

APPRAISAL OF

139/141 EAST DEVARGAS STREET
SANTA FE, NM 87501

DATE OF THE REPORT

MARCH 21, 2014

EFFECTIVE DATE OF VALUATION

MARCH 17, 2014

PREPARED FOR

GALISTEO CORPORATION
224 GALISTEO
SANTA FE, NM 87501

PREPARED BY

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March 21, 2014

Galisteo Corporation
Mr. Seret
224 Galisteo
Santa Fe, NM 87501

RE:	Appraisal of 139/141 East DeVargas Street, Santa Fe, NM 87501
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Dear Mr. Seret;

Pursuant to your request, I have appraised the above referenced property. The depth of discussion and supporting documentation contained in this report are specific to the needs of the client. The appraisal was prepared in accordance with the Uniform Standards of Professional Appraisal Practice and is subject to the assumptions and limiting conditions found in the report.

Based on my investigation and analysis, and the data and analyses contained in this report, it is my opinion that the most probable market value of the leased fee ownership interest (subject to easements and restrictions of record) in the subject 'as is' as of March 17, 2014 is:

FINAL VALUE

Subject: 139/141 East DeVargas Street		
Market value – As Is	Leased Fee	Five Hundred Thousand Dollars \$500,000

I respectfully refer you to the following appraisal report containing 58 pages plus addenda. If I can be of further service to you in regard to this appraisal or in any other matter, please do not hesitate to call.

Respectfully submitted,


Michael Dry, MAI


Peter Hippauf, MAI SRA

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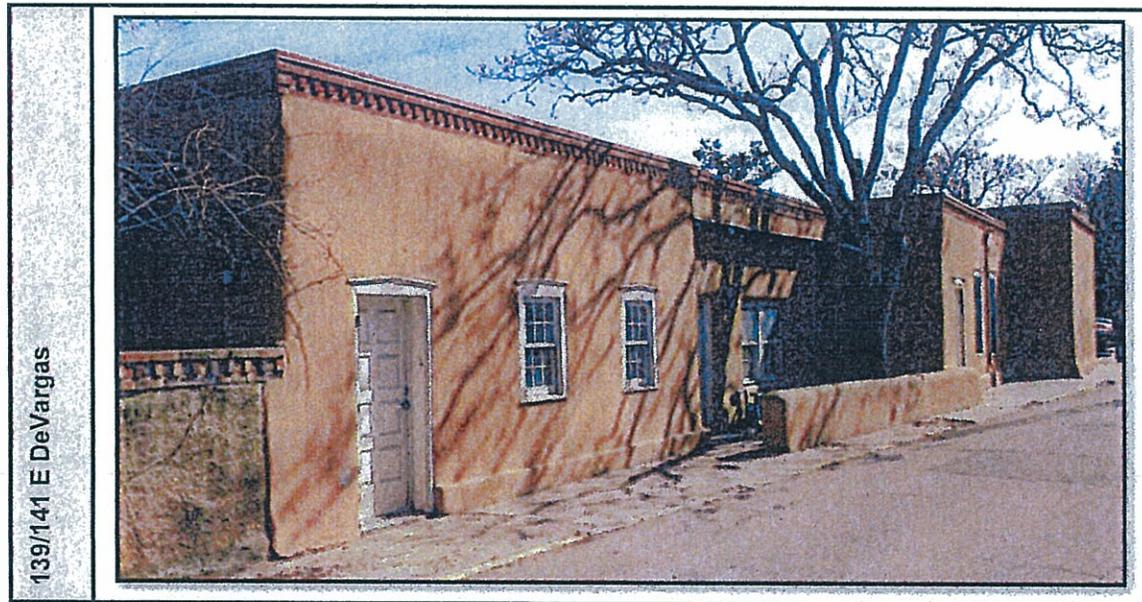
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SUMMARY OF SALIENT FACTS, DATA AND CONCLUSIONS

Summary	
Property location	139/141 East DeVargas Street Santa Fe, NM 87501
Client	Galisteo Corporation
Owner of record	State of New Mexico
Current use	Commercial: ~65% vacant/storage and ~35% exercise room
Highest and best use	Commercial 'as is'
Date of valuation	March 17, 2014
Date of report	March 21, 2014
Purpose of the appraisal	Estimate market value
Intended use of the appraisal	Asset valuation/possible purchase
Intended user of the appraisal	Galisteo Corporation
Land area	0.213 acres or 9,270 square feet±
Building area	Main: 5,209 square feet Basement (unfinished): 351 square feet
Zoning	BCDBAR: Business Capital District - Barrio de Analco District



VALUE INDICATIONS – AS IS

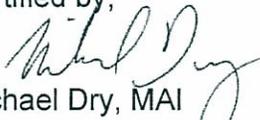
Methodology	Value
Sales Comparison	\$520,000
Income Approach	
• Direct Capitalization	\$400,000
• Discounted Cash Flow	\$440,000
Final Value	\$500,000

CERTIFICATION

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 are 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 a market rent survey on the subject property in May/June 2012. No other 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 acceptance of 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*
- I have made a personal inspection of the property that is the subject of this report.
- The use of this appraisal report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- No one provided significant real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Michael Dry and Peter Hippauf have completed the continuing education program for Designated Members of the Appraisal Institute
- As of the date of this report, Michael Dry and Peter Hippauf have completed the requirements for the continuing education program of the State of New Mexico Real Estate Appraisers Board for General Certification.

Certified by,


Michael Dry, MAI
N.M. General Certificate #02739G


Peter H. Hippauf, MAI & SRA
N.M. General Certificate #000223G

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been prepared with the following specific assumptions:

1. It is assumed that the supporting documentation provided for the appraisal is correct.
2. I have relied on information prepared by licensed professionals in making certain decisions in the process of this appraisal. I have accepted this information as accurate, based on the fact that they represent matters beyond my expertise as an appraiser along with the fact that they were prepared by recognized professionals.

This report has been made with the following general assumptions:

3. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
4. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
5. Responsible ownership and competent property management are assumed.
6. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
7. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
8. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging engineering studies that may be required to discover them.
9. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the report.
10. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconforming use has been stated, defined, and considered in the report. Please refer to the discussion of zoning found within the report.
11. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
12. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
13. Unless otherwise stated in this report, the existence of hazardous substances, including, without limitation, asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to my attention nor did I become aware of such during the inspection. I have no knowledge of the

existence of such materials on or in the property unless otherwise stated. However, I am not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, ureaformaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such condition, or for any expertise or engineering knowledge required to discover them.

14. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.

The report has been prepared with the following limiting conditions:

15. The conclusions expressed in this appraisal report apply only as of the stated date of the appraisal and I assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions stated herein.
16. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization.
17. By reason of the assignment I am not required to give consultation, testimony, or be in attendance in court or any other hearing with reference to the property unless written contractual arrangements have been previously made relative to such additional services.
18. Disclosure of the contents of the report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
19. Neither all, nor any part of this report, or copy thereof shall be used for any purposes by anyone other than the client to which the report is addressed without the prior written consent of the appraiser, nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, or any other means of communication (including without limitation prospectus, private offering memoranda and other offering material provided to prospective investors) without the prior written consent of the appraiser.

INTRODUCTION

Appraisal Report: This is an Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice 2014-2015. The report and the level of information in the report are based on the needs of the client.

Property Identification: The subject of the appraisal is comprised of a single building located on a single city lot. The building appears to have been built in phases or is comprised of two buildings that were joined into a single building.

Property Ownership And History: Based on the warranty deed dated 12/23/1960, the ownership of the subject property is in the following table.

OWNERSHIP CHART

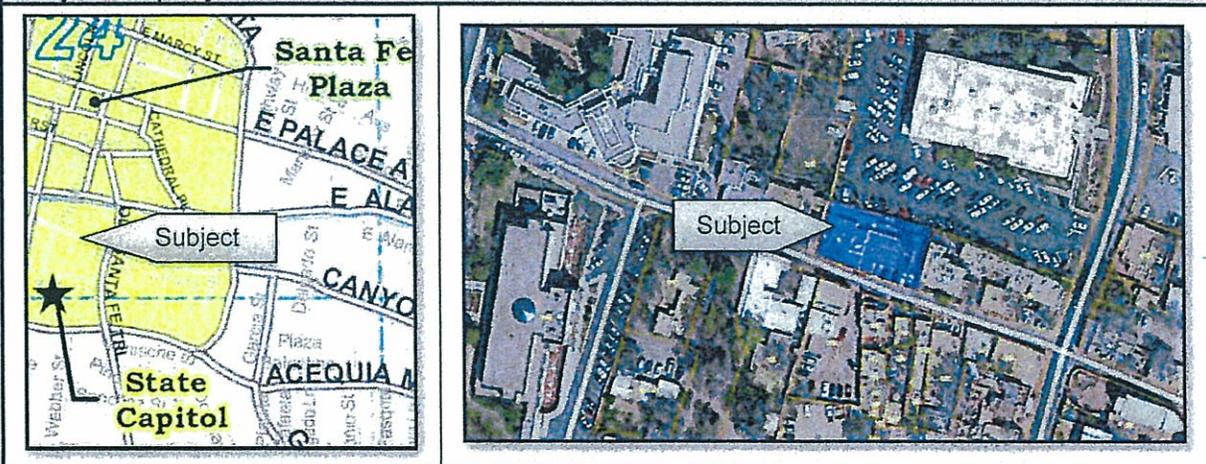
Property	Ownership
139/141 East DeVargas Street	State of New Mexico

The property was conveyed from the Commissioner of Public Lands. A copy of the warranty deed is located in the addenda. No listing or other agreement of sale as of the effective date of value was discovered during the course of the appraisal.

Location Of The Property: 139/141 East DeVargas Street, Santa Fe, NM 87501 – The subject property is physically located on the north side of East DeVargas Street in Santa Fe, New Mexico

LOCATION MAP

Subject Property Location



Type And Definition Of Value: The purpose of the appraisal is to provide the appraiser's best estimate of the market value of the subject property as of the effective date. Per the client, the market value definition is defined by FIRREA:

Estimate market value definition

The most probable price which a property should bring in a competitive and open market under 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:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and each acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

Intended Use of the Appraisal: The intended use of the appraisal is for Asset valuation/possible purchase.

Intended User of the Report: The report is intended for use by the client: Galisteo Corporation. Any other party who chooses to rely on this report is advised that the appraiser is not obligated to any party other than the original intended user, nor does reliance on the report by a party other than the original intended user result in such party becoming an intended user of the report.

Interest Valued: The subject is leased. The ownership interest which was valued is leased fee.

Definition: leased fee

A freehold (ownership) interest where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).²

Effective Date of Value: The effective date of value of the subject 'as is' is March 17, 2014, which is the date of the inspection of the property.

Date of the Report: March 21, 2014.

¹ Department of Treasury, 12 CFR 34

² The Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: The Appraisal Institute, 2010), p. 78

Legal Description: Per the lease, the subject is identified by the legal description in the following table.

Legal description
139/141 East De Vargas, Lots 5 and 6, Block 53 of the Kings Map of the City of Santa Fe and Warranty Deed Recorded December 23, 1960. Book 173, Page 525, County Clerk

The subject is also identified in the warranty deed which is located in the addenda.

Property Taxes: The subject is owned by a government entity and is not currently assessed for property taxes.

Scope Of The Appraisal: The subject is comprised of a commercial building. The estimated current usage is ~65% vacant/storage and ~35% exercise room. Preparation of the appraisal involved the following:

Scope of Work
1. Inspected the site and improvements
2. Gathered and confirmed information on comparable improved sales, rents, operating expenses and capitalization rates
3. Valuation – based on the highest and best use: confirmed and analyzed the data. Applied the following approaches: <ul style="list-style-type: none"> • Sales comparison • Income approach <ul style="list-style-type: none"> ○ Direct Capitalization ○ Discounted cash flow • The impact of the below market lease and the lease stipulated minimum renovation/upgrades is estimated and applied to the preliminary values of the approaches. • Reconciled these approaches to a final estimate of market value <hr/> <p>The cost approach was not developed based on the age of the improvements and varying levels of renovation/maintenance – speculative depreciation estimate</p> <ul style="list-style-type: none"> • For the report the Market Value 'As Is' is determined

No items of personal property are included in this appraisal. Aside from a casual inspection of the property, the appraisal included no assessment of potential environmental hazards. Documents provided to me for the appraisal did not include a professional environmental study of the property. Therefore, for the purpose of the appraisal, it is assumed that there are no potential environmental hazards. If the user of this report has a concern for this matter, it is recommended he order an environmental assessment prepared by a qualified professional in the field.

To the best of my knowledge, this report complies with:

- The Office of the Comptroller of the Currency Regulation 12 CFR Part 34 minimum standards.

- The Appraisal Guidelines of Galisteo Corporation
- The New Mexico Real Estate Appraiser Laws
- Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation
- Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute

The final determination as to the level and degree of compliance of this report with regard to the foregoing policies and guidelines is the responsibility of any person relying on this report.

The appraisal is performed according to Title XI of the Federal Financial Institution Reform Recovery and Enforcement Act (FIRREA). The appraisal is subject to the appraiser's Certification and Statement of Assumptions and Limiting Conditions which accompany this report.

Marketing Time and Exposure Time: Marketing time is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal. It should be noted that marketing time differs from exposure time which is always presumed to precede the effective date of an appraisal.

Marketing Time definition
An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. ³
Exposure Time definition
The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. ⁴

In a stable market the marketing time and the exposure time should be the same. The Santa Fe market has been in a state of varying levels of decline for the past four years with some of the market exhibiting tepid performance and some of the market exhibiting significant shifts. The shifts could cause a difference in the marketing time and exposure time. However, based on economic data over the past 12 months the market appears to have begun to bottom out with less evidence of any shifts in the market that could cause a difference in the marketing or exposure time. Therefore, they have been assumed to be the same in this analysis.

³ The Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: The Appraisal Institute, 2010), p. 78

⁴ Ibid., p. 73

Marketing time will be affected by the supply and demand factors within the market place. Typically, support for a marketing time is sought from the known marketing time of similar properties. The subject is comprised of a commercial building within the downtown. Due to the limited number of sales of this property type, the search was extended to all commercial sales in Santa Fe.

There are currently 77 commercial listings for improved properties. The commercial listing prices range from \$94,000 to \$6,900,000 with an average listing price of \$1,264,766 (median listing price of \$675,000) and the days-on-market (DOM) range from 0 days to 2,122 days with an average of 335 days (median 246). In addition, there were 25 commercial sales in Santa Fe in MLS for the year 2013. These sales had an average DOM of 299 days, or 10 months (median 213 days, or 7.1 months) and an average sales price of \$483,420 (median \$450,000). Thirteen of last year's sales and 27 of the active listings lie within, or near, the Downtown. Commercial properties, when competitively priced, after final price reduction, typically have sold in less than six months. Due to the subject's location in the downtown it is considered a desirable property. However, the subject's location is low traffic/exposure which will likely negatively impact marketability. In addition, the current economic environment must also be weighed. Therefore, if the subject were actively marketed at or near the appraised value, the marketing time/exposure time is estimated to be three months to one year.

DESCRIPTION OF REAL ESTATE APPRAISED

Location Description – City

Santa Fe is a small city with a population of 67,947 per the 2010 census, which is an increase of 9.23% from the 2000 census. Since 1980 the population has increased yearly approximately 1% per year. Santa Fe County’s population was estimated to be 144,170 per the 2010 census which is an increase of 11.5% from the 2000 census. The Santa Fe economy is based primarily on tourism and government employment. Neither area produces high incomes, although the government sector is considered stable.

Economic indicators such as gross receipts tax, lodger's tax, and real estate sales exhibited increasingly high growth rates prior to 2000. After 2000, gross receipts posted their first decline in fiscal year 2008/2009, which was followed by a decline in fiscal year 2009/2010. Fiscal year 2010/2011 showed a nominal increase in gross receipts tax, which appears to continue in fiscal year 2011/2012. The lodger’s tax has primarily followed the same pattern. Occupancy rates at hotels and motels showed an overall increase through 2005, which included increases in average daily room rates. The year 2006 showed a decline in both occupancy and RevPAR (Revenue Per Available Room). Statistics for 2007 show occupancy remaining fairly level from the previous year, with room rates slightly higher. The years 2008 and 2009 saw small declines in occupancy and RevPAR from the year before. The year 2010 has shown an increase in occupancy and RevPAR from the previous year with slight declines in the years 2011 and 2012 from the high in 2010. Even with the declines, Santa Fe remains one of the premier tourist destinations in the country according to national surveys.

Government employment, which is the largest employment sector in Santa Fe, has shown moderate but steady increases in previous years, with the most recent years remaining fairly stable or showing slight declines. The annual unemployment rates since 2006 are in the following table. The unemployment rate is based on the civilian labor force.

UNEMPLOYMENT RATE TABLE

Area	Annual Unemployment Rate						
	2012	2011	2010	2009	2008	2007	2006
New Mexico	6.9%	7.7%	7.9%	6.8%	4.5%	3.5%	4.1%
Santa Fe County	5.5%	6.0%	6.5%	6.0%	3.8%	2.8%	3.3%

The most recent unemployment rate for the City of Santa Fe was 5.1% for December 2013 up 0.3% from the previous month; down from 5.2% in December 2012. Although these rates are higher than historic norms, they are lower than the state average. In addition, they are currently lower than the national average; however, the national average is moving lower at a quicker pace than the local and state unemployment rates. The economic outlook for Santa Fe and the surrounding suburban area is tepid at this time. The impact on the residential and commercial real estate market continues to be seen in decreasing property values due to the recession, specifically in the residential arena. The residential market has shown significant softening since 2006/2007 with a subsequent softening of the commercial market. The last year, however, the residential market has been stabilizing due to increases in activity and better balance of supply/demand, and there are even examples of slight upturns in values in some areas.

Location Description - Neighborhood

The subject is located within the area designated as the downtown (BCD).

SUBJECT NEIGHBORHOOD

Neighborhood Boundary

The downtown area of the City of Santa Fe as identified by BCD zoning (area surrounded by and adjacent to Paseo de Peralta on the north, south, east, and Guadalupe Street on the west)

The downtown area is dominated by land uses reflecting the two primary income sources for Santa Fe, government and tourism. The State Capitol Building and several state office buildings are located within these downtown boundaries. There are also numerous hotels, restaurants, and tourist attractions such as galleries churches and museums.

Since the early 1990s "Santa Fe" style has received attention both nationally and internationally and has drawn many people to visit the city. Such attractions as the Santa Fe Opera, the local art colony, the historic status of Santa Fe as the oldest state capitol in the U.S., the year-round recreation offered in the area and the interaction of the tri-cultural community and history have lured increasing numbers of tourists to Santa Fe. The Plaza, located at the center of the downtown, is a focal point of tourist activity and most downtown retail businesses are geared to the out-of-town visitor. Santa Fe consistently ranks in Travel+Leisure magazine's top 10 favorite Continental United States and Canadian travel destinations. Hotel occupancy levels in downtown Santa Fe historically range from 60% to 70%, with years having the best skiing conditions exhibiting the highest rates. The occupancy rates have dipped below this level during the economic downturn, but are beginning to show signs of recovery. Santa Fe is the seat of county and state government, and the downtown is the home to numerous large governmental buildings serving the city, county and state, and some federal buildings are also located downtown.

Downtown Santa Fe is virtually built out. In many cities, when this point is reached, older buildings are removed to provide land for construction of new ones. However, downtown Santa Fe is an historic district and most of the older buildings are historically designated and cannot be demolished or substantially altered. As a result, existing office and retail space in downtown Santa Fe has traditionally experienced low vacancy rates; although, even this area has been impacted by the current economic

downturn. However, as long as Santa Fe remains a favored destination and the center of state government, this area should experience the quickest return as the economy improves.

The subject is in the southern sector of the defined neighborhood – downtown/BCD – south of Alameda and north of Paseo de Peralta, about 1,100 feet south of the Plaza, which is the focus of tourist activity in Santa Fe and about 500 feet north of the State Capitol Building, the center of state government. The Plaza is a one-square-block city park that is the site of many activities such as Indian Market, Spanish Market, and Fiesta. These events attract thousands of people to Santa Fe. The Plaza is surrounded by museums, retail shops, galleries and restaurants that are oriented toward tourists, and the subject is located within that area. Moving farther away from the Plaza office use becomes more prevalent, and short term rental and bed and breakfast uses tend to lie toward the periphery of the downtown.

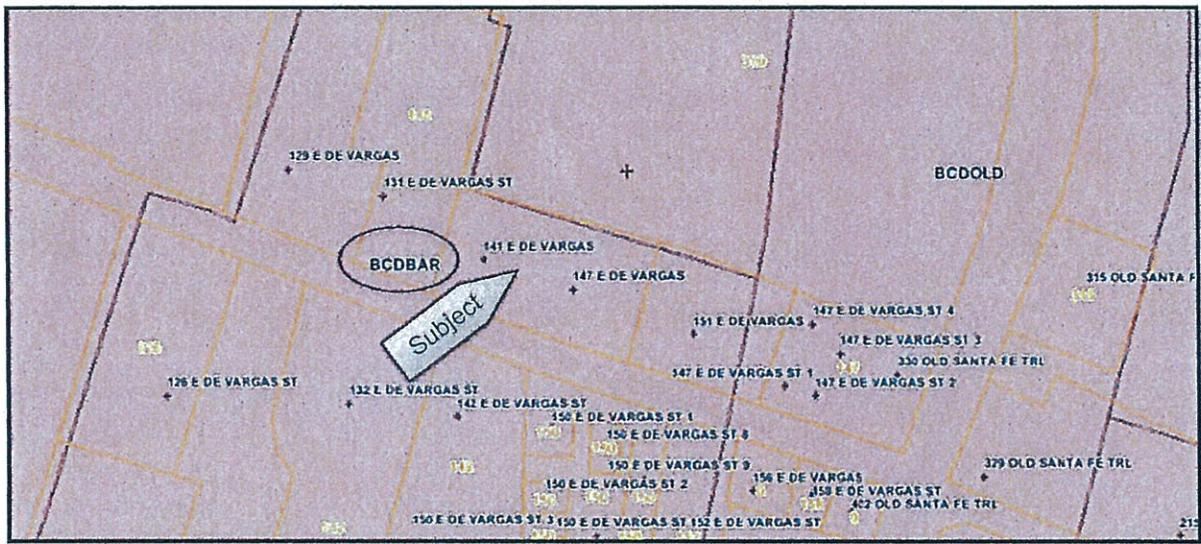
The subject is located on E. DeVargas, a small one way street that connects Don Gaspar on the west to Old Santa Fe Trail on the east. The subject's immediate area is comprised of a small theater and bed and breakfast with governmental offices to the west and to the east restaurants, tourist attractions (including the Oldest House and the Oldest Church), tourist oriented retail shops and galleries, government buildings and government oriented offices.

Conclusion: The defined neighborhood encompasses an active, mixed use commercial area in Santa Fe. The commercial development is concentrated along Old Santa Fe Trail, which is a major entry to the downtown.

Legal Use Of The Property

The subject is zoned BCDBAR: Business Capitol District - Barrio de Analco District. It is an historic property which is believed to comply with zoning; and if any non-compliance exists, it is a "grandfathered" legal non-conforming use.

ZONING MAP



The subject is located in the Business Capitol District (BCD) which is basically a mixed use district encompassing the downtown section of Santa Fe, the area around the Capitol and immediately surrounding residential areas. The intent of this district is to promote the economic health of the city by promoting and preserving the economic viability of this district and to preserve the unique architecture, townscape and aesthetics within the district. Within the BCD there are several subdistricts. The subject lies in the townscape subdistricts of Barrio de Analco: BAR.

Townscape Subdistricts - Santa Fe City Code: Land Development

- A. preserve the overall aesthetic quality of the BCD;
- B. maintain diversity among the various subdistricts; and
- C. protect the unique features, recognizable historic character and other common identifying characteristics of each subdistrict.

Barrio de Analco Subdistrict Design Objectives

- 1. maintain narrow streets and closely spaced small building
- 2. avoid the widening of existing streets
- 3. maintain the historic character and residential scale of buildings
- 4. maintain and encourage enclosed courtyards

DESCRIPTION OF REAL ESTATE APPRAISED
LEGAL USE OF THE PROPERTY

Old Santa Fe Trail Subdistrict Design Objectives
1. maintain the small scale quality of buildings and streets;
2. maintain the existing width of the old Santa Fe Trail;
3. maintain the scale of buildings; and,
4. encourage compliance by the state in design of future development.

The following chart includes the zoning detail.

DIMENSIONAL STANDARDS FOR TOWNSCAPE SUBDISTRICTS

Standards	
District	BCDBAR: Business Capital District Barrio de Analco District
Maximum Height of Structures	West portion: 24 feet East portion: 18 feet (see Note 2)
Maximum Lot Coverage Ratio	67%
Building Placement and Setback Requirements (feet)	West portion: 7 feet maximum from property line East portion: No restrictions
Minimum Open Space Requirements	No requirements
Landscape Treatment in Yards	Landscaping is required at the property line as noted in Note 3.
Height of Walls and Fences (feet)	Walls and fences up to 8 feet high are permitted.
Placement of Off-Street Parking	Parking must be located off-site or in rear yard, with access from rear
Portals	Permitted within ROW at discretion of Governing Body
Parking – BCD	Parking prohibited in required front yards. For commercial uses: (1) One parking space for each five hundred (500) square feet of net leasable floor area for office uses; (2) One parking space for each three hundred fifty (350) square feet of net leasable floor area for other commercial uses, (3) One space per 250 square feet of net leasable area for museums, and (4) one parking space for each residential dwelling unit. Off-street parking located within 600 feet of the parcel site can be leased (Code Section 14-8.6 (2))
NOTES:	
1. Provisions of overlay districts including historic, escarpment or neighborhood districts may override standards in this table. Refer to Article 14-5 Overlay Districts and zoning map.	
2. Wall stepbacks are expressed as ratio of increased horizontal <i>setback</i> required to vertical height increase, above a specified <i>building</i> height. Example: 1' Horiz: 2' Vert. above 36' means that a wall stepback equivalent to one horizontal foot for each two vertical feet over thirty-six feet is required. The setback required shall be measured horizontally from the face of the <i>building façade</i> or <i>portal</i> . Wall stepbacks shall be measured vertically from grade for all walls except those that directly abut another <i>zero lot line building</i> , in which case the vertical measurement may be taken from the roof plane of the abutting <i>building</i> ; and those to which a <i>portal</i> is attached, in which case the vertical measurement may be taken from the roof plane of the <i>portal</i> .	
3. On-site parking must be separated from public sidewalks by a solid <i>wall</i> no less than three feet in height or by a <i>landscaped</i> area no less than four feet in width measured from the back of the sidewalk; or, in the absence of a sidewalk, from the <i>property</i> line, and planted with plant materials whose mature height is at least three feet six inches. <i>Landscaping</i> must be protected from vehicular damage by placement of physical barriers.	

Source: Santa Fe City Code: Land Development

Land use and development of the subject is further regulated by the fact the subject is situated in the Downtown and Eastside historic district. Numerous requirements and restrictions are placed on properties with these designations, and any proposed changes, additions, demolition, etc. must be approved by the Historic Review Board in order to preserve the historic character of areas near Santa Fe's downtown.

Below are the district standards for the Downtown and Eastside District.

DISTRICT STANDARDS: DOWNTOWN AND EASTSIDE DESIGN STANDARDS

Downtown and Eastside Design Standards

The governing body recognizes that a style of architecture has evolved within the city from the year 1600 to the present characterized by construction with adobe, hereafter called "old Santa Fe style", and that another style has evolved, hereafter called "recent Santa Fe style", which is a development from, and an elaboration of the old Santa Fe style, with different materials and frequently with added decorations.

(1) Old Santa Fe Style

Old Santa Fe style, characterized by construction with adobe, is defined as including the so-called "pueblo" or "pueblo-Spanish" or "Spanish-Indian" and "territorial" styles and is more specifically described as follows:

- (a) With rare exception, buildings are of one story, few have three stories, and the characteristic effect is that the buildings are long and low. Roofs are flat with a slight slope and surrounded on at least three sides by a firewall of the same color and material as the walls or of brick. Roofs are never carried out beyond the line of the walls except to cover an enclosed portal or porch formed by setting back a portion of the wall or to form an exterior portal, the outer edge of the roof being supported by wooden columns. Two-story construction is more common in the territorial than in other sub-styles, and is preferably accompanied by a balcony at the level of the floor of the second story. Façades are flat, varied by inset portales, exterior portales, projecting vigas or roof beams, canales or water-spouts, flanking buttresses and wooden lintels, architraves and cornices, which, as well as doors, are frequently carved and the carving may be picked out with bright colors. Arches are almost never used except for nonfunctional arches, often slightly ogive, over gateways in freestanding walls;
- (b) All exterior walls of a building are painted alike. The colors range from a light earth color to a dark earth color. The exception to this rule is the protected space under portales, or in church-derived designs, inset panels in a wall under the roof, in which case the roof overhangs the panel. These spaces may be painted white or a contrasting color, or have mural decorations;
- (c) Solid wall space is always greater in any façade than window and door space combined. Single panes of glass larger than thirty (30) inches in any dimension are not permissible except as otherwise provided in this section;
- (d) The rule as to flat roofs shall not be construed to prevent the construction of skylights or installation of air conditioning devices, or any other necessary roof structures, but such structures other than chimneys, flues, vents and aerials, shall be so placed as to be concealed by the firewall from the view of anyone standing in the street on which the building fronts;
- (e) True old Santa Fe style buildings are made of adobe with mud plaster finish. Construction with masonry blocks, bricks, or other materials with which the adobe effect can be simulated is permissible; provided, that the exterior walls are not less than eight (8) inches thick and that geometrically straight façade lines are avoided. Mud plaster or hard plaster simulating adobe, laid on smoothly, is required; and
- (f) It is characteristic of old Santa Fe style commercial buildings to place a portal so that it covers the entire sidewalk, the columns being set at the curb line.

(2) Recent Santa Fe Style

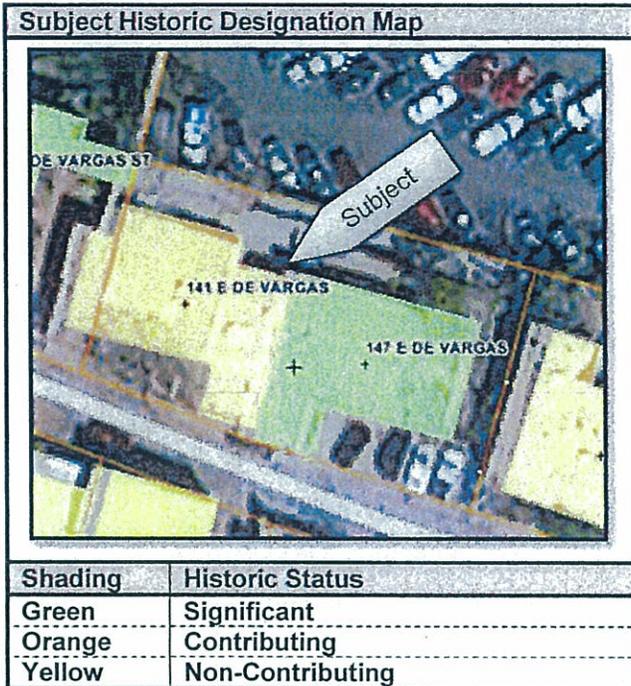
Recent Santa Fe style intends to achieve harmony with historic buildings by retention of a similarity of materials, color, proportion, and general detail. The dominating effect is to be that of adobe construction, prescribed as follows:

- (a) No building shall be over two stories in height in any façade unless the façade shall include projecting or recessed portales, setbacks or other design elements;
- (b) The combined door and window area in any publicly visible façade shall not exceed forty percent of the total area of the façade except for doors or windows located under a portal. No door or window in a publicly visible façade shall be located nearer than three (3) feet from the corner of the façade;
- (c) No cantilevers shall be permitted except over projecting vigas, beams, or wood corbels, or as part of the roof treatment described below;
- (d) No less than eighty percent of the surface area of any publicly visible façade shall be adobe finish, or stucco simulating adobe finish. The balance of the publicly visible façade, except as above, may be of natural stone, wood, brick, tile, terra cotta, or other material, subject to approval as hereinafter provided for building permits;
- (e) The publicly visible façade of any building and of any adjoining walls shall, except as otherwise provided, be of one color, which color shall simulate a light earth or dark earth color, matte or dull finish and of relatively smooth texture. Façade surfaces under portales may be of contrasting or complimentary colors. Windows, doors and portals on publicly visible portions of the building and walls shall be of one of the old Santa Fe styles; except that buildings with portals may have larger plate glass areas for windows under portals only. Deep window recesses are characteristic; and
- (f) Flat roofs shall have not more than thirty (30) inches overhang.

Source: Santa Fe City Code: Land Development

The improvements on the subject are a single building that is comprised of two original structures. The address for the subject was provided as 139/141 E. DeVargas. However, it should be noted that the city has it addressed as 141/147 E. DeVargas. Per

the Santa Fe GIS Interactive Mapping System, the building is comprised of two historical designations: the portion to the west is designated as contributing (orange shading) and the portion to the east is designated as significant (green shading).



Significant Structure Definition	
A structure located in a historic district that is approximately fifty years old or older, and that embodies distinctive characteristics of a type, period or method of construction. For a structure to be designated as significant, it must retain a high level of historic integrity. A structure may be designated as significant:	
(A) for its association with events or persons that are important on a local, regional, national or global level; or	
(B) if it is listed on or is eligible to be listed on the State Register of Cultural Properties or the National Register of Historic Places.	
Contributing Structure Definition	
A structure, located in a Historic District, approximately 50 years old or older that helps to establish and maintain the character of the Historic District. Although the structure is not unique in itself, it adds to the historic associations and/or historic architectural design qualities for which a District is significant. The structure may have had minor alterations, however, its integrity remains.	

Source: Santa Fe City Code: Land Development

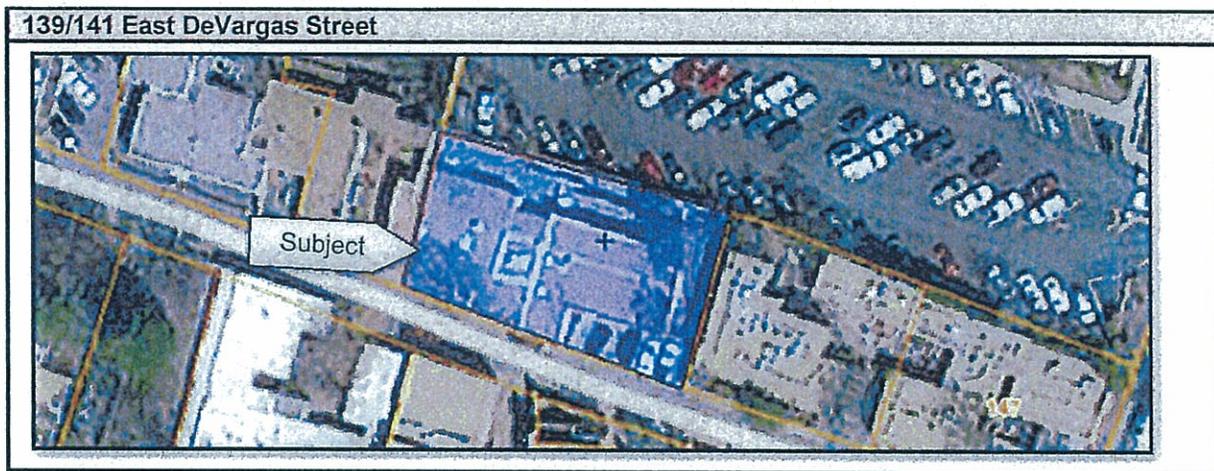
A structure designated “contributing” or “significant” by the City of Santa Fe requires Historic Review Board approval for proposed alterations or renovations, and it will likely be subject to a difficult and lengthy process gaining approval, with no guarantee of success.

In addition, the subject is listed on the National Register of Historic Places.

Property Description

Site

Per the lease, the subject is described as Lots 5 and 6. The legal description is included in the warranty deed 1960. However, the metes and bounds description includes non-quantifiable directions and lengths. Based on this, the size of the subject is based on information from Santa Fe County - Santa Fe GIS system. The site is identified in the aerial from the Santa Fe GIS Interactive Mapping System.



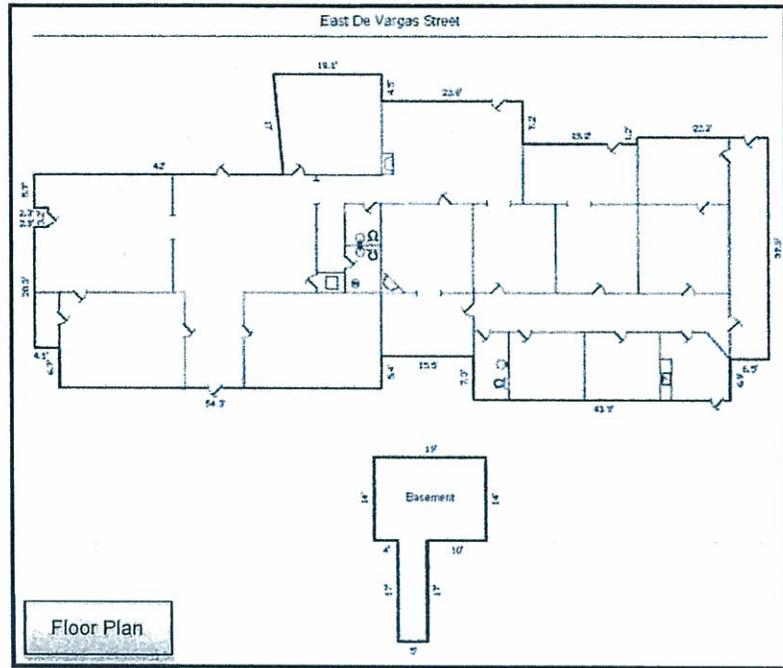
The site details are found in the following table.

SITE DETAILS	
Size – source SF County	0.213 acres± or 9,270 square feet±
Site dimensions	See the legal description in the warranty deed
Shape/ Topography	Irregular, but approaches rectangular based on the Santa Fe GIS. System/ Level at street grade along E. De Vargas (south side); on the north border, site sits above the adjoining property 6+ feet.
Frontage	East DeVargas Street (south side of the site)
Access	East De Vargas Street – one way going east between Don Gaspar on the west and Old Santa Fe Trail on the east
Easements/ Encroachments	Documentation not provided for determination of easements and encroachments
Zoning	BCDBAR: Business Capital District - Barrio de Analco District
Flood	Flood zone X: Subject site does not appear to be located in a flood hazard zone. Flood Insurance Rate Map 35049C0412E - December 4, 2012
Utilities	All/public
Soil	A soil survey was not provided, and it is not known if one has been prepared. Construction on neighboring properties and on the subject appears to be stable. For the purpose of the appraisal, it is assumed that soils are adequate to support construction. However, no warranties are made or implied by the appraiser.
Comments	The subject's onsite parking is limited to four spaces. No on street parking available on E. DeVargas or Old Santa Fe Trail in the subject's immediate neighborhood. Metered parking available along Don Gaspar. The subject's utility is limited based on available parking. No external obsolescence was noted

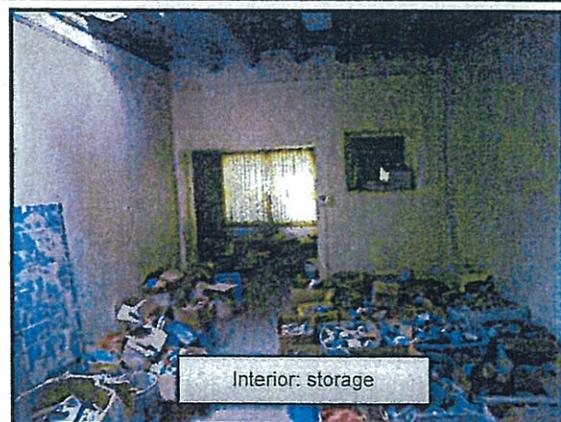
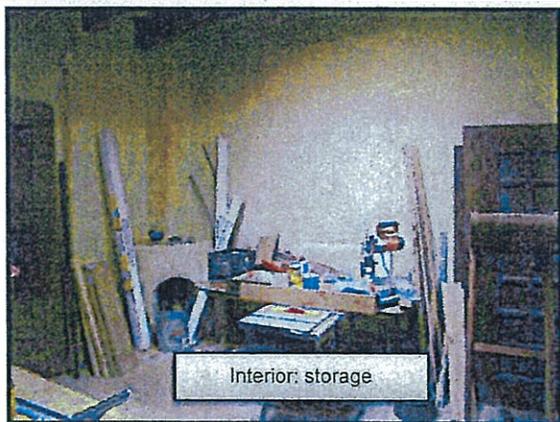
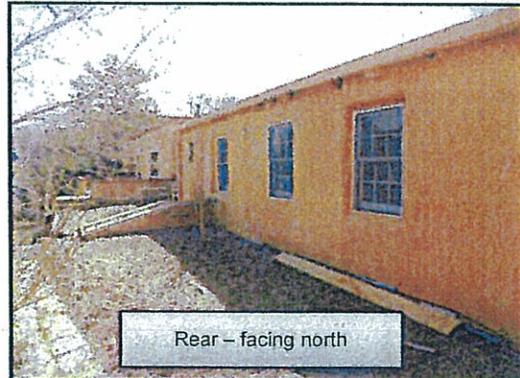
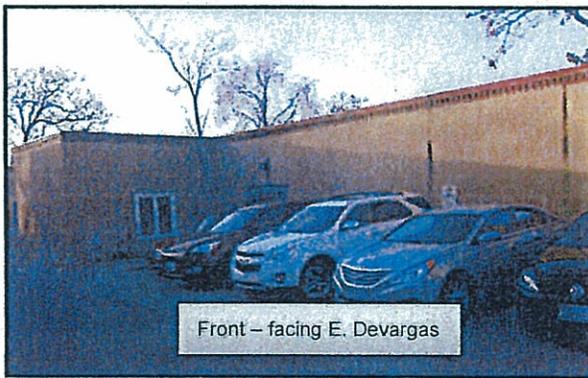
DESCRIPTION OF REAL ESTATE APPRAISED
PROPERTY DESCRIPTION: IMPROVEMENTS

Improvements

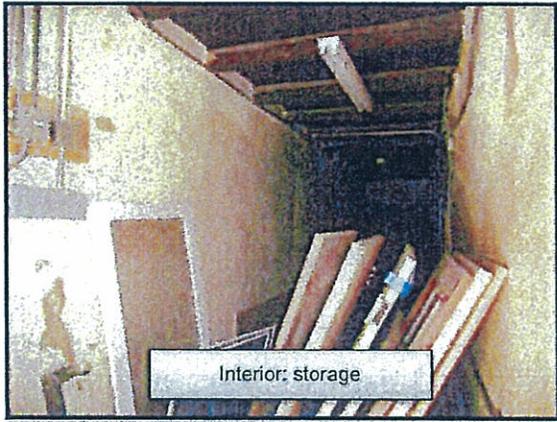
The subject consists of a single building at 139/141 East DeVargas Street. The building appears to have been two buildings joined into a single building.



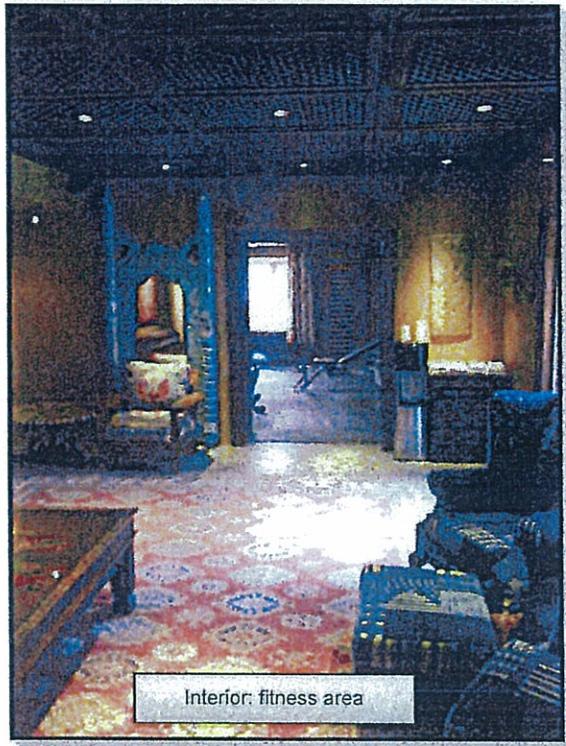
139/141 East DeVargas Street



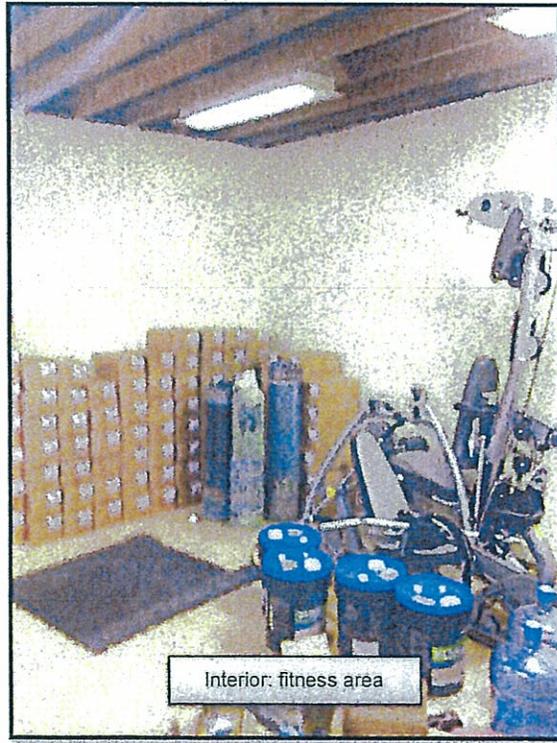
DESCRIPTION OF REAL ESTATE APPRAISED
PROPERTY DESCRIPTION: IMPROVEMENTS



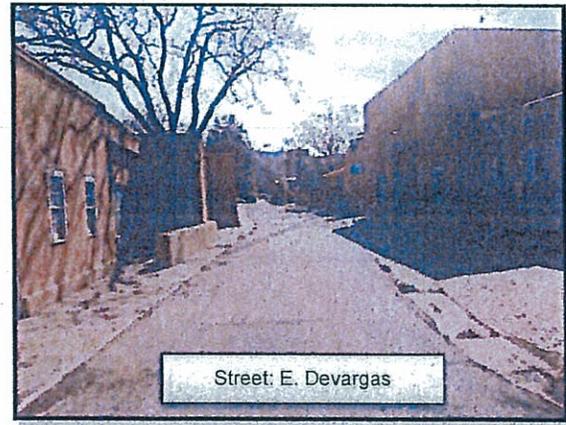
Interior: storage



Interior: fitness area



Interior: fitness area



Street: E. Devargas

DESCRIPTION OF REAL ESTATE APPRAISED
PROPERTY DESCRIPTION: IMPROVEMENTS

Below is a brief itemized description of the basic construction features.

BUILDING DETAILS	
Current Use	Commercial: ~65% vacant/storage and ~35% exercise room
Building Type	Southwest territorial
Building Area	Main (1 st floor) 5,209 square feet Basement 351 square feet
Source: Size per measurement by appraiser Notes: the appraiser is not an expert in the area of improvements measurement and, therefore, the measurements are only estimates.	
Lot coverage ratio	LCR: 56.2% (based on the building footprint)
Floor area ratio	FAR: 56.2% (based on above-ground square footage)
Number of stories	One with basement
Basic Structure	Believed to be masonry
Foundation	Not visible
Exterior wall cover	Stucco
Roof/ Roof drainage	Not all visible - believed to be built-up tar & gravel/ Canales, downspouts, gutters
Interior wall cover	Plaster, painted plaster, stucco, drywall
Flooring	Various: brick, carpet, vinyl
Ceiling	Various: painted plaster/drywall, ceiling tiles, viga/plank, beam/plank, decorative wood ceiling treatments
HVAC	CFA – gas fired/AC and boiler (hot water baseboard)
Doors/ Windows	Exterior: wood; Interior: wood (hollow and solid core)/ Wood frame/single and double pane
Restrooms	Three
Lighting	Various: incandescent, fluorescent
Utilities	All city/public
Age	Historically designated – The age of the building was not provided. However, it appears to be in excess of 100 years. Estimated effective age: 35 years (based on estimated age of the improvements and observed level of renovation/conversion/maintenance)
Condition/ Quality	Fair to average Overall: the building has received varying levels of conversion and renovation. It appears to have been a residence or two residences that were converted to office use. It is estimated to be reaching the end of its economic life and would require significant conversion and/or renovation expense to increase utility and further its economic life. Some deferred maintenance noted. The subject building is leased. The tenant has begun renovating/converting a portion of the building – designated as the fitness area. <i>Per the tenant: the work to date has been primarily cosmetic in order to increase the functional utility and has not consisted of any structural work; the improvements such as the ceiling treatments and decorative wall coverings are removable and are considered personal property.</i>
Parking	On-site: 4 spots No on-street parking (E Devargas is a small neighborhood arterial - one way) The adjacent property owner leases several spaces to the east across Old Santa Fe Trail.
Additional features	Fireplaces, skylights, custom woodwork
Comments	The subject is located within the downtown in a low traffic/low exposure location. In the downtown, many businesses lack on-site parking; however, these businesses are located in areas of concentrated pedestrian traffic. The subject's location is not along a pedestrian thoroughfare. The utility of the property is impacted by the availability of parking and lack of pedestrian traffic.

MARKET ANALYSIS

Property Productivity: The subject is comprised of a single building. It has historically been used as an office building.

SUBJECT NEIGHBORHOOD

Neighborhood Boundary

The downtown area of the City of Santa Fe as identified by BCD zoning (area surrounded by and adjacent to Paseo de Peralta on the north, south, east, and Guadalupe Street on the west)

The subject building is located in the downtown near the State Capitol in a low traffic/low exposure location.

Market Delineation: Based on the zoning, the subject building allows for most commercial or residential uses. The subject’s lack of parking limits its utility for commercial retail or office use. Conversion to live or live/work is possible. However, the area is atypical of residential use in the subject’s neighborhood.

Demand Forecast: The Santa Fe economy derives primarily from two areas, government and tourism. Census data since 1980 are displayed on the following table.

SANTA FE POPULATION: 1980, 1990, 2000 AND 2010

Year	Population	Increase	Percent change	Percent change per year
1980	49,160			
1990	55,859	6,699	13.63%	1.36%
2000	62,203	6,344	11.36%	1.14%
2010	67,947	5,744	9.23%	0.92%

In general the population growth trend tends to be approximately 1% per year. The population of Santa Fe County was estimated at 141,168 as of April 2010 yielding an average annual increase of 0.9 percent from 2000. However, it should be kept in mind that Santa Fe County includes the southern half of Espanola and runs south to I-40 taking in the East Mountain suburban area east of Albuquerque.

Santa Fe has experienced a steady increase in population and employment over the past 10 years. The trends and outlook point to continued growth. In addition, the metrics associated with tourism have begun to show a leveling off and/or recovery in the tourism related market. It can be inferred that demand for properties in the downtown/BCD will continue to increase. However, the recovery from the current economic downturn is estimated to be slow and drawn-out.

Competitive Supply: The downtown/BCD is effectively built out.

Construction/development of new supply would require the demolition and/or redevelopment of existing properties which may be difficult due to the location in a historical district and historical designation.

Market Equilibrium/Disequilibrium: As the economy begins to recover, the demand for commercial development near the Capitol and in the downtown/BCD as a whole should increase.

Occupancy at the time of valuation in the downtown is relatively strong. However, rents and vacancies were impacted in the economic downturn. As the population continues to increase and the tourism sectors continue to expand, it can be inferred that demand will increase.

Subject Capture: The subject is comprised of a single building in fair to average condition. Its location near the State Capitol and several governmental office buildings puts downward pressure on the risk associated with the building; however, this is mitigated by the lack of the parking and low traffic/exposure location.

HIGHEST AND BEST USE

Highest and Best is defined as:

The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility and maximum productivity.⁵

When studying the highest and best use of a site, the following items should be analyzed:

Highest and Best Use Criteria

- A) Is the use physically possible?
- B) Is the use legally permissible?
- C) Is the use financially feasible?
- D) Is the use maximally productive?

In addition to the four tests, appropriate use is included. It is not a specific test for Highest and Best Use, but a test that is a function of the four tests. The highest and best use of a property is typically determined both as if vacant and as improved.

Highest and Best Use As Vacant

The highest and best use as if vacant assumes the property is vacant or can be made vacant. In this particular case, the improvements are historically designated and are located in the Business Capitol District. Within the BCD, any structure over 50 years old cannot be demolished without approval, which may be difficult. Based on the historical designation and location in the BCD, the assumption the subject can be made vacant is not reasonable.

Highest and Best Use As Improved

LEGALLY PERMISSIBLE: Zoned BCDBAR: Business Capital District - Barrio de Analco District. This zoning allows for most residential and commercial use. There is no chance for a zoning change.

PHYSICALLY POSSIBLE: The property is improved with a single building. The addition of more square footage may be possible based on zoning, but is unlikely based on the layout of the subject property.

APPROPRIATE: As previously mentioned, appropriate use is not a specific test for

⁵ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: Appraisal Institute, 2010), p. 93

Highest and Best Use, but a test that is a function of the four tests. Based on the physical attributes of the property, commercial use and/or live/work is deemed appropriate for the subject.

FINANCIALLY FEASIBLE AND MAXIMALLY PRODUCTIVE: There are three possibilities for the subject as improved.

1. Continued use 'as is'.
2. Demolition of the existing improvements.
3. Addition and/or renovation to the existing structure.

The subject as constructed has limited capacity to produce a steady stream of income and the value of the property with the improvements is approaching its value as vacant land. However, the subject's historical designation and location precludes demolition as a viable alternative. Renovation and conversion are possibilities. It is in fair to average condition. Renovation is warranted but may not be justified based on market acceptance. Conversion to residential use would be allowed, but the layout and size of the subject would not lend itself to residential or live/work use. Based on the limited dedicated and available parking as well as the limited traffic exposure, a low impact commercial destination use is most likely.

Conclusion: based on the foregoing discussion, the highest and best use of the subject is identified as commercial use, most likely low impact destination.

VALUATION

The valuation process is the procedure by which an estimate of value is determined for the subject. The process is addressed in the scope of work section on page 7 of the appraisal report.

SALES COMPARISON APPROACH

Definition: Sales Comparison Approach
The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.⁶

The sales comparison approach is based on the premise that a well-informed buyer would pay no more for an existing property than it would cost to buy a similar substitute property. While there are seldom exact duplicate properties available to a buyer, the prices paid for similar properties are indicative of value. In this approach to value a common denominator is used in comparing sales to the subject. In this case the price per square foot of the improvements is used. This figure was found by dividing the sale price by the size of the improvements. The comparables are comprised of commercial uses in the downtown area. The comparables are summarized in the following chart.

COMMERCIAL SALES CHART

No.	Location	Date of Sale	Sales Price	SF	\$/SF
1	237 East Palace Ave.	08/2011	\$1,585,000	5,760	\$275.17
2	308 N. Guadalupe	03/2012	\$375,000	1,182	\$295.39*
3	149 E. Alameda	11/2012	\$2,500,000	5,376	\$465.03
4	552 Agua Fria	05/2013	\$500,000	1,924	\$228.09*
5	406 Old Santa Fe Trail	07/2013	\$1,550,000**	5,376	\$288.32**
6	414 Old Taos Highway	08/2013	\$1,000,000	4,056	\$246.55

*adjusted for contributory value – unfinished: basement, garage
** adjusted for contributory value of apartment and FF&E

In addition to the sales in the chart, a sale of a commercial office/retail property baring some similarity to the subject in the downtown area was identified.

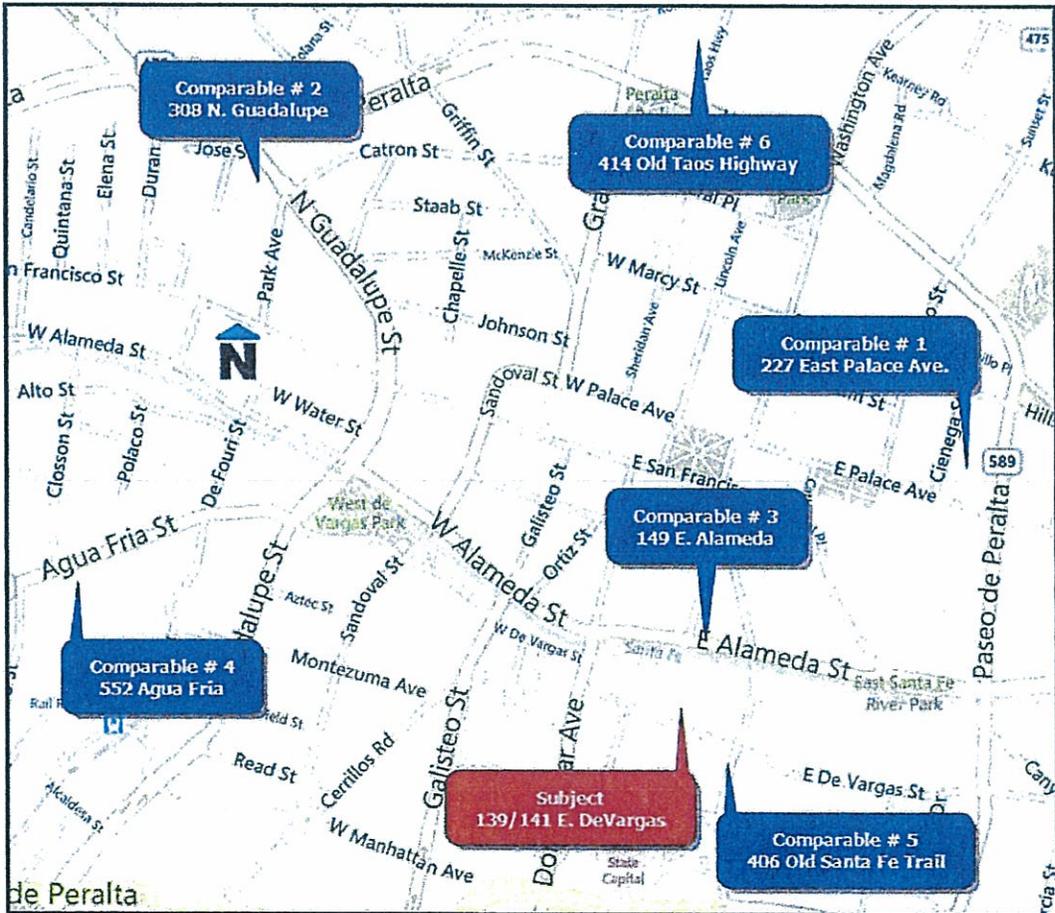
⁶ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: Appraisal Institute, 2010), p. 175

ADDITIONAL SALE

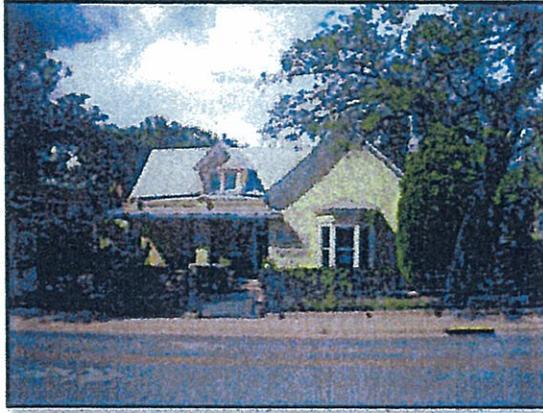
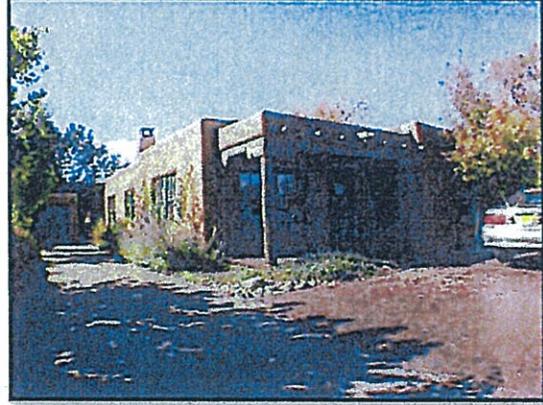
Location	Grantor Grantee	Date of Sale	Sales Price	SF	\$/SF
1101 Paseo de Peralta/ 501 Halona	Lloyd/Baer SFCF, LLC	07/2011	\$2,177,245	10,800	\$201.60

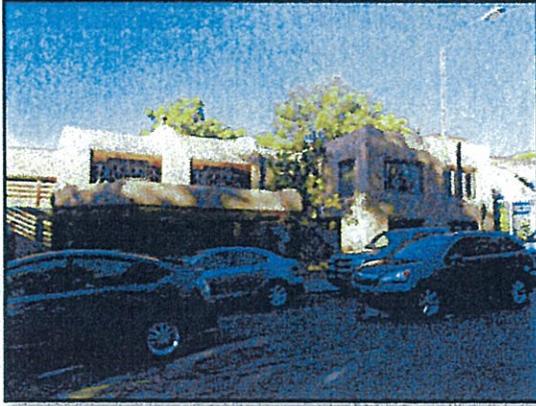
The sales price was taken from the multiple listing service (MLS) and confirmed by a party involved in the transaction. However, the seller has stated that the selling price was actually \$1,650,000 or \$152.78 per square foot. It was reported that this sale occurred at the last moment before the seller was to declare bankruptcy and the sales price represents the minimum amount to absolve the seller of debts, penalties, and closing costs. Based on this, this is considered to be a distressed sale and does not meet the definition of market value. This sale was not included in the analysis.

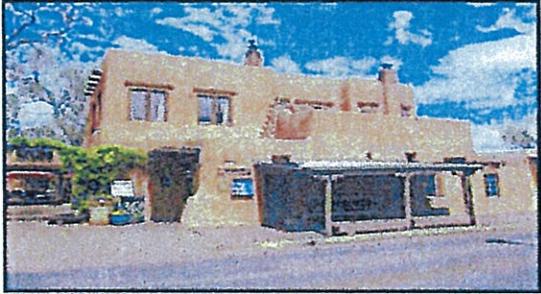
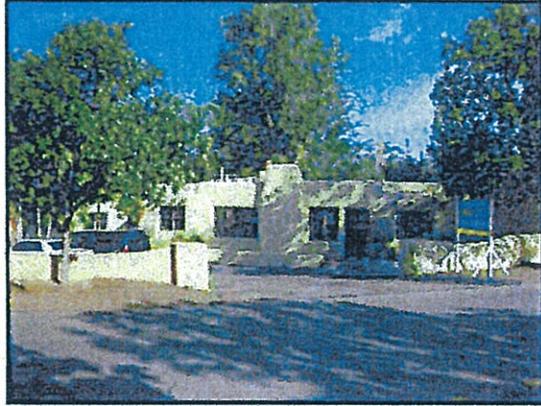
SALES COMPARABLES – MAP



SALES COMPARABLES - SUMMARY

No	PICTURE	DETAILS
1		<ul style="list-style-type: none"> ▪ Location: 237 East Palace Avenue ▪ Grantor: Edward S. & Mary Jean Cook Revocable Trust ▪ Grantee: Peyton Wright Gallery, LLC ▪ Date of Sale: 08/2011 ▪ Sales Price: \$1,585,000 ▪ Terms: Cash to seller ▪ Land area: 24,713 square feet ▪ Gross building area: 5,760 square feet <ul style="list-style-type: none"> ○ Does not include ~100 sf unfinished basement ▪ Potential gross income: \$111,196 ▪ Expenses: -0- ▪ Net Operating Income (NOI): \$111,196 ▪ Capitalization rate: 7% ▪ Price per SF: \$275.17 ▪ Age: estimated to be in excess of 100 years (well maintained/extensively renovated) ▪ Comments: Commercial retail building (gallery). Property exposed to market and sold to existing tenant/first right of refusal
2		<ul style="list-style-type: none"> ▪ Location: 308 N. Guadalupe ▪ Grantor: Henry and Nancy Lewis ▪ Grantee: Deborah Sie and Justin Hoffman ▪ Date of Sale: 03/2012 ▪ Sales Price: \$375,000 ▪ Terms: Cash/cash equivalent ▪ Land area: 5,626 square feet ▪ Gross building area: 1,182 square feet <ul style="list-style-type: none"> ○ Does not include 257 sf garage/storage ▪ Income: owner occupied at time of sale ▪ Price per SF: \$317.26 <ul style="list-style-type: none"> ○ Adjusted for contributory value of garage: \$295.39 per sf ▪ Age: estimated to be in excess of 80 years (well-maintained/ renovated); est. effective age 15 years ▪ Comments: Commercial building (converted residence). Use most likely as office and/or limited retail. Exposure is good on Guadalupe.

No	PICTURE	DETAILS
3		<ul style="list-style-type: none"> ▪ Location: 149 E. Alameda ▪ Grantor: Galisteo Streets Inc. (Seret) ▪ Grantee: Rice River Ranch Resort, L.C. ▪ Date of Sale: 11/2012 ▪ Sales Price: \$2,500,000 ▪ Terms: Cash/cash equivalent ▪ Land area: 3,739 square feet ▪ Gross building area: 5,376 square feet ▪ Potential gross income: n/a – owner occupied ▪ Expenses: n/a ▪ Net Operating Income (NOI): n/a ▪ Capitalization rate: n/a ▪ Price per SF: \$465.03 ▪ Age: Constructed in ~1910 ▪ Comments: Commercial retail building (gallery). Located south of the Plaza in an area dominated by tourist activity.
4		<ul style="list-style-type: none"> ▪ Location: 552 Agua Fria ▪ Grantor: San Busco West LLC ▪ Grantee: Susan Jordan ▪ Date of Sale: 05/2013 ▪ Sales Price: \$500,000 ▪ Terms: Cash/cash equivalent ▪ Land area: 9,148 square feet ▪ Gross building area: 1,924 square feet <ul style="list-style-type: none"> ○ Does not include basement (328 sf) and garage (280 sf) ▪ Income: purchased for owner occupancy ▪ Price per SF: \$259.88 (includes basement and garage) <ul style="list-style-type: none"> ○ Adjusted for contributory value of basement & garage: \$228.09 per sf ▪ Age: unknown - estimated to be in excess of 50 years (well-maintained/ renovated); est. effective age 20 years ▪ Comments: Commercial retail/office building – converted residence. Located north of the Railyard.

No	PICTURE	DETAILS
5		<ul style="list-style-type: none"> ▪ Location: 406 Old Santa Fe Trail ▪ Grantor: Hoback Inc. ▪ Grantee: Leonard & Isabelle Koomoa ▪ Date of Sale: 07/2013 ▪ Sales Price: \$1,900,000 ▪ Terms: Cash/cash equivalent ▪ Land area: 7,657 square feet ▪ Gross building area: 6,510 square feet <ul style="list-style-type: none"> ○ Restaurant: 3,121 square feet ○ Unheated work area: 287 ○ 2nd level office: 226 ○ Bar: 1,742 square feet ○ Apartment: 1,134 square feet ▪ Income: owner occupied/purchased for owner occupancy ▪ Price per SF: \$353.42 <ul style="list-style-type: none"> ○ Adjusted for contributory value of the apartment and the FFE associated with the restaurant: \$288.32 per sf (based on 5,376 sf) ▪ Age: estimated 80 years+, effective age 25 years ▪ Comments: Commercial property: restaurant – Pink Adobe. Includes an apartment/short term rental on the 2nd floor.
6		<ul style="list-style-type: none"> ▪ Location: 414 Old Taos Highway ▪ Grantor: Alexander ▪ Grantee: Prosperidad LLC ▪ Date of Sale: 08/2013 ▪ Sales Price: \$1,000,000 net to seller; buyer paid estimated \$69,000 in closing expenses typically paid by seller ▪ Terms: Cash/cash equivalent ▪ Land area: 9,034 square feet ▪ Gross building area: 4,056 square feet ▪ Income: purchased for owner occupancy ▪ Price per SF: \$246.55 ▪ Age: unknown (original portion believed to be constructed between 1930 and 1942) (very well-maintained/renovated)– estimated effective age 15 years ▪ Comments: Professional office. Building is of good quality/condition. Potential for further delineation into multiple offices

Analysis and Value Conclusion

Six comparable sales are presented in the Sales Comparable Chart. The comparable sales produced a value range from \$228.09 per square foot to \$465.03 per square foot before adjustment.

Several elements of comparison can affect the value of commercial structures. The elements of comparison and their resulting adjustments fall into two categories: transactional adjustments and property adjustments.

CHART OF ADJUSTMENTS

Category	Adjustment
Transactional	Real property rights conveyed Financing terms Conditions of sale Expenditures made immediately after purchase Market conditions
Property	Physical characteristics Location Economic characteristics Use/zoning Non-realty components value

These elements are analyzed to determine if an adjustment is required. They are discussed below and the findings summarized and reconciled on a comparison grid at the end of the valuation section. The transactional adjustments are applied in sequence. The property adjustments do not need to be applied in a specific sequence. The adjustments are summarized on a chart at the end of this section. Only those items requiring discussion/adjustment are discussed.

Transactional Adjustments

Real Property Rights Conveyed: Comparables 2 - 6 were owner occupied or vacant at the time of sale. Comparable 1 was encumbered at the time of sale, but was purchased by the lessor. An adjustment for real property rights conveyed was not developed.

Financing Terms: None of the sales were known to involve terms of sale other than cash to the seller. No adjustment is made for financing terms.

Conditions Of Sale: Conditions of sale relates to any undue pressure on either the buyer or the seller. No adjustments for the conditions of sale were needed.

Expenditures After Sale: This adjustment is included in the transactional adjustments because it reflects those items that a buyer would have considered part of the price at

the time of sale. None of the comparables required an adjustment for expenditures after sale.

Market Conditions: The next element of comparison which was considered was market conditions (time of sale). The earliest sale on the chart is August 2011 which is 30 months before the effective date of the appraisal. Analysis of a sale and resale of the same property is the most accurate method of determining a time of sale adjustment. Comparable 2 was previously sold in August 2006. This sale/resale showed an overall net depreciation rate of 0.36% per month.

Time of Sale Comparison			
Property	308 N. Guadalupe	308 N. Guadalupe	Difference
Price	\$495,000	\$375,000	-24.2%
Sales Date	August 2006	March 2012	67
Market Conditions adjustment			-0.36% per month

However, this sale likely received a period of appreciation prior to the economic downturn and then a subsequent depreciation. Based on this, this market conditions adjustment per this comparison may be understated for the comparables.

None of the other comparables constitute such a pair. Therefore, the search was extended outward to other commercial markets in Santa Fe. A property at 229 E. Marcy sold in April 2007 and resold in April 2008. This sale showed an appreciation rate of 0.48% per month.

Time of Sale Comparison			
Property	229 E. Marcy	229 E. Marcy	Difference
Price	\$875,000	\$925,000	5.71%
Sales Date	April 2007	April 2008	12
Market Conditions adjustment			0.48% per month

However, this sale preceded the comparables and the current economic downturn.

Lacking additional sale/resales over the past five years, the search was expanded. The property at 318 Grant Avenue which is located in the downtown sold in May 2009 for \$1,726,250 and was subsequently listed in January 2010 for \$1,575,000. The listing expired in January 2011 and it has not been relisted. This represents a depreciation rate of 0.44% per month based on the listing expiration date.

VALUATION: MARKET VALUE
SALES COMPARISON APPROACH

Time of Sale Comparison			
Property	318 Grant	318 Grant	Difference
Price	\$1,726,250	\$1,575,000	-8.8%
Sales Date	May 2009	January 2011 (expiration)	20
Market Conditions adjustment			-0.44% per month

Comparison of the sale of two condos of the exact size within the same condominium project which took place in April 2008 and June 2010 yielded a depreciation rate of 0.37% per month.

Time of Sale Comparison			
Property	1925 Aspen Dr., Units 703 A&B	1925 Aspen Dr., Unit 801 A&B	Difference
Price	\$275,000	\$249,000	-9.5%
Sales Date	April 2008	June 2010	26
Market Conditions adjustment			-0.37% per month

The market has experienced a certain amount of fluctuation over the past three years. This is likely due to the impact of the overall economy as credit becomes more scarce and/or difficult to obtain and consumer spending decreases as unemployment rises. Based on this data, a depreciation rate of 0.4% per month (-0.4% per month) is selected for the comparables.

Property Adjustments

Economic characteristics: The subject is constrained to four onsite parking spaces. Comparable 6 has limited onsite parking. The buyer was required to provide additional parking in order to get a business license. Historically, the parking has been augmented by leased parking in proximity to the subject. The buyer of the property negotiated the lease of 5 additional parking spaces for \$2,700 per year (\$45 per space per month). In addition, the adjacent property owner to the subject leases parking for \$50 per space per month from the property on the northeast corner of Old Santa Fe Trail and East DeVargas. This parking is limited to use by the adjacent properties employees due to the distance to the property. Based on the proximity, the lease rate for parking in the subject's neighborhood is weighted. When a lease rate of \$50 per month is capitalized based on the capitalization rate developed in the income approach, it produces a downward adjustment of \$7.70 per square foot for the other comparables.

Physical characteristics: Physical factors which were considered for adjustment

included size, location, quality, age and functional utility.

Size: Typically, there is an inverse relationship between size and price per square foot, as the size increases the price per square foot decreases. The comparables were examined for a trend in value as a function of size. The subject contains 5,209 square feet on the main floor and 351 square feet in the basement. The basement is unfinished and is to use to house the boiler. The comparables range from 1,182 square feet to 5,760 square feet. Examination of the Comparables revealed no clear trend in value as a function of size for these comparables. Based on this analysis, a size adjustment was not applied.

Age/condition: Age and condition were the first categories examined. An age and condition adjustments are combined. The estimated effective age and condition of the comparables is in the following chart.

COMPARABLE EFFECTIVE AGE

No.	Condition	Estimated Effective Age (EA)
1	Good	15
2	Average	15
3	Average	25
4	Average	20
5	Average	25
6	Good	15
Subject	Fair to Average	35

Lacking sales in the downtown area the search is extended outward to include all commercial sales in Santa Fe. Four comparisons are made of the adjusted prices of older buildings to newer ones to derive an age adjustment. All the comparisons were adjusted for conditions of sale and time of sale. They are summarized in the following charts.

VALUATION: MARKET VALUE
SALES COMPARISON APPROACH

AGE COMPARISON 1	2019 Galisteo, Unit N-9 A	1651 Galisteo Units 8,9,10	Difference
Price per sf	\$230.53	\$196.72	17.2%
Age	1 years	20 years	19 years
Age adjustment			0.90% per year
AGE COMPARISON 2	1640 Old Pecos Trail	2019 Galisteo, Unit N-9 A	Difference
Price per sf	\$201.25	\$230.53	14.5%
Age	15 years	1 years	14 years
Age adjustment			1.04% per year
AGE COMPARISON 3	404 Brunn School Rd. C	2590 Camino Entrada	Difference
Price per sf	\$218.92	\$204.55	7.0%
Age	4 years	12 years	8 years
Age adjustment			0.88% per year
AGE COMPARISON 4	1630 Hospital Dr.	2056 Galisteo	Difference
Price per sf	\$195.07	\$228.82	17.3%
Age	21 years	3 years	18 years
Age adjustment			0.96% per year

Based on these extractions, an age adjustment of 1.0% per year is applied to the comparables based on their effective age.

Location: Location is one of the most important value determining factors for commercial property. The subject is located approximately 1,100 feet south of the Plaza. The subject is located on a small one way neighborhood arterial. Vehicular and pedestrian exposure is extremely limited. Based on this, its location is considered secondary (based on a location beyond the properties located in a primary location on a major thoroughfare/arterial). The comparables were all selected from within the downtown area. The first location adjustment is based on the subject's location within the downtown and the second location adjustment is based on the subject's secondary location.

Location Downtown: As mentioned previously, the Plaza is the center of activity in the downtown area. Foot-traffic and exposure are essential characteristics of success for commercial real estate around the Plaza. The further the distance to the Plaza, the less exposure to foot traffic a property will experience. Comparable 3 is located closest to the Plaza. Comparables 1 and 5 are located approximately the same distance to the Plaza. However, Comparable 1 is located on the periphery of the downtown along Paseo de Peralta. Comparable 5 is located in proximity to the subject on Old Santa Fe Trail. The remaining comparables are located further from the Plaza and are considered on the periphery of the downtown. Comparable 4 is located just north of the

Railyard and west of the subject. Comparable 1 is located east of the Plaza and northeast of the subject. Comparable 2 is located west of the Plaza and northwest of the subject along Guadalupe. Comparable 5 is located south of the Plaza in close proximity to the subject. Comparable 6 is located north of the Plaza just north of Paseo de Peralta. All the comparables on the periphery share some similarity in locational attributes. The adjusted prices per square foot of the comparables prior to consideration of location are compared. Based on its location, Comparable 5 is used as the basis of analysis.

COMPARABLE LOCATION ANALYSIS

Comparable	Location	Adjusted \$ per sf*	Adjustment
5	Similar	\$245.29	
1, 2, 4, 6 Average	Periphery	\$192.21	27.6%
3	Superior	\$386.49	-36.5%

*Before consideration of location

Based on the analysis, an upward location adjustment of 28% (rounded) is applied to Comparables 1, 2, 4, and 6 and a downward location adjustment of 37% (rounded) is applied to Comparable 3.

Location – Secondary: The subject is considered to be in a secondary location. Lacking comparable sales in the subject’s immediate neighborhood, comparable rents are analyzed. The property at the northeast corner of Old Santa Fe Trail and East DeVargas is comprised of commercial properties in a primary location and in a secondary location. The rents are on the same basis and differ in only in location: primary versus secondary. The rent per square foot is the contract rent based on existing leases. However, the lease for the property located at 329 Old Santa Fe Trail (329 OSFT) was originally established in 2001. The property is in the 2nd option period. The contract lease rate for this property significantly preceded the current economic downturn and is considered to be above market. The market rent for this property is estimated to be \$25 per square foot per year. The analysis in the following table includes the adjustments based on the contract rent and the market rent for this property.

RENT LOCATION

Address	Location	Rent per SF per year
329 OSFT	Primary: frontage OSFT	Contract: \$41.91 Market: \$25.00
215 E DeVargas	Secondary: frontage E DeVargas – behind 329 OSFT	\$17.47
221 E DeVargas	Secondary-: frontage E DeVargas – behind 215 E DeVargas	\$11.07
225 E DeVargas	Secondary-: frontage E DeVargas – behind 221 E DeVargas	\$9.60

The location of these comparables is analyzed based on their rents.

LOCATION ANALYSIS – PRIMARY VERSUS SECONDARY

Address/ Location	Rent per SF per year	Adjustment to secondary		
		215 E Devargas/ Secondary	221 E Devargas/ Secondary-	225 E Devargas/ Secondary-
		\$17.47	\$11.07	\$9.60
329 OSFT\ Primary	Contract: \$41.91 Market: \$25.00	-0.583 -0.301	-0.736 -0.557	-0.771 -0.616

The relationship between these comparables is primary versus secondary location. The locations of the properties in secondary positions range from superior to inferior. Comparison of the rents, which are proximity of the subject (northeast corner of Old Santa Fe Trail and E. DeVargas) produced downward adjustments of 30.1% to 77.1%. Based only on the market rent for 329 OSFT, the downward adjustments range from 30.1% to 61.6%. Based on the subject's location, the property at 221 E. Devargas (considered the midpoint) is weighted and a downward location adjustment based on primary to secondary locations of 55% is applied to the comparables.

VALUATION: MARKET VALUE
SALES COMPARISON APPROACH

Conclusion: The adjustments discussed above are summarized in the following chart.
Only those items requiring adjustment have been included.

SALES COMPARISON ADJUSTMENT CHART

Element	Subject	Comp. 1	Comp. 2	Comp. 3	Comp 4	Comp. 5	Comp. 6
Sale Price (\$)		\$1,585,000	\$349,153	\$2,500,000	\$438,853	\$1,550,000	\$1,000,000
Market conditions/ Adjustment	03/2014	08/2011 -\$190,200	03/2012 -\$32,122	11/2012 -\$150,000	05/2013 -\$15,799	07/2013 -\$43,400	08/2013 -\$24,000
Prelim adjusted \$		\$1,394,800	\$317,031	\$2,350,000	\$423,054	\$1,506,600	\$976,000
Comparison unit size (sf)		5,760	1,182	5,376	1,924	5,376	4,056
- adjusted \$		\$242.15	\$268.22	\$437.13	\$219.88	\$280.25	\$240.63
Economic Adjustment		Parking -\$7.70	Parking -\$7.70	Parking -\$7.70	Parking -\$7.70	Parking -\$7.70	Similar \$0.00
Age/Condition Adjustment	35 (EA)	15 -\$46.89	15 -\$52.10	25 -\$42.94	20 -\$31.83	25 -\$27.26	15 -\$48.13
Location – Downtown Adjustment		Periphery \$52.52	Periphery \$58.36	Superior -\$143.00	Periphery \$50.50	Similar \$0.00	Periphery \$53.90
Location - Secondary Adjustment		Primary -\$132.04	Primary -\$146.73	Primary -\$133.92	Primary -\$126.97	Primary -\$134.91	Primary -\$135.52
Final adjusted sale \$ per sf		\$108.04	\$120.05	\$109.57	\$103.88	\$110.38	\$110.88
Total net adj.		-\$962,690	-\$207,254	-\$1,910,952	-\$238,988	-\$956,597	-\$550,271
- as % of sale price		-60.7%	-59.4%	-76.4%	-54.5%	-61.7%	-55.0%
Total gross adj.		\$1,567,704	\$345,222	\$1,910,963	\$433,307	\$956,621	\$987,503
- as % of sale price		98.9%	98.9%	76.4%	98.7%	61.7%	98.8%

Reconciliation: After considering all factors, the comparable sales exhibit an adjusted range of selling prices per square foot of \$103.88 to \$120.05 with an average of \$110.47. Comparable 5 bares most similarity to the subject in location. Its physical attributes are relatively similar to the subject. Comparables 4 and 6 produced the lowest net adjustments as a percent of sales price and Comparable 5 produced the lowest gross adjustment as a percent of sales price. Based on this discussion as well as the subject's attributes, a price per square foot of \$110 is selected for the subject's main square footage. Based on the utility of the basement, this square footage is not included in the valuation.

PRELIMINARY VALUE PER THE SALES COMPARISON APPROACH

Subject (main) sf x Estimated Price per square foot =	Value
5,209 square feet x \$110 per sf =	\$572,990

The subject's lease rate is determined to be below market in the income approach – direct capitalization. In addition, the subject's lease stipulates a minimum expense on renovation and upgrades. The impact of the below market lease and the contributory value of the lease stipulated renovation/upgrades are estimated

Impact Below Market Lease and Renovation/Upgrade

Below Market Lease: In the income approach, the subject's current rent is estimated to be below market (page 48). The below market rent equates to property expenses: property taxes and property insurance. These expenses are estimated in the income approach to be \$6,904 per year or \$1.33 per square foot based on 5,209 square feet. The impact of the below market lease is estimated based on the remaining term of the lease and the discount rate developed in the discounted cash flow section (page 56).

BELOW MARKET LEASE ANALYSIS	
Approximate Remaining Term of Lease	24 years
Discount Rate	9%
Annual income loss	\$6,904
Present Value of income loss	\$67,014

Contributory value of the Renovation/Upgrade: The subject's lease stipulates that the lessee commits to spending a minimum of \$250,000 in renovation and upgrades. The impact to the value of the property based on the renovation/upgrades is estimated. The renovation/upgrades are assumed to be completed at the beginning of the lease to maximize utility in the building. The subject's renovation/upgrades are estimated to be comprised of short lived and long lived items. The short lived items, such as interior decoration and HVAC, will have depreciated before the end of the initial term of the lease. The long lived items, such as structural, plumbing and electrical, are estimated to follow a depreciation schedule in relation to the building. Based on the age and condition of the building, the renovation/upgrade expense is estimated to be in excess of the minimum stipulated in order to achieve full utility of the subject property. Therefore, the minimum stipulated renovation/upgrade expense of \$250,000 is estimated to be comprised of long lived items.

The impact of the renovation/upgrade is estimated based on an estimated depreciable life of 50 years for the long lived items. Based on the initial term of the lease, the renovation/upgrade improvements are estimated to be 50% (25 years/50 years) depreciated: \$125,000 (\$250,000 x 50%). Discounting this value results in the present value of the depreciated renovation/upgrades.

VALUATION: MARKET VALUE
SALES COMPARISON APPROACH

RENOVATION/UPGRADE ANALYSIS	
Approximate remaining term of lease	24 years
Renovation/upgrade expense	\$250,000
Depreciation	50%
Discount Rate	9%
Present Value of Renovation/Upgrade	\$15,801

Final Value: For the final value, the impact of the below market lease and renovation/upgrades are applied to the preliminary value. The total value calculation is in the following chart.

TOTAL VALUE PER THE SALES COMPARISON APPROACH 'AS IS'

Detail	Value
Preliminary value per the sales comparison	\$572,990
Value of the below market lease	(\$67,014)
Contributory value: renovation/upgrade	\$15,801
Total	\$521,777
Rounded:	\$520,000

INCOME APPROACH

Definition: Income Capitalization Approach

A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.⁷

The value per the income approach is estimated by direct capitalization and a discounted cash flow.

Subject rental data

The subject is comprised of one building that is leased. The lease is summarized in the following table.

Subject Lease – Summary																																																																																																																							
Property	139 & 141 E. De Vargas Street																																																																																																																						
Lessor	New Mexico Energy, Minerals and Natural Resources Department (EMNRD), State Parks Division																																																																																																																						
Lessee	Galisteo Street, Inc.																																																																																																																						
Term	25 years from approval date (approval date not provided – estimated to be 12/2012) Option: 1 – 25 year																																																																																																																						
Lease type/ Expenses	Modified gross/ Lessor expenses: property insurance, property tax (lessor not subject to property taxes) Lessee expenses: Utilities, janitorial, major/minor maintenance																																																																																																																						
Size	Not specified in lease. 5,209 square feet per measurement by appraiser																																																																																																																						
Rent	<table border="1"> <thead> <tr> <th colspan="5">RENT SCHEDULE</th> </tr> <tr> <th>Year</th> <th>Per month</th> <th>Per year</th> <th>Per SF per year</th> <th>Comments</th> </tr> </thead> <tbody> <tr><td>Year 1-5</td><td>\$3,039.00</td><td>\$36,468.00</td><td>\$7.00</td><td>Fixed</td></tr> <tr><td>Year 6</td><td>\$3,750.00</td><td>\$45,000.00</td><td>\$8.64</td><td>Fixed</td></tr> <tr><td>Year 7</td><td>\$3,862.50</td><td>\$46,350.00</td><td>\$8.90</td><td>3% escalation from previous year</td></tr> <tr><td>Year 8</td><td>\$3,978.38</td><td>\$47,740.56</td><td>\$9.17</td><td>3% escalation from previous year</td></tr> <tr><td>Year 9</td><td>\$4,097.73</td><td>\$49,172.76</td><td>\$9.44</td><td>3% escalation from previous year</td></tr> <tr><td>Year 10</td><td>\$4,220.66</td><td>\$50,647.92</td><td>\$9.72</td><td>3% escalation from previous year</td></tr> <tr><td>Year 11</td><td>\$4,347.28</td><td>\$52,167.36</td><td>\$10.01</td><td>3% escalation from previous year</td></tr> <tr><td>Year 12</td><td>\$4,477.70</td><td>\$53,732.40</td><td>\$10.32</td><td>3% escalation from previous year</td></tr> <tr><td>Year 13</td><td>\$4,612.03</td><td>\$55,344.36</td><td>\$10.62</td><td>3% escalation from previous year</td></tr> <tr><td>Year 14</td><td>\$4,750.39</td><td>\$57,004.68</td><td>\$10.94</td><td>3% escalation from previous year</td></tr> <tr><td>Year 15</td><td>\$4,892.90</td><td>\$58,714.80</td><td>\$11.27</td><td>3% escalation from previous year</td></tr> <tr><td>Year 16</td><td>\$5,039.69</td><td>\$60,476.28</td><td>\$11.61</td><td>3% escalation from previous year</td></tr> <tr><td>Year 17</td><td>\$5,190.88</td><td>\$62,290.56</td><td>\$11.96</td><td>3% escalation from previous year</td></tr> <tr><td>Year 18</td><td>\$5,346.61</td><td>\$64,159.32</td><td>\$12.32</td><td>3% escalation from previous year</td></tr> <tr><td>Year 19</td><td>\$5,507.01</td><td>\$66,084.12</td><td>\$12.69</td><td>3% escalation from previous year</td></tr> <tr><td>Year 20</td><td>\$5,672.22</td><td>\$68,066.64</td><td>\$13.07</td><td>3% escalation from previous year</td></tr> <tr><td>Year 21</td><td>\$5,842.39</td><td>\$70,108.68</td><td>\$13.46</td><td>3% escalation from previous year</td></tr> <tr><td>Year 22</td><td>\$6,017.66</td><td>\$72,211.92</td><td>\$13.86</td><td>3% escalation from previous year</td></tr> <tr><td>Year 23</td><td>\$6,198.19</td><td>\$74,378.28</td><td>\$14.28</td><td>3% escalation from previous year</td></tr> <tr><td>Year 24</td><td>\$6,384.14</td><td>\$76,609.68</td><td>\$14.71</td><td>3% escalation from previous year</td></tr> <tr><td>Year 25</td><td>\$6,575.66</td><td>\$78,907.92</td><td>\$15.15</td><td>3% escalation from previous year</td></tr> </tbody> </table> <p>The lease rate for the option period is based on renegotiation.</p>				RENT SCHEDULE					Year	Per month	Per year	Per SF per year	Comments	Year 1-5	\$3,039.00	\$36,468.00	\$7.00	Fixed	Year 6	\$3,750.00	\$45,000.00	\$8.64	Fixed	Year 7	\$3,862.50	\$46,350.00	\$8.90	3% escalation from previous year	Year 8	\$3,978.38	\$47,740.56	\$9.17	3% escalation from previous year	Year 9	\$4,097.73	\$49,172.76	\$9.44	3% escalation from previous year	Year 10	\$4,220.66	\$50,647.92	\$9.72	3% escalation from previous year	Year 11	\$4,347.28	\$52,167.36	\$10.01	3% escalation from previous year	Year 12	\$4,477.70	\$53,732.40	\$10.32	3% escalation from previous year	Year 13	\$4,612.03	\$55,344.36	\$10.62	3% escalation from previous year	Year 14	\$4,750.39	\$57,004.68	\$10.94	3% escalation from previous year	Year 15	\$4,892.90	\$58,714.80	\$11.27	3% escalation from previous year	Year 16	\$5,039.69	\$60,476.28	\$11.61	3% escalation from previous year	Year 17	\$5,190.88	\$62,290.56	\$11.96	3% escalation from previous year	Year 18	\$5,346.61	\$64,159.32	\$12.32	3% escalation from previous year	Year 19	\$5,507.01	\$66,084.12	\$12.69	3% escalation from previous year	Year 20	\$5,672.22	\$68,066.64	\$13.07	3% escalation from previous year	Year 21	\$5,842.39	\$70,108.68	\$13.46	3% escalation from previous year	Year 22	\$6,017.66	\$72,211.92	\$13.86	3% escalation from previous year	Year 23	\$6,198.19	\$74,378.28	\$14.28	3% escalation from previous year	Year 24	\$6,384.14	\$76,609.68	\$14.71	3% escalation from previous year	Year 25	\$6,575.66	\$78,907.92	\$15.15	3% escalation from previous year
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⁷ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: Appraisal Institute, 2010), p. 99

Comments	Early Termination: Lease may terminate prior to the end of the term <ul style="list-style-type: none"> • NM Legislature fails to grant sufficient authority and appropriations to Lessor to carry out the terms and conditions of Lease • Governor of NM, pursuant to Executive Order, of the NM Legislature, pursuant to statute, eliminates or transfers employees or functions of the Lessor
	Alterations: Lessee commits to spending a minimum of Two Hundred Fifty Thousand Dollars (\$250,000) in renovations and upgrades.
	Ownership of the Improvements:...Alterations and improvements of a permanent nature, which cannot be removed with undue damage to the Premises, shall become Lessor's property except as the parties mutually agree otherwise in writing.
	Sublease: with Lessors approval

Direct Capitalization

Definition: Direct Capitalization

A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.⁸

The Income Approach is based on the income producing capabilities of the property. For the Direct Capitalization method, a Potential Gross Income (PGI) is estimated from which vacancy loss is deducted to arrive at an Effective Gross Income (EGI). Expenses are then estimated and deducted from the EGI to obtain a Net Operating Income (NOI). The NOI is then capitalized into an indication of value by the application of an overall rate which has been developed through market extraction, development of the Modified Band of Investment and published sources.

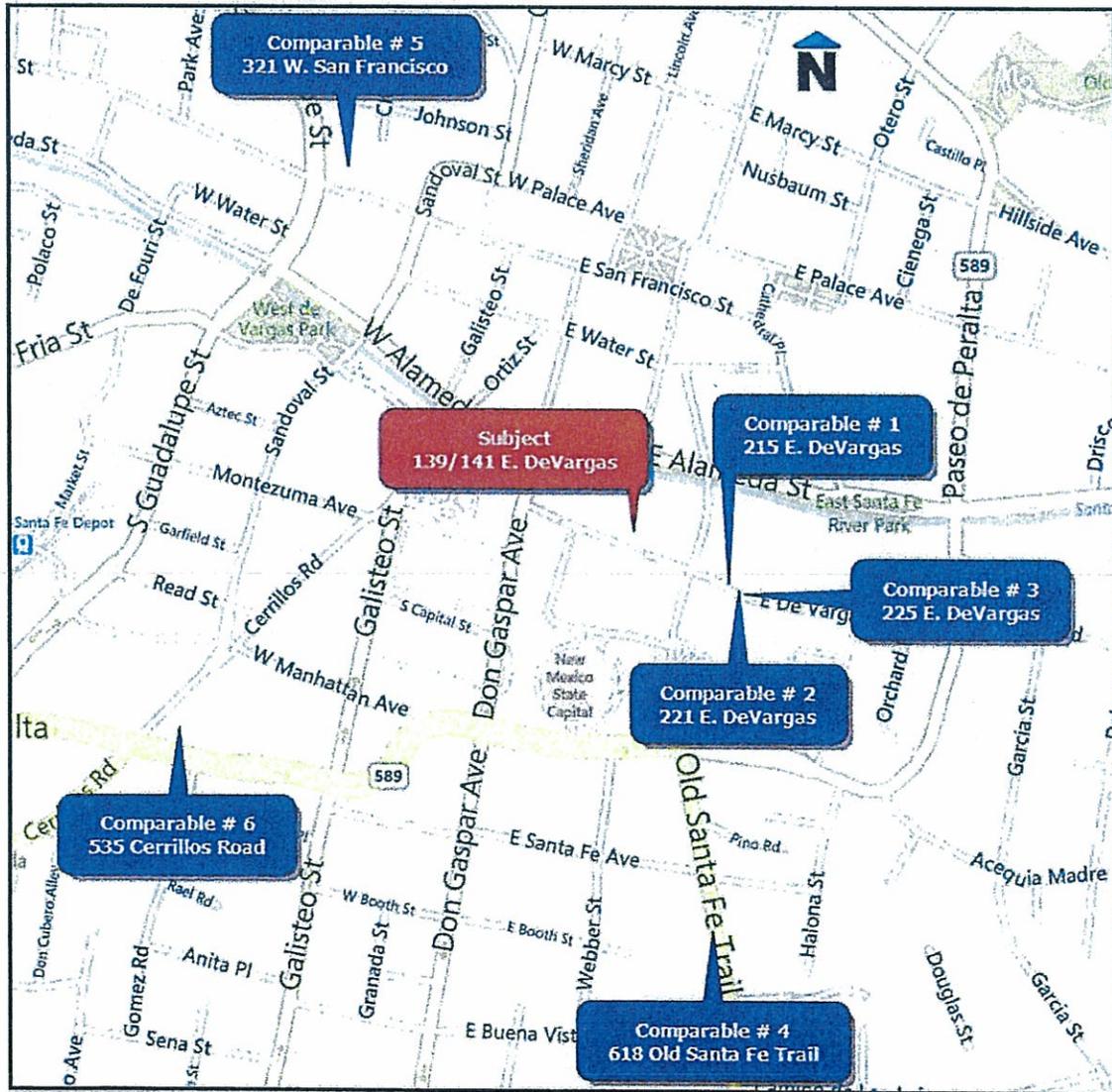
Market Rent: Rent comparables were sought from the downtown area which is the subject's neighborhood. The rent comparables were selected that are similar quality and retail, and offices. All the rents are identified on the basis of rent per square foot per year. The comparables are summarized in the following chart and described in more detail on the pages following.

⁸ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed., (Chicago: Appraisal Institute, 2010), p. 58

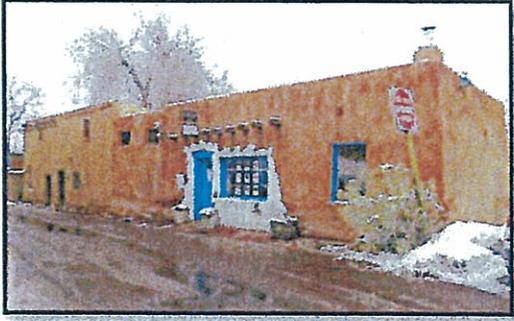
RENT COMPARABLES CHART

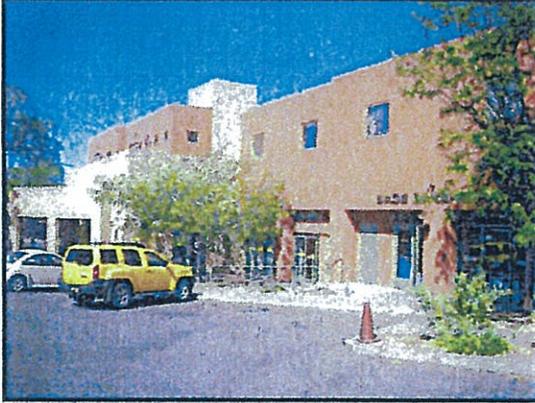
No.	Location	Leasable area in sf	Vacancy	Rent per sf per year	Lease type	Use/location
1	215 E. DeVargas	1,433	0	\$17.47	MG	Office/similar
2	221 E. DeVargas	976	0	\$11.07	MG	Retail/similar
3	225 E. DeVargas	2,124	0	\$9.60	MG	Live Work/similar
4	618 Old Santa Fe Trail	946	0	\$11.44	MG	Retail/periphery
5	321 W San Francisco Unit G	890	5% of project	\$14.16	Full service	Office-secondary/core
6	535 Cerrillos	0	0			
	• Unit A1 (1 st floor)	4,476		\$25.98	MG	Office/similar+
	• Unit A2 (2 nd floor)	1,520		\$11.05		
	• Unit C2 (2 nd floor)	2,500		\$9.60		

RENT COMPARABLES – MAP



RENT COMPARABLES - SUMMARY

No	PICTURE	DETAILS
1		<ul style="list-style-type: none"> ▪ Location: 215 E DeVargas ▪ Rental rate: \$17.47 per square foot per year <ul style="list-style-type: none"> ○ Tenant: Bell Tower Realty ▪ Building Size: 1,433 square feet ▪ Vacancy: 0% ▪ Lease type: Modified Gross ▪ Comments: This property is a real estate office. Connected to the building is a museum: 'oldest house'. Property has 6 dedicated parking spaces
2		<ul style="list-style-type: none"> ▪ Location: 221 E DeVargas ▪ Rental rate: \$11.07 per square foot per year <ul style="list-style-type: none"> ○ Tenant: Marisa's ▪ Building Size: 976 square feet ▪ Vacancy: 0% ▪ Lease type: Modified Gross ▪ Comments: This property is a florist. Located behind (to the east of) 215 E. DeVargas. Property has 4 dedicated parking spaces
3		<ul style="list-style-type: none"> ▪ Location: 225 E DeVargas ▪ Rental rate: \$9.60 per square foot per year <ul style="list-style-type: none"> ○ Tenant: Herman ▪ Building Size: 2,124 square feet ▪ Vacancy: 0% ▪ Lease type: Modified Gross ▪ Comments: This property is used as live/work for an attorney. Primarily used as residential. Quality is fair to average. Located behind/to the east of 221 E DeVargas. Property has 3 dedicated parking spaces

No	PICTURE	DETAILS
4		<ul style="list-style-type: none"> ▪ Location: 618 Old Santa Fe Trail ▪ Rental rate: \$11.44 per square foot per year <ul style="list-style-type: none"> ○ Tenant: Rugman ▪ Building Size: 946 square feet ▪ Vacancy: 0% ▪ Lease type: MG ▪ Comments: Limited on-site parking. Building is old and in average condition. Located south of Paseo de Peralta.
5		<ul style="list-style-type: none"> ▪ Location: 321 W. San Francisco – Unit G ▪ Rental rate: \$14.16 – historical lease/currently vacant as the property is being renovated/redeveloped ▪ Building Size: 890 square feet ▪ Vacancy: currently vacant as the property is being renovated/redeveloped: unit represents 5% of project ▪ Lease type: Full service - historical ▪ Comments: Office property – previously leased by Santa Fe Concert Association. Accessed from parking area – has no frontage or visibility from San Francisco or Guadalupe
6		<ul style="list-style-type: none"> ▪ Location: 535 Cerrillos Road Units A1, A2 and C2 ▪ Rental rate: A1 - \$25.98 per sf (1st floor – corner of Cerrillos and Paseo de Peralta), A2 - \$11.05 per sf (2nd floor); C2 - \$9.60 per sf (2nd floor) <p>Building Size: A1 – 4,476 sf, A2 - 1,520 sf, C2 - 2,500 sf</p> <ul style="list-style-type: none"> ▪ Vacancy: 0% ▪ Lease type: Modified Gross ▪ Comments: Office property – average to good quality. First and second floor. Located east of the Railyard and west of the State Capitol – northeast corner of Cerrillos and Paseo de Peralta)

Analysis and Conclusion

In order to estimate market rent, the comparable rents were compared and adjusted. Estimation of market rent involved consideration of the following factors: lease type and attributes, physical attributes, and location. These elements are analyzed to determine if an adjustment is required. The elements are discussed below and the findings summarized and reconciled on a comparison grid. The market rent is originally estimated based on a primary location (329 Old Santa Fe Trail) and adjusted for a secondary location for the subject improvements located in a secondary location (215, 221, 225 E. DeVargas).

Lease type: Rents are primarily dependent on the type of lease. The three usual types of leases are modified gross, net and full service.

LEASE TYPE DESCRIPTION

Lease type	Expenses
Net	Tenant responsible for expenses ----- Tenant (lessee): All expenses Landlord (lessor): No expenses (may pay management)
Modified gross (typical)	Expenses are split between tenant and landlord ----- Tenant (lessee): Janitorial and utilities Landlord (lessor): Insurance, property taxes, maintenance and management
Full service	Landlord responsible for expenses ----- Tenant (lessee): No expenses Landlord (lessor): All expenses

The subject improvements are leased. The lease was provided for the appraisal. The operating expenses were not provided for the appraisal. In the downtown area, a net lease is typical. However, the subject is leased on a modified gross basis. The comparables represent modified gross and full service leases. Modified gross leases are assumed for the analysis.

As previously mentioned, the difference between a full service lease and a typical modified gross lease is that the tenant typically pays the utilities and janitorial with a modified gross lease which they do not with a full service lease. The cost of these two items usually ranges from \$2.50 to \$3.00 per square foot depending on how many times per week the building is cleaned, the building's location, and the level of the building's energy efficiency. The difference between a typical modified gross lease and a net lease is that the tenant pays all the expenses, including maintenance, property taxes and insurance as well as utilities and janitorial, in a net lease. The cost of these

expenses generally ranges from \$2.00 per square foot to \$3.00 per square foot depending on the age and amount of maintenance to the building.

Lease type adjustment:

- Full service to Modified gross: -\$2.50 per sf

Size: Size may also be a factor. Typically, smaller spaces generally rent for more per square foot than larger spaces. Comparison of the rent comparables did not produce a trend. The subject can function as a single tenant property or multiple tenant property. Based on this, a size adjustment was not applied.

Age/Condition: The age/condition of the comparables varied. The estimated effective age of the rent comparables is in the following table.

COMPARABLE EFFECTIVE AGE

No.	Estimated Effective Age
1	25 years
2	25 years
3	25 years
4	30 years
5	25 years
6	10 years
Subject	35 years

The age/condition adjustment developed in the sales comparison approach is applied to the comparables based on the subject's estimated effective age.

Functional utility/use: The subject and the comparables are located in the downtown area. Their functional utility varies - retail and office – and represents the primary commercial uses in the downtown. Conversion between these uses is typical of the downtown.

Location: The comparables differ in location. Comparables 1-3 are located in proximity to the subject in a secondary location to Old Santa Fe Trail. Comparable 1 has limited visibility from Old Santa Fe Trail. Comparable 4 is located in a primary location on Old Santa Fe Trail, but is located south of Paseo de Peralta in an area designated as periphery. Comparable 5 is located northwest of the subject and west of the Plaza. Comparable 5's development has frontage on Guadalupe and San Francisco. However, this comparable is located at the rear of the development and is accessed from the parking lot. Comparable 6 is located southwest of the subject. The units are

within the same building. Unit A1 is on the first floor and Units A2 and C2 are located on the 2nd floor. The comparables fall into two tiers based on their adjusted rent prior to consideration of location.

Tier	Comparables	Average adjusted \$ per sf before location adjustment	Adjustment
1	1 and 6 Unit A1	\$17.60	Similar
2	2, 3, 4, 5 and 6 Units A2 & C2	\$9.24	-47%

Based on the difference in the average adjusted price per square foot before consideration of location, an adjustment of 47% is developed and applied to Comparables 1 and 6 Unit A1.

Conclusion: The rents after adjustment are in the following table.

ADJUSTED RENT CHART - PRIMARY

No.	Unadjusted Rent/SF/year	Adjusted Rent/SF/year
1	\$17.47	\$8.33
2	\$11.07	\$9.96
3	\$9.60	\$8.64
4	\$11.44	\$10.87
5	\$14.16	\$10.49
6	\$25.98	\$10.32
	\$11.05	\$8.29
	\$9.60	\$7.20

The range of comparable rents after adjustment is from \$7.20 to \$10.87 per square foot per year on a modified gross basis. The subject's rent falls below this range; however, the subject is owned by a governmental entity and is not currently subject to property taxes. Based on proximity to the subject as well as utility, Comparables 1-3 are weighted. The subject's market rent on a modified gross basis is found in the following table.

MARKET RENT

Market Rent – modified gross	Comment
\$9.50 per sf	Current lease below market

NOTE: A market rent analysis was developed for the subject property in 2012 prior to the current lease. The market rent at that time was estimated to be \$7.00 per square foot on a net basis (tenant responsible for all expenses). The property was subsequently leased at \$7.00 per square foot on a modified gross basis (lessor/landlord responsible for property insurance and property taxes). The lessor is a governmental entity and is not subject to property taxes. The lessor is considered atypical in the market and the market rent is based on a typical buyer/seller. And in the case the property is sold, the buyer will be subject to property taxes.

Potential gross income (PGI): Multiplying the subject's gross square footage times the

market rent yields the potential gross income (PGI).

POTENTIAL GROSS INCOME

Market Rent (MG) x Size =	PGI
\$9.50 per sf x 5,209 square feet	\$49,486

Vacancy: Vacancy must be deducted from the potential gross income to determine the effective gross income. The subject is located in the downtown area in proximity of the State Capitol. Based on the subject's location and a typical three-year lease with three to five months between tenants and a reasonable renewal probability, a vacancy rate of 8% is estimated which is considered appropriate due to the subject's attributes.

Effective gross income (EGI): Deducting the vacancy from the potential gross income produces an effective gross income (EGI).

Expenses: The income approach is being calculated based on a modified gross basis. The subject's property expenses were not provided for the appraisal. In addition, the subject is owned by a governmental entity and is not subject to property taxes; however, this does not fall within the parameters of market value. Based on this, the expenses are estimated. The estimated property expenses for the subject are in the following table.

EXPENSE ESTIMATE - ANNUAL

Expense type		
Property tax	Estimate based on the value per the sales comparison approach	\$5,081
Insurance	@ \$0.35 per sf (main sf)	\$1,823
Maintenance	@ \$0.50 per sf (main sf)	\$2,605
Management	4% of EGI	\$1,821
Total		\$11,330

Reserve for replacements is money set aside for future repairs and maintenance of a major nature such as roof or stucco. Setting aside funds for this is not typical of the Santa Fe market. The sales from which the capitalization rates were extracted did not include deductions for replacement reserves. In order to maintain consistency with the comparables, no deduction was made for this item.

Net Operating Income (NOI): Deducting the lessor's expenses from the effective gross income (EGI) results in a net operating income (NOI). The NOI needs to be capitalized into an indication of value. The Net Operating Income is capitalized into an indication of value by dividing the NOI by an appropriate capitalization rate.

Capitalization Rate: The capitalization rate is the relationship between the sales price and the net income of the property. Inherent in this rate are all the influences of current market conditions, i.e. financing conditions, current interest rates, tax considerations, potential appreciation/depreciation possibilities, the personal needs and requirements of a purchaser and other factors.

Two methods were used to derive a capitalization rate to be used in the analysis. The first was to extract capitalization rates from actual sales. The second method was the Modified Band of Investment. This method assigns a weighted percentage to the equity return and the mortgage rate. These are then added to give an overall capitalization rate. Further support is sought from the PwC Real Estate Investor Survey (formerly Korpacz). Sales of commercial properties in Santa Fe have generally shown overall rates in the range of 6.0% to 10.0%. The market extracted rates have tended to rise over the past few years. The following table lists capitalization rates derived by extraction from the market for the past five years.

CAPITALIZATION RATES

Sale	Date of sale	Capitalization rate	Use
1672 Hospital Drive	07/08	7.0%	Office - medical
2590 Camino Entrada	08/08	7.9%	Office - medical
1474-1480 St. Francis	05/09	9.2%	Office
422 W. San Francisco	08/09	8.0%	Office/Retail - downtown
1215 Paseo de Peralta	09/09	8.3%	Office – downtown
1442-C St. Francis Drive	10/09	6.5%	Office
1925 Aspen Dr., Unit 801 A&B	05/10	7.2%	Office
221 Canyon Road	12/10	5.4%	Retail – downtown
421 St. Michaels Drive	01/11	6.5%	Office
404 Kiva Court Unit E	03/11	8.8%	Office
1421 Luisa Street Unit I	04/11	8.6%	Office
237 East Palace Avenue	08/11	7.0%	Retail - downtown
490-A West Zia Road	12/12	7.7%	Office - medical
2014 Cerrillos Road	03/13	8.5%	Restaurant

Based on the subject's attributes, primarily physical and locational, a market derived capitalization rate in the top half of the comparables from the downtown is deemed appropriate.

The modified band of investment is a method of determining a capitalization rate that utilizes current financing terms and rates. Derivation of the capitalization rate by this method requires determining the mortgage constant of the loan amount for the term and the interest rate of the loan. The mortgage constant is a total annual payment of

principal and interest (annual debt service) on the mortgage with a level payment amortization schedule expressed as a percentage of the initial principal amount of the loan.

Typical loan terms at this time were determined through conversations with local lenders and mortgage brokers. Typical commercial loans are currently being quoted at about 5.0% to 6.0% with a 75% loan to value and a 25 year amortization with rate adjustment at three- or five-year periods.

The modified band of Investment requires utilization of an equity capitalization rate which is a rate expressing the relationship between one year's pre-tax cash flow (NOI less the annual debt service) and the equity investment. Equity capitalization rates may be estimated from current so-called "safe rates" such as CDs, bonds, and T-bills, or they may be market extracted. Since equity capitalization rates (equity dividend rates) tend to change with the economy, only the most recent sales are applicable. None of the comparables produced sufficient data to calculate an equity capitalization rate.

It is also possible to build an equity capitalization rate using a known "safe" rate and adding percentage points for loss of liquidity and risk. "Safe rates" are derived from such sources as insured certificates of deposit and AAA bonds. At this time they lie generally in the range of 3.0% to 6.0%. Risk for the subject was viewed as moderate. Therefore, two points were added for risk. An additional 2% was needed to compensate for loss of liquidity. This resulted in a range of 7.0% to 10% for an equity capitalization rate when derived in this manner. Analysis of the sale of 1401 Maclovía produced an equity capitalization rate of 8.2% which is within the estimated range. Based on the attributes of the subject and relative investor grade, the lower end of the range was weighted and 8% is selected for the equity capitalization rate.

The modified band of investment assigns a weighted percentage to the two factors that make up the total capitalization rate. The weighted percentage was derived from the loan-to-value ratio. Therefore, the mortgage factor was assigned a percentage of 75% and the equity factor is 25% (100%-75%). The annual mortgage constant for 5.5% interest based on a five-year fixed term based on a 25-year amortization is 0.0755 or 7.55%. The calculation of the capitalization rate per the modified band of

investments is in the following table.

Modified band of investments		
<u>8% Return to Equity</u>		
Annual Constant	$0.074 \times .75 =$	0.0555
Equity Requirement	$0.08 \times .25 =$	0.0200
	Total	0.0755

Derivation of the capitalization rate to be utilized in the income approach requires reconciliation of the market-derived capitalization rate and the Modified Band of Investment. The market extracted rates indicate a range for the subject of 5.4% to 8.3% with the top half weighted. The Modified Band of Investment produced a capitalization rate of 7.55%. Further support was sought from the 1st quarter 2014 issue of PwC Real Estate Investor Survey (formerly Korpacz), which is the most recent issue. The publication does not include a category that exactly fits the subject. The rates for the National CBD Office Market range from 3.75% to 8.0% with an average of 6.27%. It should be noted that this survey utilizes investor grade properties. The subject's attributes such as location in the downtown may qualify it as investor grade; however, the subject's physical attributes, such as size and age as well as location within the downtown, may not qualify it as investor grade.

With this support and with most emphasis on the market extracted rates, a capitalization rate of 7.5% is concluded and is applied to the subject.

Income Approach Summary: Capitalizing the NOI results in a value indication. The income approach summary follows.

Income Approach Summary		
Potential Gross Income (PGI)		
Subject	Page 49	\$49,486
Less Vacancy	@ 8%	(\$3,959)
Effective Gross Income (EGI)		\$45,527
Less Expenses:	Page 49	(\$11,330)
Net Operating Income (NOI)		\$34,197

The Net Operating Income (NOI) must be capitalized in order to achieve a final value per the income approach. The NOI is divided by the Cap Rate.

PRELIMINARY VALUE PER THE INCOME APPROACH – DIRECT CAPITALIZATION

NOI/Capitalization rate =	Value
$\$34,197/7.5\% =$	\$455,960

Final Value: For the final value, the impact of the below market lease and renovation/upgrades are applied to the preliminary value. The total value calculation is in the following chart.

TOTAL VALUE PER THE INCOME APPROACH – DIRECT CAPITALIZATION - 'AS IS'

Detail	Value
Preliminary value per the income approach – direct capitalization	\$455,960
Value of the below market lease	(\$67,014)
Contributory value: renovation/upgrade	\$15,801
	Total
	\$404,747
	Rounded:
	\$400,000

Discounted Cash Flow

In addition to the Direct Capitalization methods of valuing the subject, a DCF was also completed. This method values the subject through the existing leases on the property. Hence, it gives a more accurate estimate of the value of a property that is leased. Income and expenses are forecasted over an estimated holding period and the reversionary value of the property is calculated by capitalizing the income at the end of the holding period. The annual net income to the subject and the estimated value of the subject at the end of the holding period were discounted to the effective date of valuation to yield an estimated value for the subject property. The specific parameters of the DCF are summarized below.

DCF PARAMETERS

Summary	
Timing	Projection period: 25 year holding period – initial term of the lease Based on subject’s long term leases. Analysis Start Date: 03/2014
Area Measure	5,209 square feet (useable/leasable)
Property Inflation	CPI: 3% (general) Based on historical average Income (market): 0% years 1 & 2, 3% after Expenses: 3.0% Based on CPI; PwC Real Estate Investor Survey: 2%-4% General vacancy: 0% Vacancy accounted for in MLA
Tenant	Existing lease parameters Income and expenses as detailed previously Market Lease Assumptions: <ul style="list-style-type: none"> • Renewal rent: based market (escalated) • Renewal probability: 75% (based on tenancy) • Market rent: per report • Months vacant between tenants: 5 months • TIs: \$0 per sf – TIs are not typical of the downtown • Leasing commission: 5% • Term lengths for new leases: 5 years
Discount rate	9% (5 rate array in the analysis/printout) Based on capitalization rate plus risk. Supported by PwC Real Estate Investor Survey Monthly discounting
Terminal Capitalization rate	7.5% - subject is located in the downtown/BCD – considered limited risk
Discounting software	Argus: Version 15.0.1.26

A summary of the result of the DCF analysis is found in the following table.

Copies of the computer printout of the entire spreadsheet may be found in the addenda to the report.

DCF SUMMARY

		139 & 141 E DeVargas Santa Fe, NM 87501		Software: ARG US Ver. 15.0.1.26 File: 2014 C3714 139_141 E DeVargas Property Type: Office & Retail Portfolio: Date: 3/20/14 Time: 4:35 pm Re#: ABD Page: 2			
		Prospective Present Value Cash Flow Before Debt Service plus Property Resale Discounted Monthly (Effective Rate) over a 25-Year Period					
Analysis Period	Forth Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 8.00 %	P.V. of Cash Flow @ 8.50 %	P.V. of Cash Flow @ 9.00 %	P.V. of Cash Flow @ 9.50 %	P.V. of Cash Flow @ 10.00 %
Year 1	Feb-2015	\$24,895	\$23,893	\$23,834	\$23,576	\$23,518	\$23,461
Year 2	Feb-2016	24,286	21,863	21,510	21,259	21,210	21,062
Year 3	Feb-2017	24,067	19,795	19,565	19,338	19,115	18,896
Year 4	Feb-2018	23,739	18,080	17,787	17,501	17,220	16,945
Year 5	Feb-2019	25,449	17,905	17,532	17,167	16,812	16,466
Year 6	Feb-2020	31,567	20,606	20,085	19,580	19,091	18,615
Year 7	Feb-2021	32,515	19,652	19,068	18,503	17,957	17,430
Year 8	Feb-2022	33,400	18,743	18,101	17,485	16,891	16,321
Year 9	Feb-2023	34,495	17,874	17,183	16,522	15,889	15,283
Year 10	Feb-2024	35,530	17,048	16,313	15,612	14,946	14,310
Year 11	Feb-2025	36,596	16,258	15,485	14,753	14,058	13,400
Year 12	Feb-2026	37,693	15,505	14,701	13,941	13,224	12,546
Year 13	Feb-2027	38,824	14,787	13,955	13,174	12,439	11,749
Year 14	Feb-2028	39,989	14,103	13,248	12,448	11,701	11,000
Year 15	Feb-2029	41,188	13,450	12,576	11,763	11,005	10,301
Year 16	Feb-2030	42,424	12,827	11,939	11,116	10,353	9,646
Year 17	Feb-2031	43,697	12,233	11,233	10,503	9,738	9,031
Year 18	Feb-2032	45,007	11,667	10,759	9,926	9,160	8,457
Year 19	Feb-2033	46,358	11,127	10,214	9,379	8,616	7,918
Year 20	Feb-2034	47,749	10,612	9,696	8,863	8,105	7,415
Year 21	Feb-2035	49,181	10,120	9,204	8,375	7,624	6,942
Year 22	Feb-2036	50,656	9,652	8,738	7,914	7,171	6,501
Year 23	Feb-2037	52,177	9,205	8,295	7,478	6,745	6,088
Year 24	Feb-2038	42,835	7,041	6,318	5,672	5,095	4,578
Year 25	Feb-2039	58,106	8,791	7,849	7,012	6,267	5,604
Total Cash Flow		962,413	372,437	355,088	338,960	323,950	309,964
Property Resale @ 7.50% Cap		728,042	106,307	94,714	84,429	75,301	67,195
Total Property Present Value			\$478,744	\$449,802	\$423,389	\$399,251	\$377,159
Rounded to Thousands			\$479,000	\$450,000	\$423,000	\$399,000	\$377,000
Per SqRt			91.91	86.35	81.28	76.65	72.41
Percentage Value Distribution							
Assured Income			75.86 %	77.11 %	78.32 %	79.49 %	80.82 %
Prospective Income			1.93 %	1.83 %	1.74 %	1.65 %	1.56 %
Prospective Property Resale			22.21 %	21.06 %	19.94 %	18.86 %	17.82 %
			100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

PRELIMINARY VALUE PER THE INCOME APPROACH - DISCOUNTED CASH FLOW - 'AS IS'

Summary

DCF

\$423,389

Final Value: For the final value, the impact of the below market lease and renovation/upgrades are applied to the preliminary value. The DCF incorporates the specific parameters: subject's income and property expenses. The impact of the below market lease is inherent in the DCF analysis. Therefore, the contributory value of the renovation/upgrade must be added to the preliminary value per the DCF. The total value calculation is in the following chart.

TOTAL VALUE PER THE INCOME APPROACH – DCF - 'AS IS'

Detail	Value
Preliminary value per the income approach – DCF	\$423,389
Contributory value: renovation/upgrade	\$15,801
	Total
	\$439,190
	Rounded:
	\$440,000

RECONCILIATION AND VALUE CONCLUSION

The indications of values are as follows:

VALUE INDICATIONS	Value
Sales Comparison Approach	\$520,000
Income approach	
• Direct Capitalization	\$400,000
• Discounted Cash Flow	\$440,000

The subject consists of a single building on a single lot within the downtown/BCD. The building is historical in nature and has historically functioned as an office building.

The subject was appraised to its highest and best use. For the appraisal, the sales comparison approach and the income approach (two methods: direct capitalization and DCF) are developed. Each of these approaches to value has validity and applicability to the appraisal problem. Ideally speaking, if each was done exactly correctly (implying uniform data), they would result in identical value estimates. However, the real estate market is not an exact arena. No two sales are exactly the same, and rarely, if ever, are two commercial properties exact duplicates. Therefore, it is the responsibility of the appraiser to apply logic and experience to the data provided. Based on the age of the existing improvements and the level of renovation, depreciation could not be estimated with a high level of confidence. Therefore, the cost approach was not applied.

The reliability of the sales comparison approach is dependent upon the degree of similarity of the comparables. The search for improved sales comparables was extended to 2011 and included retail, restaurant and office uses. The comparables available for the sales comparison approach are ample. The adjustments were market derived and quantitative in nature. The value derived from this approach should be considered reliable.

The income approach is developed using two methods: direct capitalization and discounted cash flow. In the direct capitalization method, the gross rental income of the subject units are estimated by determining the market rent from a survey of competing properties. A capitalization rate was estimated by two methods, market extraction and modified band of investment, and supported by the PwC Real Estate Investor Survey.

The net operating income was divided by the capitalization rate to yield a value by the income approach. The rent comparables for the income approach were comparable and are considered adequate. In the discounted cash flow, the income stream based on the subject's occupancy, lease parameters and the reversionary value of the subject are calculated and discounted back based on an estimated discount rate. The supporting data for the income approach is sufficient, and the value resulting from this approach should also be considered reliable.

Reconciliation to a final value estimate involved consideration given to all approaches to value depending on their reliability. Most investors rely primarily on the income approach. However, commercial properties in the downtown are typically motivated by location rather than expected income, and the purchasers are willing to pay higher prices. This puts downward pressure on the capitalization rates associated with the downtown area. Based on the reliability of the approaches and the nature of the subject, the sales comparison receives most weight.

Based on the data presented in the report, it is my opinion that the most probable market value of the leased fee ownership interest (subject to easements and restrictions of record) in the subject 'as is' as of March 17, 2014 is:

FINAL VALUE

Subject: 139/141 East DeVargas Street		
Market value – As Is	leased fee	Five Hundred Thousand Dollars \$500,000

ADDENDA

ENGAGEMENT LETTER

HIPPAUF & ASSOCIATES, INC.
REAL ESTATE APPRAISERS AND CONSULTANTS

Peter H. Hippauf, MAI, SRA
Michael Dry, MAI
Kay L. Sutt, Associate
Tim Connelly, Associate

404 Brunn School Road
Building B
Santa Fe, New Mexico 87505
(505) 988-8059
FAX: (505) 988-5743
www.hippauf.com

March 13, 2014

Galisteo Corporation
Ira Seret
224 Galisteo
Santa Fe, New Mexico 87501

RE:	Fee proposal to appraise the property at 139-141 E. Devargas Santa Fe, New Mexico
------------	--

Dear Mr. Seret:

At your request, I am submitting this fee proposal to appraise the above referenced properties. Our fee to provide an appraisal report is found in the following table.

Fee Proposal							
Property	139-141 E. Devargas, Santa Fe						
Value	Market Value						
Report Format	Appraisal Report						
Price	<table> <tr> <td>\$4,200.00</td> <td>Appraisal</td> </tr> <tr> <td>+\$343.88</td> <td>Tax</td> </tr> <tr> <td>\$4,543.88</td> <td>Total Fee</td> </tr> </table>	\$4,200.00	Appraisal	+\$343.88	Tax	\$4,543.88	Total Fee
\$4,200.00	Appraisal						
+\$343.88	Tax						
\$4,543.88	Total Fee						
Delivery	March 18, 2014						
Interest valued:	Leased fee – subject is encumbered by a lease						
Intended users:	Client: Galisteo Corporation						
Intended use:	Asset valuation/Possible purchase						
Comments	The subject is an older office building with minimal parking. Property was previously appraised – Market Rent – in 2012						

An electronic copy of the report will be provided to you unless otherwise noted. The delivery date is predicated on a timely acceptance/engagement and is constituted by our receipt of a signed and dated copy of the fee proposal. It is our policy to require the fee to be paid at the time the fee proposal is accepted and the signed fee proposal is delivered to us. In this case, this policy is waived and the fee will be due upon delivery.

Attached to this letter are our General Assumptions and General Limiting Conditions which apply to the appraisal. The document becomes part of this contract. The appraisal will be completed in accordance with the Uniform Standards of Professional Appraisal Practice.

If this fee proposal is satisfactory, please sign below, initial the attached conditions and return them at your earliest convenience. If you have any questions, please feel free to contact me. Thank you for considering our firm for this assignment.

Yours truly,


Approval Signature

3/13/14
Date


Michael Dry, MA

Vice-President, Galisteo Street Inc.

HIPPAUF & ASSOCIATES, INC.
REAL ESTATE APPRAISERS AND CONSULTANTS

The appraisal report will be prepared according to the Uniform Standards of Professional Appraisal Practice and subject to the following General Assumptions and Conditions and to such other specific and limited conditions as many be set forth by the appraiser in the appraisal report.

General Assumption

1. The legal description of the property to be appraised will be furnished by you and is assumed to be correct; however, no responsibility is assumed by the appraiser as to its accuracy or legal sufficiency.
2. No survey of the property will be made by or through the appraiser and no responsibility is assumed by the appraiser in connection with survey matters. Sketches in the appraisal report will be included only to assist the reader in visualizing the property.
3. No responsibility is assumed by the appraiser in connection with matters of legal nature affecting title to property, nor is any opinion of title or its sufficiency rendered, or it requested of the appraiser. Title is assumed to be good and merchantable.
4. Information will be solicited from others by the appraiser in connection with the preparation of the appraisal report and will be assumed by the appraiser to be true, correct and reliable. A reasonable effort will be made by the appraiser to verify such information; however, no responsibility for its accuracy is assumed by the appraiser.
5. All mortgages, liens, encumbrances, leases and servitude will be disregarded unless so specified within the report. The property will be appraised on the assumption that it is under responsible ownership and competent management.
6. The Property will be appraised on the following additional assumptions:
 - a. That there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed by the appraiser for such conditions or for engineering which may be required to discover them.
 - b. That there has been and is full compliance with all applicable federal, state, and local environmental regulations and laws, unless non-compliance is stated, defined and considered in the appraisal report.
 - c. That all applicable zoning and use regulations and restrictions have been and are being complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.
 - d. That all required licenses, consents or other authority from any local, state, or national governmental or private entity or Organization have been or can be obtained or renewed.
 - e. That the utilization of the land and improvements is within the boundaries or property lines of the property described and that there are no overlap, encroachments or trespasses unless noted within the report.

General Limiting Condition

1. The appraiser will not be required to give testimony or appear in court with references to the property in question, unless arrangements have been previously made.
2. Possession of the report, or a copy thereof, does not carry with it the right of publication. It may not be used for any person other than the party to whom it is addressed, without the written consent of the appraiser, and, in any event, only with proper written qualification and only in its entirety.
3. No environment impact study was either requested or made in conjunction with the appraisal, and the appraiser hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.
4. Neither all, or any part of the contents of the report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media, without written consent and approval of the appraiser. Nor shall the appraiser, firm or professional organization of which the appraiser is a member, be identified without written consent of the appraiser.
5. Should it become necessary for the appraiser to hire legal counsel for the purpose of collecting the fees for this appraisal, HIPPAUF AND ASSOCIATES, INC. shall be entitled to all costs of collection, including reasonable attorney's fees, if collected by law or through an attorney at law.

SC
Initial Here

3/13/14
Date

Susana Martinez
Governor

Demesia Padilla, CPA
Cabinet Secretary

Divisions

Office of the Secretary
(505) 827-0341

Administrative Services
(505) 827-0369

Audit and Compliance
(505) 827-0900

Motor Vehicle
(505) 827-2296

Property Tax
(505) 827-0870

Revenue Processing
(505) 827-0800

Tax Fraud Investigations
(505) 841-6544

March 14, 2014

Brett F. Woods, Deputy Cabinet Secretary
Energy, Minerals and Natural Resources Department
Office of the Secretary
1220 S. St. Francis Drive
Santa Fe, NM 87505

RE: House Joint Resolution 8, Request for Approval of Appraiser

Dear Dr. Woods,

We are in receipt of your request to approve Mr. Hippauf and Mr. Dry to appraise the property located on East DeVargas Street. The Property Tax Division does not maintain an approved appraiser list, nor do we pre-approve appraisers. We review appraisals as required under 1.5.23 NMAC which requires that the appraisal be "completed by a general certified appraiser for commercial property or a general certified appraiser or a residential certified appraiser for residential property".

After review of the qualifications of Mr. Hippauf and Mr. Dry both hold a current and valid General Certified Appraiser license issued by the NM Real Estate Appraisal Board and are; therefore, qualified under 1.5.23 NMAC to complete appraisals of both residential and commercial properties.

If I can be of further assistance please do not hesitate to contact me at 505-827-0871.

Sincerely,



Cesario S. Quintana, Director
Property Tax Division

ADDENDA: 139/141 E DeVargas

WARRANTY DEED

STATE OF NEW MEXICO COUNTY OF SANTA FE	5-58
I hereby certify that this instrument was filed for record	
on the 27 th day of July	A. D. 1960
at 5:00 o'clock P. M.	and was duly recorded
in book _____ of the records of _____	County
Witness my hand and Seal of Office	
JOE B. GARCIA	
County Clerk, Santa Fe Co., N. M.	
<i>Joe B. Garcia</i>	
() Deputy	

WARRANTY DEED

THE COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO, for and in consideration of the conveyance to the said Commissioner of the lands presently occupied by the State Park Commission for its administrative offices in the City of Santa Fe, State of New Mexico, and the payment of Twenty Thousand Dollars (\$20,000.00) by the State Park Commission, grants to the STATE OF NEW MEXICO the following described real estate situate in the City and County of Santa Fe, State of New Mexico, to-wit:

Commencing at a point upon the East boundary line of Lot 9, Block 53, and the West boundary line of Lot 8, Block 53, of King's Map of the City of Santa Fe, from which point the center of the sewer manhole cover located in East De Vargas Street bears S. 14° 05' W. 22.5 feet; thence S. 16° 06' W. 50.5 feet; thence N. 80° 00' W. 31.93 feet and from said point of beginning N. 14° 05' E. 1.46 feet to a 1/2 inch iron rod; thence S. 74° 03' E. 75.45 feet to the Northeast corner of the tract herein described; thence S. 13° 48' W. 76.59 feet to a point on the North side of East De Vargas Street, said point being the Southeast corner of this tract; thence N. 72° 57' W. 77.63 feet along East De Vargas Street to a point; thence continuing along East De Vargas Street N. 65° 00' W. 65 feet to a point being the Southwest corner of this tract; thence N. 23° 00' E. 39 feet to a point; thence S. 67° 00' E. 8.5 feet to a point; thence N. 23° 00' E. to a point located at the South edge of a rock retaining wall; thence along the South side of the said rock retaining wall in an Easterly direction to the point and place of beginning.

with warranty covenants.

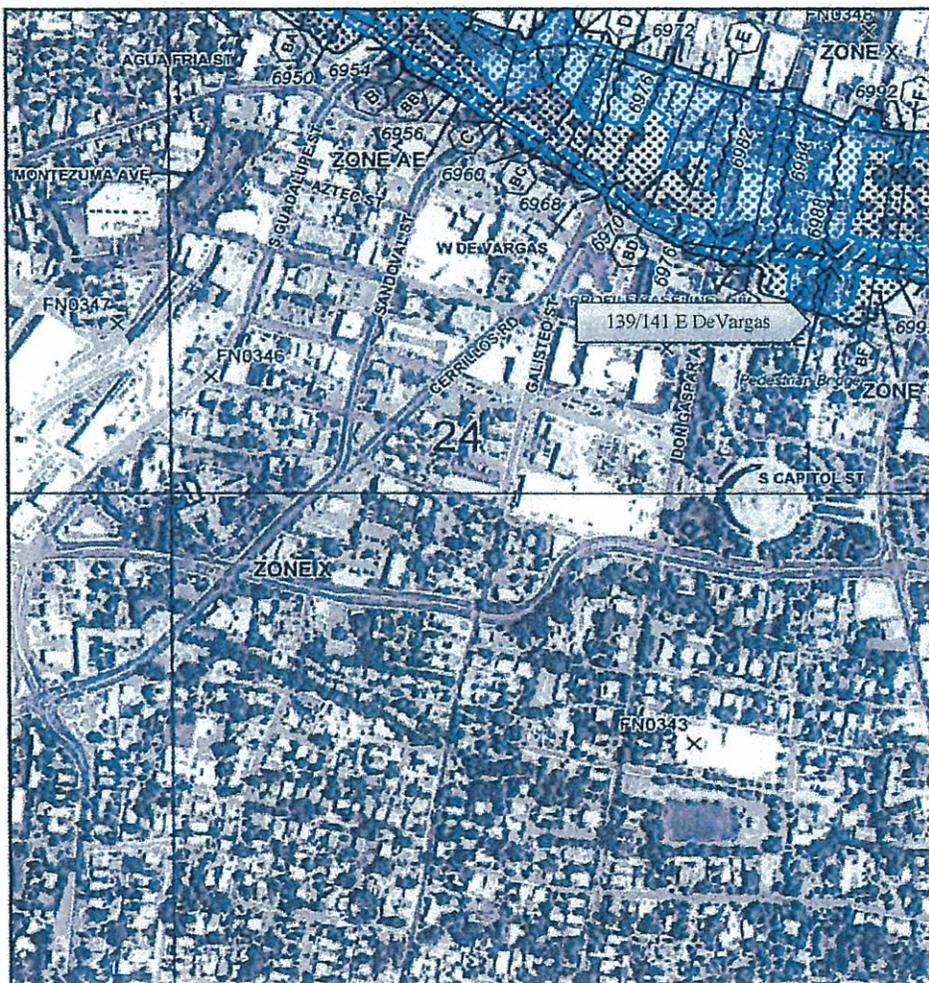
IN WITNESS WHEREOF the Commissioner of Public Lands of the State of New Mexico has hereunto set his hand and affixed the official seal of the State Land Office this 1 day of July, 1960.

(Seal)

W. H. ...
COMMISSIONER OF PUBLIC LANDS,
STATE OF NEW MEXICO

ADDENDA: 139/141 E DeVargas

FLOOD MAP



MAP SCALE 1" = 500'



PANEL 0412E

FIRM
FLOOD INSURANCE RATE MAP
SANTA FE COUNTY,
NEW MEXICO
AND INCORPORATED AREAS

PANEL 412 OF 1100

(SEE MAP INDEX FOR FIRM PANEL LAYOUT)

DATE	COMPILED	PANEL	SUFFIX
SANTA FE CITY OF	2009	0412	E

Users Note: This Map Number should be used to identify the Flood Insurance Rate Map (FIRM) when ordering the Community Number. Users should consult the FEMA Flood Map Store for the latest information.



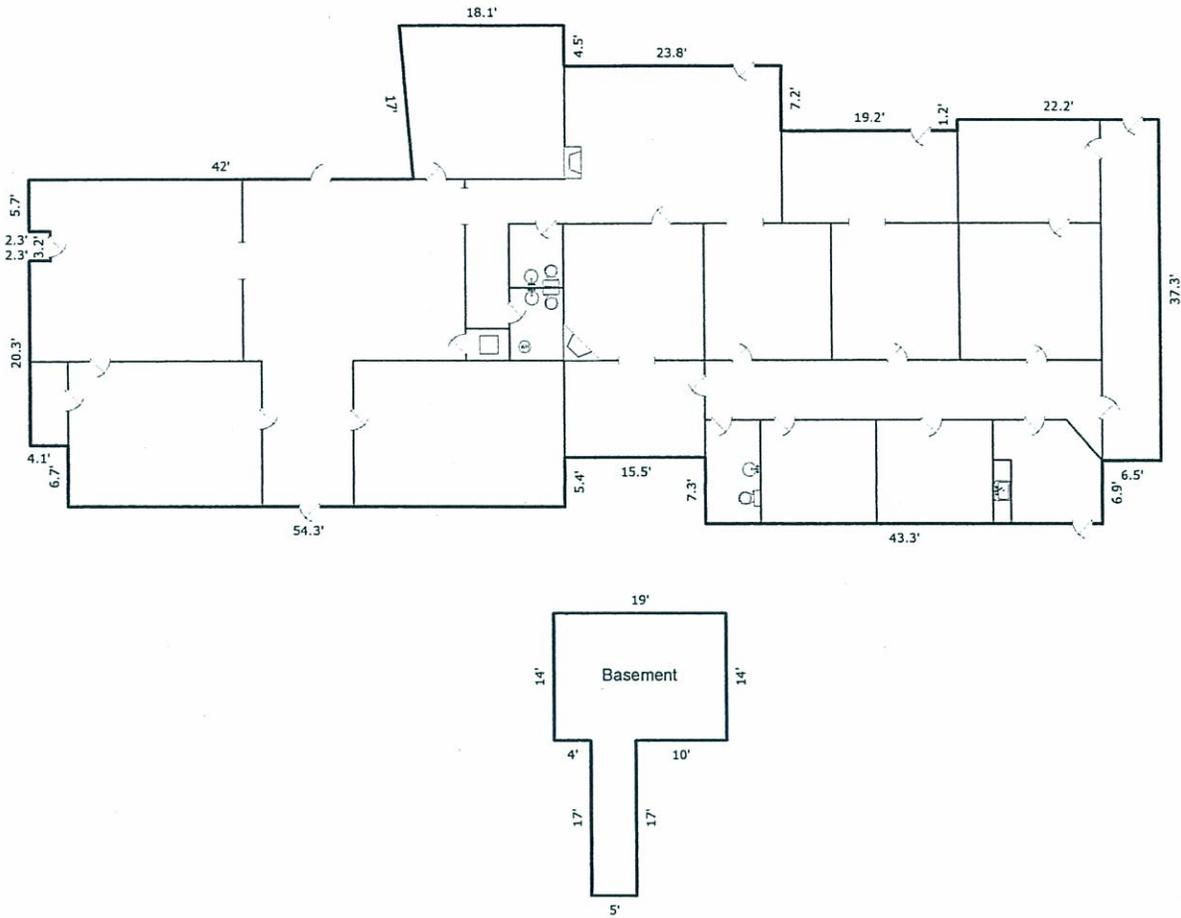
MAP NUMBER
35049C0412E
MAP REVISED
DECEMBER 4, 2012

Federal Emergency Management Agency

This is an official copy of a portion of the above referenced flood map. It was extracted using F-MIT On-Line. This map does not reflect changes or amendments which may have been made subsequent to the date on the title block. For the latest product information about National Flood Insurance Program flood maps check the FEMA Flood Map Store at www.msc.fema.gov

FLOOR PLAN

East De Vargas Street



Comments:

AREA CALCULATIONS SUMMARY

Code	Description	Net Size	Net Totals
GLA1	First Floor	5209.23	5209.23
BSMT	Basement	351.00	351.00

LIVING AREA BREAKDOWN

Breakdown			Subtotals
First Floor			
	6.9 x	43.3	300.65
	119.7 x	1.3	155.63
	0.4 x	49.9	18.21
0.5 x	0.0 x	6.9	0.06
	5.4 x	54.3	293.22
	123.8 x	20.3	2513.51
	3.2 x	121.5	388.86
	123.8 x	5.7	705.76
	5.2 x	81.8	428.34
	4.5 x	17.7	79.68
	7.2 x	40.9	294.31
	1.2 x	22.2	26.64
0.5 x	5.2 x	0.5	1.20
0.5 x	4.5 x	0.4	0.89
0.5 x	7.2 x	0.6	2.27

Net LIVABLE Area (rounded) 5209

15 Items (rounded) 5209

ADDENDA: 139/141 E DeVargas

LEASE

LEASE AGREEMENT

THIS LEASE AGREEMENT (Lease) for real estate described below is entered into between the New Mexico Energy, Minerals and Natural Resources Department (EMNRD), State Parks Division (Lessor) and Galisteo Street, Inc., a New Mexico corporation (Lessee).

Lessor and Lessee agree as follows:

1. **Property Leased.** In consideration of the terms and conditions in this Lease, Lessor leases to Lessee those Premises with appurtenances (Premises) situated at 139 & 141 E. De Vargas Street, County of Santa Fe, New Mexico, described as:

139/141 East De Vargas, Lots 5 and 6, Block 53 of the Kings Map of the City of Santa Fe and Warranty Deed Recorded December 23, 1960. Book 173, Page 525, County Clerk.

2. **Term and Termination.** This Lease's initial term is for 25 years from the approval date of the New Mexico Board of Finance. If Lessee desires an extension of this Lease, Lessee shall, at the beginning of year 20 of the Lease, request an extension from Lessor in writing, for a period of up to 25 years. The term extension and payment schedule requires approval by Lessor and ratification by the New Mexico State Legislature, pursuant to NMSA 1978, §13-6-3.

3. **Early Termination.** This Lease may terminate prior to the end of the term set forth in Paragraph 2 of this Lease, without penalty to the Lessee, upon the occurrence of one or more of the following events:

A. the New Mexico Legislature fails to grant sufficient authority and appropriations to the Lessor to carry out the terms and conditions of this Lease; or

B. the Governor of New Mexico, pursuant to Executive Order, or the New Mexico Legislature, pursuant to statute, eliminates or transfers employees or functions of the Lessor.

Upon the occurrence of one or more of the above events, this Lease shall terminate automatically by operation of law or 90 days after written notice to Lessee by Lessor of the occurrence of such an event, whichever occurs first. In either event, Lessor agrees to provide Lessee with as much notice as is possible under the circumstances. Lessor's decision as to whether one or more of the above events has occurred shall be final and binding upon Lessee.

4. **Right to Terminate upon Breach of Condition or Lease.** Either party may terminate this Lease upon the other party's substantial breach of any term or condition contained in this Lease, provided that the breaching party shall be given 30

days from the receipt of written notice of a substantial breach to cure the breach or to begin and proceed, with due diligence, to cure a breach that cannot be cured within 30 days. In the event of a substantial breach, the non-breaching party shall give the breaching party written notice that describes the nature of the breach and notifies the breaching party that, unless the breach is cured within the time limits contained herein, the Lease shall terminate without further notice at the end of the cure period. Upon termination of the lease for any reason, the Lessee shall surrender the premises to the Lessor and shall be obligated to pay rent only to the date of surrender.

5. **Consideration.** In consideration of this Lease, Lessee shall pay rent as follows:

A. monthly payments of \$3,039, due and payable on the first day of each month for the first five years of this Lease;

B. monthly payments of \$3,750, due and payable on the first day of each month for year six of this Lease; and

C. for years seven through 25 of this Lease, payments will increase from \$3,750 by three percent each year. In the event the Lease is extended, Lessor and Lessee shall renegotiate payments at that time;

Lessee's failure to pay the monthly payment by the 10th day of the month shall result in a penalty fee of 10 percent of the monthly payment. Subject to the provisions of Section 4 pertaining to notice, late payment may also result in termination of this Lease.

6. **Address for Notices, Payment of Rent, etc.** Notices required under this Lease and rental payments shall be made at the following addresses, except as changed by written notice to the opposite party:

Lessor: EMNRD
State Parks Division
~~P.O. Box 1147~~ CR
1220 S. St. Francis Drive
Santa Fe, NM 87504
Telephone No.: (505) 476-3393
Fax No.: (505) 476-3361

Lessee: Galisteo Street, Inc.
226 Galisteo Street
Santa Fe, NM 87501
Telephone No.: (505) 983-5008
Fax No.: (505) 982-3027

7. **Alterations.** Lessee commits to spending a minimum of Two Hundred Fifty Thousand Dollars (\$250,000) in renovations and upgrades to the Premises.

Lessee shall obtain Lessor's written permission, which is subject to consultation with the Department of Cultural Affairs, Historic Preservation Division, pursuant to the Cultural Properties Act, NMSA 1978, § 18-6-1, before making any alterations or improvements of a temporary or permanent nature. The use of the Premises shall not be a reason for denial of Lessee's requested alterations or improvements, provided such use is permissible under the current city zoning regulations and applicable state rules for significant historic structures. Premises are listed on the National Register of Historic Places and are part of the Santa Fe Historic District, requiring consultation with the Historic Preservation Division for any building modifications. Lessee must communicate with Lessor to ensure compliance with applicable cultural resource laws and rules. It will be the responsibility of the Lessor to communicate with and obtain any approvals from the Historic Preservation Division required by state rule.

8. **Ownership of Improvements.** All alterations and improvements made to or placed on the Premises by Lessee shall remain Lessor's property except when the parties have mutually agreed in writing or if such alterations and improvements can be removed without undue damage to the Premises and are, in fact, removed by Lessee prior to termination of this Lease or any renewal thereof or within 30 days after termination. Alterations and improvements of a permanent nature, which cannot be removed without undue damage to the Premises, shall become Lessor's property except as the parties mutually agree otherwise in writing.

9. **Condition of Premises upon Surrender.** At this Lease's termination, Lessee shall surrender the Premises in the condition in which the Premises were at the inception of this Lease, excepting:

- A. deterioration caused through reasonable use and ordinary wear and tear;
- B. alterations, improvements, or conditions made with Lessor's written approval; and
- C. any change, damage, or destruction not resulting from Lessee's willful act.

10. **Utilities and Janitorial Services.** Lessee shall be responsible for payment of all utilities and janitorial services. All utilities will be placed in the Lessee's name.

11. **Right of Entry.** Lessor or Lessor's agent has a right to enter the Premises, with 48 hours' written notice, to inspect, make repairs, and for other reasonable purposes. In an emergency, such as flood or fire, Lessor or Lessor's agent may enter the Premises without securing Lessee's prior permission, but shall give Lessee notice of entry as soon thereafter as practicable.

12. **Duty to Maintain Premises.** Lessee is responsible for all maintenance, repair, and replacement of the Premises, including but not limited to all building

structural elements, the roof, windows, parking lots, sidewalks, exterior doors, lighting, cooling system, heating system, plumbing, lighting fixtures, interior doors, and flooring.

13. **Destruction of Premises.** If the Premises shall be so damaged by fire or other catastrophe as to render said Premises untenable, and if such damage shall be so great that it cannot be made fit for occupancy within 180 days from the happening thereof, with the exercise of reasonable diligence, then this Lease shall cease and terminate from the date of the occurrence of such damage. Lessee thereupon shall surrender to the Lessor said Premises and all interest therein hereunder, and the Lessor may re-enter and take possession of said premises. Lessee shall pay rent, duly apportioned, up to the time of the catastrophe. If, however, damage shall be such that said Premises can be made tenantable within 180 days from the happening of such damage by fire or other catastrophe, and the General Services Department, Risk Management Division grants the claim to repair the damages, the Lease may terminate at either Party's option, or Lessor shall repair the damage so done with all reasonable speed, and the rent shall be abated for the period during which the Lessee shall be deprived of the use or benefit of said Premises by reason of such damage and the repair thereof. It shall be prima facie evidence, as the term is used above, of the untenability of the Premises and of the inability to make the Premises fit for occupancy within 180 days if so certified by a competent architect regularly engaged in such profession in Santa Fe County. If only a portion of the Premises are untenable, then the rent shall be reduced on a prorated basis to reflect the portion that is untenable.

14. **Right to Assign or Sublease.** Lessee does not have the right to assign or sublease the leased Premises or any part of them without written approval from Lessor which approval shall not be unreasonable withheld. Upon execution of this Lease, it shall be assigned to Lessee's sister corporation, 1001 Nights, Inc., a New Mexico corporation d/b/a the Inn of the Five Graces. Lessee's obligation to pay the portion of the rent represented by the sublease or assignment shall remain. Sublease agreements shall be between the Lessee and said entity. Payment liability and damages to the Premises shall remain that of the Lessee.

15. **Duty to Insure.**

A. Lessee shall maintain personal property insurance sufficient to cover any property belonging to Lessee. Lessee shall also maintain premises liability insurance in the following amounts: \$1,000,000 for each occurrence, and \$2,000,000 aggregate. The premises liability policy shall name Lessor and the State of New Mexico as additional insured.

B. Lessee shall provide certificates of coverage or proof of self-insurance evidencing compliance with this section, which shall be attached to this Lease at the time of execution and shall notify Lessor within 10 days after cancellation or expiration of any required coverage.

16. **Lease Binding.** This Lease is binding upon the heirs, executors, administrators, personal representatives, assignees, and successors-in-interest of the parties.

17. **Amendments to be in Writing.** This Lease shall not be changed or altered except by written amendment executed by both parties and approved by the Board of Finance.

18. **Merger of Prior Agreement.** This Lease incorporates all of the conditions, agreements, and understandings between the parties concerning the subject matter of this Lease, and all such conditions, agreements, and understandings have been merged into this written Lease. No prior condition, Lease, or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in this written Lease.

19. **Financial Assurance.** Prior to using the Premises, Lessee shall provide Lessor with proof of financial assurance, in the form of a Surety Bond or Irrevocable Line of Credit, satisfactory to Lessor conditioned upon the faithful performance of the Lease in a minimum amount \$10,000. This financial assurance shall remain in place through the life of this Lease.

20. **Accessibility to the Disabled.** Lessee shall ensure the Premises meet standards consistent with the Americans with Disabilities Act (ADA). Lessee shall also maintain the Premises in compliance with ADA standards.

21. **Hazardous Waste.**

A. The term "hazardous substances," as used in this Lease, means pollutants, contaminants, toxic or hazardous wastes, or any other substances, their removal of which is required or the use of which is restricted, prohibited, or penalized by any "environmental law," which term shall mean any law relating to health, pollution, or protection of the environment. Lessee hereby agrees that:

1) no activity will be conducted on the Premises that will produce any hazardous substances;

2) the Premises will not be used in any manner for the storage of any hazardous substances; and

3) Lessee will not permit any hazardous substances to be brought onto the Premises, with the exception of common commercial cleaning products and products use in pest control, and if so brought or found located thereon, the same shall be immediately removed by Lessee, with proper disposal, and all required cleanup procedures shall be diligently undertaken pursuant to all environmental laws.

B. If at any time during or after the term, the Premises are found to be so contaminated or subject to such conditions as a result of Lessee's use of the

Premises or breach of this Lease, Lessee shall defend, indemnify, and hold Lessor harmless from all claims, demands, actions, liabilities, costs, expenses, damages, and obligations of any nature arising from or as a result of the use of the Premises by Lessee.

C. Lessor may enter the Premises and conduct environmental inspections and tests therein as Lessor may require from time to time, provided that Lessor shall use reasonable efforts to minimize the interference with Lessee's business. Such inspections and tests shall be conducted at Lessor's expense, unless they reveal the presence of hazardous substances.

D. Lessor agrees that Lessee has no obligation to and does not indemnify Lessor for any claims or damages due to any hazardous substances existing or present on the Premises prior to or on the commencement date.

22. Eminent Domain.

A. In the event that the Premises is taken in whole or in part by condemnation proceedings or eminent domain, or in the event that Lessor (and Lessee if necessary) shall convey all or a part of said Premises in avoidance or in settlement of such condemnation proceedings (either of which is referred to hereinafter as "the taking"), Lessor and Lessee herein agree as follows: If the taking is of a part of the Premises, then from the time of taking of physical possession by the condemnor or proposed condemnor, the then rent payable hereunder shall abate in the ratio that the area of the Premises before such taking; provided, however, that in the event a portion of said Premises in excess of three-quarters of the area thereof is taken, or if such taking shall render the remainder of the Premises unsuitable for the use to which it has been put immediately prior to such taking, then at Lessee's option this Lease shall terminate. Whether condemnation be for a part or the whole of the Premises, the award, sale price or amount received in settlement will be apportioned between Lessor and Lessee as follows:

1. First to the Lessor - All amounts attributable to the value of the land and Premises taken, with such land and improvements to be valued as if free and clear of all liens and encumbrances including this Lease, and as if in the same condition as at the time of execution of this Lease.

2. Next, to the Lessee - All amounts attributable to the value of any taken leasehold improvements installed by the Lessee to be valued as if free and clear of all liens and encumbrances including this lease, as if in the same condition as at the time of execution of this Lease.

3. Finally, to the Lessor - The balance of the award, if any.

B. Any person or party claiming by, through or under Lessor or Lessee, respectively, shall share in any award, sales proceeds or settlement only out of the portion thereof allocated to the party by, through or under which they claim.

C. In the event of the taking of the whole of the Premises, this Lease shall terminate and all obligations of the parties to each other hereunder shall cease upon the taking of physical possession by the condemnor or proposed condemnor.

D. In the event of the partial taking or condemning of the Premises, hereinabove mentioned, and if in such event Lessee does not, pursuant to its rights hereunder, elect to terminate this Lease, the awards made to Lessor and to Lessee for such partial taking or condemnation shall be used for the restoration of the Premises to the extent necessary to render the same as nearly as possible equal in quality and as existed prior to the taking.

23. **Equal Opportunity Compliance.** Lessee agrees to abide by all federal and state laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, pertaining to equal employment opportunity. In accordance with all such laws of the State of New Mexico, if applicable to Lessee, Lessee agrees that no person in the United States shall, on the grounds of race, religion, color, national origin, ancestry, sex, age, physical or mental handicap, or serious medical condition, spousal affiliation, sexual orientation, or gender identity, will be excluded from employment with or participation in, be denied the benefits of, or be otherwise subjected to discrimination under any provisions of this Agreement. If Lessee is found not to be in compliance with these requirements during the life of this Lease, Lessee agrees to take appropriate steps to correct these deficiencies.

24. **Noise.** Lessee agrees that it will conduct its business and control its agents, employees and invitees in such a manner as not to create a nuisance.

25. **First Right to Purchase.** If at any time throughout this Lease, Lessor decides to sell the building, Lessee would have the first right to purchase the Premises, at fair market value, based on the then-current appraised value, as determined by a certified real estate appraiser within six months of offer. In the event Lessee does not accept Lessor's offer, Lessor may sell the Premises to another party, but the Lease shall continue in full force and effect.

26. **Severability:** If any part of this Lease is invalid or unenforceable, the balance of this Lease shall remain effective, absent such provision.

27. **Applicable Law:** This Lease shall be governed by the laws of the State of New Mexico.

IN WITNESS WHEREOF, the parties have executed this Lease.

**STATE OF NEW MEXICO, ENERGY, MINERALS AND NATURAL RESOURCES
DEPARTMENT**

By: John H. Benveniste Date: 9-17-2012
Cabinet Secretary or Designee

GALISTEO STREET, INC.

By: [Signature] Date: September 17th, 2012
Authorized Representative Signature
Sharif Seret Vice-President
Lessee's Printed Name and Title

STATE OF NEW MEXICO, BOARD OF FINANCE

By: [Signature] Date: 9/18/12

DISCOUNTED CASH FLOW ANALYSIS

Schedule Of Prospective Cash Flow
In Inflation Dollars for the Fiscal Year Beginning 3/1/2014

For the Year Ending	Year 1 Feb-2015	Year 2 Feb-2016	Year 3 Feb-2017	Year 4 Feb-2018	Year 5 Feb-2019	Year 6 Feb-2020	Year 7 Feb-2021	Year 8 Feb-2022	Year 9 Feb-2023	Year 10 Feb-2024	Year 11 Feb-2025	Year 12 Feb-2026	Year 13 Feb-2027	Year 14 Feb-2028	Year 15 Feb-2029	Year 16 Feb-2030	Year 17 Feb-2031	Year 18 Feb-2032	Year 19 Feb-2033	Year 20 Feb-2034	Year 21 Feb-2035	Year 22 Feb-2036	Year 23 Feb-2037	Year 24 Feb-2038	Year 25 Feb-2039	Year 26 Feb-2040
Potential Gross Revenue	30,400	36,400	36,400	36,400	38,001	45,337	46,098	46,099	46,542	51,028	52,559	54,135	55,759	57,432	59,155	60,930	62,758	64,640	66,580	68,577	70,634	72,753	74,936	77,185	79,500	81,897
Scheduled Lease Rental Revenue	30,400	36,400	36,400	36,400	38,001	45,337	46,098	46,099	46,542	51,028	52,559	54,135	55,759	57,432	59,155	60,930	62,758	64,640	66,580	68,577	70,634	72,753	74,936	77,185	79,500	81,897
Absorption & Turnover Vacancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Potential Gross Revenue	30,400	36,400	36,400	36,400	38,001	45,337	46,098	46,099	46,542	51,028	52,559	54,135	55,759	57,432	59,155	60,930	62,758	64,640	66,580	68,577	70,634	72,753	74,936	77,185	79,500	81,897
Effective Gross Revenue	30,400	36,400	36,400	36,400	38,001	45,337	46,098	46,099	46,542	51,028	52,559	54,135	55,759	57,432	59,155	60,930	62,758	64,640	66,580	68,577	70,634	72,753	74,936	77,185	79,500	81,897
Operating Expenses	10,314	10,023	10,942	11,270	11,608	11,857	12,315	12,685	13,065	13,457	13,861	14,277	14,705	15,146	15,601	16,069	16,551	17,047	17,559	18,085	18,626	19,181	19,750	20,332	20,928	21,538
Property Expenses	1,459	1,459	1,459	1,459	1,544	1,813	1,868	1,924	1,982	2,041	2,102	2,165	2,230	2,297	2,366	2,437	2,510	2,586	2,663	2,743	2,825	2,910	2,997	3,087	3,179	3,274
Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	11,773	11,482	12,401	12,729	13,152	13,670	14,183	14,669	15,147	15,698	16,263	16,842	17,435	18,053	18,697	19,356	20,031	20,717	21,424	22,152	22,901	23,671	24,462	25,274	26,108	26,964
Net Operating Income	18,627	24,918	23,959	23,671	24,849	31,667	31,915	31,950	33,495	37,531	38,700	37,693	38,824	39,889	41,188	42,424	43,097	45,007	46,358	47,749	49,181	50,696	52,177	53,718	55,318	56,963
Leasing & Capital Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasing Commissions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Leasing & Capital Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow Before Debt Service	18,627	24,918	23,959	23,671	24,849	31,667	31,915	31,950	33,495	37,531	38,700	37,693	38,824	39,889	41,188	42,424	43,097	45,007	46,358	47,749	49,181	50,696	52,177	53,718	55,318	56,963
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	18,627	24,918	23,959	23,671	24,849	31,667	31,915	31,950	33,495	37,531	38,700	37,693	38,824	39,889	41,188	42,424	43,097	45,007	46,358	47,749	49,181	50,696	52,177	53,718	55,318	56,963



139 & 141 E DeVargas
Santa Fe, NM 87501

Software: ARGUS Ver. 15.0 1.26
File: 2014 C3714 139_141 E DeVargas
Property Type: Office & Retail

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Time: 4:35 pm
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Prospective Present Value
Cash Flow Before Debt Service plus Property Resale
Discounted Monthly (Effective Rate) over a 25-Year Period

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 6.00%	P.V. of Cash Flow @ 6.50%	P.V. of Cash Flow @ 9.00%	P.V. of Cash Flow @ 9.50%	P.V. of Cash Flow @ 10.00%
Year 1	Feb-2015	\$24,695	\$23,693	\$23,634	\$23,578	\$23,518	\$23,461
Year 2	Feb-2016	24,386	21,663	21,510	21,359	21,210	21,062
Year 3	Feb-2017	24,067	19,795	19,565	19,338	19,115	18,896
Year 4	Feb-2018	23,739	18,080	17,787	17,501	17,220	16,945
Year 5	Feb-2019	25,449	17,905	17,532	17,167	16,812	16,466
Year 6	Feb-2020	31,567	20,606	20,085	19,580	19,091	18,615
Year 7	Feb-2021	32,515	19,652	19,068	18,503	17,957	17,430
Year 8	Feb-2022	33,490	18,743	18,101	17,485	16,891	16,321
Year 9	Feb-2023	34,495	17,874	17,183	16,522	15,889	15,283
Year 10	Feb-2024	35,530	17,048	16,313	15,612	14,946	14,310
Year 11	Feb-2025	36,596	16,258	15,485	14,753	14,058	13,400
Year 12	Feb-2026	37,693	15,505	14,701	13,941	13,224	12,546
Year 13	Feb-2027	38,824	14,787	13,955	13,174	12,439	11,749
Year 14	Feb-2028	39,989	14,103	13,248	12,448	11,701	11,000
Year 15	Feb-2029	41,188	13,450	12,576	11,753	11,005	10,301
Year 16	Feb-2030	42,424	12,827	11,939	11,116	10,353	9,645
Year 17	Feb-2031	43,697	12,233	11,333	10,503	9,738	9,031
Year 18	Feb-2032	45,007	11,667	10,759	9,926	9,160	8,457
Year 19	Feb-2033	46,358	11,127	10,214	9,379	8,616	7,918
Year 20	Feb-2034	47,749	10,612	9,696	8,863	8,105	7,415
Year 21	Feb-2035	49,181	10,120	9,204	8,375	7,624	6,942
Year 22	Feb-2036	50,656	9,652	8,738	7,914	7,171	6,501
Year 23	Feb-2037	52,177	9,205	8,295	7,478	6,745	6,088
Year 24	Feb-2038	42,835	7,041	6,318	5,672	5,095	4,578
Year 25	Feb-2039	58,106	8,791	7,849	7,012	6,267	5,604
Total Cash Flow		962,413	372,437	355,088	338,960	323,950	309,964
Property Resale @ 7.50% Cap		728,042	106,307	94,714	84,429	75,301	67,195
Total Property Present Value			\$478,744	\$449,802	\$423,389	\$399,251	\$377,159
Rounded to Thousands			\$479,000	\$450,000	\$423,000	\$399,000	\$377,000
Per SqFt			91.91	88.35	81.28	76.65	72.41
Percentage Value Distribution							
Assured Income			75.96%	77.11%	78.32%	79.49%	80.62%
Prospective Income			1.93%	1.83%	1.74%	1.65%	1.58%
Prospective Property Resale			22.21%	21.06%	19.94%	18.86%	17.82%
			100.00%	100.00%	100.00%	100.00%	100.00%



139 & 141 E DeVargas
Santa Fe, NM 87501

Software: ARGUS Ver. 15.0.126
File: 2014 C3714 139_141 E DeVargas
Property Type: Office & Retail
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Time: 4:35 pm
Ref#: ABD
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Property Summary Report

Timing & Inflation

Reporting Period: March 1, 2014 to February 28, 2039; 25 years
Inflation Month: Analysis Start
General Inflation Rate: 3.00%

Property Size & Occupancy

Property Size: 5,209 Square Feet
Alternate Size: 1 Square Foot
Number of rent roll tenants: 1
Total Occupied Area: 5,209 Square Feet, 100.00%, during first month of analysis

General Vacancy

Method: Percent of Potential Gross Revenue
Rate: 0.00%

Property Purchase & Resale

Purchase Price: -
Resale Method: Capitalize Net Operating Income
Cap Rate: 7.50%
Cap Year: Year 26
Commission/Closing Cost: \$38,318
Net Cash Flow from Sale: \$728,042

Present Value Discounting

Discount Method: Monthly (Effective Rate)
Unleveraged Discount Rate: 9.00%
Unleveraged Present Value: \$423,389 at 9.00%

QUALIFICATIONS OF THE APPRAISER

APPRAISER'S QUALIFICATIONS – MICHAEL DRY, MAI

Professional Memberships

- Member of the appraisal institute – designated as an MAI
- The New Mexico Real Estate Appraisers Board (General Certification #02739-G)

Professional Affiliations

- 2013 Current Past President (2012 President of the Rio Grande Chapter of the Appraisal Institute)
- 2013 Chair of the Rio Grande Chapter of the Appraisal Institute Board of Directors
- 2013 Chair of the Rio Grande Chapter of the Appraisal Institute Nominating Committee
- 2013 Chair of the Rio Grande Chapter of the Appraisal Institute Candidate Advisor Committee

Professional Education

- BBA, Anderson School of Management, The University of New Mexico (1993)
- Russian Language Certificate, Mendeleev Institute, Moscow, Russia (1994)
- Masters of Finance, Anderson School of Management, The University of New Mexico (2000)

Appraisal Courses and Seminars

<ul style="list-style-type: none"> • Basic Appraisal Principles/Procedures/USPAP (2003) • National USPAP update (2007, 2009, 2010, 2012, 2014) • Regional Economic Forecast (2005, 2006, 2007, 2008, 2009, 2010, 2011) • Appraising agricultural land in transition (2005) • Professional's guide to the uniform Residential Appl. Report (2005) • Subdivision Valuation (2006) • Basic Income Capitalization (2006) • General Applications (2006) • Real Estate Finance Statistics and Valuation Modeling (2006) • Apartment Appraisal (2006) • Evaluating Commercial Construction (2006) • Advanced Income Capitalization (2007) • Highest and Best Use and Market Analysis (2007) • New Technology for RE Appraisers (2007) • Office Building Valuation: A Contemporary Perspective (2007) • Advanced Sales Comparison and Cost Approach (2008) • Report Writing and Valuation Analysis (2008) • Valuation of Green Buildings (2008) • Attacking and Defending an Appraisal in Litigation (2008) • Advanced Applications (2008) 	<ul style="list-style-type: none"> • Business Practices and Ethics (2009, 2014) • Appraisal Tools Tune-Up (2009) • Appraising in 2009 (2009) • Appraising the Appraisal Business (2009) • Stats and Graphs (2010) • Land Conservation Incentive Tax Credit Process With Special Emphasis on Appraisal Requirements (2010) • Lending World In Crisis – What Clients Need Their Appraisers to Know (2010) • Board Renewal Update Course (2010) • Understanding and Using Investor Surveys Effectively (2011) • Appraisal Review Seminar (2011) • Appraising Distressed Commercial Real Estate (2011) • IRS Seminar: Conservation Easements & Your Taxes (2011) • Real Estate Finance, Value, and Investment Performance (2011) • Marketability Studies: 6 step process/basic applications (2012) • Appraising the Appraisal: General (2012) • Marketability Studies: Advanced Considerations & Applications (2013) • Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets (2013)
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Expert Witness

- Certified as an expert witness in United States Bankruptcy Court (2011, 2013)
- Certified as an expert witness in the First Judicial District Court (2012)

Professional Experience

01/04 - Present: Hippauf and Associates, Inc., Associate Appraiser
 06/00 - 06/05: Senior Financial Analyst, Intel

Clients

Clients include local and national lenders, attorneys, institutions, including state and local governmental entities, and individuals.

Classes of Properties Appraised

Commercial, existing and proposed, such as offices, retail and subdivisions, vacant land, special use properties and industrial properties.



APPRAISER'S QUALIFICATIONS – PETER H. HIPPAUF, MAI, SRA

Professional Memberships

- Appraisal Institute, MAI and SRA
- New Mexico Real Estate Appraisers Board and the New Mexico Real Estate Commission – General Certification (#000223-G)
- Affiliate Member, Board of Realtors

Professional Education

- BS in Business Administration, College of Santa Fe, Santa Fe, New Mexico (1976)

Most Recent Appraisal Courses and Seminars – Summary Excerpt

- | | |
|---|---|
| <ul style="list-style-type: none">• Land Conservation Incentive Tax Credit Process With Special Emphasis on Appraisal Requirements, Property Tax Division (2010)• 7 Hour National USPAP Update Course, Appraisal Institute (2010, 2012, 2014)• Business Practices and Ethics, Appraisal Institute (2010, 2014)• Appraisal Review Seminar – General, Appraisal Institute (2011)• 2011 New Mexico Regional Economic Forecast, Appraisal Institute (2011)• 7 Hour National USPAP Update Course, Appraisal Institute (2011)• IRS Seminar: Conservation Easements & Your Taxes, Appraisal Institute (2011)• The Uniform Appraisal Dataset, Appraisal Institute (2011) | <ul style="list-style-type: none">• Introduction to Green Buildings: Principles & Concepts, Santa Fe Community College (2012)• Case Studies in Appraising Green Residential Buildings, Santa Fe Community College (2012)• Fundamentals of Separating Real Property, Personal Property and Intangible Business Assets, Appraisal Institute (2013)• Marketability Studies: Six-Step Process & Basic Applications, Advanced Considerations & Applications, Appraisal Institute (2013)• Mandatory Renewal Class, New Mexico Real Estate Appraisers Board (2014)• Business Practices & Ethics, Appraisal Institute (2014)• 2014-2015 7-Hour National USPAP Update Course, Appraisal Institute (2014) |
|---|---|

Expert Witness

Qualified as Expert Witness in Santa Fe District Court and Albuquerque Federal Court

Professional Experience

1976 – Present: Hippauf and Associates, Inc., President, servicing client's, real property appraisal and consulting needs throughout the Northern New Mexico area.

Prior to 1976: Bellamah Corporation, home building
New Mexico Highway Department, surveying and drafting

Clients

Clients include local and national lenders, attorneys, institutions, including state and local governmental entities and individuals.

Classes of Properties Appraised

Commercial, existing and proposed, such as offices, retail and subdivisions, vacant land, special use properties and industrial properties.

