heating as necessary.

Overall, the components of the building reflect construction that conforms to the 2018 Craftsman National Building Cost Manual's classification of "Good" for shopping centers. Based on visual inspection, the building overall exhibits a normal amount of physical wear and tear.

The Talbot's building is a freestanding, 4,570 square foot building located on the northwest corner of the subject parcel. It was originally built in 1962 as a bank building. It sits on a 12" concrete block foundation with a wood joist floor over a partial (3,670 square foot) crawl space. The building has brick veneer walls with a wood deck roof and composition shingle roof cover. The interior is carpeted and features 10' ceilings, interior drywall and acoustic panel ceiling with fluorescent lighting throughout. The climate control system is gas forced air with central air conditioning. The building has a restroom with six total fixtures. It is in average condition, and its construction quality is average according to the Craftsman National Building Cost Manual.

The Applebee's building is a freestanding, 5,437 square foot building located in the southeast corner of the subject parcel. It was built in 1994 and replaced a car wash that had previously been located on the site. It is built on a poured concrete slab with a steel frame, wood deck roof and wood trusses, and a membrane cover. The exterior walls are brick with block backup. The interior ceiling is acoustical panel with fluorescent lighting, and the walls are drywall throughout. The HVAC system is gas forced air heat with chilled water cooling. The interior height is 16 feet. Per Craftsman, the construction quality would be rated as average, and its condition is above average reflecting recent remodeling in 2012.

Functional Utility

Functional obsolescence is defined as "a loss in value of a property resulting from changes in tastes, preferences, technological innovations, or market standards."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 70

The building is of good quality and is in average condition for its age, and the in-line retailers and anchors generally keep up with contemporary retail trends within their respective market areas; the mall corridors and common areas themselves, however, reflect a dated appearance, and the mall has not seen any major changes since at least 2010, with the addition of the ULTA store.

EFFECTIVE AGE, ECONOMIC LIFE, AND REMAINING ECONOMIC LIFE

When discussing an improved property, a key consideration is establishing the continuing ability of the improvements to generate value for the property owner via an income stream. This ability is measured by estimating the effective age, economic life, and remaining economic life of the subject improvements.

Effective Age

Effective Age is defined as:

"The typical age of a structure equivalent to the one in question with respect to its utility and condition, known as of the appraisal date. Knowing the effective age of an old building is generally more important in establishing value than knowing the chronological age."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 58

The chronological age of the subject based on its initial construction date is 51 years; however, since the subject was built in four phases, the actual age of the subject (weighted by the years of construction of the 4 major portions of the building) is estimated at 36 years. Effective age is the remainder of remaining economic life (REL) subtracted from total economic life (TEL), which in practice differs often drastically from the chronological age.

The mall was fully renovated in 2000, which served to extend the life of the property substantially. Based on this renovation's impact on the chronological age, the effective age of the mall is estimated at 25 years.

Total Economic Life (TEL)

Total Economic Life (TEL) is defined as:

"The period during which a given tangible asset, building, or other improvement to property is expected to contribute (positively) to the value of the total property."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 57

Estimating economic life is the first step in measuring its remaining utility. Published cost tables can sometimes provide a workable estimate; however, it is important to confirm this estimate on a consistent basis from observed data in the marketplace whenever possible. In comparison, the economic life estimate published by the

Craftsman Book Company for "good"-grade shopping centers of similar size to the subject is 50 years. For this report, the three estimates derived from the market were combined with the Craftsman estimate, with a chosen economic life estimate of 50 years.

Summit Place Mall – Oakland County, MI (1962-2014; demolished 2018) Improvement Size: 1,400,000 sq. ft.
Age at Closure: 52 years
Age at Demolition: 56 years
Source: https://www.theoaklandpress.com/news/nation-world-news/summit-place-mall-owners-appeal-demolition-order-from-township/article_92dd17ce-db80-5780-b3db-a5fb41c85727.html

Lincoln Mall – Matteson, IL (1973-2015; demolished 2017)
Improvement Size: 989,000 sq. ft.
Age at Closure: 42 years
Age at Demolition: 44 years
Source: http://www.chicagotribune.com/suburbs/daily-southtown/news/ct-sta-lincoln-mall-demolition-st-0316-20170316-story.html

Crestwood Court – Crestwood, MO (1957-2013; demolished 2017)
Improvement Size: 1,034,500 sq. ft.
Age at Closure: 56 years
Age at Demolition: 61 years
Source: City of Crestwood, MO

Remaining Economic Life (REL)

Remaining Economic Life (REL) is defined as:

"As of the appraisal date, the number of years in the future over which the operation of an asset is anticipated to be economically feasible; often expressed as a percentage of the total economic life (REL%)."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 142

Remaining economic life is a the difference between the economic life of the subject and the effective age. In this instance, the remaining economic life of the subject property is 50 years minus 25 years, or 25 years.

HIGHEST AND BEST USE ANALYSIS

The ideal use of a property, otherwise known as its "highest and best use", is the basic starting point in estimating its value. Highest and best use is defined as:
"A principle of appraisal and assessment requiring that each property be appraised as though it were being put to its most profitable use (highest possible present net worth), legal, physical, and financial constraints. The principle entails first identifying the most appropriate market, and second the most profitable use within that market. The concept is most commonly discussed in connection with underutilized land."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 78

Highest and best use is not a single concept in and of itself, but rather is a dynamic analysis driven by the interaction of the various principles used in the appraisal process. Most of these principles are at play in any given highest and best use analysis, and the subject property is no different. For this analysis, the principles of anticipation, balance, supply and demand, change, competition, conformity, increasing and decreasing returns, and progression/regression come into play.

Analysis of the site was evaluated for highest and best use as vacant and as currently improved. Highest and best use as vacant considers all of the potential uses of the property, while Highest and best use as improved considers the property as it is currently situated.

Vacant and improved highest and best use analysis must include consideration of the following criteria:

Legally permissible;
Physically possible;
Economically feasible; and
Most profitable use.

With the highest and best use framework used above, each criterion is narrower than the last – this means that the most profitable use of the property includes all of the considerations listed before it, and as such can be considered the determining factor in establishing the highest and best use.

Highest And Best Use Of Property As If Vacant

The first consideration in the highest and best use analysis is to analyze the site as if it were vacant. Since the site currently has a structure in place, all costs associated with developing the most productive structure include demolition costs of the current building. Due to the large size and specialized nature of the demolition process, estimates for demolition costs were taken from recently-demolished mall properties in the Midwest over the last 18 months.

Summit Place Mall – Oakland County, MI (2018)
Improvement Size: 1,400,000 sq. ft.
Demolition Cost (estimate): $4,500,000 ($3.21/SF)
Source: https://www.theoaklandpress.com/news/nation-world-news/summit-place-mall-owners-appeal-demolition-order-from-township/article_92dd17ce-db80-5780-b3db-a5fb41c85727.html

Lincoln Mall – Matteson, IL (2017)
Improvement Size: 989,000 sq. ft.
Demolition Cost (estimate): $3,500,000 ($3.54/SF)
Source: http://www.chicagotribune.com/suburbs/daily-southtown/news/ct-sta-lincoln-mall-demolition-st-0316-20170316-story.html

Crestwood Court – Crestwood, MO (2017)
Improvement Size: 1,034,500 sq. ft.
Demolition Cost (actual): $2,800,000 ($2.71/SF)
Source: City of Crestwood, MO

Based on these results and the location of the subject, the estimated demolition cost for the subject property is $3.10 per square foot, or estimated at $2,360,000.

Legally Permissible:

Legal permissibility for construction on this site is driven by its zoning code classification, which reflects the principles of conformity and balance. Under the principle of conformity, the highest and best use of the property is driven by the subject property's relationship to its surroundings; the principle of balance, meanwhile, states that the highest and best use of the property and the market area is achieved when land uses are complimentary to one another.

The subject site is currently zoned C-3, a designation used for areas that have strong commercial development potential due to their location, such as community retail and shopping center sites. The classification is used in Bloomington only for the subject and a small handful of other retail parcels within a mile of it. It is used to mitigate the impact these types of large developments have, both positive and negative, on the community and area surrounding it. Projects within a C-3 area are required to develop detailed and thorough site plans prior to approval, and then face strict municipal oversight to ensure adherence to the plan.

Approved uses within the designation are generally limited to retail stores and office buildings. No industrial uses (including manufacturing, warehousing, and storage) or residential type uses (including even tangentially residential uses such as hospitals, senior living facilities, and hotels without a variance) are allowed.

The City of Bloomington is currently in the process of reviewing and streamlining the city's zoning ordinance, and while the names of the classes will change, discussion with the city planner's office indicates that the C-3 rules will likely be expanded to include other zoning areas under a unified name. It is unlikely, therefore, that the practical legal use of the lot will change in the future.

Physically Possible:

The legally permissible uses of the subject lot having been established, the next step is to determine what level of use the site can accommodate. The site has no drainage issues and is at minimal flood risk according to the Federal Emergency Management Agency. It is a large parcel – in excess of 54 acres – and is substantially level. The shape of the lot, while irregular, is conducive to hosting a number of retail and office type structures. The site also has direct access from three sides via frontage along Empire Street, Eastland Drive, and Fairway Drive, as well as good indirect access from Veteran's Parkway via a signaled intersection at Eastland Drive. This access is more than conducive to handling the traffic demands of large-scale retail and/or office development.

The site as a whole could accommodate a variety of uses up to and including large destination-type retailers such as Costco, IKEA, and Bass Pro Shops, as well as the increasingly popular "lifestyle" shopping centers in development throughout the country anchored by smaller-scale retailers, or a combination of the two, with retailers similar to the ones mentioned above serving the role of anchor supporting inline neighborhood and/or community shopping centers. The site could also physically support a collection of office buildings up to and including a large-scale office park development for a corporate headquarters. (The site is similar in size and access to the State Farm and Country Financial headquarters sites located less than a mile to the south.) Any office development could potentially be added into the mix of a lifestyle center use as well.

Economically Feasible:

The principle of competition states that the availability of a commodity must be in line with its demand on the open market, and that if one or the other is out of balance, price will increase or decrease.

While the site could physically handle a large collection of office buildings, the market conditions within the subject area are not conducive to such a development. Office vacancy rates and rents in Bloomington-Normal have been holding steady for the last few years (Source: Coldwell Banker Commercial Affiliates 2018 Commercial Blue Book), with an average rent of approximately $12 per square foot and a vacancy rate holding at 15 percent. This income is not enough to generate a sufficient return on the land investment; thus, no speculative office construction is envisioned outside of the possibility of a small amount of office space within a larger lifestyle center. The addition of another corporate headquarters-type facility is likewise unrealistic due to the city's size and position in the global market – any corporation large enough to support the purchase the site for such a use would likely have to be a local, home-grown enterprise (similar to State Farm or Country Financial) that makes a conscious decision to locate within the community, and even then would likely seek out a more inexpensive tract of land for such a large-scale project.

The subject's visibility and access along the highest-travelled stretch of Veteran's Parkway makes it highly conducive to retail development. Retail growth, like office growth, has remained stable in the market area, with ongoing vacancy of approximately 12%. (Source: Coldwell Banker Commercial Affiliates 2018 Commercial Blue Book) Due to changes in retail trends and changes within the market itself traditional retailers have found it difficult to find a niche for themselves; however, retail nationwide remains a viable sector with record-high levels of employment as of 2018. The site as vacant, tailored to the specific needs of the market and the changing consumer tastes in retail, could generate the type of return necessary to justify the investment.

<u>Most Profitable Use:</u>

The most profitable use of the site will be the use that best balances the forces of supply and demand. Having established that retail is the most economically feasible legal use of the land, the final step is determining the size and scale of development that maximizes the investment.

The site's size is the key driver of this analysis – at 54 acres it could be used as a whole, or split into multiple smaller lots to be developed separately. Separate retail sites would likely generate a higher sales price per square foot than selling the land in toto; however, each split necessitates separate marketing and development efforts to find potential new buyers, lengthening the holding period and ultimately reducing the amount of return to the owner. Furthermore, each development on each site would be required to develop and maintain a rigorously-enforced site plan, which would drive up the ultimate cost of each individual project.

A single owner developing a unified site plan would minimize the cost and time associated with bringing the project to completion, and would allow for unified marketing efforts to bring the full development online in the quickest amount of time possible. The highest and best use of the subject as vacant, therefore, is determined to be as a large-scale community retail center.

Highest and Best Use of Property As Improved:

Now that the highest and best use of the vacant site has been established, the same analysis must be done for the site as currently improved.

<u>Legally Permissible:</u>
The subject is a series of structures totaling 760,833 of gross leasable space consisting of an enclosed shopping mall with five anchor stores, a freestanding casual dining restaurant, and a small retail store. As mentioned the site can accommodate a number

of commercial retail and office uses, provided that those uses conform to an approved site development plan. When the current owner wants to make changes, they must seek approval from the city. Changes are not as time-responsive as if the project were outside of the C-3 zoning designation; one complaint of owners in the zoning code is that it restricts their ability to move quickly to adapt to changing market conditions. Change is not, however, impossible – in 2018 the site received approval for the construction of a new restaurant, a freestanding Outback Steakhouse that is relocating within the community, and upon the closure of the JC Penney store approval was granted to convert that space into three additional leasable spaces. The most important legal consideration, then, is the fact that city planners have some say in how smooth the transition between uses can be; therefore, uses more outside of the norm for such a property may receive additional scrutiny prior to approval.

Physically Possible:

As evidenced by many projects occurring throughout the country, mall buildings are fairly versatile assets that can accommodate many different and creative uses. Traditional retail uses are joined by climate controlled storage, office space, residential space, and other non-traditional uses. The mall could also be strategically demolished to alter any surplus retail space and make room for different uses.

Economically Feasible:

The subject property as improved is designed for ongoing retail space. Any uses outside of retail would require substantial investment in building remodeling and reconfiguration, most of which likely would not generate a sufficient return to justify the investment; meanwhile, buildouts to accommodate new retailers are much less expensive. The most economically feasible use, therefore, is as a regional shopping center.

Most Profitable Use:

Since it is the only economically feasible use of the subject property, it is the opinion of the appraiser that the highest and best use of the property as improved is as a regional shopping center.

Highest and Best Use Overall

The highest and best use of the property should be the use that maximizes the profitability of the site overall.

The subject value as vacant can be determined by taking the site's market value considering any costs necessary to make it ready for development. In this instance the value of the site as vacant would be the market value of the vacant land of $14,900,000 (as outlined in the land value section beginning on page 37) less the cost to tear down and remove the structure (estimated at $2,360,000 as shown on page 30). The site value as vacant, therefore, is $12,540,000, or $5.30 per square foot of developable site area.

For the site as improved, sales of similar properties shown in the sales comparison approach indicate an unadjusted value potential of as high as $30.44 per square foot of developable site area to as low as $10.13 per square foot of developable site area.

Because the value of the subject as improved (even for the lowest reasonable value estimate shown above) far exceeds the value of the site as vacant and ready for development, the highest and best use of the site overall is as currently improved, a regional enclosed shopping center.

REASONABLE EXPOSURE TIME

When discussing the value of a property, an important consideration is the liquidity of the investment – that is, how long it would have to be exposed under normal market conditions to convert the asset into cash or other valuable consideration. Reasonable exposure time is defined as:

> "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at a market value on the effective date of the appraisal; a retrospective opinion based upon an analysis of past events assuming a competitive and open market".
> USPAP 2018-2019 Edition, ASB, the Appraisal Foundation, p.4

The region and sub-market in which the subject is located has been experiencing a stable market, with modest growth in values over time (This change in value is discussed more in depth in the Sales Comparison Approach sections that follow.) Projections for this market area indicate that this market should continue for the foreseeable future. After reviewing the national market for mall transactions, it is the appraiser's opinion that a reasonable exposure time for such a property on the open market is nine months.

APPRAISAL PROCESS

In order to estimate the value of a property, three different approaches are considered: the cost approach, the sales comparison approach, and income approach. Each approach and their reconciliation are discussed below.

Cost Approach:

The Cost Approach is based on developing the reproduction or replacement cost new of the structure, then considering the effective age, life, and accrued depreciation of the improvements, and adding the value of the land to arrive at an overall value. The cost approach is considered to be at its most effective and accurate with new construction, and can be very useful when valuing newer special-use properties for which other types of comparable market data are not readily available.

Income Approach:

The Income Approach involves estimating the income potential of the property and capitalizing it after making considerations for vacancy and operating expenses. The income approach is very effective in estimating the value of income-producing properties, and as such is most often used when valuing properties when reliable streams of income and expenses are known and when capitalization rates are available or can be easily estimated from the market or from published rates, such as for apartment buildings, retail facilities, and multi-tenant office buildings.

Sales Comparison Approach:

The Sales Comparison Approach is applied by reviewing sales of properties that have similar characteristics and physical attributes to the subject, adjusting those prices for sales concessions and for factors that impact marketability, and using that information to develop a value for the subject.

The sales comparison approach is most reliable for property classes that experience regular turnover, like single-family homes or certain commercial properties such as small, free-standing office buildings.

Reconciliation

All of the approaches arrived at a fairly consistent value, indicating that the data used were reliable. However, since the subject is an income-producing property, the income approach is the most reliable approach and was given the most weight in the final analysis. The sales comparison approach act as support for the value indication developed using the income approach. The cost approach, since it is not commonly used by market participants, was not included in this report.

SITE VALUE

Land value for a vacant site can be developed in several ways. The method most recognized is sales comparison, which involves comparing the subject property's attributes against comparable vacant parcels that have recently sold. If a sufficient number of vacant land sales are not available, other available techniques are the allocation method; the abstraction method; the anticipated use method; and the income capitalization method. In the abstraction method, a portion of the overall property value is assigned to the land component by analyzing land to improvement ratios in the subject's market area. In the allocation method, the depreciated value of the improvements is subtracted from the overall sales price to isolate the land value. This method relies on accurate measures of construction costs and depreciation. In the anticipated use, or development, method, the gross sales revenue expected for the sale of the developed site is estimated, and appropriate development costs are subtracted to arrive at the undeveloped land value. Finally, the income approach can be used to either capitalize ground rent on land that is rented or leased, or to capitalize the residual land portion in a property's income stream.

Due to the quality and quantity of comparable sales data available at the time of this report relative to the data available for the other methods, the sales comparison approach was selected as the most reliable method to value the subject site for this appraisal. Recent sales of vacant land in the Bloomington-Normal area were reviewed, with the five most comparable in terms of size, location, and compatible zoning use chosen for analysis. All comparables but one directly face Veterans Parkway, and the one that doesn't is within close enough proximity that any improvement on the site would have at least some visibility along the corridor.

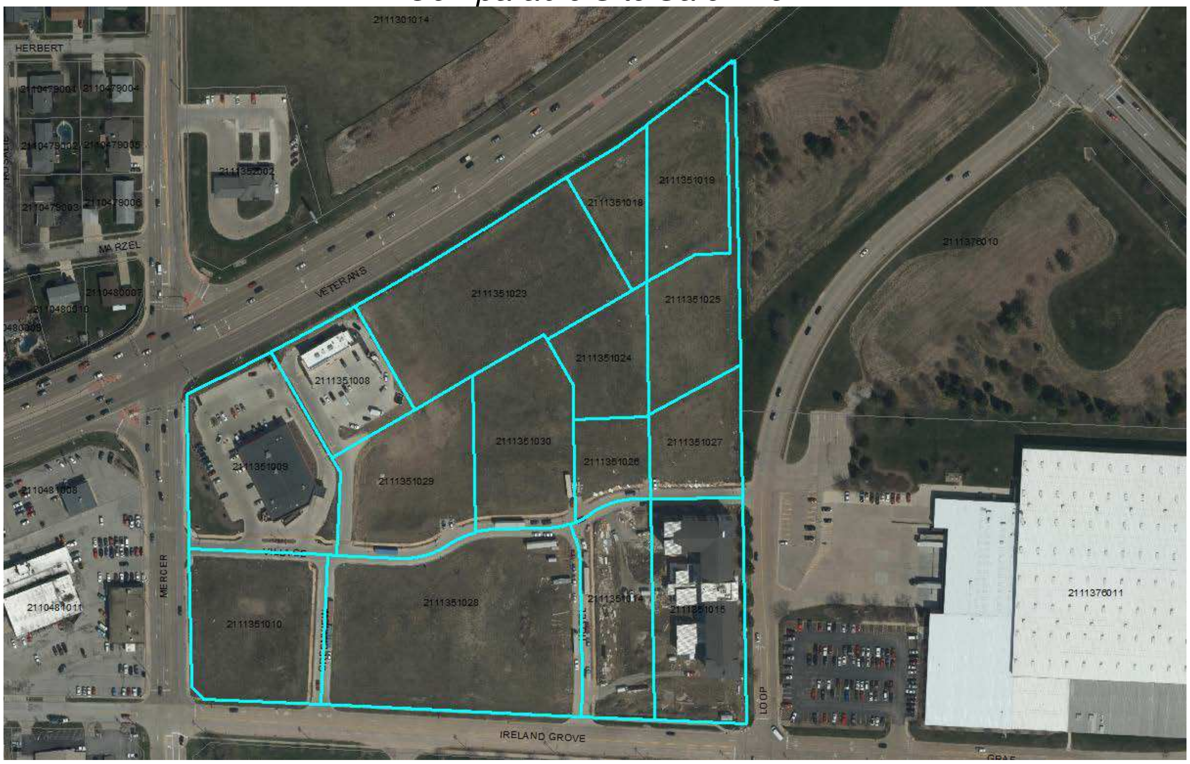
The following sites were analyzed to develop an estimate of value of the site for the subject. Sites included are zoned in conformity with a use that is compatible with the use of the subject property.

VACANT SITE SALES

Comparable Site Sale One

Selling Price:	$4,615,712
Address:	E College Ave., Bloomington
Parcel Number:	14-26-428-003 thru -005
Location:	East Bloomington-Normal
Lot Size (Sq. Ft.)/Price:	712,642 ($6.48)
Lot Size (Acres)/Price:	16.36 ($282,134)
Zoning:	B1 – Highway Business District
Date of Sale:	02/16/17
Document:	17/3537
Grantee:	Kroger Limited Partnership
Grantor:	Sunrise LLC
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	SHIRK COMMERCIAL SUB 3RD ADDN LOT 8, LOT 10, AND LOT 11
Description of Property:	The property is level, with rectangular shape and good drainage.
Current Use:	Vacant commercial land
Comments:	The property was purchased by Kroger, with cooperation from the city, for the purpose of developing a community shopping center with a large retail store and additional freestanding retail pads

Comparable Site Sale Two

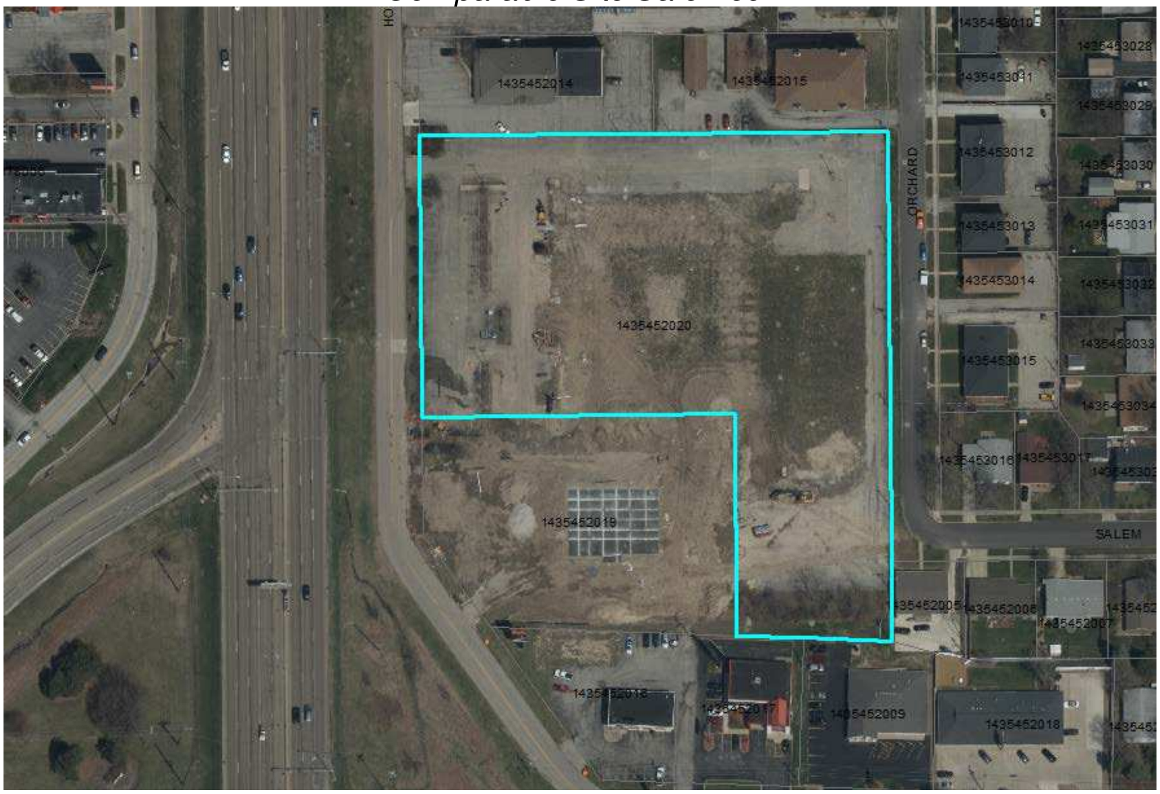


Selling Price:	$6,138,657
Address:	Parkway Village
Parcel Number:	21-11-351-006 and -007
Location:	East Bloomington-Normal
Lot Size - Sq. Ft. (Price):	866,240 ($7.09)
Lot Size - Acres (Price):	19.89 ($308,690)
Zoning:	B1 – Highway Business District
Date of Sale:	5/28/08
Document:	08/15829
Grantee:	Parkway Partners One Inc.
Grantor:	Louise Stahly Trust
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	W16A SW lyg S of Veteran's Pkwy (Ex 2421 Sq Ft for Rd as in 01/2848 & Ex pt lyg in Parkway Village Phase 1) 11-23-2E;
Description of Property:	The property is level, with an irregular shape and good drainage.
Current Use:	Mixed use retail
Comments:	The property was initially purchased with a commercial warehouse on site. The warehouse was razed immediately at purchase for future development. $23,000 is added to the land value to account for this.

Comparable Site Sale Three

Selling Price:	$813,483
Address:	1211 Holiday Dr., Bloomington
Parcel Number:	14-35-452-019
Location:	East Bloomington-Normal
Lot Size - Sq. Ft. (Price):	65,079 ($12.50)
Lot Size - Acres (Price):	1.49 ($544,497)
Zoning:	B1 – Highway Business District
Date of Sale:	11/20/2013
Document:	13/2817
Grantee:	Pizza Ranch RE 1, LLC
Grantor:	Capital City Lodging LLC
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	JOS SUB LOT 1 1.494 ACRES
Description of Property:	The property is level, with irregular shape and good drainage.
Current Use:	Restaurant
Comments:	The property was the former site of the city’s first Holiday Inn motel, built around the same time as the subject and demolished in 2009.

Comparable Site Sale Four



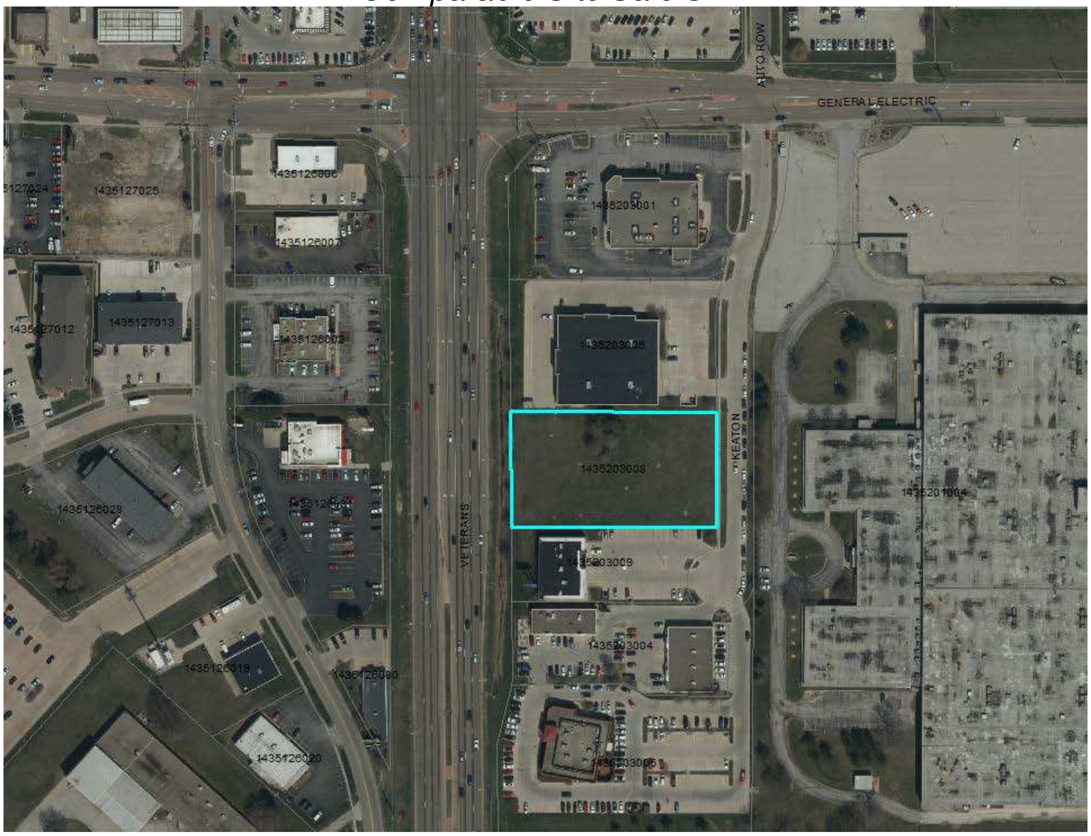
Selling Price:	$1,627,010
Address:	1211 Holiday Dr., Bloomington
Parcel Number:	14-35-452-020
Location:	East Bloomington-Normal
Lot Size - Sq. Ft. (Price):	168,490 ($9.66)
Lot Size - Acres (Price):	3.87 ($420,634)
Zoning:	B1 – Highway Business District
Date of Sale:	08/29/14
Document:	14/16211
Grantee:	Carmax Auto Superstores Inc.
Grantor:	Capital City Lodging LLC
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	JOS SUB LOT 2 3.868 ACRES
Description of Property:	The property is level, with an irregular shape and good drainage.
Current Use:	Auto dealership
Comments:	The property was the former site of the city's first Holiday Inn motel, built around the same time as the subject and demolished in 2009.

Comparable Site Sale Five

Selling Price:	$1,163,362
Address:	506 IAA Dr., Bloomington
Location:	East Bloomington-Normal
Parcel Number:	14-35-378-007
Lot Size - Sq. Ft. (Price):	47,073 ($24.71)
Lot Size - Acres (Price):	1.08 ($1,076,542)
Zoning:	C3 – Community / Regional Shopping
Date of Sale:	08/04/16
Document:	16/15278
Grantee:	On Veterans LLC
Grantor:	Real Estate Holdings LLC
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	SEC 35 TWP 24 2E S624' E592.15' PT E1/2 SW LYG N ILL-9 & W OF IAA RD (EX 1.77 ACS HWY & EX BEG 200' W NE COR, W392.15', S624', E152.07', NE ALG HWY 380.18', NW200', NE151.22', N TO POB & EX N 100')
Description of Property:	The property is level, with an irregular shape and good drainage.
Current Use:	Vacant commercial land

Comments:	The property was purchased with a 5,000 sq. ft. restaurant on site. The building was immediately razed pending future development. $13,362 demolition costs are added back to the land value to account for this.

Comparable Site Sale Six



Selling Price:	$1,250,000
Address:	118 Keaton Pl., Bloomington
Parcel Number:	14-35-203-008
Location:	East Bloomington-Normal
Lot Size - Sq. Ft. (Price):	56,356 ($22.18)
Lot Size - Acres (Price):	1.29 ($96,179)
Zoning:	B1 – Highway Business District
Date of Sale:	07/19/16
Document:	16/13605
Grantee:	WCT Properties, Inc.
Grantor:	GFS Marketplace Realty Five LLC
Source:	Recorded w/ Deed
Financing:	Conventional
Legal Description:	O'BRIEN SUB 2ND ADD LOT 7 1.30 ACRES
Description of Property:	The property is level, with a rectangular shape and good drainage.
Current Use:	Fast food restaurant

MARKET ADJUSTMENT ANALYSIS

Units and Elements of Comparison

Figure 7: Units of Comparison

	Comp # 1	Comp # 2	Comp # 3	Comp # 4	Comp # 5	Comp # 6
Sale Price	$4,615,712	$6,138,657	$813,483	$1,627,010	$1,163,362	$1,250,000
Square Feet	712,642	866,240	65,079	168,490	47,073	56,356
Price/ Square Foot	$6.48	$7.09	$12.50	$9.66	$24.71	$22.18
Acres	16.36	19.89	1.49	3.87	1.08	1.29
Price/Acre	$282,134	$308,690	$544,497	$420,634	$1,076,542	$966,179

Figure 8: Elements of Comparison

Comp	Comp # 1	Comp # 2	Comp # 3	Comp # 4	Comp # 5	Comp # 6
Sale Price	$4,615,712	$6,138,657	$813,483	$1,627,010	$1,163,362	$1,250,000
Financing	Conventional	Conventional	Conventional	Conventional	Conventional	Conventional
Sale Date	02/17/17	05/28/08	11/20/13	08/29/14	08/04/16	07/19/16
Location	East Bloomington-Normal	East Bloomington-Normal	East Bloomington-Normal	East Bloomington-Normal	East Bloomington-Normal	East Bloomington-Normal
Frontage	2 Sides	2 Sides	1 Side	2 Sides	1 Side	2 Sides
Size (sq. ft.)	712,642	866,240	65,079	168,490	47,073	56,356
Shape	Rectangular	Irregular	Irregular	Irregular	Irregular	Rectangular
Topography	Level	Level	Level	Level	Level	Level
Utilities	Full	Full	Full	Full	Full	Full
Zoning	B1	B1	B1	B1	C3	B1

The elements of comparison in Figure 9 demonstrate the key factors that influence the value of vacant land. Most lots in the city are level, and most properties similar to the subject are irregularly-shaped. The subject is located in C3 zoning, which is designed to accommodate large commercial retail developments. This designation exists almost entirely in the already-developed portion of the city of Bloomington - there are, very few vacant buildable lots in the jurisdiction with this designation, none of which approach the size of the subject. Most new construction of medium to large retail projects in the city is taking place either in larger complexes in areas zoned B-1 (highway business). Because of this lack of properties, only one sale of vacant C3 property was identified.

Financing

All transactions were conducted with conventional financing. No adjustment is needed.

Market Conditions (Time)

All sales of vacant land in Bloomington and Normal within the last five years, totaling seventy-four sales, were reviewed. Sales chosen for time analysis are all within the Bloomington-Normal area.

Figure 9: Vacant Land Sales

Comp & Address	Comp # 1 215 E. Hamilton Rd., Bloomington	Comp # 2 702 S. Main St., Normal	Comp # 3A 118 Keaton Pl.(Veterans Parkway) Bloomington 14-35-203-008	Comp #3B 118 Keaton Pl.(Veterans Parkway), Bloomington
Parcel Number	21-16-403-004	14-28-379-001		14-35-203-008
Original Sales Price	$49,100	$125,000	$976,091	$1,185,000
Original Sale Date	12/02/11	04/11/05	02/02/06	08/04/14
Resale Price	$75,000	$185,231	$1,185,000	$1,240,000
Resale Date	03/28/14	07/30/12	08/04/14	07/19/16

Figure 10: Time Sales Grid

Comp	Comp # 1	Comp # 2	Comp # 3A	Comp #3B
Month Differential	28	88	103	23
Times the Monthly % Adjustment	1.884%	0.548%	0.208%	0.202%
Annual % Increase	22.6%	6.6%	2.5%	2.4%
Times the Sales Price	$49,100	$125,000	$976,091	$1,185,000
Resale Date	03/28/14	07/30/12	08/04/14	07/19/16
Price Differential	$25,900	$60,231	$208,909	$55,000
Price Differential as a Percent	52.7%	48.2%	21.4%	4.6%

All three properties chosen reflect growth in the real estate market within the last decade. The property used as comparable 3, 118 Keaton Place, actually sold twice within a 12 year window, and is shown as two separate entries. For the purposes of calculating a time adjustment, sales 2 and 3 (A and B) were given the most weight because they best reflect the stability of real estate values in the area over time – sales 2 and 3 reflect a stable growth trend covering 7-9 years, while sale 1 reflects a much shorter time frame. Sale 2 occurred in the university area, directly adjacent to the campus of Illinois State University, while property 3 is much closer to the subject – it is located in the same commercial sub-market directly to the north and east of the subject along Veteran's Parkway, and reflects the same trends in growth and stabilization as the subject. Furthermore, the combined change in sales price for the comparable covers a long period of time (12 years) which gives a good indication of the market in subject area in both the short term and long term. In light of this, therefore, relatively more weight is given to the property at 118 Keaton Pl. Based on this analysis, the time adjustment factor chosen is .1875 percent per month, or 2.25 percent annually.

Location:

		Sale Price/Sq. Ft.
Comparable Sale Number	6	$22.18
Comparable Sale Number	5	$24.43
Sales Price Difference		($2.25)
Indicated Adjustment		10.0%

		Sale Price/Sq. Ft.
Comparable Sale Number	1	$6.60
Comparable Sale Number	2	$8.61
Sales Price Difference		($2.01)
Indicated Adjustment		30.0%

Comparables 5 and 6 are located near the subject on the east side of Bloomington, along Veteran's Parkway. They are highly similar to one another in size and access, the only difference being the location of sale 5 and its zoning classification. Sale 5 is zoned within a C3 district along Veterans, similar to the subject; as the paired sale above shows, there is a premium associated with location in this area. This manifests itself as a 10 percent premium for lots located at this intersection.

Comparables 1 and 2 are both similar in size relative to their overall area. Comparable 1 does not have any frontage along Veteran's Parkway, unlike comparable 2. After adjusting for time, a 30% difference was noted and applied as an upward adjustment to Comparable 2.

Figure 11: Site Sales Adjustment Grid

Comp	Subject	Comp # 1	Comp # 2	Comp # 3	Comp # 4	Comp # 5	Comp # 6
Sale Price		$4,615,712	$6,138,657	$813,483	$1,627,010	$1,163,362	$1,250,000
Address		College Ave.	Parkway Village	Holiday Dr.	Holiday Dr.	IAA Dr.	Keaton Pl.
Lot Size	2,366,030	712,642	866,240	65,079	168,490	47,073	56,356
Financing		Conv.	Conv.	Conv.	Conv.	Conv.	Conv.
Financing Adj.		$0	$0	$0	$0	$0	$0
Sale/Value Date	01/01/18	02/17/17	05/28/08	11/20/13	08/29/14	08/04/16	07/19/16
Months Difference		10	115	49	40	16	17
Time Adj.		1.88%	21.56%	9.19%	7.50%	3.00%	3.19%
Adjusted Sale Price for Time		$4,702,257	$7,462,305	$888,222	$1,749,036	$1,198,263	$1,289,844
Adjusted Sale Price per Square Foot		$6.60	$8.61	$13.65	$10.38	$25.46	$22.89
Location & Zoning	On Veterans, C3	Off Veterans, B1	On Veterans, B1	On Veterans, B1	On Veterans, B1	On Veterans, C3	On Veterans, B1
		40.0%	10.0%	10.0%	10.0%	-	10.0%
Net Adjustments (Exc. Size)		42.6%	33.7%	20.1%	18.3%	3.6%	13.5%
Adjusted Price Per Sq. Ft.		$9.24	$9.48	$15.01	$11.42	$25.46	$25.18

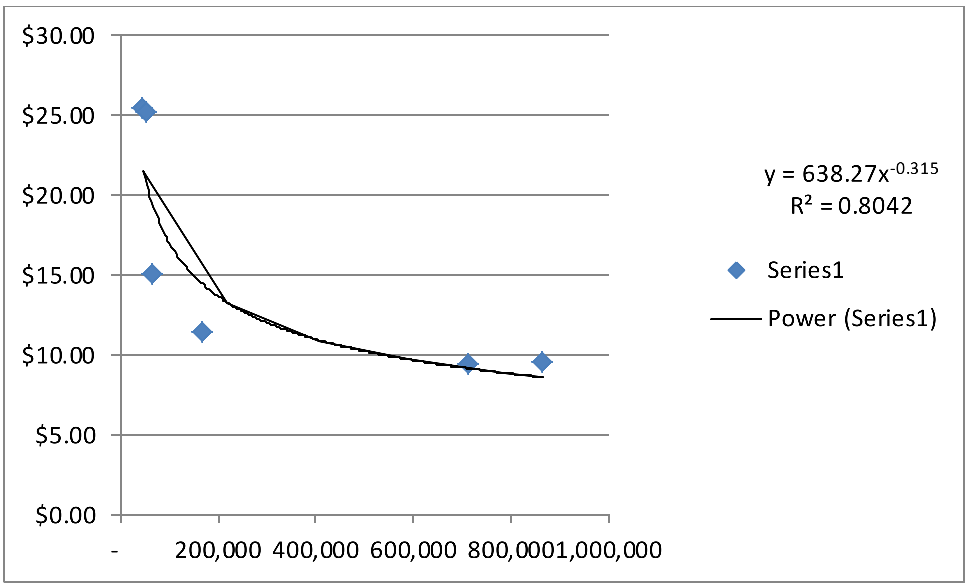
Size

Because of the relative similarity of the comparable properties to the subject, other than time the most important consideration when determining the value of the subject property is size. The subject is by far the largest retail lot in the jurisdiction, and one of the largest commercial lots overall. In order to properly account for the economies of scale inherent in acquiring such a large piece of property, one final adjustment must be done for size.

After adjusting for time and zoning, the comparable properties were all similar enough to the subject to allow for scaling. As the chart below demonstrates, the adjusted values when plotted on a curve according to the power law show a reliable decrease according to the power line in the chart – essentially, the value of the land increases at a slower rate the larger the lot becomes. The line in the chart reflects the subsequent equation used to calculate the land value.

Figure 12: Land sale size adjustment

	Address	Lot Size	Price/SF
Comparable 1	E College Ave.	712,642	$9.24
Comparable 2	Parkway Village	866,240	$9.47
Comparable 3	1211 Holiday Dr.	65,079	$15.02
Comparable 4	1213 Holiday Dr.	168,490	$11.42
Comparable 5	506 IAA Dr.	47,073	$25.46
Comparable 6	118 Keaton Pl.	56,356	$25.18
Subject	1615 E Empire	2,366,030	$6.27



SUMMARY OF SITE VALUATION

By virtue of their size and relatively similar location, comparables 1 and 2 are the most similar to the subject property, notwithstanding the adjustments made for zoning and time, respectively. Comparables 3, 4, 5, and 6, while substantially smaller than the subject, demonstrate the value of land in the subject's immediate area, and further help scale the land value determination for size and, in the case of comparable 5, zoning and location factors. Based on these factors, the size-adjusted value of $6.30 per square foot was the value chosen.

2,366,030 square feet x $6.30 =$14,906,000

It is the opinion of the appraiser that the estimated market value of the subject site as of January 1, 2018 is (rounded):

FOURTEEN MILLION NINE HUNDRED THOUSAND AND NO/100 DOLLARS

$14,900,000

COST APPROACH

The cost approach is based primarily on the principles of substitution, defined as “a potential owner will pay no more for a property than the amount for which a property of like utility may be purchased;” supply and demand, which states that “an appropriate number of properties must be available to meet the demand of buyers”; an anticipation, which states that “value is created by the anticipation of benefits to be received in the future.”

International Association of Assessing Officers, Property Assessment Valuation (Kansas City, MO: International Association of Assessing Officers 2010), pp. 34-40

The approach assumes that the cost to reproduce or replace an improvement, less depreciation (physical, functional, and external). There are six steps in the cost approach:

“Estimate the land (site) value as if vacant and available for development to its highest and best use.

“Estimate the total cost new of the improvements as of the appraisal date, including direct costs, indirect costs and entrepreneurial profit from market analysis.

“Estimate the total amount of accrued depreciation attributable to physical deterioration, functional obsolescence, and external (economic) obsolescence.
Subtract the total amount of accrued depreciation from the total cost new of the primary improvements to arrive at the depreciated cost of improvements.
Estimate the total cost new of any accessory improvements and site improvements. Then estimate and deduct all accrued depreciation from the total cost new of these improvements.

“Add site value to the depreciated cost of the primary improvements, accessory improvements, and site improvements, to arrive at a value indication by the cost approach.”

International Association of Assessing Officers, Property Assessment Valuation, 3rd Edition (Kansas City, MO: International Association of Assessing Officers, 2010), 230

The cost approach is most useful when improvements are relatively new, and depreciation can be more easily quantified. As part of the appraisal process for the subject a cost-based value was developed and is maintained as part of the appraisal work file; however, its inclusion is not necessary to produce a credible result.

INCOME (CAPITALIZATION) APPROACH

The income approach is the second applied approach to value. It is based primarily on the principles of anticipation, which states that “value is created by the anticipation of benefits to be received in the future”; substitution, defined as “a potential owner will pay no more for a property than the amount for which a property of like utility may be purchased;” and supply and demand, which states that “an appropriate number of properties must be available to meet the demand of buyers”.

International Association of Assessing Officers, *Property Assessment Valuation (*Kansas City, MO: International Association of Assessing Officers 2010), pp. 34-40

There are eight steps in the Income Approach:

1. “Estimate the potential gross income;

2. Deduct for vacancy and collection loss;

3. Add miscellaneous income to get the effective gross income;

4. Determine operating expenses;

5. Deduct operating expenses from the effective gross income to determine net operating income before discount, recapture and taxes;

6. Select the proper capitalization rate;

7. Determine the appropriate capitalization procedure to be used; and

8. Capitalize the net operating income into an estimated property value.”

International Association of Assessing Officers, *Property Assessment Valuation,* 3rd Edition (Kansas City, MO: International Association of Assessing Officers, 2010), 318

POTENTIAL GROSS INCOME ESTIMATE

Potential gross income (PGI) is the maximum amount of gross income a property is able to generate from rents for all marketable area, assuming that the property is fully occupied and is meeting its full market income potential. Establishing the PGI is the first step in estimating the total income of the property.

The PGI is directly tied to the amount of rent that a property is capable of producing is based on several different factors that vary from property to property, affecting the relative desirability of the unit and thus how much a tenant is willing to pay to occupy it.

Base Rent

Base rent is the revenue generated from leasing activity on the anchors and in-line retail spaces on the property, and represents the largest share of income for the subject. Rents per square foot vary based on the size of the space being leased, as well as other factors such as location within the complex and, in some instances, the product sold (jewelry stores, for example, generate very large rents per square foot, and are treated separately from other retailers.)

In order to generate an estimate of gross rent, it is necessary to stabilize the rents charged. Because the purpose of this appraisal is to establish market value in exchange, not value in use, the rent estimates used should reflect the highest and best rental rate possible for a space, not necessarily the contract rent which may not reflect full market income potential.

For the subject property, the rent charged to each store was analyzed. Rent inside the mall is driven primarily by use, then by space size and location. In the mall most of the stores are retail in nature. A review of the charged rents shows that an inline retail store of typical size (2,000-6,000 square feet) can be expected to generate $27 per square foot in gross rent, with smaller stores and larger stores adjusted accordingly. Spaces below 2,000 square feet are estimated at $40 per square foot, and those up to 15,000 square feet larger are scaled to from $20 to $6. Furthermore, spaces within the original mall corridor (the main corridor with access to the most direct entrances) can be expected to generate approximately a 10 percent premium. Jewelry stores and food retailers can be expected to generate stable rents without regard to location of $100 and $65 per square foot, respectively. The Applebee's restaurant and Talbot's store, due to their locations outside of the mall, were estimated based on their actual contract rent.

Anchor space is different from in-line space primarily in that they are much larger in size. Furthermore, anchors get indirect rent concessions by using their marketing dollars to generate foot traffic into the mall, creating a synergistic relationship with the inline stores. Contract rents vary based on retailer, anywhere between $1.50 and $3.00 per square foot. For the purpose of this appraisal, $3.00 per square foot is estimated as the maximum rent for an anchor store.

The table below shows the expected rents for each unit, as well as the actual contract rents charged. Based on these estimates, the stabilized base rent for the subject for the valuation date is projected at $8,055,000. (In the type column, "A" stands for anchor, "R" for general retail, "F" for food service, "J" for jewelry store, and "O" for outlot buildings.)

Figure 13: Actual and stabilized rental income report for the subject

Unit	Type	Tenant	SF	Est. Rent	Est. PGI	2018 Rent/SF	2017 Rent/SF	2016 Rent/SF
1005	A	Kohl's	83,000	$3.00	$249,000	$1.44	$1.44	$1.44
1060	A	JC Penney	71,218	$3.00	$213,654	-	-	$1.08
1170	A	Macy's	121,231	$3.00	$363,693	-	-	-
1180	A	Sears	122,958	$3.00	$368,874	$3.00	$3.00	$3.00
1330	A	Bergner's	131,616	$3.00	$394,848	unk.	unk.	unk.
1215	R	VACANT	585	$70.00	$40,950	-	-	-
1305A	R	VACANT	700	$70.00	$49,000	-	-	-
1245	F	VACANT	1,097	$65.00	$71,305	-	-	-
1474	R	MC Sports / Wacky Fun Time Rental	12,588	$6.00	$75,528	unk.	unk.	$14.88
1240	F	Quencher Smoothies	608	$65.00	$39,520	-	$56.16	$16.08
1130	R	Gap-Gap Kids / Wild Country	8,119	$30.00	$243,570	-	$13.20	$16.68
1470	R	Selah Beauty/Kenay Arts	1,711	$40.00	$68,440	-	$11.88	$16.80
1420	R	Justice	4,203	$30.00	$126,090	$21.83	$21.96	$20.04
1195	R	Brow Arch / HR Block	1,048	$40.00	$41,920	-	$54.96	$20.64
1300	R	Maurice's	5,095	$27.00	$137,565	$22.93	$22.93	$24.96
1150	R	The Limited / Go! Calendars	7,932	$30.00	$237,960	unk.	$45.36	$28.32
1410	R	Best Buy Mobile	1,791	$44.00	$78,804	-	$29.16	$29.16
1413	R	Pac Sun	3,036	$30.00	$91,080	-	$32.16	$32.16
1160	R	Foot Locker	3,878	$30.00	$116,340	$30.16	$30.16	$33.72
1280-1285	R	Victoria's Secret	7,628	$30.00	$228,840	$26.46	$26.46	$35.52
1400	R	Bath & Body	5,079	$30.00	$152,370	$23.17	$23.17	$63.36
1070	R	Wild Country	1,505	$44.00	$66,220	-	-	$71.76
1490	R	E-Cig Emporium	605	$70.00	$42,350	-	-	$72.24
1230	F	Asian Max	597	$65.00	$38,805	-	-	$100.56
1320	R	Beck's Popcorn	691	$35.00	$24,185	$1.32	$36.48	$34.68
1455	R	Mattress Liquidators	7,912	$20.00	$158,240	$2.52	$2.52	-
1175	R	Christmas Creations / Custom Junkeez	1,328	$40.00	$53,120	$3.60	$13.56	$45.24
1335	R	Shoe Dept. Encore	12,198	$10.00	$121,980	$5.40	$5.40	$5.40
1010	R	Kohl's (2b)	9,683	$10.00	$96,830	$5.52	$5.52	-

Unit	Type	Tenant	SF	Est. Rent	Est. PGI	2018 Rent/SF	2017 Rent/SF	2016 Rent/SF
E-01	R	Old Navy	15,267	$6.00	$91,602	$6.36	$6.36	$12.84
1315	R	Allstate	998	$35.00	$34,930	$7.20	$7.20	$7.20
1445	R	Radio Shack / Pro Image Sports	2,315	$27.00	$62,505	$7.80	$77.76	$22.80
E-02	R	JC Sales	2,633	$27.00	$71,091	$8.16	$25.80	$27.36
1305	R	BNZ Trading	1,014	$40.00	$40,560	$8.88	$8.88	$11.88
1055	R	Aeropostale	4,211	$27.00	$113,697	$9.48	$9.48	$29.76
1425	R	Lids / Brow Arch	751	$35.00	$26,285	$9.60	$3.24	$46.80
1030	R	Rcade	1,181	$40.00	$47,240	$10.20	$10.20	-
1107	R	ULTA	11,140	$10.00	$111,400	$11.52	$11.52	$23.16
1435	R	rue 21	4,237	$27.00	$114,399	$13.68	$13.68	$19.56
1310	R	Seno Formal Wear	1,171	$40.00	$46,840	$14.52	$14.52	$14.52
1295	R	Tradehome	2,560	$27.00	$69,120	$15.84	$15.84	$13.80
1200	R	Earthbound Trading	3,566	$27.00	$96,282	$17.64	$17.16	$16.68
1610	O	Applebee's	5,432	$20.00	$108,640	$20.04	$20.04	$20.04
1050	R	Go! Calendars /The Mole Hole	3,359	$39.24	$131,807	$20.88	$20.88	$39.24
1605	O	Talbot's	4,200	$23.00	$96,600	$23.04	$23.04	$23.04
1415	R	Buckle	4,374	$30.00	$131,220	$24.12	$23.76	$23.40
1460	R	Master Cuts	1,120	$40.00	$44,800	$24.24	$24.24	$12.36
1485	R	VG Sewing / Tina's	446	$35.00	$15,610	$24.48	$24.48	$24.48
1145	R	Hallmark Gold Crown	3,957	$30.00	$118,710	$26.52	$26.52	$32.04
1048	R	Christopher & Banks	3,400	$27.00	$91,800	$27.24	$26.64	$26.16
1255	R	Icing	1,307	$40.00	$52,280	$27.36	$26.76	$21.60
1045	R	Spencer's	2,201	$27.00	$59,427	$27.84	$27.00	$26.28
1250	R	Payless Shoes	2,791	$27.00	$75,357	$28.20	$28.20	$40.80
1275	R	f.y.e	3,080	$27.00	$83,160	$29.88	$29.88	$29.28
1095	R	American Eagle	6,651	$30.00	$199,530	$31.08	$30.60	$30.12
1140	R	Charlotte Russe	6,062	$30.00	$181,860	$31.20	$31.20	$30.60
1290	R	Express Factory	7,116	$27.00	$192,132	$33.36	$32.52	$31.68
1450	R	Finish Line	3,176	$27.00	$85,752	$34.68	$34.68	$35.04
1040	F	Auntie Annie's	978	$65.00	$63,570	$36.84	$36.84	$35.76
1325	R	Home Spa	1,142	$40.00	$45,680	$39.96	$39.96	$38.04
1375	R	Journeys	2,188	$30.00	$65,640	$40.20	$39.36	$38.64
1235	F	Kobe's	880	$65.00	$57,200	$40.92	$84.84	$82.32
1210	F	Great Steak	839	$65.00	$54,535	$42.96	$13.56	$35.04

Unit	Type	Tenant	SF	Est. Rent	Est. PGI	2018 Rent/SF	2017 Rent/SF	2016 Rent/SF
1365	R	Claire's	1,138	$40.00	$45,520	$44.28	$43.44	$42.60
1265-1270	J	Zales	2,006	$100.00	$200,600	$44.88	$44.88	$57.00
1487	R	La Nails	1,207	$40.00	$48,280	$45.24	$43.92	$42.60
1465	R	GameStop	1,120	$40.00	$44,800	$50.64	$50.64	$50.64
1260	F	Pretzelmaker	4,398	$65.00	$285,870	$53.40	$95.64	$95.64
1430	R	GNC Live Well	1,382	$40.00	$55,280	$63.72	$62.40	$61.20
1370	F	Gloria Jean's Coffee	1,136	$65.00	$73,840	$66.36	$65.04	$63.72
1177	F	Fannie May	1,338	$65.00	$86,970	$67.92	$67.92	$66.60
1035	F	Mrs. Fields Cookies	688	$65.00	$44,720	$69.96	$68.88	$67.92
1220	F	Subway	699	$65.00	$45,435	$78.60	$78.60	$77.16
1100	J	Rogers & Hollands	1,293	$100.00	$129,300	$117.24	$115.44	$113.76
1185	J	Kay Jewelers	1,817	$90.00	$163,530	$136.20	$136.20	$133.56

Percentage Rents/Percentage in Lieu of Rent

Some stores pay a percentage of rent they generate on top of the base amount of rent they are contracted to pay; in other cases, they have no base rent (or greatly reduced base rent) and pay a percentage of sales instead. In past years these figures have ranged from $100,000-$200,000 annually. Because the potential gross income is capturing the maximally-productive rent amounts for each store, no percentage rent is included in this report.

Specialty Leasing

Specialty leasing involves leasing activity on the mall campus not directly tied to any set physical store or location. This includes but is not limited to corridor kiosks, vending machine leases, storage lockers, specialty shows, and automated teller machines (ATM's). Specialty leasing has seen declines in revenue over the last three years due to the changing retail dynamics of the mall, from $849,000 in 2015 to $553,000 in 2017. Because of its near-unlimited income potential, it is not feasible to estimate a potential gross income for this category; instead, the net amount is estimated based on actual collections. For this appraisal, the 2017 figure of $553,000 is estimated.

Brand Development

Brand development encompasses income paid to the mall for marketing purposes. It includes reimbursements from tenants for mall advertising, ads in common areas, and a variety of other revenues paid to the mall for branding purposes. Like specialty leasing, it does not have a hard-and-fast cap on its potential. This category ranged from

$225,000 in 2015 to $143,000 in 2017. For this appraisal, the 2017 figure of $143,000 is estimated.

Common Area Maintenance (CAM)

Common area maintenance reflects charges paid to the landlord by the tenants to account for expenses generated in the maintenance of the property. This includes but is not limited to services such as janitorial, security, building equipment and maintenance, landscaping and site maintenance, as well as utilities within the common area. By their nature these charges vary from year to year, but have been fairly stable within the last three years. These charges are estimated at $1,800,000 for this report, or approximately 22% of potential gross income.

Total Potential Gross Income

Based on the information above, the total potential gross income of the subject is as follows:

Base rents – anchors	$1,590,069
Base rents –inline space	$6,465,304
Specialty leasing:	$553,000
Brand development:	$143,000
Common area maintenance:	$1,800,000
Total potential gross income (PGI):	$10,551,373

VACANCY AND COLLECTION LOSS

Effective gross income is the amount of income available after the consideration of any vacancy in the mall space as well as any collection loss from tenants. In this report, vacancy is only charged against the potential gross income of $8,055,000.

Anchor spaces within the mall have seen substantial vacancy growth within the last three years. In 2015 the mall had all five anchor stores occupied. In recent years the tenants in the north anchor and northwest anchor have departed, leaving the mall's anchor space at approximately 36 percent vacant as of the date of the appraisal.

Vacancy within the inline spaces has followed this trend. Prior to 2018 inline vacancy was stable at between 2-5 percent annually. In 2018 this figure jumped to 13.5 percent, driven by vacancies in two of the larger inline spaces formerly occupied by national retailers The Gap and The Limited. This is a one-year abnormality that will change with some of that space to be occupied by a new retailer in the fall of 2018, which will bring the vacancy back down slightly to 11 percent. For this report, then, vacancy for the inline stores is stabilized at 10 percent.

EFFECTIVE GROSS INCOME ESTIMATE

Total potential gross income (PGI):	$10,551,373
Less vacancy and collection loss – anchors (36%)	$572,425
Less vacancy and collection loss – inline space (10%)	$646,530
Total effective gross income (EGI):	$9,332,418

EXPENSES

The income approach calls for the estimation of market expenses. Expenses for the subject property for the last three years up to and including the year ending prior to the valuation date were reviewed. The key expense categories are broken down below, followed by a summary in table form. (All percentages shown are percentage of effective gross income, unless otherwise noted.)

Energy and Utilities

Energy and utilities cover expenses associated with providing electricity and climate control to the property. This category generally covers only expenses associated with the mall offices and common areas, as each unit has its own HVAC system and pays their own utilities separately. Expenses for this category have ranged from 1.7-2.1 percent in the reviewed period.

Marketing

Marketing includes activities related to generating customer activity in the mall, as well as generating new tenants to the mall property. It includes advertising expenses, printing, promotional equipment, and public relations, as well as associated costs for staffing. This category has ranged from .6-1 percent within the reviewed period.

Payroll

Payroll accounts for salary and benefits paid to the mall's full- and part-time employees. It does not include wages for employees of firms who work on contract within the property, such as security guards and janitors.

Interior and Exterior Maintenance

Maintenance expenses shown here account for costs associated with keeping the physical plant of the property in marketable condition. This includes items such as janitorial and security services, extermination, landscaping, equipment rental, and snow removal. It does not, however, include any expenses that are considered to be covered under replacement reserves. These expenses have consistently been approximately 5.25 percent within the review period.

Other Maintenance and Repair

This primarily includes security contract expenses, equipment rental, and other expenses not shown above. These expenses have been consistently between 2.4-2.7 percent.

General and Administrative

These are miscellaneous costs for day-to-day operation of the property, including postage, background music, office supplies, and information technology products. The amount has been approximately .6-.7 percent for the last two years.

Replacement Reserves

Replacement reserves are an appraisal concept used to allocate costs for short and long-term repairs and replacements that need to be made periodically, and amortize that cost over a period of years. Items typically covered under replacement reserves include but are not limited to doors, windows, HVAC equipment, roofing systems, painting, floor replacement, and carpeting. The subject's owners have for the last several years projected 4% of effective gross income to account for these costs.

NET OPERATING INCOME

The net operating income, or NOI, is pre-tax property tax income of the property after considering vacancy, collections loss, and allowable expenses. It is the figure that is ultimately capitalized into the value estimate. The stabilized NOI estimate for 2018 is shown in Figure 14.

Based on these estimates, the subject's 2018 stabilized net operating income is estimated at $7,478,000.

Figure 14: Income and expense table, 2015-2017

		2015	%	2016	%	2017	%	STABILIZED	%
Effective Gross Income (EGI):		$9,868,526		$10,196,937		$8,467,471		$9,332,418	
Expenses (Percent of EGI):									
Fixed:									
	Insurance:	$44,291	0.45%	$38,666	0.38%	$40,234	0.48%	$46,162	0.50%
	Total Fixed Expense:	$44,291	0.45%	$38,666	0.38%	$40,234	0.48%	$46,162	0.50%
Operating:									
	Energy & Utilities:	$174,640	1.77%	$172,054	1.69%	$176,615	2.09%	$184,648	2.00%
	Marketing:	$102,450	1.04%	$60,461	0.59%	$84,071	0.99%	$92,324	1.00%
	Payroll:	$239,325	2.43%	$295,339	2.90%	$316,706	3.74%	$276,973	3.00%
	Interior Maintenance Expenses:	$405,654	4.11%	$379,542	3.72%	$297,347	3.51%	$323,135	3.50%
	Exterior Maintenance Expenses:	$113,604	1.15%	$157,971	1.55%	$155,108	1.83%	$161,567	1.75%
	Other Maintenance:	$264,765	2.68%	$243,992	2.39%	$207,129	2.45%	$230,810	2.50%
	General & Administrative:	$164,532	1.67%	$63,396	0.62%	$61,482	0.73%	$69,243	0.75%
	Reserves for Replacement:	$394,741	4.00%	$407,877	4.00%	$338,699	4.00%	$369,297	4.00%
	Total Operating Expense:	$1,859,711	18.84%	$1,780,632	17.46%	$1,637,157	19.33%	$1,707,997	18.50%
Total Operating & Fixed Expenses:		$1,904,002	19.29%	$1,819,298	17.84%	$1,677,391	19.81%	$1,754,159	19.00%
Net Operating Income (NOI):		$7,964,524	80.71%	$8,377,639	82.16%	$6,790,080	80.19%	**$7,478,259**	81.00%

CAPITALIZATION METHOD SELECTION AND RATE DEVELOPMENT

The income approach, otherwise known as income capitalization, calls for the conversion of net operating income into an estimate of a property's market value. The two common capitalization methods are direct capitalization and yield capitalization. Direct capitalization relies on the IRV formula, where "I" stands for net operating income, "R" stands for capitalization rate, and "V" stands for value. In this formula, the property's net annual income is divided by a capitalization rate in order to arrive at the property's estimated market value (displayed visually, the formula is V = I / R). In direct capitalization, a single year's stabilized net income expectancy is used to develop the indication of the property's overall value. Yield capitalization, on the other hand, is the reciprocal of IRV and thus VIF where (F) is a factor, and relies more heavily on analyzing the current and future income streams, remaining economic life of the property, and length of investment, among other considerations. When done correctly, both methods arrive at a similar value estimate; the difference between them, however, lies in which what income estimate is capitalized, and at what rate. In direct capitalization, the market derived NOI is considered to be a reliable indicator of future stablized NOI's, and as such can be directly converted into a value estimate using a terminal cap rate. When it appears that the NOI estimate will chang during the investment period yield capitalization can be used. Because of the fluctuation in income streams and changing dynamics faced by the subject in the coming years, yield capitalization is the selected method for use in this income approach.

Yield Capitalization – Overview and Rate Components

To properly estimate a property's income stream using yield capitalization, an appropriate capitalization rate, or cap rate, must be developed. This rate is then adjusted to account for the local effective property tax rate to give the overall rate used for capitalization.

<u>Yield Rate</u>: The yield rate, also known in this context as the discount rate, is the return on the capital that the subject is expected to generate over the life of the investment. The yield rate should be sufficiently high to lure an investor to sacrifice liquidity and assume the risks of investing in a given market. In all property ownership there is an assumed risk of loss in value due to changes in a property's income stream and from depreciation of the asset. Investments in real-estate are considered to be less liquid than investments in certificates of deposit, corporate, or government bonds, thus the rate increases as premiums that reflect the costs associated with a real estate investment (including risk, liquidity, and investment management) are added.

Yield rate estimates can be taken from published resources, or they can be extracted from market transactions. One common method of estimating a yield rate is to calculate a real estate investment's internal rate of return (IRR) at the time of purchase. The internal rate of return is a discount rate that sets the net present value of all expected cash flows, both positive and negative, to zero.

In order to estimate the yield rate, four recent mall sales where cap rates could be identified were used. In addition, one transaction occurred in the Bloomington-Normal area within the last two years – the Shoppes at College Hills (formerly the College Hills Mall in Normal). While this property is a slightly different kind of retail property than the subject (a regional power center versus an enclosed mall) it does provide additional local context within the subject's market area to help determine an appropriate yield rate.

As part of the internal rate of return determination, an estimate of value growth should be determined. For the sake of consistency, each comparable was projected with the same income and overall property value growth as the subject – 2.5 percent annual increases in NOI to account for growth in rents due to escalation clauses, and a 7 percent overall increase in property value.

Shoppes at College Hills, Normal (2017)
123,106 sq. ft.
Sales price $21,850,000
Unloaded Cap rate: 9.5%
Estimated yield rate (Internal Rate of Return): 10.8%

Newgate Mall, Ogden, UT (2016 Sale)
718,035 sq. ft.
Sales price: $69,500,000
Unloaded cap rate: 10%
Estimated yield rate (Internal Rate of Return): 11.3%

Southgate Mall, Missoula, MT (2018 Sale)
632,000 sq. ft.
Sales Price: $58,000,000
Unloaded Cap Rate: 10%
Estimated Yield Rate: 11.3%

Everett Mall, Everett, WA (2018 Sale)
490,949 sq. ft.
Sales Price: $36,350,000
Unloaded Cap Rate: 15%
Estimated Yield Rate: 16.5%

Janesville Mall, Janesville, WI (2018 Sale)
600,137 sq. ft.
Sales price: $18,000,000
Unloaded cap rate: 18%
Estimated yield rate: 19.7%

Figure 15: Capitalization rate information, 1st Quarter 2018 (Source: RealtyRates.com)

RealtyRates.com INVESTOR SURVEY - 1st Quarter 2018* DISCOUNT RATES									
	New Development			Acquisitions			Recapitalizations		
Property Type	Min.	Max.	Avg.	Min.	Max.	Avg.	Min.	Max.	Avg.
Retail	6.47%	17.06%	12.43%	5.56%	14.67%	10.69%	6.34%	16.72%	12.18%
Anchored	6.47%	15.69%	12.51%	5.56%	13.49%	10.76%	6.34%	15.38%	12.26%
Un-Anchored	7.23%	17.06%	13.20%	6.22%	14.67%	11.35%	7.09%	16.72%	12.94%
Convenience/Gas	7.56%	17.16%	10.93%	6.50%	14.76%	9.40%	7.40%	16.82%	10.71%
Free Standing	6.85%	16.68%	13.01%	5.89%	14.34%	11.19%	6.71%	16.34%	12.75%

RealtyRates.com INVESTOR SURVEY - 1st Quarter 2018* RETAIL - ANCHORED CENTERS						
Item	Input					OAR
Minimum						
Spread Over 10-Year Treasury	0.76%	**DCR Technique**	1.05	0.043722	0.90	**4.13**
Debt Coverage Ratio	1.05	**Band of Investment Technique**				
Interest Rate	3.11%	Mortgage	90%	0.043722	0.039350	
Amortization	40	Equity	10%	0.079479	0.007948	
Mortgage Constant	0.043722	OAR				**4.73**
Loan-to-Value Ratio	90%	**Surveyed Rates**				**4.49**
Equity Dividend Rate	7.95%					
Maximum						
Spread Over 10-Year Treasury	6.51%	**DCR Technique**	1.90	0.120715	0.60	**13.76**
Debt Coverage Ratio	1.90	**Band of Investment Technique**				
Interest Rate	8.86%	Mortgage	60%	0.120715	0.072429	
Amortization	15	Equity	40%	0.167680	0.067072	
Mortgage Constant	0.120715	OAR				**13.95**
Loan-to-Value Ratio	60%	**Surveyed Rates**				**13.25**
Equity Dividend Rate	16.77%					
Average						
Spread Over 10-Year Treasury	3.64%	**DCR Technique**	1.48	0.074222	0.75	**8.21**
Debt Coverage Ratio	1.48	**Band of Investment Technique**				
Interest Rate	5.99%	Mortgage	75%	0.074222	0.055666	
Amortization	28	Equity	25%	0.119169	0.029792	
Mortgage Constant	0.074222	OAR				**8.55**
Loan-to-Value Ratio	75%	**Surveyed Rates**				**10.11**
Equity Dividend Rate	11.92%					

Figure 15, Con't: Capitalization and market information, 1st Quarter 2018 (Source: RealtyRates.com)

RealtyRates.com INVESTOR SURVEY - 1st Quarter 2018*
PROPERTY DESIRABILITY MATRIX

	Preferred agressively seeking	**Cautionary** will consider	**Rejecting but…** …may consider under special circumstances
Apartments	All Types		
Golf		Private	Public - Privately Owned
		Public - Municipal	
		Semi-Private	
Health Care/Senior Housing	Independent Living	Congregate Care	Acute Care
	Assisted Living		Nursing Homes
Industrial	Warehouse	Flex/Showroom	Heavy Manufacturing
	Bulk Distribution		
Lodging	Limited Service	Full Service	
		Golf/Gaming/Resort	
Mobile Home/RV Parks	Retirement & Family MH Parks	RV Parks/Campgrounds	
Office	Medical	CBD	
		Suburban	
Restaurants		All Types	
Retail	Grocery Anchored Centers	Unanchored Strip Centers	Malls/Outlet Malls
	Free Standing Credit/Franchised	Convenience Stores/Gas Stations	
		Big Box/Power Centers	
Self-Storage	All Types		
Special Purpose		Schools/Daycare Centers	Churches
		Public Assembly Facilities	Marinas/Recreational Facilities
		Parking Garages	

*4th Quarter 2017 Data

As shown from the extracted comparable sales, yield rates for properties similar to the subject range from 10.8 percent to 19.7 percent depending on the exact type of retail property and the relative health of the property in question. Of the five properties shown four of them are enclosed regional malls. The two with the lowest yield rates of 11.3 percent have inline vacancy rates of between 95 and 98 percent, while the two with the higher yield rates exhibit higher inline vacancy of between 91 and 93 percent. The sale with the lowest yield rate is the Shoppes at College Hills, which is not a true enclosed mall but rather a regional power center. This type of retail property is relatively more desirable to investors than enclosed shopping malls, as shown in the investment desirability matrix in Figure 15; however, it was included because it helps to offer some insight into the economic conditions in the subject's market area. Finally, Figure 15 shows surveyed discount (yield) rates for anchored retail properties.

The surveyed range between average and high of 10.75 percent and 13.5 percent confirms the range established by the comparables. In a market area with a less stable economy than the subject's, the yield rate might be estimated using the maximum along that range based on the projected short and long term economic challenges faced by the subject property; due to the fairly stable market area as evidenced by the sale of the Shoppes at College Hills, however, some moderation is warranted. Based on this information, 12.0 percent is chosen as the appropriate yield rate.

Effective Tax Rate: The effective tax rate is the amount of taxes levied against a property divided by the market value of the property. As discussed beginning on page

10, for property assessment valuation purposes adding the effective tax rate (rather than the nominal tax rate) to the capitalization rate is the preferred method of accounting for taxes. This is because of the fact that assessment level (that is, the ratio of the subject's estimated assessed market value to its true market value) can and will vary between properties, making comparisons between them difficult and often misleading. Adding the jurisdiction's effective tax rate directly to the capitalization rate instead subtracting taxes from operating expenses allows for clear comparisons between properties. The effective tax rate was developed by multiplying the nominal tax rate for the subject's jurisdiction by the assessment level, then by the assessment ratio for retail properties.

Nominal Tax Rate		8.4%
Multiplied by:	Statutory Level	33.3%
Multiplied by:	Property Class Ratio	97.1%
Equals:	Effective Tax Rate	2.7%

Based on this analysis, therefore, the effective tax rate for retail properties within the City of Bloomington Township tax assessment jurisdiction is estimated at 2.7 percent. When added to the base yield rate, this gives a tax-loaded overall yield rate of 14.7 percent.

(More information on the effective tax rate can be found beginning on page 10.)

Value Change Estimation

The next step in establishing a yield capitalization rate is to adjust the loaded yield rate by the anticipated rate of change in value to the property, weighted by the land-to-building ratio between the land and improvement components.

As previously discussed, land values along the Veterans corridor have maintained a steady growth rate of 2.25 percent annually. Due to the changing nature of the retail market in general and the occupancy issues faced by Eastland Mall, however, growth prospects for the value of the improvement itself are limited; therefore, I estimate that the improvement will show no growth in value during the projection period. The land-to-building value ratio for the subject is estimated at 30 percent; therefore, the weighted change in value of the subject property is estimated at .7 percent per year, or 7.0 percent over the 10-year projection period. This growth rate reflects stability within the subject's market area.

This rate is used to adjust the yield rate using the sinking fund factor. When multiplied by the equity yield's sinking fund factor of .049979, the resulting value is the base loaded yield capitalization rate of 14.3 percent.

Total Yield Capitalization Rate

Development of an appropriate rate for yield capitalization requires analysis of anticipated cash flows and growth prospects of the subject property, because these factors influence the way the yield rate derived above is converted into a rate that can be used for capitalization. Because the subject property is anticipating variable income growth and modest overall value growth during the ten-year projection period, the yield rate needs to be adjusted. The formula for this adjustment based on these conditions is as follows:

$$Ro = Yo - (\Delta o \times 1/Sn\neg) + ETR$$

Were Ro is the overall yield capitalization rate, Yo is the equity yield rate, Δo is the overall rate of property value change, 1/Sn¬ is the sinking fund factor for the tax-loaded yield rate, and ETR is the effective tax rate. (The sinking fund factor over the 10 year projection period for the tax-loaded yield rate of 14.7 percent is .049979.)

Base Equity Yield Rate:		12.0%
Plus:	Effective Tax Rate:	2.7%
Equals:	Loaded Equity Yield Rate:	14.7%
Minus:	Sinking Fund Factor (.049979) Times Change Rate (7%)	-0.4%
Equals:	Total Loaded Yield Capitalization Rate	14.3%

Income Estimation and Discounted Cash Flow

Direct capitalization only requires the estimation of one year of stabilized income to estimate value. This is effective when net incomes are stable. When income is not expected to be stable, however, yield capitalization is used to anticipate changes and reflect those future changes in the overall value. Income changes in two ways: changes to the net income stream annually; and an overall expected change in property value starting with year one, and ending when the investment period expires. This change is compensated for using the sinking fund factor to adjust(or weight) the growth rate.

Now that the yield capitalization rate has been established, the next step is to estimate the future cash flows for the subject property. This is accomplished by first analyzing the expected changes to the income stream, then discounting those future expected cash flows by the equity yield rate for the projected time period of the investment.

As of the assessment date, the net operating income of the subject property is estimated to be $7,478,000. This accounts for the anticipated occupancy for calendar year 2018. In 2019, two of the anchor stores will join the north anchor as vacant – Sears and Bergner's. This will account for a direct loss in rental revenue of $763,700. Furthermore, the mall estimates that, due to these vacant anchors, they will lose approximately $110,180 per month, or $1,322,160 annually, in revenue due to contractual co-tenancy obligations to 10 retailers. This is a total projected rent loss in 2019 of $2,085,900.

The mall is, however, expecting additional revenues to come on line in 2019 that will somewhat offset these losses. As of the end of 2018 H&M and Planet Fitness have both begun occupying most of the former JC Penney space. Furthermore, an Outback Steakhouse is under construction in the northeast corner of the lot, and will be open by 2019 as well. Based on their projected sizes of 20,000 square feet each, the mall can expect an additional $240,000 in revenue from the new retailers, and an additional $108,000 from the restaurant. This will also increase common area maintenance revenue by $76,600.

After a relatively unstable 2019, it is expected that vacancies will stabilize. The mall also can also expect rent growth in the future due to escalation clauses. It is projected that base rents will grow 2.5 percent annually.

There are several different techniques to discount cash flows and return them to a present value, and it depends upon the circumstances of the income stream and property growth pattern to determine which method to use. In this instance the subject property is projected to exhibit a pattern of variable income growth over the course of the projection period. For this scenario, the most effective yield capitalization technique is to create a stabilized income estimate based on the current and future anticipated cash flows, and then capitalize that estimate by the change-estimated yield rate shown on page 67.

The stabilized income estimate is calculated by taking the sum of the discounted cash flows at the tax-loaded equity yield rate – not including the reversion - and converting them by the amortization factor at the same rate. This calculation is shown in the table below.

Figure 16: Projected discounted cash flows, 2018-2028

	Amount	Discount Factor@ 14.7%	Discounted Amount
2018 Income	$7,478,250	0.871840	$6,519,834
2019 Projected Income	$5,951,759	0.760104	$4,523,957
2020 Projected Income	$6,100,553	0.662689	$4,042,769
2021 Projected Income	$6,253,067	0.577758	$3,612,762
2022 Projected Income	$6,409,393	0.503713	$3,228,493
2023 Projected Income	$6,569,628	0.439157	$2,885,096
2024 Projected Income	$6,733,869	0.382874	$2,578,224
2025 Projected Income	$6,902,215	0.333805	$2,303,993
2026 Projected Income	$7,074,771	0.291024	$2,058,930
2027 Projected Income	$7,251,640	0.253726	$1,839,933

2028 Reversion	$49,541,000	0.253726	$12,569,840
Sum of CF	$33,593,993	[redacted]	$46,163,833
Stabilized Income Eq.		0.196979	**$6,617,302**

SUMMARY OF THE INCOME CAPITALIZATION APPROACH

The subject's projected net operating income is divided by the overall capitalization rate to produce a fair market value estimate. The calculations are as follows:

Stabilized net operating income	$6,617,302
Overall yield capitalization rate	/.143
Value estimate	$46,274,839
Rounded to	$46,300,000

Another method to account for the taxes can also be used. In this method all of the cash flows are discounted by the unloaded equity yield rate and added together. This figure is then stabilized by multiplying it by the amortization factor, and then capitalizing it by dividing the result by the sum of the amortization factor and the effective tax rate. Finally the discounted reversion is added back to establish the final value. This method is shown below:

	Amount	Discount Factor@ 12.0%	Discounted Amount
2018 Income	$7,478,250	0.892857	$6,677,009
2019 Projected Income	$5,951,759	0.797194	$4,744,706
2020 Projected Income	$6,100,553	0.711780	$4,342,253
2021 Projected Income	$6,253,067	0.635518	$3,973,937
2022 Projected Income	$6,409,393	0.567427	$3,636,862
2023 Projected Income	$6,569,628	0.506631	$3,328,378
2024 Projected Income	$6,733,869	0.452349	$3,046,060
2025 Projected Income	$6,902,215	0.403883	$2,787,689
2026 Projected Income	$7,074,771	0.360610	$2,551,233
2027 Projected Income	$7,251,640	0.321973	$2,334,834
2028 Reversion (Check)	$49,330,885	0.321973	$15,883,225
Sum of CF	[redacted]		$53,306,186
Stabilized Income Eq.	$37,422,961	0.176984	$6,623,271

Year 10 Income:		$$7,251,600
Divided by:	Cap rate	14.7%
Equals:	Estimated reversion	$49,330,885
Times:	Discount factor @ 12%	.321973
Equals:	Discounted reversion value	$15,883,225
Plus:	Sum of remaining cash flows	$37,422,961
Multiplied by:	Amortization factor	.176984
Equals:	Stabilized discounted cash flow	$6,623,271
Divided by:	Tax-loaded amortization factor	.203984
Equals:		$48,352,758
Rounded to:		$48,400,000

Both methods are credible, and arrive at similar results. For the purpose of this appraisal both methods are given weight, with slightly more emphasis on the second method - it relies on a more complete analysis of the discounted cash flows that includes an estimate of the reversion.

All data deemed pertinent to the subject was reviewed in the analysis of the income approach. It is my opinion that the estimated fair market value of the subject property as of January 1, 2018 via the income approach is:

FORTY-EIGHT MILLION AND NO/100 DOLLARS

$48,000,000

SALES COMPARISON APPROACH

The sales comparison approach is the valuation approach most directly tied to market transactions. According to the IAAO, the approach "considers the marketplace directly and uses the market to estimate value by comparing the subject property to similar properties that have recently sold."

International Association of Assessing Officers, *Property Assessment Valuation,* 3rd Edition (Kansas City, MO: International Association of Assessing Officers, 2010), 203

The sales comparison approach relies upon several economic principles; namely, contribution and substitution. The principle of contribution holds that individual attributes of a property can affect the overall value, and is the primary reason for making adjustments based on dissimilar features.

The principle of substitution holds that "a potential owner will pay no more for a property than the amount for which a property of like utility may be purchased."

International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment,* 2nd Edition (Kansas City, MO: International Association of Assessing Officers Technical Standards Committee, 2013), 128

The steps involved in the Sales Comparison Approach are:

1. Defining the appraisal problem,

2. Collecting and analyzing market data for the subject and recently-sold properties that have similar utility and amenities to the subject,

3. Selecting appropriate units of comparison between the subject and the comparables,

4. Making reasonable adjustments to the comparables based on market information, and

5. Applying the data to the subject of the appraisal.

Adapted from International Association of Assessing Officers, *Property Assessment Valuation,* 3rd Edition (Kansas City, MO: International Association of Assessing Officers, 2010), 203-204

For this appraisal, four sales of properties of similar size and utility to the subject were identified as having sold in arm's length transactions within the last five years.

Improved Comparable Sale One

Address:	Newgate Mall 3651 Wall Ave., Ogden, UT
Parcel Number:	05-139-0044 et al
Property Description:	See Assessor Work file
Date of Sale:	07/22/16
Sales Price:	$69,500,000
Document:	2804946
Grantee:	Newgate Mall Holdings LLC
Grantor:	GCP Newgate Mall LLC
Financing:	Conventional
Year Built:	1981
Lot Size (Sq. Ft.):	2,283,415
Building Square Feet:	718,035
Land To Building Ratio:	31%
Cap Rate:	10.0%
Parking:	Surface Lot
Anchors:	Dillard’s, Burlington Coat Factory, Cinemark
Confirmation:	Weber County Assessor
Value Indication per Sq. Ft.	$96.79
Comment:	Transfer includes ownership of all mall buildings excluding Dillard’s.

Improved Comparable Sale Two

Address:	Southgate Mall 2901 Brooks St., Missoula, MT
Parcel Number:	04-2200-32-1-21-16-0000 et al
Property Description:	See Assessor Work file
Date of Sale:	02/24/18
Sales Price:	$58,000,000
Document:	2804946
Grantee:	Washington Prime Group
Grantor:	Southgate Mall Associates LLC
Financing:	Conventional
Year Built:	1978
Lot Size (Sq. Ft.):	1,853,914
Building Square Feet:	632,000
Land To Building Ratio:	34%
Cap Rate:	10.0%
Parking:	Surface Lot
Anchors:	Dillard’s, JC Penney, AMC Theaters
Confirmation:	Washington Prime Group, Missoula County Treas.
Value Indication per Sq. Ft.	$91.77
Comment:	Transfer includes AMC Theater and adjacent buildings on outlots, but not Dillard’s or JC Penney, which are owned by those retailers.

Improved Comparable Sale Three

Address:	Janesville Mall 2500 Milton Ave., Janesville, WI
Parcel Number:	0219200055 et al
Property Description:	See Assessor Work file
Date of Sale:	07/27/18
Sales Price:	$18,000,000
Document:	Not yet recorded at time of report
Grantee:	Rockstep Janesville LLC
Grantor:	CBL Properties
Financing:	Conventional
Year Built:	1973
Lot Size (Sq. Ft.):	1,777,248
Building Square Feet:	600,137
Land To Building Ratio:	34%
Cap Rate:	18.0%
Parking:	Surface Lot
Anchors:	Dick’s Sporting Goods, Kohl’s
Confirmation:	CBL Properties, City of Janesville Assessor
Value Indication per Sq. Ft.	$29.99
Comment:	Transfer includes all but the Sears building, which is a separately owned building on leased land.

Improved Comparable Sale Four

Address:	Everett Mall 1402 SE Everett Mall Way, Everett, WA
Parcel Number:	28051800400800 et al
Property Description:	See Assessor Work file
Date of Sale:	09/29/17
Sales Price:	$36,350,000
Document:	E092824
Grantee:	Brixton Everett LLC
Grantor:	Everett Mall LLC
Financing:	Conventional
Year Built:	1973
Lot Size (Sq. Ft.):	1,257,141
Building Square Feet:	490,949
Land To Building Ratio:	39%
Cap Rate:	15.0%
Parking:	Surface Lot
Anchors:	Regal Cinema, Burlington Coat Factory, LA Fitness
Confirmation:	Snohomish County Assessor
Value Indication per Sq. Ft.	$74.04
Comment:	Transfer does not include former Macy’s building attached to mall.

Figure 17: Elements of comparison

Comp	Subject	Comp # 1	Comp # 2	Comp # 3	Comp # 4
	Eastland Mall Bloomington, IL	Newgate Mall Ogden, UT	Southgate Mall Missoula, MT	Janesville Mall Janesville, WI	Everett Mall Everett, WA
Sale Price	-	$69,500,000	$58,000,000	$18,000,000	$36,350,000
Financing	Conventional	Conventional	Conventional	Conventional	Conventional
Sale Date	-	05/28/16	07/22/18	07/27/18	09/29/17
Year Built	1969	1981	1978	1973	1973
Access	3 Sides	4 Sides	4 Sides	4 Sides	3 Side
Actual Age		35	40	45	45
Size (Sq. Ft. GLA)	760,833	718,035	632,000	600,137	490,939
Land-to-Building Ratio	37%	31%	34%	34%	39%
Inline Occupancy	89%	98%	95%	91%	93%
Cap Rate	-	10.0%	10.0%	18.0%	15.0%
Household Income	$61,955	$70,277	$46,550	$50,729	$50,933
Price/Sq. Ft.	-	$96.79	$91.77	$29.99	$74.04

Explanation of Elements of Comparison Analysis

<u>Financial Terms</u>

All sales were conducted with conventional financing. No adjustment is necessary.

<u>Access</u>

Access describes the ability of patrons to enter and exit the facility. All properties had similar access on at least three sides. No adjustment is necessary.

<u>Age</u>

Age describes the physical age of the structures. The comparables one and two are substantially younger than the remaining comparables. An adjustment was made by estimating the improvement value using the subject's land-to-building ratio, then adjusting the improvement value for these comparables downward by 40 percent to account for the difference.

Land-to-Building Ratio

All properties including the subject exhibit similar land-to-building ratios of between 31 and 39 percent. No adjustment is necessary.

Inline Occupancy

Occupancy rates are a proxy for market conditions for mall properties. For this appraisal occupancy varies between properties, from as high as 98 percent to as low as 89 percent for the subject. For this appraisal, an adjustment was made to each comparable for superior occupancy at a rate of 1.4 percent for every percentage point difference in vacancy.

Size

One property, comparable 4, was substantially smaller than the subject and remaining comparables. To account for this size difference the property's per square foot improvement value was adjusted downward by 25%.

Household Income

Household income for each mall's market area is a key factor in a mall's ability to generate revenue. The subject property and comparable 1 are located in market areas with relatively higher household income. The remaining comparables were adjusted upward by 5 percent to account for this deficiency.

Figure 18: Sales adjustment grid

	Subject	Comp # 1	Comp # 2	Comp # 3	Comp # 4
Sale Price	-	$69,500,000	$58,000,000	$18,000,000	$36,350,000
Price Per Sq. Ft.	-	$96.79	$91.77	$29.99	$74.04
Financing Terms	-	Conventional	Conventional	Conventional	Conventional
Financing Adj.	-	N/A	N/A	N/A	N/A
Date of Sale	-	05/28/16	02/22/18	07/27/18	09/29/17
Est. Improvement Value	-	$50,040,000	$41,760,000	$12,960,000	$26,172,000
Year Built	1969	1981	1978	1973	1973
	-	-40.0%	-40.0%	-	-
Inline Occupancy	89%	98%	95%	91%	93%
		-14.0%	-10.0%	-3.0%	-6.0%
Building Net Sq. Ft.	760,633	718,035	632,000	600,137	490,939
	-	-	-	-	-25.0%
Household Income	$61,955	$70,277	$46,550	$50,729	$50,933
	-	-	5.0%	5.0%	5.0%
Net Adjustments	-	-38.8%	-32.7%	1.9%	-19.1%
Adjusted Price Per Sq. Ft.		$59.27	$61.75	$30.55	$59.92

ANALYSIS OF COMPARABLE SALES

All of the sales were similar to the subject in terms of effective age, physical construction, and amenities. Sale 3 and Sale 4 received the lowest amount of net adjustment. They are also the comparables most similar to the subject in age. Sale 3 is similar to the subject in terms of location; however, the adjusted sales price differed so substantially from the remaining properties that it is considered an outlier and given relatively little weight in the final analysis.

Based on the adjusted sales prices shown above, the subject's sales price per square foot is estimated to be between $59.25 and $61.75 per square foot.

SUMMARY OF THE SALES COMPARISON APPROACH

An analysis of the adjusted sales prices produced a price range of approximately $30.50 to $61.75 per square foot. Sale 3, at an adjusted sales price of approximately $30.50 per square foot, is not considered to be a reliable indicator of value and was given little weight in this analysis. Of the three remaining comparables, the adjusted values are clustered between approximately $59.25 and $61.75 per square foot. Based on this analysis, an adjusted value of $61.00 per square foot was chosen as being the best indicator of value for the subject, or:

$61.00 x 760,866 square feet

$46,410,800

All data deemed pertinent to the subject was reviewed in the analysis of the sales comparison approach. It is my opinion that the estimated fair market value of the subject property as of January 1, 2018, via the sales comparison approach is (rounded):

FORTY-SIX MILLION FOUR HUNDRED THOUSAND AND NO/100 DOLLARS

$46,400,000

RECONCILIATION AND FINAL VALUE ESTIMATE

Review of Developed Data

Reconciliation of the final value of the property involves weighing the different value estimates derived from each approach to value, considering their strengths and weaknesses, and assigning an overall weight to each value to arrive at a total final value for the subject property.

The approaches to value developed the following value estimates:

Cost Approach	Not Included
Income Capitalization Approach	\$48,000,000
Sales Comparison Approach	\$46,400,000

The data developed for the purposes of this appraisal is derived from market information from within Bloomington-Normal and McLean County, Illinois, and as such is specific to the local market area of the subject property. The values developed in this appraisal mirror one another closely, which indicates that the data used were reliable and that the value is consistent with market expectations for the property.

Analysis of Strengths and Weaknesses of Each Approach

<u>Cost approach</u>: The cost approach is considered most reliable with newer properties where effective age mirrors actual age and where actual construction costs are more likely to be known, thus making measures of depreciation more accurate and easier to gauge. In the case of the subject property, these factors are less likely to be accurate.

Another consideration in determining the utility of including a value indication using the cost approach is use by market participants. In the subject's marketplace, buyers rarely if ever use cost new as a major determinant in a decision whether to acquire a property; instead, other factors are given consideration. As such, the cost approach was not included as part of this report.

<u>Income approach</u>: The Income Approach was developed using actual and market rents for the subject property. Rent values are based on short-term leases, so actual rent and market rent are fairly similar to one another. Expense ratios were based on a review of market sales, compared against the subject property, and found to be comparable.
An overall yield rate of 14.7 percent was developed using market sales and yield capitalization, and verified against published rates for retail properties. This rate was applied to the subject's projected net operating income, discounted to account for some instability in the coming years, to arrive at the final value estimate. Further, this value was verified using two different methods of discounted cash flow analysis.

The income approach is most frequently used to value properties in instances where income streams and expenses are known and easily compared against competing properties. In addition, buyers and sellers of income-producing properties like the subject are most likely to rely on the income approach due to its ability to accurately reflect the actual costs of owning and operating a given property. Based on this fact, the value derived from the income approach was given the most weight in this analysis.

<u>Sales comparison approach</u>: The sales comparison approach was developed after a review of all sales of properties of similar use to the subject. The four most comparable properties in terms of size, amenities, functional utility, and location were chosen for comparison.

The sales comparison approach is most accurate in situations where there are a sufficient number of sales of properties similar enough to the subject and within a relatively recent time frame to accurately establish market trends without too many adjustments. When there are sufficient such sales, buyers and sellers can and do rely on market transactions for comparative indicators of value. The approach's reliability suffers, however, in situations where fewer properties of a given type or within a given class sell in the open market, due to the broader time frame and the number of adjustments needed to bring sales in line with the subject.

In this analysis the sales comparables reviewed were transactions of regional shopping center properties throughout the country, with the four arm's length transactions most similar to the subject property chosen. These comparables were adjusted based on age, building size, vacancy, and market area to arrive at a final adjusted value that could be compared to the subject. Three of the four sales were given the most weight in the sales analysis.

The final value developed using the sales comparison approach was consistent on a per unit basis and show a fairly uniform value indication with the income approach; as such, this value derived from this approach was deemed credible. Because of the difficulty in finding arm's-length, non-foreclosure mall sales, however, the sales comparison approach was given less weight in this analysis.

LOGICAL SELECTION OF FINAL VALUE

Both approaches shown in this report relied on data extracted from transactions and arrived at values highly similar to one another; thus, they present a fairly uniform range of estimated values – the highest value differs from the lowest by less than four percent.

Because the subject property is an income producing property, market participants are most likely to use the income capitalization as a means of establishing value in the marketplace. Furthermore, the availability and reliability of pertinent financial data and performance indicators for the subject make the income approach the most reliable method for valuing the subject.

The subject property has been inspected and all available relevant market data was analyzed. The indicated fair market value of the fee simple interest in the subject property, as of January 1, 2018 is:

FORTY-EIGHT MILLION AND NO/100 DOLLARS

$48,000,000

REASONABLE EXPOSURE TIME

Reasonable exposure time is defined as:

> "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at a market value on the effective date of the appraisal; a retrospective opinion based upon an analysis of past events assuming a competitive and open market".
> USPAP 2018-2019 Edition, ASB, the Appraisal Foundation, p.4

The region and sub-market in which the subject is located has been experiencing a stable market, with modest growth in values over time. Projections for this market area indicate that this market should continue for the foreseeable future. After reviewing the national market for mall transactions, it is the appraiser's opinion that a reasonable exposure time for such a property on the open market is nine months.

ALLOCATION OF PARCEL VALUE

The value estimate above is the market value of the fee simple interest in the subject property in toto, including all land, buildings, and site improvements. Since the property is split between two parcels for property tax purposes, however, an allocation between the parcels needs to be made. The entirety of the mall, four of the five anchors, and all outparcel buildings and parking areas are on the parcel identified as 21-02-126-012. The north anchor store is on its own pad, identified as parcel 21-02-126-010. For property tax allocation purposes, the value of the north anchor and its underlying site is estimated based on its most recent sales price of $2,000,000, as discussed on page 6. The total market value allocation for ad valorem tax assessment is as follows:

21-02-126-010 (North Anchor)		21-02-126-012 (Main Mall)	
Land:	$605,304	Land:	$14,294,696
Improvement:	$1,394,696	Improvement :	$31,705,304
Total:	$2,000,000	Total:	$46,000,000

CERTIFICATION OF VALUE

I certify that, to the best of my 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 represent my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I 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.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My 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.
- My 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 with the Code of Ethics and Standards of Professional Conduct of the International Association of Assessing Officers.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.

11/15/18

Timothy A. Jorczak, CAE, AAS　　　　Date

APPENDICES

Appendix A – Subject Photos

Northeast Entrance

Southeast Entrance

South View from Eastland Drive

North View from Empire Street

Sears Entrance

Sears Auto Center

North Anchor

Kohl’s Entrance from Fairway Drive

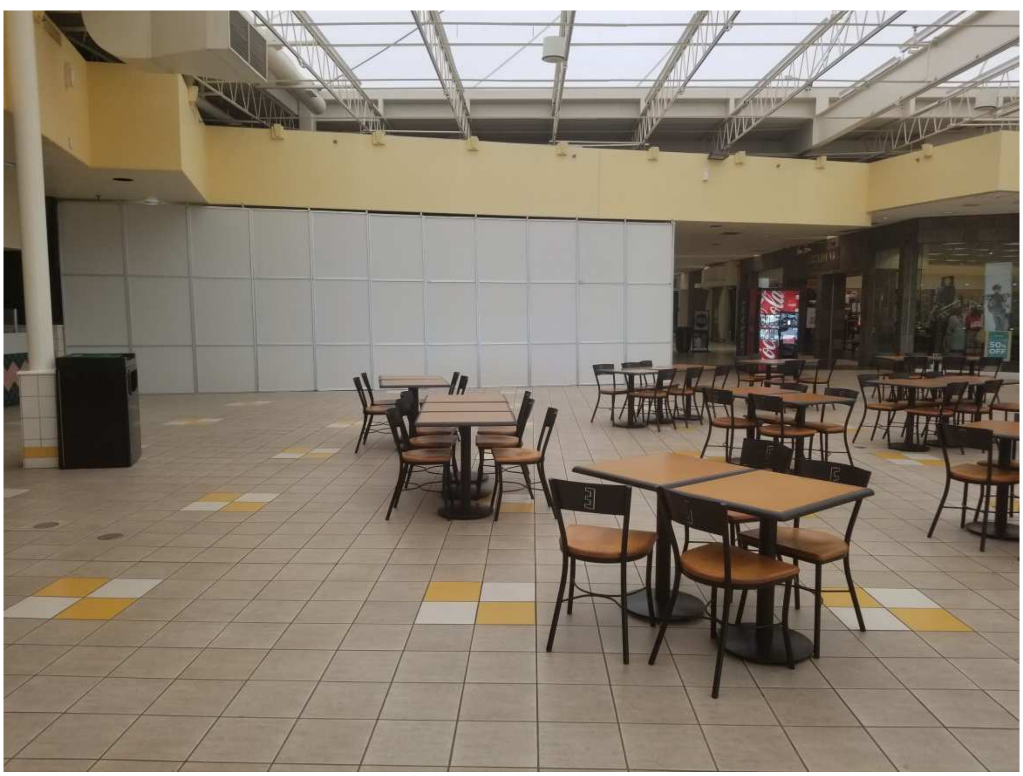
South Entrance

Northwest Entrance / Loading Dock

Sears Loading Dock

Mall Interior at Kohl's

Mall Interior at Sears



Food Court

South Corridor

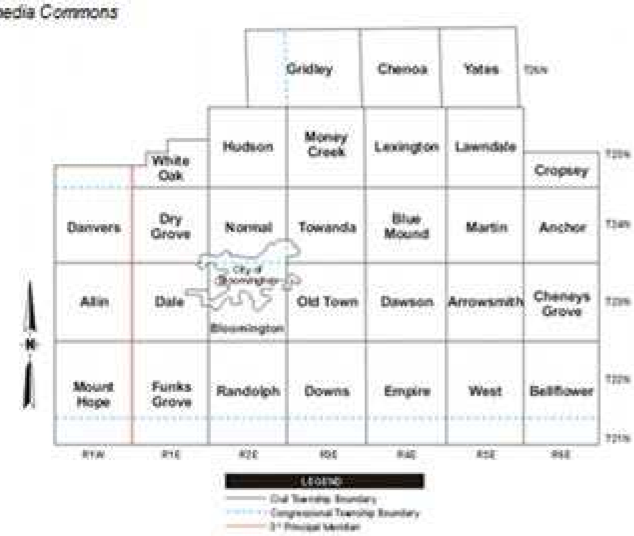
Main Corridor

Applebee's

Talbot's

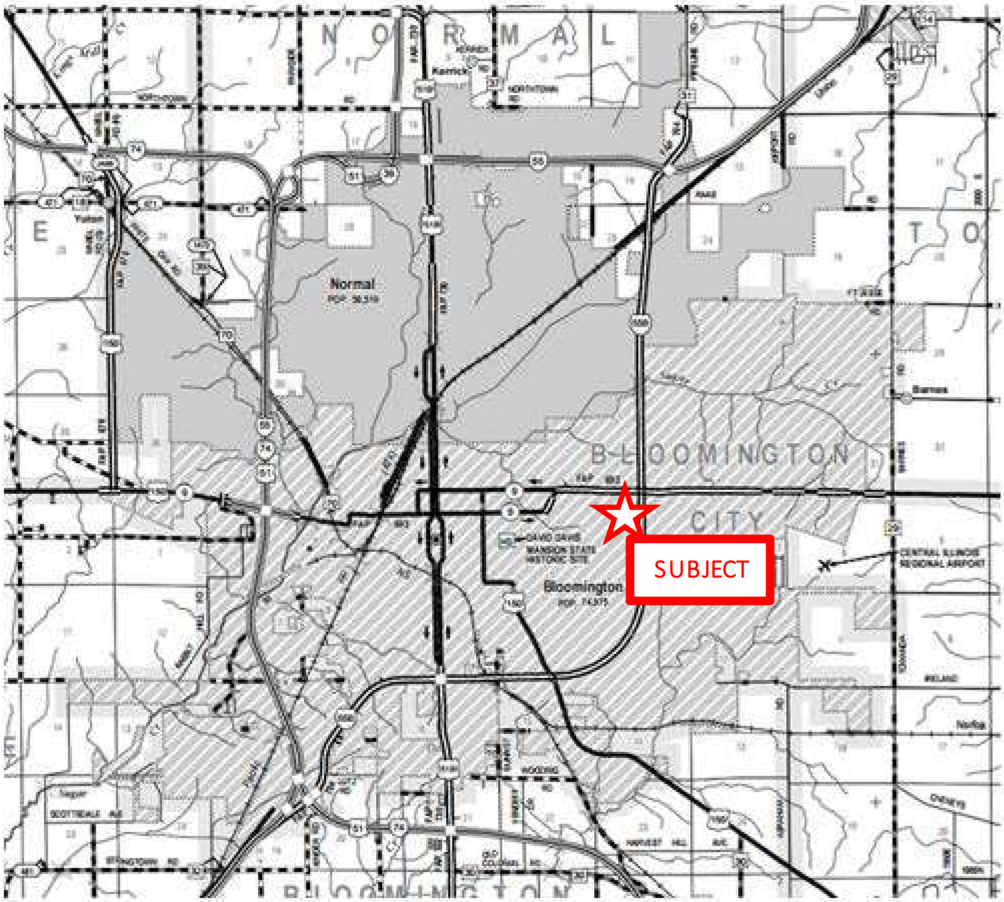
Appendix B – Map of Illinois and McLean County

Source: Wikimedia Commons



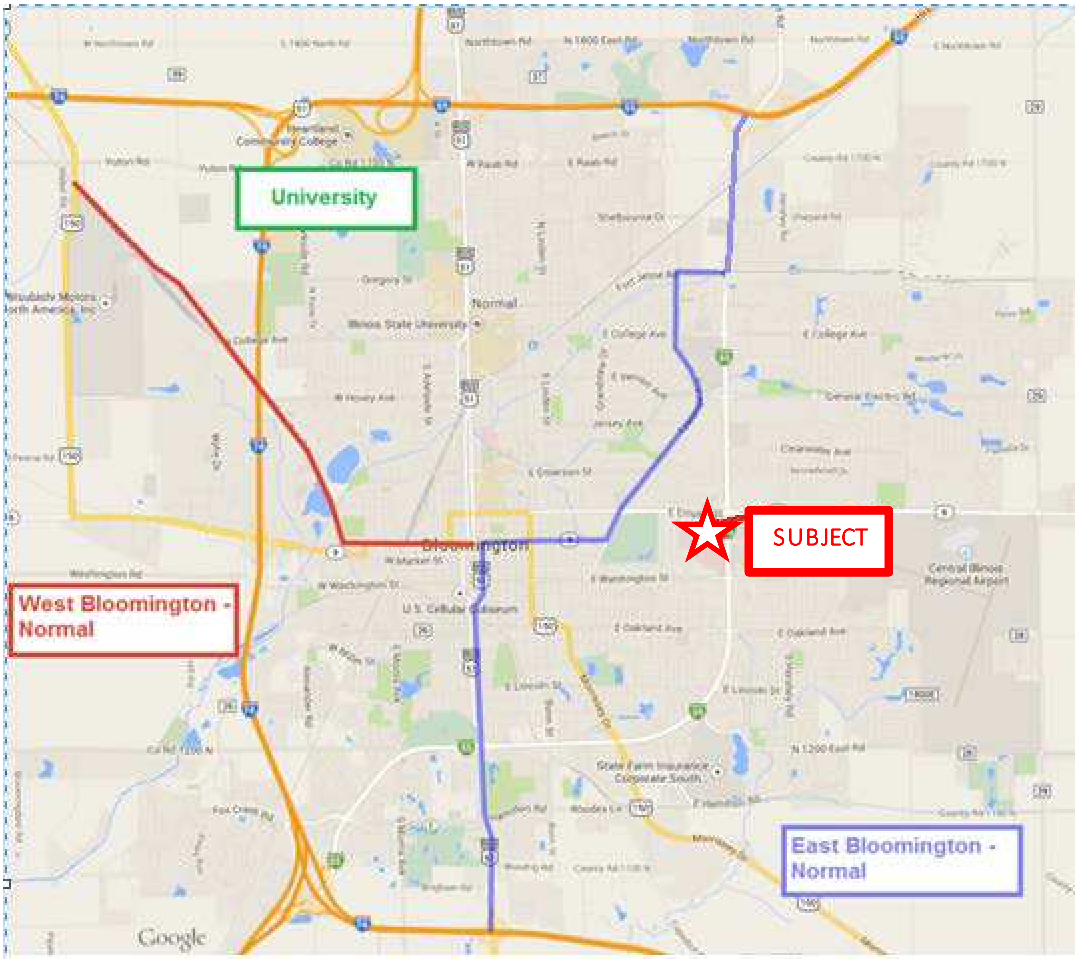
Source: Illinois Secretary of State

Appendix C – Map of Bloomington-Normal with Major Streets

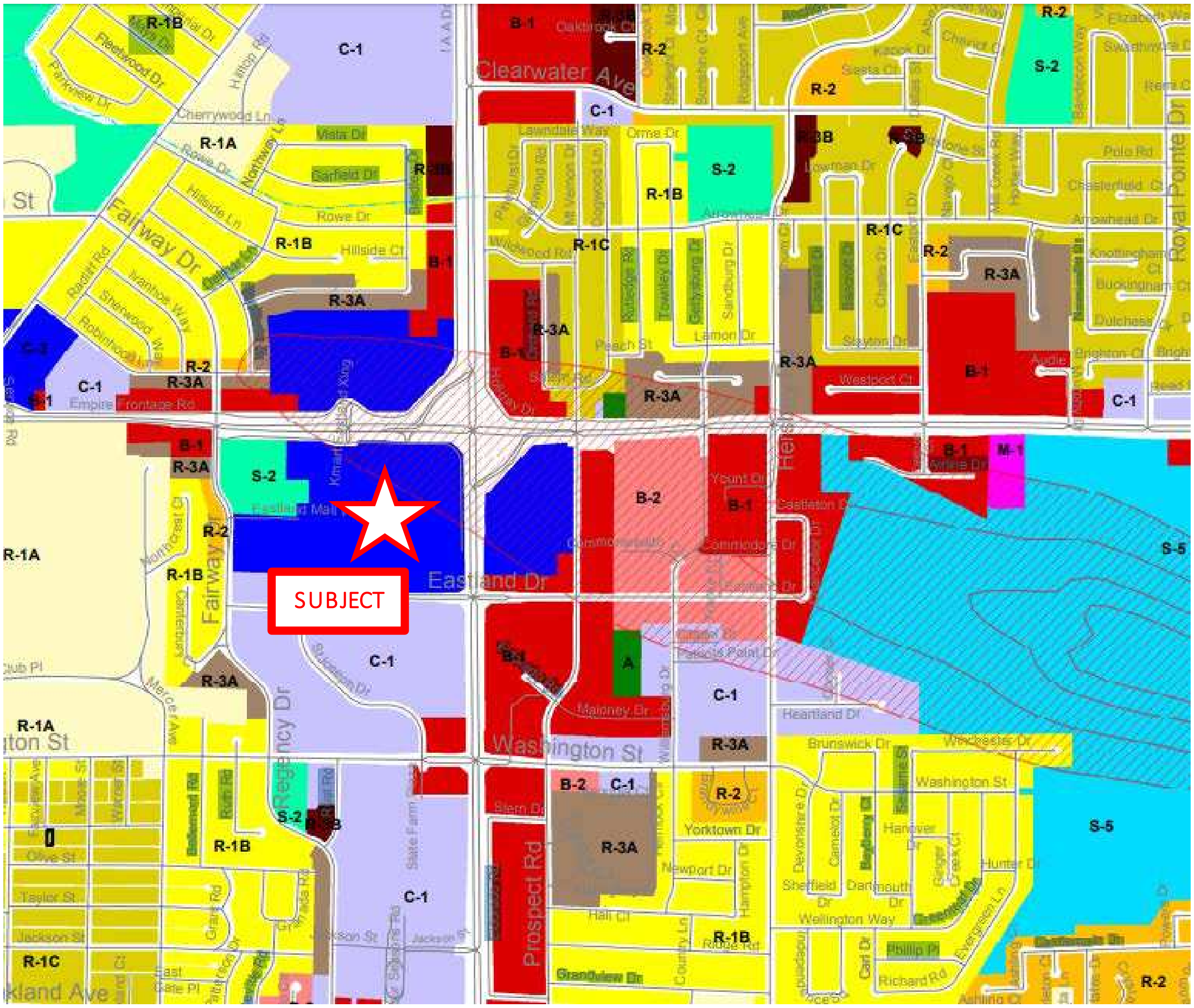


Source: Illinois Department of Transportation

Appendix D - Map of Bloomington-Normal Areas



Appendix E – Zoning Map



Appendix F – Selections from the Zoning Ordinance, Bloomington, Illinois

Chapter 44 : Section 44.6-19 : C-3 Community/Regional Shopping District.

A. Intent. The intent of this C-3 Community/Regional Shopping District is to facilitate the development of community and region serving retail trade centers. The development contemplated in this district has such distinguishing characteristics as: (1) unified site planning and development that promotes a safe and conducive atmosphere for large volumes of shoppers; (2) site accessibility such that the high volumes of traffic generated create minimal congestion and adverse impact upon surrounding land use; (3) unified architectural treatment of buildings rather than an assemblage of separate, conflicting store and structural types; and (4) a trade area that includes the entire community at a minimum and may include the entire county and surrounding areas outside the county. While recognizing the potential monetary benefits accruing from the development of a large shopping center within the City and the flexibility necessary for such a development, these regulations are intended to insure that a proper location be selected and site planning be performed to better accomplish the purposes of zoning. (Ordinance No. 2006-137)

B. Zoning Map Amendment Guidelines. In making its legislative determination to zone or rezone property to a C-3 Community/Regional Shopping District zoning classification, the Planning Commission and City Council may apply the following guidelines to the proposal under consideration:

1. A C-3 District at any one location shall not be less than ten (10) acres in size;
2. The relationship of the subject property to the City's transportation system and the impact the permitted uses would have upon this system. The volumes of traffic generated by development in this district necessitate its location near or adjacent to the intersection of two major streets or a collector street and a major street;
3. The compatibility of uses authorized in the district with existing or permitted uses in the area and the impact the permitted uses would have upon such uses;
4. The extent to which surrounding zoning and land usage provides adequate transition from this intense use to uses of lesser intensity;
5. The capacity of existing and proposed community facilities and utilities, including water and sewer systems, to serve the permitted uses which might lawfully occur on the property so zoned;
6. The impact the permitted uses would have upon the environment including noise, air and water pollution;
7. The impact any natural disasters, including flooding, would have upon the permitted uses;
8. The conformance of the proposal to the Official Comprehensive Plan and Official Map; (Ordinance No. 2006-137)

C. Permitted Uses. In accordance with Section 44.6-30 of this Code, unless otherwise provided in this Code. (Ordinance No. 2006-137)

D. Special Uses. In accordance with Section 44.6-30 of this Code, subject to the conditions and standards stated in Division 10 of this Code. (Ordinance No. 2006-137)

E. Site Plan Review. Site Plan Review and approval by the City Council, after a legislative public hearing and recommendation by the Planning Commission in accordance with Division 8 of this Code shall be required for all development which fulfills one (1) or more of the following criteria:

1. The development of land on a tract ten (10) acres or larger in an area that is under unified control; or

2. The development of land on a tract between two (2) acres and ten (10) acres in area that is under unified control, any part of which is within five hundred (500) feet of a R-1A, R-1B, R-1C, R-1H, or R-4 Residence District boundary line.

3. The development of land which is an expansion of an existing structure or use and which, if a new development, would be permitted only when processed under the site plan review procedures contained herein. (Ordinance No. 2006-137)

F. Bulk Regulations. In accordance with Section 44.6-40 of this Code, unless otherwise provided in this Code. (Ordinance No. 2006-137)

G. Signs. All signs shall conform to the requirements contained in Chapter 3 of the Bloomington City Code, 1960, as amended. (Ordinance No. 2006-137)

H. Off-Street Parking and Loading Requirements. All off-street parking and loading shall conform to the requirements contained in Division 7 of this Code. (Ordinance No. 2006-137)

Chapter 44 : Section 44.6-14 : S-3 Aircraft Noise Impact District.

A. Purpose and Intent. The purpose and intent of this S-3 Aircraft Noise Impact District is to restrict the development of noise sensitive uses in areas with unique noise impacts emanating from aircraft operations. This overlay district is generally defined as the area within the significant noise impact area around the Central Illinois Regional Airport. The Official Zoning Map establishes and defines the boundary of this overlay district and is made a part of this Code, and is established to promote sound land use planning in noise impact areas through the consideration of federal guidelines, the objectives of the City's Official Comprehensive Plan, and past City action affecting land use near the Central Illinois Regional Airport. (Ordinance No. 2006-137)

B. Procedure. The S-3 Aircraft Nose Impact District shall be established as an overlay zone in combination with all other zoning districts which lie within the boundaries of Airport Noise Impact Zones as established by the Official Zoning Map. The boundaries of the Airport Noise Impact Zones are in part, determined by the location of 60 LDN and 65 LDN noise contours. Where a specific noise contour is referenced as a determinant of the Airport Noise Impact Zone and/or the regulations pertaining thereto, said noise contours will be identified by the year in which the measurements and computations deriving said noise contour were made. If no date is associated with a noise contour, the reference is to the most recently derived noise contour of the given value. (Ordinance No. 2006-137)

C. Regulations.

1. The development or construction of any new residential buildings, manufactured homes, mobile homes, child care facilities, foster care homes, agency-operated family homes, agency-operated group homes, homes for the aged, hospitals, child care institutions, hotels and motels, lodging houses, mental health facilities, sheltered care homes, therapeutic group homes, or travel trailer parks (as such aforesaid terms are defined in Section 44.3-2 of this Code) or any other structures designed or intended for individual or family living shall hereafter be unlawful within the area encompassed by

the 65 LDN or higher Airport Noise Impact Zone as designated within the S-3 Aircraft Noise Impact District shown on the Official Zoning Map.

2. All new residential buildings, manufactured homes, mobile homes, child care facilities, foster care homes agency-operated family homes, agency-operated group homes, homes for the aged, hospitals, child care institutions, hotels and motels, lodging houses, mental health facilities, sheltered care homes and therapeutic group homes (as such aforesaid terms are defined in Section 44.3-2 of this Code) or any other structures designed or intended for individual or family living hereafter constructed within the area between the 60 LDN Airport Noise Impact Zone boundary and the 65 LDN Airport Noise Impact Zone boundary as designated within the S-3 Aircraft Noise Impact District shown on the Official Zoning Map shall be constructed with the following sound insulation materials in order to address the goal of achieving a day/night average maximum interior noise level of 45 dBa and to meet or exceed the following Sound Transmission Class (STC) ratings:

(a) exterior walls shall meet the STC rating of at least 30;

(b) exterior doors shall include a storm door or meet the STC rating of at least 28;

(c) exterior windows shall meet the STC rating of at least 28;

(d) basement windows shall be insulated glass or have windows well covers;

(e) a minimum of R-30 insulation shall be provided in the attic with soffit wind baffles or the roof shall meet the STC rating of 39;

(f) fireplaces shall be provided with a well-fitted damper or fireplace doors if a damper is not allowed by City Code; and

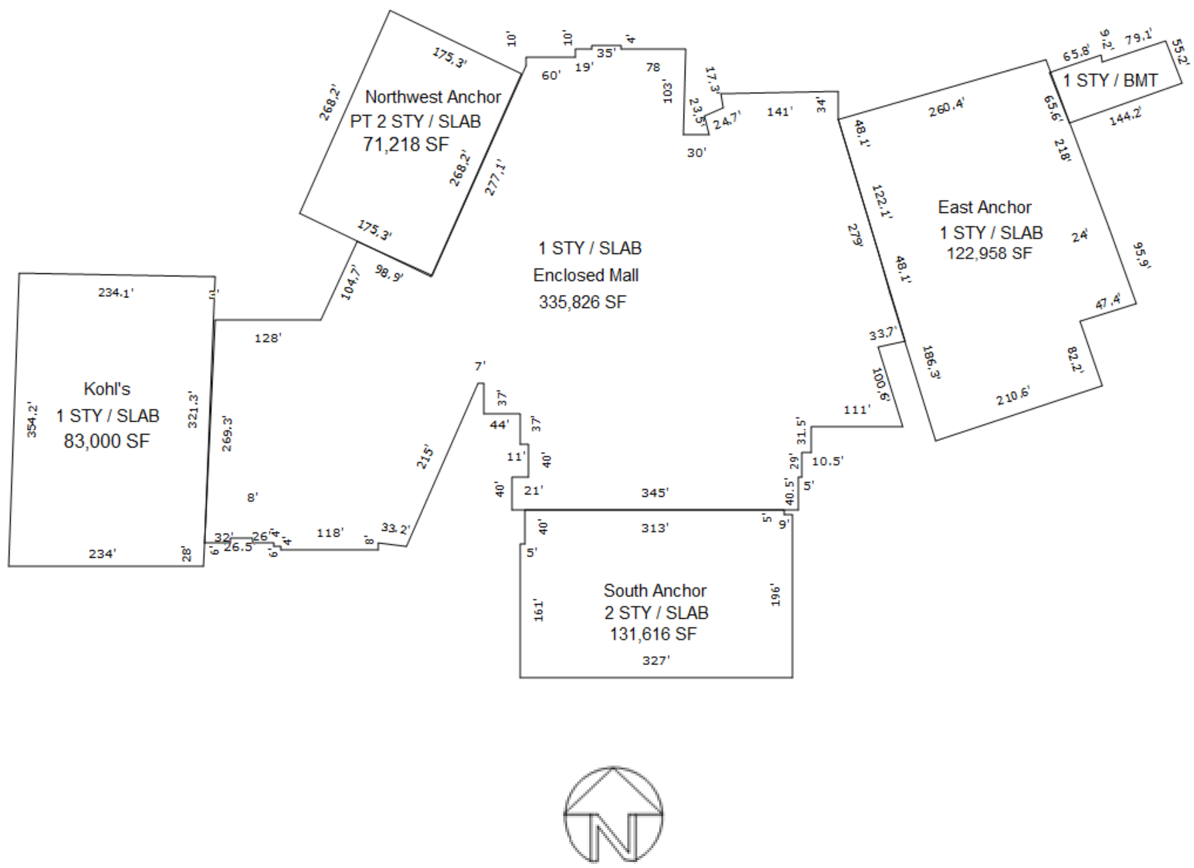
(g) central air conditioning shall be provided.

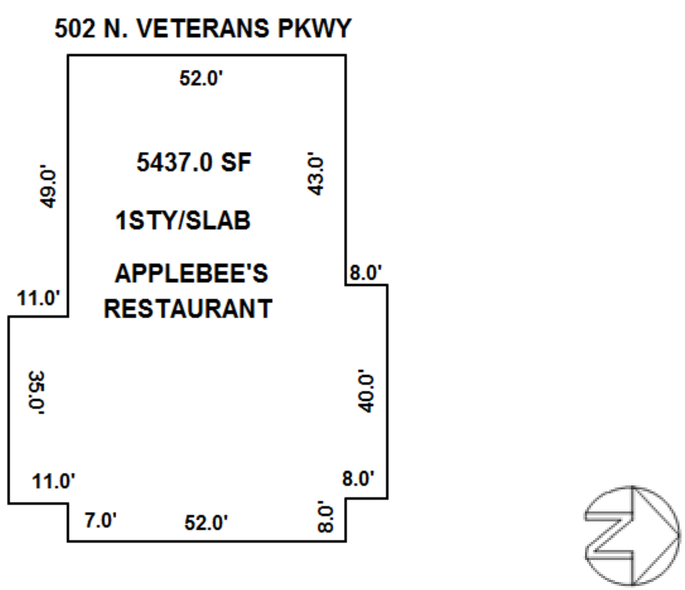
(Ordinance No. 2006-137)

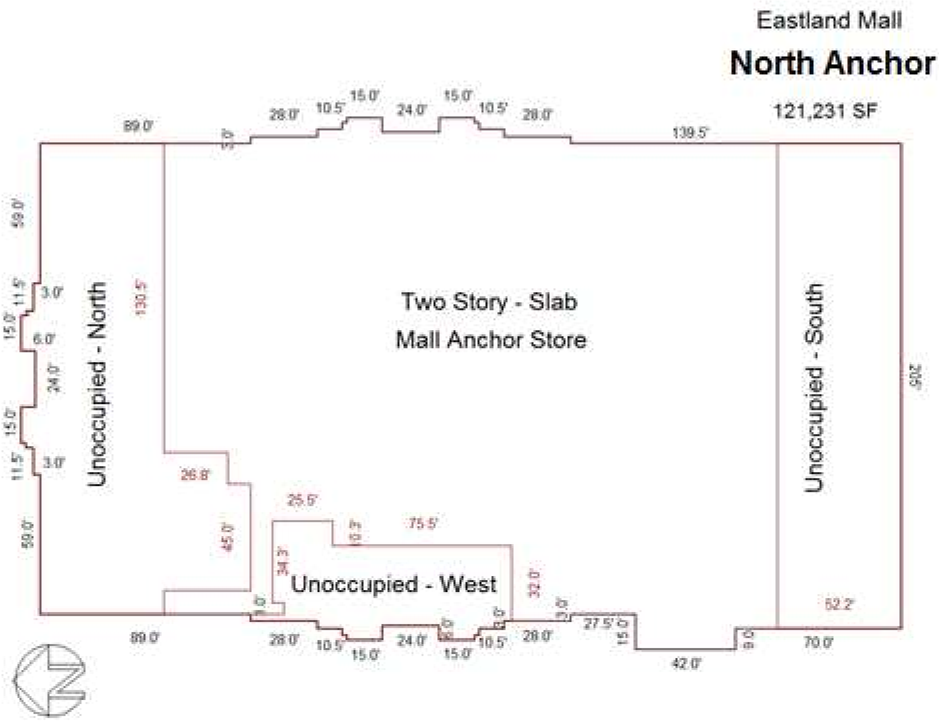
D. The Construction Board of Appeals shall not approve any variations of the provisions of this Section 44.6-14 without consultation with the Bloomington-Normal Airport Authority for a written recommendation. The Construction Board of Appeals shall be responsible for reviewing variations of the provisions of this Section 44.6-14 pertaining to building construction and/or acoustical insulation. The Board of Zoning Appeals shall be responsible for reviewing all other variations of this Section 44.6-14 not pertaining to building construction or sound insulation. (Ordinance No. 2006-137)

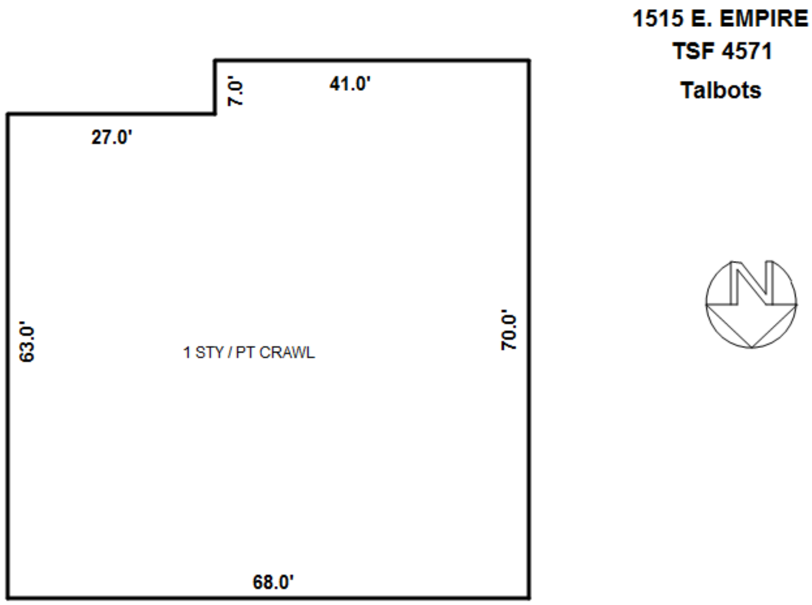
Appendix G – Plot Plan

Appendix H – Building Sketches



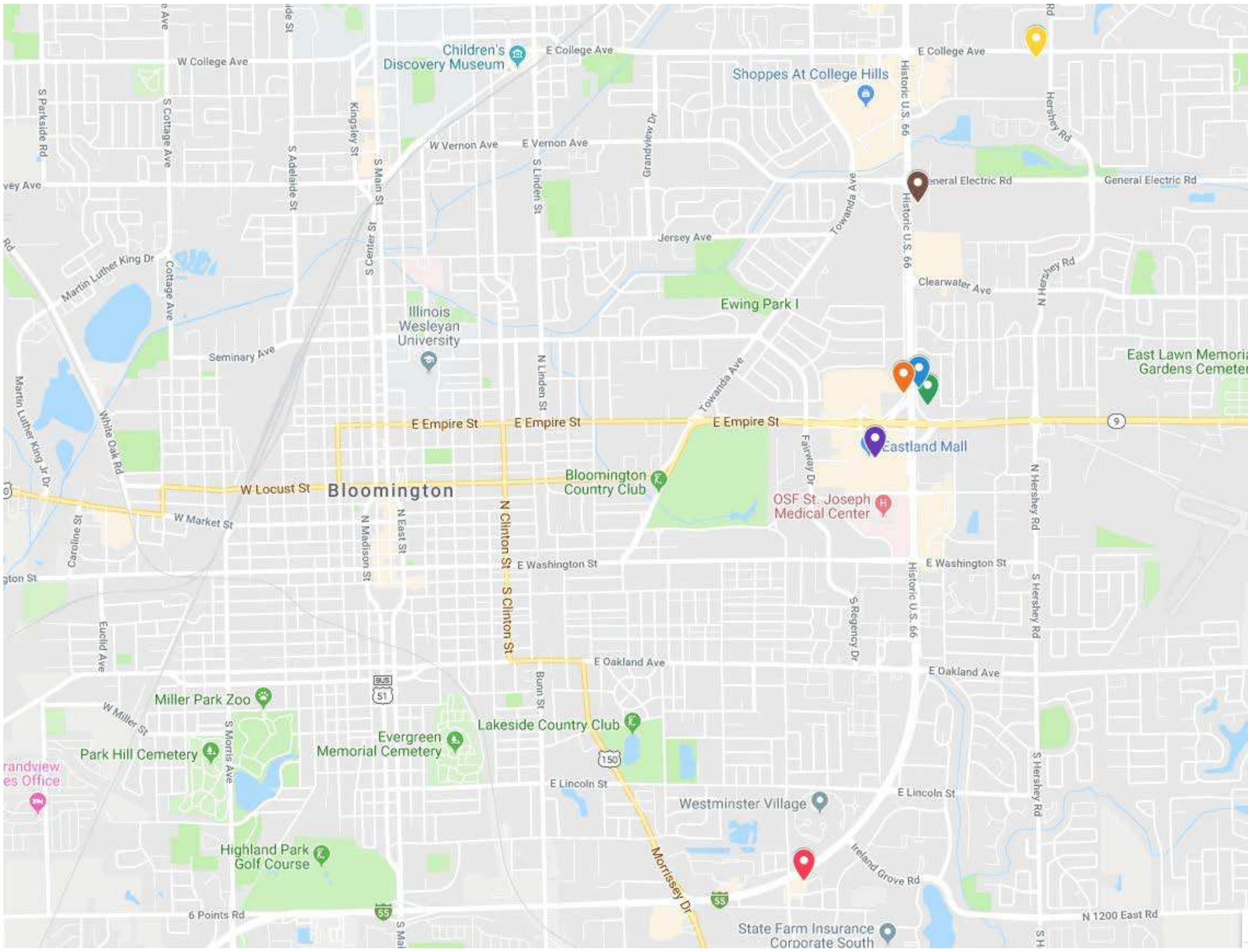






Note: Sketches and dimensions are approximate and shown only for the purpose of familiarizing the intended user to the general shape and layout of the subject property. They are not in scale to one another.

Appendix I – Comparable Land Sales



Subject
Comparable Site Sale 1
Comparable Site Sale 2
Comparable Site Sale 3
Comparable Site Sale 4
Comparable Site Sale 5
Comparable Site Sale 6

Appendix J – Comparable Property Sales

Subject - Eastland Mall, Bloomington, IL

Comparable 1 - Westgate Mall, Ogden, UT

Comparable 2 - Newgate Mall, Missoula, MT

Comparable 3 - Everett Mall, Everett, WA

Comparable 4 - Janesville Mall, Janesville, ...

Appendix K - Qualifications of the Appraiser

PROFESSIONAL DESIGNATIONS:

CAE, Certified Assessment Evaluator, International Association of Assessing Officers, 2017
AAS, Assessment Administration Specialist, International Association of Assessing Officers, 2010
CIAO, Certified Illinois Assessing Officer, Illinois Property Assessment Institute, 2013
Level III Assessor-Appraiser, Indiana Department of Local Government Finance, 2010

SPECIALIZED REAL ESTATE EDUCATION:

Attended and successfully completed the following assessment courses, workshops, and seminars offered by the International Association of Assessing Officers (IAAO):

- IAAO Course 101 – Fundamentals of Real Property Appraisal (Indianapolis, Indiana, 2009)
- IAAO Course 102 – Income Approach to Valuation (Indianapolis, Indiana, 2009)
- IAAO Course 112 – Income Approach to Valuation II (Wauwatosa, Wisconsin, 2011)
- IAAO Course 300 – Fundamentals of Mass Appraisal (Greensburg, Indiana, 2009)
- IAAO Course 311 – Residential Modeling Concepts (Fishers, Indiana, 2011)
- IAAO Course 312 – Commercial/Industrial Modeling Concepts (Austin, Texas, 2015)
- IAAO Course 331 – Mass Appraisal Practices and Procedures (Tallahassee, Florida, 2018)
- IAAO Course 400 – Assessment Administration (Indianapolis, Indiana, 2009)
- IAAO Course 402 – Tax Policy (Indianapolis, Indiana, 2009)
- IAAO Workshop 151 – Uniform Standards of Professional Appraisal Practice (Indianapolis, Indiana, 2010)
- IAAO Workshop 155 – Depreciation Analysis (Normal, Illinois, 2017)
- IAAO Workshop 158 – Highest and Best Use (East Peoria, Illinois, 2016)
- IAAO One Day Forum 911 –Valuation of Contaminated Property (Indianapolis, Indiana, 2012)
- IAAO One Day Forum 924 – Valuation of a Mobile Home Park (Indianapolis, Indiana, 2012)
- IAAO Legal Seminar - Preparation and Trial of the Property Tax Assessment Appeal (Kansas City, Missouri, 2014)
- IAAO Annual Legal Seminar - (Chicago, Illinois, 2016; Seattle, Washington, 2017)

FORMAL EDUCATION:

Bachelor of Arts – Classical Languages and Cultures (magna cum laude) Ball State University, Muncie, Indiana, 2001
Master of Business Administration – Indiana University Kelley School of Business, Indianapolis, Indiana, 2005

PROFESSIONAL EXPERIENCE AND ACTIVITIES:

Instructor, Illinois Property Assessment Institute, Normal, IL, 2016-present
Senior Commercial Appraiser, City of Bloomington Township, Bloomington, IL 2013-present
Secretary and Founding Member, Illinois Chapter of the International Association of Assessing Officers 2018-2019
Local Government Consultant, MAXIMUS, Indianapolis, IN 2012-2013
Director of Commercial Operations, Porter County Assessor, Valparaiso, IN 2011-2012
Local Government Consultant, SRI Incorporated, Indianapolis, IN**,** 2010-2011
Director of Operations and Policy, Indiana Department of Local Government Finance, Indianapolis, IN 2008-2010
Legislative Staff and Policy Analyst, Indiana House of Representatives, Indianapolis, IN 2001-2007

TESTIMONY:

McLean County Board of Review, Bloomington, IL
Porter County Property Tax Assessment Board of Appeals, Valparaiso, IN
Indiana Board of Tax Review, Valparaiso, IN
Indiana House of Representatives Committee on Ways and Means, Indianapolis, IN

P**UBLICATIONS:**

"The Cost Approach and Hotel Valuation – A Classic Solution to a Modern Problem", Journal of Property Tax Assessment and Administration, Volume 13, Issue 2 (December 2016), pp. 35-49