RETROSPECTIVE INVESTMENT VALUE
Of the Leasehold Estate - Mrs. O’Kleen's Laundry
1375, Highway 40
Fernley, Nevada 89408

Relevant Dates
Date of Inspection: April 20, 1007
Effective Date of Value Opinion: December 31, 1998
Date of Report: April 30, 2007

Prepared for:
Paul Malikowski
325 W. Liberty
Reno, Nevada 89501

Prepared by:
Paul Lorenzen
CCIM, CPM, CSM
8151 Easy Meadow Drive
Converse, Texas 78109
April 30, 2007

Paul Malikowski
Malikowski Law Offices, Ltd.
325 W. Liberty
Reno, Nevada 89501

RE: Appraisal Report - Retrospective Investment Value of the Leasehold Estate of Mrs. O’Kleen Laundromat

Dear Mr. Malikowski:

As per your authorization, I have prepared an appraisal of the Leasehold Estate of the Lease Between Scolari’s Warehouse Markets, Inc. as landlord, and Howard Mc Gowan and Virginia McGowan, HOW Enterprises, Inc. dba Mrs. O’Kleen’s as tenant, regarding property located at 1375 Highway 40, Fernley, Nevada 89408. The property is described as:

approximately 3,000 square feet, commonly known as 1375 Highway 40, Fernley, Nevada, 89408, . . . located in the Fernley Plaza Shopping Center, in Fernley, Lyon County, Nevada, which area is shown on Exhibit “A”, attached to the Lease Agreement which is included in the addenda to this appraisal.

The purpose of this appraisal is to determine the Retrospective Investment Value, as herein defined, of the remaining Leasehold Interest of the tenant under the lease as of the effective date of December 31, 1998. The intended use of the appraisal is to assist in the resolution of pending litigation between Chris Buchanan, Successor Trustee of the H & V Family Trust, as Plaintiff, and Scolari’s Warehouse Markets, Inc., as Defendant. The Intended Users of the report are Paul Malikowski, his client, other attorneys involved in the referenced matter, and the officers of the Second Judicial District Court of the State of Nevada in and for the County of Washoe.

In the process of preparing this appraisal, I have inspected the site where the building subject to the lease was located and the surrounding neighborhood, researched the Fernley rental property market, selected, researched, and analyzed appropriate comparable properties, and prepared an analysis utilizing only the Income Approach for estimating value. The full Scope of Work is described in the appropriate section of the accompanying report.

The Appraisal Report which accompanies this Transmittal Letter is a Summary Report and contains a brief description of the data and a summary of the analysis and reasoning used to reach my final opinion of value. Please be aware that this Transmittal Letter is not an appraisal report and the accompanying Appraisal Report must be read to fully understand my analysis and conclusions. Please also give special attention to the Assumptions and Limiting Conditions as outlined in the Addenda to the Report.
Please note that there is a very significant Hypothetical Condition in this appraisal and that absent that Hypothetical Condition, the value conclusion would be different.

The relevant dates in the appraisal are:

- **Effective Date** of Value Opinion -- December 31, 1998
- Date of **On-Site Visit** to the property -- April 20, 2007
- **Appraisal Report Date** -- April 30, 2007

The analyses and results of the investigation presented in the attached appraisal report are intended to comply with the Code of Ethics and Standards of Professional Practice of the Appraisal Institute and the requirements of the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standard Board of the Appraisal Foundation.

Because this Transmittal Letter is not the actual Appraisal Report, I have not indicated my opinion of value in this letter. Please refer to the Summary of Salient Facts following the Table of Contents and to Section III - Analysis and Valuation in the appropriate section of the accompanying Report.

Thank you for permitting me to serve you by preparing this appraisal report. Should you have any questions on the report or my conclusions, please feel free to give me a call.

Sincerely,

Paul Lorenzen
CCIM, CPM, CSM
Certified General Appraiser
TX-1336071-G
NV-A.0006527-CG
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# SUMMARY OF SALIENT FACTS

**Property Type** | Leasehold Estate in a shopping center lease  
---|---  
**Property Location** | 1375 US Highway #40 North, Fernley, Nevada - The lease covers one retail space in a multi-tenant shopping center  
---|---  
**Property Rights Appraised** | Leasehold Estate - Intangible Real Estate Asset  
---|---  
**Purpose of Appraisal** | Determine the *Retrospective Investment Value* of the Leasehold Estate in the Lease Agreement  
---|---  
**Client/Intended Use/User** | Paul Malikowski, attorney at law, and other parties involved in litigation between the client represented by Paul Malikowski and Scolari’s Warehouse Markets, Inc.  
---|---  
**Land** | The land area of the property encumbered by the lease is approximately 6.92 acres, located on the SWC of Newlands Drive and US Highway #40, in Fernley, Nevada.  
---|---  
**Improvements** | The improvements encumbered by lease were a 3,000 square foot retail space in a multi-tenant retail shopping center with approximately 58,800 square foot shopping center anchored by Scolari’s Warehouse Market  
---|---  
**Zoning** | C-2 - County of Lyons  
---|---  
**Flood Zone** | Flood maps are not available - unmapped area per FEMA website  
---|---  
**Lease Description** | The lease is a NNN Lease between Scolari’s Warehouse Markets, Inc., a Nevada Corporation, as Landlord and Howard McGowan and Virginia McGowan, HOW Enterprises, Inc. dba Mrs. O’Kleen’s, as Tenant. The lease has an original term of four years, beginning 12/28/1992 and expiring 12/31/1996, and has two five year renewal options with specified rent schedule.  
---|---  
**Relevant Dates** | Date of On-Site Visit -- 4/20/2007  
Date of Opinion -- 12/31/1998  
Date of Report -- 4/30/2007  
---|---  
**Income Approach** | $100,000  
---|---  
**Final Opinion of Value** | $100,000  
---|---  
**Hypothetical Condition** | Because the renewal options are "personal" to the original tenants, there is a hypothetical condition that the original tenant was in possession of the premises and fulfilled the requirements of the renewal option provisions in the lease. Without this hypothetical condition, the value conclusion would be different.
Mrs. O'Kleen's Laundromat
in
Fernley Plaza Shopping Center

Aerial Photo of Subject Property Taken Before December 1998
Source: Sky-High Photography, Fernley, Nevada
Mrs. O'Kleen's Laundromat
in
Fernley Plaza Shopping Center

Aerial Photo of Subject Property - Close up of buildings - Taken in 2001
Source: City of Fernley, GIS staff
PHOTOGRAPHS OF SUBJECT LOCATION

Photos provided by Chris Buchanan

1) Front View of old Scolari's Grocery Store after it closed

2) Front View of Scolari's Grocery showing Laundromat - second store to the right of the grocery store

3) View looking North from parking lot in front of old Scolari's store - Laundry is at far end of the building

4) View looking South from sidewalk in front of the Laundry - Scolari's Grocery is at far end of sidewalk

5) View from inside rear looking toward store front showing customer seating area - Slot machines are in front by windows

6) View from inside rear looking toward South wall of Laundromat showing seating area and south of washers
7) View from front of Laundromat store looking toward back showing seating area and North wall of washers

8) View from front of Laundromat store looking toward back wall showing office/storage rooms in back

9) View of folding tables on North side of store - this area also used for UPS shipping station

10) View of more folding tables on South side of store

11) View of front of store looking from South wall

12) View of inside line of washers - price list for wash-dry-fold is on hanging sign
SECTION I.
PRELIMINARY MATTERS

Identification of the Subject Property

The property that is the Subject of this appraisal is the Leasehold Estate under a lease covering a 3,000 square foot retail space in the Fernley Plaza Shopping Center located at 1375 Highway 40, Fernley, Nevada, 89408.

This address no longer exists as of the date of this report. The structure has been demolished and new structures have been constructed with new addresses assigned. The space was the second store to the North of the Scolari's Grocery Store in the shopping center as shown on the site plan in the addenda to this report.

The physical address range of the site under the numbering system in effect as of April, 2007 is 1343 - 1360 US Highway 95a N, Fernley, Nevada 89408.

Extraordinary Assumptions and Hypothetical Conditions

In addition to the Extraordinary Assumptions and/or Hypothetical Conditions listed below, please be sure to review the Assumptions and Limiting Conditions included in the Addenda as they are important in understanding the limitations of this appraisal report.

Hypothetical Conditions

Renewal Options. The lease which is the Subject of this appraisal contains two options to renew the lease for an additional five years each. These options are "personal" to the original tenants, and conditioned on the fact that they are still in possession and operating the business in the premises when they exercise the

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1 Extraordinary Assumptions. An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions, Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if: it is required to properly develop credible opinions and conclusions; the appraiser has a reasonable basis for the extraordinary assumption; use of the extraordinary assumption results in a credible analysis; and the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions. (The Dictionary of Real Estate Appraisal)

2 Hypothetical Conditions. That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. A hypothetical condition may be used in an assignment only if: use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison; use of the hypothetical condition results in a credible analysis; and the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions. (The Dictionary of Real Estate Appraisal)
renewal options. Based on the wording of this provision (Paragraph 2.b., page 2) it appears that the options would not automatically be available to a replacement tenant in the lease if an assignment of the tenant's position in the lease were accomplished.

Therefore, in reaching an opinion of Leasehold Investment Value in this appraisal, it is expressly a Hypothetical Condition of this appraisal that the original tenant would be in possession of the Leased Premises at the times required to exercise the renewal options. The value conclusion below is not valid without this hypothetical condition. If an assignment of the lease took place, or the tenant elected to vacate without renewing the option, the value conclusion would likely be different.

Since the effective date of this appraisal is December 31, 1998, and the appraiser, in reaching a value conclusion, is prohibited from considering information or conditions not available in the marketplace as of that date, subsequent events cannot influence the judgment of the appraiser in this assignment. It is a known fact that the tenant did not remain in possession and exercise the second renewal option. But that fact was not available on December 31, 1998, thus this Hypothetical Condition is required to fulfill this assignment within the guidelines of the Uniform Standards of Professional Appraisal Practice.

Scope of Work

USPAP requires an appraiser to describe the scope of work used to develop the appraisal. Below I have outlined, in a brief bullet format, the research and analysis I performed in the preparation of this appraisal report.

Research

I performed the following research activity:

a. Drrove the neighborhood surrounding the Subject, taking note of "for sale" and "for lease" signs on properties similar to the Subject; observing the dynamics of the real estate property types, level of development, traffic patterns, and property condition; and making other relevant observations that may affect a valuation decision.

b. Made a personal visit to the Site and performed a visual observation of the land and improvements. It should be noted that the improvements have been demolished and I was unable to inspect the improvements as they were in 1998. However, I viewed the site and the exterior of the new improvements.

c. Researched the economic, geographic, and demographic information of the community and the neighborhood.

d. Contacted local real estate brokers to determine rental rates, absorption rates, lease commission rates, and other relevant marketing information for properties similar to the Subject.

e. Took numerous photographs of the Subject, comparable rentals, and other relevant features of the immediate market, some of which are contained in this report.

f. Investigated the local zoning ordinances and zoning of the Subject and surrounding property.

g. Researched the history over the past several years of ownership of the Subject, the business that occupied the space as the tenant, and the real property

1 Uniform Standards of Professional Appraisal Practice, 2006 Edition, July 1, 2006. Standard 2-2(a)(vii) comment states that "Sufficient information includes disclosure of research and analysis performed and might also include disclosure of research and analysis not performed."
encumbered by the Subject, including any listings, sales, leases, and offers to sell or lease.

h. Searched the FEMA Flood Map Service Center website and discovered that there is no flood mapping of the Fernley area.

Analysis

I performed the following analysis:

a. Compared the features of the comparable commercial property rentals and prepared a comparison grid with appropriate adjustments to reach an opinion of rental value for the Subject.

g. Performed a Discounted Cash Flow Analysis to reach an opinion of value using the Income Approach.

Composition

I composed a Summary Appraisal Report, including a summary discussion of the data, analysis, and reasoning, used to reach my final opinion of value.

Purpose of the Appraisal

The purpose of this appraisal is to determine the Retrospective Investment Value, as herein defined, of the remaining Leasehold Interest of the tenant under the lease as of the effective date of December 31, 1998.

Identification of the Client

The client for whom this report has been prepared is Paul Malikowski, Attorney, P O Box 9030, Reno, Nevada 89507. The client whom Paul Malikowski represents in the referenced action is Chris Buchanan, Successor Trustee of the H & V Family Trust dated February 25, 1993, as restated by Restated Revocable Trust Agreement, dated September 15, 1994, and as restated September 13, 1999, aka H & V McGowan Family Trust.

Intended Use of Appraisal and Intended User

The intended use of the appraisal is to assist in the resolution of pending litigation between Chris Buchanan, Successor Trustee of the H & V Family Trust, as Plaintiff, and Scolari's Warehouse Markets, Inc., as Defendant. The Intended Users of the report are Paul Malikowski, his client, other attorneys involved in the referenced matter, and the officers of the Second Judicial District Court of the State of Nevada in and for the County of Washoe, Nevada.

Property Rights Appraised

The property rights appraised in this appraisal are the unencumbered Leasehold Interest. The Leasehold Interest is defined as follows:

The interest held by the lessee (the tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions.¹

¹ The Dictionary of Real Estate Appraisal, pg 162.
No analysis or valuation of personal property, including trade fixtures, is included. All liens and encumbrances are disregarded in the value conclusion of this analysis, and the Subject is considered as though free and clear of any liens or encumbrances. A Leasehold interest is considered "intangible real estate."\(^1\) The "tangible real estate" is the real property that is subject to the Leasehold Interest\(^2\) and is called the Leased Fee Estate. No valuation is given of the Tangible Real Property encumbered by the Subject Lease Agreement.

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1. "Intangible real property assets represent intangible legal claims on tangible real estate. The type of assets encompassed by this category of assets includes leasehold interests (and various other leasehold estates), possessory interests . . . of real estate. As intangible claims on real estate, the value of these assets is generally a subset of, or a derivative of, the value of the associated real estate." *Valuing a Business*, page 324.

2. **Leased Fee.** "An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease." *Dictionary of Real Estate Appraisal*, page 161.
Relevant Dates in Report

The dates in this report are important because the value conclusion is valid only as of the Effective Date of the opinion of value. Changes after that date may have an impact on the value of the Subject property. Further, because the Subject of this valuation assignment is a Lease with a definite expiration date, it is a "wasting asset" and the closer the time period to the expiration date, the lower the value of that asset becomes by its very nature. Therefore it is important to clarify the relevant dates in this report as follows:

<table>
<thead>
<tr>
<th>RELEVANT DATE</th>
<th>DATE</th>
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<tbody>
<tr>
<td>Date of On-Site Visit to the Subject Site</td>
<td>April 20, 2007</td>
</tr>
<tr>
<td>Effective Date of RETROSPECTIVE Opinion of Value</td>
<td>December 31, 1998</td>
</tr>
<tr>
<td>Date of Report</td>
<td>April 30, 2007</td>
</tr>
</tbody>
</table>

Definition of Value

The definition of value used in this appraisal is Investment Value rather than Market Value. The definition of Investment Value as given in the Dictionary of Real Estate Appraisal is

The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached.¹

A shorter definition for Investment Value, often used in Business Appraisal, is

The value to a particular investor based on individual investment requirements and expectations.²

Both definitions are the same in essence and are included here to show that the definition of Investment Value from a real estate appraisal perspective and from a business appraisal perspective are essentially the same. I am using Investment Value as the definition of value in this appraisal because of the provision in paragraph 2.b. of the lease which states:

This option to renew or extend may be exercised only by the "Original LESSEE" -- Howard and Virginia Mc Gowan, HOW Enterprises, Inc. -- while physically occupying the premises and any consent by LESSOR to assignment of sublease of the premises shall not be construed as a waiver of the prohibition.³

Although the Landlord did approve an assignment of the lease in a previous transaction, as discussed in the History section below, it is not clear to me whether the options would have been enforceable by the tenant under that assignment. Further, the provision indicates that one consent to an assignment shall not automatically waive the prohibition for subsequent assignments. A buyer of the

¹ Source. Dictionary of Real Estate Appraisal, page 152.
³ See the Lease document in the Addenda for the full context of this provision.
business, asking for an assignment of the lease,\(^1\) cannot automatically presume that the renewal options will be available to the assignee under the lease assignment. Thus, in a Market Value appraisal of the Leasehold Interest, the remaining renewal option term should not be included in the estate. However, the current tenant under the lease does have the benefit of the full term including all renewals governed by the renewal options in the lease. Therefore, Investment Value, rather than Market Value, is the more appropriate value definition to be used in establishing a value of the Subject Leasehold Estate to the current tenant.

History of the Property Ownership / Development

REAL PROPERTY. The real property encumbered by the Leasehold Estate is part of a multi-parcel retail shopping center development. It encompasses five assessor parcels as shown on the map below. The parcels outlined in red show the total shopping center project known in 2007 as the Fernley Village Marketplace Shopping Center.

As of the effective date of this appraisal, only three of the parcels had been developed. Parcels 2033406 and 2033407 were originally developed with Scolari's grocery as the anchor tenant and nine line-shop spaces for other retail merchants. The total square footage of the original development was approximately 58,800\(^2\) square feet with Scolari's grocery occupying approximately 44,000 square feet in the grocery store and another 3,400 square foot as storage/warehouse space. Parcel 2039218, the smaller parcel in the front of the development adjacent to Highway #40 (now Highway 95A), was owned by Scolari's from 1992 to 1998. During 1998 Scolari's sold the parcel when the site was developed into the McDonalds restaurant that is currently on the site.

On the parcel map below, I have put in red numbers the years of ownership by Scolari's. For example, parcel 2033406 was owned by Scolari's from 1992 to 2005, when they sold it to Washoe Health Systems.

\(^1\) The lease provides in Section 22, page 16, that approval of an assignment cannot be unreasonably withheld but does not address whether the assignment would then include the utility of the renewal option to the assignee. Paragraph also provides that any differential between the contract rents in the lease and market rents for comparable space would belong to the landlord. Thus, any positive leasehold interest, as described in this appraisal, would not be available as part of the "Market Value" of the business as that leasehold interest would be worthless to a buyer.

\(^2\) This total Gross Leasable Area (GLA) of 58,800 is an estimate based on the site plan in the addenda. It is subject to change and correction if more accurate information becomes available. A difference in total GLA, however, would not make a material difference in the value conclusion reached in this appraisal.
The numbers in red indicate the years during which Scolari's Warehouse Markets, Inc. owned the respective parcel.

Research on the Lyon County Assessor website, and discussions with the Lyon County Assessor staff, indicate that the parcels as shown on the map above are essentially unchanged from the status of the parcels in 1998.¹

Below I have listed the ownership history of the parcels individually along with the time periods of the respective ownerships. It is important to note that as of the effective date of this appraisal, **Parcels 2033404, 06, and 07 were owned by the Landlord under the lease** and parcel 2039218 had just been developed and sold by the Landlord. Parcel 2033402, where the Scolari's Grocery is currently located in the new redeveloped center, **was not owned by Scolari's until 1999**.

¹ There have been some boundary line adjustments, such as that shown in Document #323560 - Boundary Adjustment Map, dated 6/17/2004, which slightly changed the boundary of 020-334-06 and 020-334-07, apparently in preparation for the transaction with Washoe Health Systems on 020-334-06. The overall dimensions and area remain essentially the same.
<table>
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<tr>
<th>Parcel #</th>
<th>Size (acres)</th>
<th>Dates</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-334-02</td>
<td>5.92</td>
<td>1986 - 1999</td>
<td>Wade/Fernley LP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1999 - 2006</td>
<td>Scolari’s Warehouse Markets, Inc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2006 - Present</td>
<td>J &amp; J Land Development Fernley, LLC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2006 - Present</td>
<td>J &amp; J Land Development Fernley, LLC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2005 - Present</td>
<td>Washoe Health Systems</td>
</tr>
<tr>
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<td>2006 - Present</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>1998 - 2004</td>
<td>System Capital Real Property Corp</td>
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<td></td>
<td></td>
<td>2004 - Present</td>
<td>Archland Properties1 LLC</td>
</tr>
</tbody>
</table>

The Leased Premises covered by the Leasehold Estate which is the subject of this appraisal was located two doors north of the Scolari's grocery store which was, at that time, located on parcel 2033406 as shown on the aerial photo. This photo shows the parcel map boundaries overlaid on the aerial photo. The large building with the white roof is the Scolari's grocery store. The darker smaller structures on either side of the white roof are the line shops with retail tenants.
BUSINESS GOING-CONCERN. The business that was operating in the Leased Premises on December 31, 1998, was Mrs. O'Kleen's Laundry. This business had been started shortly after the Fernley Plaza Shopping Center was developed in 1980. It had operated successfully in the Lease Premises under the original lease and, on December 28, 1992, the owners of the business entered a renewal Lease Agreement with the Landlord, which is the Subject of this Appraisal. That lease became effective on the date of execution and had an original expiration of December 31, 1996, giving it a three year and three day original lease term.

On January 8, 1993, ten days after the renewal lease was signed, the owner of the Mrs. O'Kleen's Laundry, HOW Enterprises, Inc., entered into a purchase and sale agreement to sell this Laundry (Mrs. O'Kleen's Laundromat) and another Laundromat located in The Country Shopping Center, located at Main Street and US Highway #95, also in Fernley, Nevada, to Robert and Kathy Hausler. The combined purchase price for both locations was $215,000. The contract stipulates a separate component of the sales price, of $145,000, to be allocated to the Laundromat business in the location of the Leased Premises Subject of this appraisal. Although the transaction closed successfully, it was rescinded shortly thereafter and title to the businesses passed back to the sellers.¹

The lease provides for two five-year renewal options. The first option to renew was exercised in a timely manner and the lease was extended effective January 1, 1997. Therefore, as of the effective date of this appraisal, the lease was two years into the first five year renewal option term with one more five-year renewal option available. This results in a remaining Leasehold Estate of exactly eight (8) years.

¹ Although the transaction was rescinded, when title passed back to the sellers, it was put into the name of the principals of the seller (HOW Enterprises, Inc.) and it was necessary to file correcting documentation but the substance of what took place is that the business which had sold was returned to the control of the tenants under the Subject Leasehold.
SECTION II.
DESCRIPTION OF THE SUBJECT

A. Site Data and Analysis

The site is a level, commercial corner about one block South of the Interstate-80 freeway which travels East and West between California and Utah through Northern Nevada. The East-bound off-ramp brings traffic to the intersection where the site is situated on US Highway #95a. As of the effective date of this appraisal, the road was identified as US Highway #40. The site is on the Southwest corner of the intersection, making access to the site very easy. A parcel map in the addenda shows the site.

Location. The address of the property was 1375 US Highway #40 North, Fernley, Nevada. As of the date of this report, the addresses on the site have been reassigned and the range of address that cover the location of the improvements on December 31, 1998 (the effective date of the appraisal), is 1343 - 1360 US Highway 95a N, Fernley, Nevada 89408. These original improvements are no gone.

Political Boundaries. The property is inside the city limits of Fernley, Nevada. However, at the effective date of value for this appraisal, Fernley was not an incorporated city but known as the Village of Fernley. The site was in Lyon County and under the jurisdiction of Lyon county for zoning and planning purposes.

Census Tract. The Subject is in Census Tract 9601 as of the 2000 census. I was unable to determine whether the census tract boundaries had changed since December 1998.

School District. The site is in the Lyon County School District. Residents located at or near the Subject site would attend the Cottonwood Elementary School, Fernley Intermediate School, and Fernley High School.

Adjacent Properties and Land Uses. The property use to the West of the site is primarily single family residential property. The land to the South is undeveloped. Across Newland Newlands Drive to the North is a casino and other commercial property. Across US #95a to the East is other commercial and industrial property.

Flood Zone. According to the FEMA Flood Service Center website, there are no flood maps available for the city of Fernley. The website states that the Community ID is 320038 and that this community is unmapped.1

Hazards, Nuisances, Detrimental Influences. The site is in a commercial corridor separating an established residential neighborhood to the West and a developing industrial district to the East. I did not note any nuisances, hazards, or other negative influences from the developing industrial district during my visit to the site. However, with the industrial park activity, there is the potential for negative influences to develop.

Access to the Neighborhood. The site and neighborhood have excellent access. Interstate 80 highway brings traffic from all parts of the Western United States past the site and Exit #48 is one block from the site. US Highway #95a is the street in front of the site and brings traffic from Fallon to the East and from Las Vegas from the South. Most

1 http://msc.fema.gov/
traffic from Las Vegas and the southern half of Nevada travel on Highway #95 through Fallon, and connect with I-80 at Exit #48 one block from the site, giving the site exposure and access to virtually all traffic traveling from Las Vegas to Reno.

**Street Improvements.** As of the time of my site visit, all street improvements were in with curb, gutters, and sidewalks. The streets are asphalt paved. Newlands Drive is a secondary feeder street leading to US Highway #95a in front of the site which is a major commercial arterial street with two travel lanes in each direction and a solid median separating traffic with protected left-turn only lanes giving access to the site for both directions of traffic. There is an electronic traffic light with left turn only signal at the intersection, providing excellent traffic control.

On the effective date of this appraisal, there were no curbs, gutters, storm sewers or sidewalks on the frontage with either Newlands Drive or Highway #40 (Highway 95a). The road widening had not yet occurred, so the divided roadway with solid median that is in place now had not yet been constructed. The traffic light had not yet been installed, so traffic control at the intersection was limited.1

**Site Dimensions, Area, Shape.** The shape is irregular, as can be seen from the plat map in the addenda. The total land area in use by the development in December 1998 was approximately 7 acres of land which resulted in a land to building ratio of 1:5.126; or less than 20% coverage of the site by building footprint. This land to building ratio provided for ample parking on the site for retail users.

**Topography.** The site is essentially level. The elevation is 4,127 feet above sea level on most of the site. There is a slight rise of about 3 feet to 4,130 on the far North corner of the site.2 The topography provides no hindrance to full development of the site.

**Drainage.** The site does not appear to have any drainage problems. The street improvements appear to include adequate storm water drainage capacity.

**Access to Site.** As of the date of my visit, there were two curb cuts giving access from Newlands Drive on the Northeast boundary and several curb cuts from US Highway #95a giving access from that highway into the development. Access to the site is excellent.

**Utilities.** All utilities, including water, electricity, natural gas, and telephone are to the site and were available at the site as of the effective date of this appraisal.

**Fire and Police.** Although the site is in the City of Fernley. However, the North Lyon County Fire Protection District provides fire protection and the Lyon County Sheriff Department provides police protection. There has been no change in this structure since December 1998.

**Easements and Encroachments.** No survey or title insurance commitment was available to me from the ownership, so I was unable to confirm the presence of easements or encroachments. Observation during my site visit did not indicate anything other than typical utility easements and set-back requirements for a fully developed shopping center.

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1 The description of the street improvements is based on conversation with the owner of Mrs. O’Kleen Laundromat. I have made several calls to city and county officials to confirm these conditions but have not yet received confirmation.

2 Elevations are taken from the Google.earth website and are not guaranteed to be accurate.
Environmental Hazards Assessment. There was no Environmental Site Assessment provided to me. The existence of potentially hazardous material and/or toxic waste may or may not be present on the property. During my on-site visit I did not observe any signs of environmental contamination. However, I am not an expert on such matters, nor am I qualified to detect such substances. Therefore, no responsibility is assumed for any hazardous conditions, or for any expertise or engineering knowledge required to discover them. The value conclusion of this appraisal is predicated on the assumption that no significant environmental problems exist that would adversely affect the market value or marketability of the Subject.

Conclusion. The site is well suited for development as a major shopping center for the rural region. The location close to Exit #48 on I-80, where it junctions with US Highway #95a, gives it exposure to a very high traffic level. The topography makes it easy to develop, and its configuration gives adequate room for building improvements, parking and other site improvements in a spacious environment. It is 100% usable without any significant site preparation expenses.

B. Improvements

Building Improvements. The space which is encumbered by the Subject Lease is a 3,000 square foot retail store space located two doors from the Scolari's Grocery store which anchors the center. It is a typical retail space with concrete flooring, suspended T-grid acoustical ceiling with 2'X4' fluorescent lighting fixtures in the T-grid ceiling. The heating, ventilation, and air conditioning was provided by a single package heating and cooling unit on the roof that exclusively served the leased premises. In addition, the owner had installed two large evaporative coolers on the roof which eased the load on the air conditioning during the summer months. Photographs of the interior of the space are included in the front of this report.

Signage. Signage was available in the form of fascia signs over the front of the store. The store had a 4’ X 16’ framed box with a back-lit illuminated sign panel. No other signage was available to the tenant.

Site Improvements. Improvements to the site are comprised of sidewalks in front of the stores, asphalt parking lot with adequate parking for retail customers in front and employee parking in the rear of the stores. There was no landscaping except for a few cottonwood trees that were in place before the shopping center was built. Asphalt driveway access was available from Newlands Drive and Highway #40 with one driveway from each road.

C. Current Occupancy Analysis.

The Subject property was occupied by a coin operated Laundromat using the name Mrs. O’Kleens Laundromat. It was owned and operated by the Tenant under the lease and was, in December 1998, a viable "going-concern" business.

D. Zoning

The zoning on the property is C-2 - General Commercial District. In December 1998, the property was under the jurisdiction of Lyon County zoning codes. This zoning permits a wide range of commercial uses, and is intended for shopping center and other retail uses. Explicitly stated in this code is the use of a "Laundry (no
processing)" as a permitted use. The use under the lease is permitted under this zoning so is a conforming use.

E. The Lease

The Lease which is the Subject of this Appraisal is included in the addenda to this appraisal. For a full understanding of the lease document, please refer to that document.

**Parties to the Lease.** The Landlord under the lease is Scolari's Warehouse Markets, Inc., a Nevada Corporation. The Tenant is Howard McGowan and Virginia McGowan, HOW Enterprises, Inc. dba Mrs. O'Kleen's. The lease was assigned to Robert and Kathy Hausler in 1993 in a sales transaction that was later rescinded. The Landlord had approved of the assignment. The lease was subsequently transferred back to Howard and Virginia McGowan. From that point, the business, and the Lease Agreement, was treated as a sole-proprietorship with Howard and Virginia McGowan as the proprietors of the business and tenants under the Lease Agreement.

**Lease Term.** The length of the lease was an initial three-year-and-three-day lease term. Commencement was on December 28, 1992 and the original expiration was on December 31, 1996. There are two five-year renewal options with rent specifically detailed in the Lease Agreement for the option terms. The last option term was to expire December 31, 2006. Thus, the control of the Leased Premises established in the lease was fourteen years and three days.

**Renewal Options.** The lease which is the Subject of this appraisal contains two options to renew the lease for an additional five years each. These options are "personal" to the original tenants, and conditioned on the fact that they are still in possession and operating the business in the premises when they exercise the renewal options. Based on the wording of this provision (Paragraph 2.b., page 2) it appears that the options would not automatically be available to a replacement tenant in the lease if an assignment of the tenant's position in the lease were accomplished.

Therefore, in reaching an opinion of Leasehold Investment Value in this appraisal, it is expressly a Hypothetical Condition of this appraisal that the original tenant would be in possession of the Leased Premises at the times required to exercise the renewal options. The value conclusion below is not valid without this hypothetical condition. If an assignment of the lease took place, or the tenant elected to vacate without renewing the option, the value conclusion would likely be different.

Since the effective date of this appraisal is December 31, 1998, and the appraiser, in reaching a value conclusion, is prohibited from considering information or conditions not available in the marketplace as of that date, subsequent events cannot influence the judgment of the appraiser in this assignment. It is a known fact that the tenant did not remain in possession and exercise the second renewal option. But that fact was not available on December 31, 1998, thus this Hypothetical Condition is required to fulfill this assignment within the guidelines of the Uniform Standards of Professional Appraisal Practice.

**Rents.** The rents detailed in the Lease are shown in the table below. They are scheduled to increase annually at approximately 3.0% per year. The scheduled rents are shown in the table below.
**SCHEDULED MINIMUM RENT UNDER LEASE**

<table>
<thead>
<tr>
<th>Initial Term</th>
<th>Begin</th>
<th>End</th>
<th>Monthly</th>
<th>Annual</th>
<th>Rate S/F</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/28/92</td>
<td>12/31/93</td>
<td>$1,173.00</td>
<td>$14,076.00</td>
<td>$4.69</td>
<td></td>
</tr>
<tr>
<td>01/01/94</td>
<td>12/31/94</td>
<td>$1,208.00</td>
<td>$14,496.00</td>
<td>$4.83</td>
<td></td>
</tr>
<tr>
<td>01/01/95</td>
<td>12/31/95</td>
<td>$1,244.00</td>
<td>$14,928.00</td>
<td>$4.98</td>
<td></td>
</tr>
<tr>
<td>01/01/96</td>
<td>12/31/96</td>
<td>$1,281.00</td>
<td>$15,372.00</td>
<td>$5.12</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>First Renewal Term</th>
<th>Begin</th>
<th>End</th>
<th>Monthly</th>
<th>Annual</th>
<th>Rate S/F</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/97</td>
<td>12/31/97</td>
<td>$1,319.00</td>
<td>$15,828.00</td>
<td>$5.28</td>
<td></td>
</tr>
<tr>
<td>01/01/98</td>
<td>12/31/98</td>
<td>$1,359.00</td>
<td>$16,308.00</td>
<td>$5.44</td>
<td></td>
</tr>
<tr>
<td>01/01/99</td>
<td>12/31/99</td>
<td>$1,400.00</td>
<td>$16,800.00</td>
<td>$5.60</td>
<td></td>
</tr>
<tr>
<td>01/01/00</td>
<td>12/31/00</td>
<td>$1,442.00</td>
<td>$17,304.00</td>
<td>$5.77</td>
<td></td>
</tr>
<tr>
<td>01/01/01</td>
<td>12/31/01</td>
<td>$1,485.00</td>
<td>$17,820.00</td>
<td>$5.94</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Second Renewal Term</th>
<th>Begin</th>
<th>End</th>
<th>Monthly</th>
<th>Annual</th>
<th>Rate S/F</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/02</td>
<td>12/31/02</td>
<td>$1,530.00</td>
<td>$18,360.00</td>
<td>$6.12</td>
<td></td>
</tr>
<tr>
<td>01/01/03</td>
<td>12/31/03</td>
<td>$1,576.00</td>
<td>$18,912.00</td>
<td>$6.30</td>
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</tr>
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<td>01/01/04</td>
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<td>$6.69</td>
<td></td>
</tr>
<tr>
<td>01/01/06</td>
<td>12/31/06</td>
<td>$1,722.00</td>
<td>$20,665.00</td>
<td>$6.89</td>
<td></td>
</tr>
</tbody>
</table>

**Additional Rental Charges.** The lease provides for a typical Net Lease (NNN) administration of common areas in which the landlord maintains the common areas and is reimbursed for this expense from the tenants on a prorata basis using the relationship of the tenant's square footage in the Leased Premises to the total Gross Leasable Area (GLA) of the center. The real estate taxes and the property / casualty insurance and liability insurance for the common areas are also reimbursed by the tenants on the same prorata basis. The initial monthly amount to be charged for these NNN charges was $183.00 ($2,196 per year). The lease does not appear to permit property management fees to an outside management agent or the salaries of in-house management staff to be included in the common area maintenance expenses but does provide for a 15% administration fee based on the expenses for the real estate taxes, insurance, and common area maintenance. This fee is not uncommon in NNN leases.

The lease provides for adjustment to these monthly charges as the expenses paid by the landlord change from time to time. The lease does not specifically address a reconciliation process whereby overcharges are refunded back to the tenant. It is normal and customary on NNN leases for the landlord to be required to at least annually reconcile what was spent by the landlord to what was collected from the tenants. The landlord then either refunds the excess or bills the tenant for the shortfall. This lease does not have explicit requirements for this reconciliation, which could mean that the landlord could overcharge and not refund the excess.

**Percentage Rent.** There is no provision in the lease for the tenant to provide sales reports to the landlord or requirement to pay any overage or percentage rent for sales over a stipulated sales volume.¹

¹ Overage Rent. "The percentage rent paid over and above the guaranteed minimum rent or base rent; calculated as a percentage of sales in excess of a specified breakeven sales volume." *Dictionary of Real Estate Appraisal.*
The balance of the Lease Agreement reflects a well constructed shopping center lease with provisions that generally favor the landlord. This is to be expected from a lease developed by the landlord for use with smaller "mom and pop" retail businesses.

**Assignment / Subletting.** Paragraph 22 in the lease provides that the lease cannot be assigned nor the space subleased without the prior written approval of the landlord, which approval cannot be unreasonably withheld. However, the paragraph goes on to related that in the event of an assignment or sublease, any differential between the contract rents in the lease and "market rents" for comparable space would belong to the landlord. In other words, if a buyer of the business were permitted to take over the lease, he would have to do so at the "market rents" and any benefit to the current tenant under the lease of such differential between contract and market rents would vanish.

**Analysis of Units of Comparison.** Retail property rental value is typically evaluated on a cost per square foot per month or per year. Both monthly and annual figures are used by landlords and brokers in Northern Nevada. In my analysis, I reference both types.
SECTION III.
ANALYSIS AND VALUATION

Selection of Methodology. The asset to be valued in this appraisal is a Leasehold Interest in a lease on a retail space in a shopping center. The asset is considered an "intangible real estate asset." In appraisal of both real estate and businesses there are three accepted approaches to be used: the Cost Approach, Sales Comparison Approach, and Income Approach. Those approaches that are "applicable" and are necessary to produce "credible results" must be included in an appraisal and it is the responsibility of the appraiser, in consultation with the client, to determine which approaches are applicable to produce a credible result. Below I have described the extent to which each of these approaches is applicable.

Cost Approach. This approach estimates value by first determining the site (land) value of a property by using the methodology of the Sales Comparison Approach. The replacement or reproduction cost of the improvements is then determined and appropriate depreciation deducted to arrive at a depreciated cost of the improvements. These two values -- site value for the land and the depreciated cost of the improvements -- are added together to determine the net value of the combined land and improvements of the real estate.

Since the asset appraised in this report is a Leasehold Interest, there is no land value to be estimated. There are also no improvements that are directly involved in the ownership - only legal rights to use the improvements. Therefore, this approach is not applicable or necessary to develop a credible result and is not used in this report.

Sales Comparison Approach. This approach uses sales of other real estate (unimproved land or land and improvements) that are similar in character, use and location to the Subject of the appraisal. Items of comparison are identified, such as location, size, zoning, age, condition, and other features. Those items of comparison that differ from the Subject of the appraisal are identified and given a value. An adjustment is then applied to the comparable sale to make it "equal to" the Subject in that respect. When all adjustment are applied to the comparables, a unit value (dollar per square foot, per acre, per apartment unit, etc.) is extracted from the comparables and applied to the Subject to arrive at a value estimate for the Subject.

In theory, this approach would have applicability to the Subject of this appraisal. If data could be assembled that described the transfer of Leasehold Interest in commercial leases could be assembled and analyzed, adjustments could be applied

1 "Intangible real property represents the bundle of legal rights associated with real estate. For example, a real property interest would be a limited legal interest (i.e., less than a fee simple ownership interest) -- such as a leasehold estate -- in real estate." Valuing a Business, page 317.

2 The Appraisal of Real Estate, page 62. In Business Valuation, the Cost Approach is called the "Asset-Based Approach" and the Sales Comparison Approach is called the "Market Approach." Valuing a Business, page 45. The methodologies have differences in detail but conceptually are essentially the same for each of these three approaches in the respective disciplines.

and comparisons made to arrive at a value for the Leasehold Interest of the Subject lease. However, data is not readily available for this type of transaction and the data, if it were available (such as in business sales in leased property), would be difficult to evaluate because the data reported in the transactions typically do not segregate the value of the various components giving a separate value to the leasehold interest. Additionally, the value used in this appraisal is "Investment Value" and not "Market Value." Therefore, what the "market" would pay for the asset is not the object of this appraisal. What the value is to the particular investor (in this case the tenant under the lease with Scolari's) is the object of this appraisal. Therefore, I have concluded that this approach is not applicable to produce credible results in this appraisal.

**Income Approach.** The Income Approach is based on the principles of Anticipation\(^1\) and Change\(^2\). Since buyers of income producing properties are buying an "income stream", as much as "bricks & mortar," the appraiser must estimate and project an income stream that can be quantified and measured. A value can then be attached to that projected income stream. There are two basic approaches to performing this task: Direct Capitalization and Yield Capitalization.\(^3\)

**Direct Capitalization.** This is 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 income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor."\(^4\) When an income producing property exists and has been stabilized, so that the current year's economic performance is at a level that is typical of a stable real estate market for that kind of product, this method is most appropriate. If an existing property is owner-occupied and is in a market that is relatively stabilized, this method would be appropriate to determine the "potential" income stream to an investor who would buy the property and lease it to a tenant for the rental income.

**Yield Capitalization.** This method is a "procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate."\(^5\) This method is most appropriate to use when a property is

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\(^1\) Anticipation. "The perception that value is created by the expectation of benefits to be derived in the future." *Appraisal of Real Estate*, pgs 35.

\(^2\) Change. "The result of the cause and effect relationship among the forces that influence real property value. *Appraisal of Real Estate*, pgs 35.

\(^3\) In Business Appraisal terminology, the Direct Capitalization process is called "Capitalized Future Economic Income Method" and Yield Capitalization is called "Discounted Future Economic Income Method." *Valuing a Business*, page 45. Different business appraisal texts may use slightly different terminologies, however Shannon Pratt, one of the authors of *Valuing a Business*, is one of the leading authorities in business valuation and is pushing hard to standardize terminology in this discipline. He has been instrumental in creating the "International Glossary of Business Valuation Terms" included in Appendix A of his book. Although there are slight differences in components of the process with a business versus real estate, the concepts are essentially the same for the paired methodologies.

\(^4\) Direct Capitalization. *The Dictionary of Real Estate Appraisal.*

\(^5\) Yield Capitalization. "The capitalization method used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that explicitly reflects the investment's income pattern, value change, and yield rate. *The Dictionary of Real Estate Appraisal.*

proposed and improvements do not yet exist. The appraiser must then project the time it will take the property to achieve stabilization; estimate the absorption process during which the leasing of the property will be accomplished, or in the case of a subdivision, the process of sell-out of the individual lots; estimate income and expenses during the process of reaching stabilization; then determine the **Present Value** of the cash flows by discounting them at a market rate of return to determine the value of the property.

This method is also appropriate in the case of an improved rental property, such as a multi-tenant office building or apartment building, if its current occupancy and rental performance is sub-standard for a market where supply and demand is in equilibrium. In that case, the appraiser must estimate the time and cost to bring the property to a condition that is "at par with" the surrounding stabilized market for that type of property. The "As Is" value of the property is then the **Present Value** of the cash flows after accounting for the time and cost (lost revenue and extra expense) required to reach stabilization. The "**Prospective Value**" would be the value at the end of the construction / absorption period when the property is stabilized.

A third example of when Discounted Cash Flow Analysis is appropriate is in the case of an existing property that requires renovation/remodeling, or where there is an addition proposed to expand the existing improvements. Again, the construction period and absorption period process must be analyzed and the income stream discounted to a Present Value to determine the market value of the property in its "As Is" condition.

In the case of the Subject of this appraisal, the Direct Capitalization is inappropriate because one of the principles of that method is the assumption that the initial year's income stream will continue in perpetuity. As will be shown below, the income stream has a finite life and varies each year as the rent structure for that year changes. Therefore, Direct Capitalization would give a misleading result. Yield Capitalization is the appropriate methodology for this appraisal as it accounts for the full income stream over a period of years, and discounts each year's income back to a present value rather than assuming the first year's income stream will remain unchanged in perpetuity.

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1 **Prospective Value.** "A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or those that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written." [The Dictionary of Real Estate Appraisal.](#)

2 [The Appraisal of Real Estate](#), page 529; [Valuing a Business](#), page 206.
Yield Capitalization Process.

The steps involved in this approach are

1. **Define the income stream** that can be expected from the asset. In this case, the income stream is the difference between the Market Rent level for the leased premises and the Contract Rents defined in the Lease Agreement. The contract rents in this case are very easy to determine as they are spelled out to the penny in the lease agreement. To determine market rents, I needed to produce a survey of rental properties that were competing with the Subject property as of the effective date of this appraisal, December 31, 1998, determine the rents that were being achieved by those properties, and extract from that data, an opinion of market rents for the Subject property. The difference between this estimate of market rents and the contract rents in the lease is then the "income stream" that can be discounted and valued.

2. **Determine an appropriate Discount Rate** to be used to discount the cash flows in the income stream back to a present value as of the date of the appraisal. The discount rate is typically extracted from the market by finding similar properties that have sold and extracting from those sales the discount rate that resulted from those sales. Again, that direct approach is inappropriate in this case as there are no data sources for finding sales of leasehold estates of this nature, as described above when considering the Sales Comparison Approach. Therefore, I have taken a different approach.

Since the lease is encumbering a retail shopping center, the income stream is a by-product of the shopping center. Data is available for sales transactions of shopping centers in a number of forms and sources. The buyer of a shopping center is essentially buying the income stream produced by market rents on the center. If a space in the center is not leased, a buyer would estimate market rent for that space and place a value on that portion of the shopping center using typical methodologies for valuing a shopping center.

If a lease that encumbers part of a shopping center has a rent structure that is below market, then the buyer of the shopping center will pay only for the income stream available, reducing the price of the entire shopping center by an amount necessary to compensate for the lost income from the below-market lease. The methodology for doing this is to estimate the shortfall of the rent under the lease for the time period required for the lease to reach its expiration (including all renewal options terms, because the tenant has control of the space by means of those options). That shortfall is then discounted to a present value at essentially the same yield rate as used for the entire center.

As an example, suppose that a buyer wanted to buy a shopping center that is projected to produce the following income stream (net income before debt service, depreciation, amortization, and income taxes). The table illustrates a fictitious shopping center's cash flow for a five year holding period. At the end of the fifth year, the buyer plans to sell the property; therefore, year five

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has that year's cash flow plus the net proceeds from the sale of the property. The Factor column is the discount factor that is derived using a 15% annual yield rate required by the buyer and the Present Value (PV) column shows the value at the beginning of year one of that future year's income stream.  

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
<th>Factor</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$100,000</td>
<td>0.869565</td>
<td>$86,957</td>
</tr>
<tr>
<td>2</td>
<td>$105,000</td>
<td>0.756144</td>
<td>$79,395</td>
</tr>
<tr>
<td>3</td>
<td>$110,000</td>
<td>0.657516</td>
<td>$72,327</td>
</tr>
<tr>
<td>4</td>
<td>$115,000</td>
<td>0.571753</td>
<td>$65,752</td>
</tr>
<tr>
<td>5</td>
<td>$1,220,000</td>
<td>0.497177</td>
<td>$606,556</td>
</tr>
<tr>
<td></td>
<td><strong>Total PV</strong></td>
<td></td>
<td><strong>$910,986</strong></td>
</tr>
</tbody>
</table>

**Yield Rate** 15.00%

The value of the shopping center to the buyer, then, is the total of the present value of the individual years. When the five years' present values are added, the total value of the property to the buyer is $910,986.

Now suppose that one of the leases in the center has contract rents that are below market. Instead of paying the full value for the center of $910,986, the buyer would then determine the loss of rents caused by the below-market lease. The table below shows what a fictitious buyer would find after performing this calculation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
<th>Factor</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,000</td>
<td>0.869565</td>
<td>$1,739</td>
</tr>
<tr>
<td>2</td>
<td>$1,800</td>
<td>0.756144</td>
<td>$1,361</td>
</tr>
<tr>
<td>3</td>
<td>$1,600</td>
<td>0.657516</td>
<td>$1,052</td>
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<td>4</td>
<td>$1,400</td>
<td>0.571753</td>
<td>$800</td>
</tr>
<tr>
<td>5</td>
<td>-</td>
<td>0.497177</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>Total PV</strong></td>
<td></td>
<td><strong>$4,953</strong></td>
</tr>
</tbody>
</table>

**Yield Rate** 15.00%

The Cash Flow column shows the rent loss because the lease was below market. In this fictitious case, the lease expires at the end of year four and the space can then be leased at "market rates," therefore, there is no rent loss in year five. The same discount factors are used because the buyer requires his 15% yield. The present value of the lost rent is then $4,953. This is the amount of reduction of the sale price that the buyer will pay for the property because of the below-market lease. The table below shows this adjustment to the price of the property.

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1 The discount factor is determined by taking a future value of $1.00 and dividing it by (1 + Discount factor) and dividing that by the number of years into the future represented by the cash flow item. Year two discount rate would be $1.00 divided by (1+.15) = .869565; divided by (1+.15) a second time = .756144; giving the discount factor for year two cash flow of .756144. This calculation, obviously, can be done instantaneously on a financial calculator or an Excel spreadsheet on a computer. But the methodology is illustrated in this series of simple calculations for year two. The present value of the anticipated year two cash flow is derived by multiplying the year two cash flow by the discount factor, resulting in our example in a present value of $72,327 at the time of purchase of the shopping center.
The point of the above exercise is to show that the value of the lost rent to the buyer (who would become the new landlord under the lease) is calculated in the same manner and at the same rate as the buyer would use for determining the value of the entire property. The difference between the value before and after consideration of the below-market lease is actually an asset owned by the tenant — the Leasehold Asset.\(^1\)

To determine the Discount Rate to be used in the Yield Capitalization methodology, then, I must find the Discount rate used by buyers of shopping center in the time period of the effective date of this appraisal, which is December 31, 1998.

Apply the selected Discount Rate to the cash flows that accrue to the tenant because of the below-market rent on the Subject Lease to determine the Investment Value of the Leasehold Interest.

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\(^1\) This process is further explained and illustrated in an article that I wrote in 1991 entitled "Finding the Hidden Asset" and published in the Northern Nevada CCIM Chapter Newsletter.
Market Rent Determination.

To determine the market rents for the Subject property, I have identified six comparable properties. As of December 1998 there were six properties in Fernley that would qualify as multi-tenant commercial/retail or commercial/office buildings that would compete for tenants who want that kind of business environment. One of these, located at 1375 E. Newlands Drive, across the highway from the Subject property, had 5 tenant spaces, and can be seen in the contemporaneous aerial photos at the front of this report. In that building, one of the businesses, One Stop Video, was in the space they now occupy in that building in December 1998 (the rest of the businesses in that building at that time have either moved or closed). However, the current owner of One Stop Video did not know how to contact the previous owner of the business and said that the building ownership had also changed. Therefore, I was unable to identify the lease rates and terms on that building. So it is not included in the rent comparables used.

The other five buildings are identified in the table below. Each of these properties is discussed in detail in the addenda, including photos of the property and a discussion of the rents. Rent Comparable #5 is the space immediately next door to the Subject property space between the Laundromat and the Scolari’s grocery store. The lease on that space with Radio Shack was executed in 1998 but I have been unsuccessful in identifying the rental rate or terms on that lease. Thus, there are question marks in the columns for lease rate and terms. I am expressly stipulating in this report that if and when I am able to obtain information on the lease with Radio Shack executed in 1998, I will revisit this analysis and may revise my opinion of market rents. Absent that information, I will use the data that is available.

A map is included in the addenda showing the location of these five comparable properties.

<table>
<thead>
<tr>
<th>Comp #</th>
<th>Address</th>
<th>Property Type</th>
<th>Size S/F</th>
<th>Rent Mo</th>
<th>Type</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>165 W. Main Street</td>
<td>Commercial / Retail</td>
<td>600</td>
<td>$ 0.85</td>
<td>Gross</td>
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<td>FSGL</td>
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<td>Commercial / Retail</td>
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<td>$ 0.75</td>
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<td>65 W. Main St.</td>
<td>Retail Center</td>
<td>500</td>
<td>$ 0.75</td>
<td>Gross</td>
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<td>5</td>
<td>1370 Hwy #40</td>
<td>Shopping Center</td>
<td>3,000</td>
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<td>?</td>
</tr>
</tbody>
</table>

Comparable #1. This property is a concrete block commercial / retail building on the corner of West Street and Main Street in downtown Fernley. The frontage faces West Street rather than Main Street so only the end tenant (Realty 500 office) has signage exposure to Main Street. The average space in the property is “about 500 square feet” according to the owner. The vacant space in 1998 was leasing for $.85 per square foot on a Gross Lease. Tenants paid for their own electric/gas consumption and the landlord paid all other expenses.

Comparable #2. This building is on the corner of Main Street and Alternate Highway 95 at the junction where traffic would turn to travel South to Las Vegas. It is the highest visibility corner in downtown Fernley. The building is a wood frame structure with two stories. The owner said that the upstairs was used for storage in 1998. The full rent roll as described by the owner is given in the write up on this comparable in the addenda. The high rent in 1998 was $1.23 per square foot and the low rent was $.71 per square foot. The low rent was for a tenant who assisted in the building...
management so received a reduction in rent to compensate. The average rent was $1.04. The leases were full service gross leases in which the owner paid for all expenses and provided very light janitorial service as well as paying for utilities without recovery from the tenants.

**Comparable #3.** This building is identical to Comparable #1 and is owned by the same person. The building frontage faces the parking lot so the only street exposure is for the end tenant. However, there is no signage permitted for the tenants on the end of the building. The space leased in 1998 for $0.75 per square foot. The leases were all gross leases in which the tenants paid for electric and gas and the owner paid for all other expenses. No janitorial was provided.

**Comparable #4.** This building is a retail building on the Southwest corner of Main Street and Alternate Highway 95, across the street from Comparable #2. It is a single story, wood frame structure. I was unable to contact the ownership as the building has changed hands several times since 1998. The tenant I spoke with was Leela's Beauty Salon. The owner of that business said she has leased the space for 25 years and had a clear recollection of her lease rate and conditions in 1998. She said that her rent was $375 per month on a gross lease and her space was estimated at 500 square feet. She paid only electric and gas service and inside maintenance and the landlord paid all other expenses.

**Comparable #5.** This comparable is in the same location as the Subject property, the Fernley Plaza Shopping Center. It is 3,000 square feet, identical in size to the Subject, and is between the Subject space and the Scolari's grocery store. I was informed that this tenant leased the space in 1998 but I have not yet been given the information by Scolari's representatives about the lease rate and terms. It is included in the rent comparison grid with no rental rate or adjustments. At such time as I am provided the information on this space, I will include the data and update/revise my conclusions if necessary.
Rent Comparable Adjustment Grid

The analysis of the individual rentals, and their comparison to the Subject lease, will proceed in two segments\(^1\). The first segment will address items that have to do with market conditions or the sales transaction between buyer and seller. Adjustments in this segment are applied \textit{sequentially} and have the effect of compounding the changes until an adjusted rental value is reached which has considered the market and rental transaction issues. The second segment considers property specific features such as location, physical, economic, use, and non-realty components (if any), of the comparable property. These adjustments are \textit{aggregated together} before being applied to the price determined in the first level.

Not all items of comparison can be quantified from market extracted data. Therefore some comparison items will have a "qualitative" adjustment noted. Although not resulting in an actual number, these qualitative adjustments will guide us in determining how to treat the various rentals when it comes to making our final conclusion of market rents.

Following the discussion of the adjustments, you will find a table. In the table, each of the adjustment features has a separate field for a qualitative and a quantitative difference. In those cases where market support cannot be found for a quantitative adjustment, only a qualitative adjustment will be noted without a change in rent. The final market rent conclusion will consider these qualitative comments even though they have not made a numeric change in the price of the comparable sale.

\textbf{Expense Structure}. Some leases require the tenants to pay for all or part of the real estate taxes, insurance, and maintenance on a building in addition to the utilities consumed. The comparables are all either a Gross Lease (Comparables #1, 3 & 4) or a Full Service Gross Lease (Comparable #2)\(^2\). Comparable #5 is probably a NNN Lease because the Subject Lease Agreement is a NNN\(^3\) Lease and Comparable #5 has the same landlord who most likely used the same lease structure. However, Radio Shack, as a national chain tenant, may have used its own lease form which may or may not be a NNN lease. When that is learned, I can make appropriate adjustments for that comparable.

The normal and customary way of handling this adjustment is to either add to or subtract from the comparable rents an estimated amount for the components of operating expenses that the comparable leases either do or do not pay as compared to the Subject lease. However, it is difficult to find market support for what the taxes, insurance, common area maintenance and utilities expenses are for the comparable

\footnotesize{\textsuperscript{1} Appraisal of Real Estate, pgs 442-446.}

\footnotesize{\textsuperscript{2} A \textbf{Gross Lease} is a lease in which the tenant pays for the utilities consumed inside the leased premises and any janitorial services and the landlord pays for all other operating expenses of the property, such as real estate taxes, real estate insurance and common area maintenance. A \textbf{Full Service Gross Lease} is the same as a Gross Lease except that the landlord pays for all utilities and provides janitorial services to the tenants without reimbursement. Terminology on commercial leases is not universally standardized so the analyst must ask what expenses beyond the base rents a tenant is required to pay before reaching an understanding of the lease, and must make adjustments so that he is truly comparing "apples to apples."}

\footnotesize{\textsuperscript{3} \textbf{NNN Lease} - a lease in which the tenant pays a base rental amount and, in addition, pays its prorata share of real estate taxes, insurance, and common area maintenance. Additionally, the tenant will pay for the utilities consumed within the premises, minor interior maintenance, and janitorial services, either directly or by reimbursing the landlord.
properties in this market. However, I do have exact information from the financial statements of the Laundromat business regarding what was paid for these components of expenses. Therefore, in this instance, I am making an adjustment to the Subject lease structure to make it like the comparables since I can quantify what the tenant paid in addition to the base rent. I can then show what the Subject lease would be paying for an effective Gross Lease Structure.

<table>
<thead>
<tr>
<th>1998 Lease Pymts</th>
<th>Gross Lease Conversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>NNN Rate</td>
<td>$16,308.00</td>
</tr>
<tr>
<td>Paid</td>
<td>$20,604.00</td>
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<tr>
<td>NNN Chgs</td>
<td>$4,296.00</td>
</tr>
<tr>
<td>S/F</td>
<td>$1.43</td>
</tr>
</tbody>
</table>

The table above shows the total base rent paid in 1998 by the Laundromat per the lease terms. In addition, the landlord collected $4,296 as NNN charges for real estate taxes, insurance and common area maintenance.\(^1\)  $4,296 divided by 3,000 square feet results in $1.43 per square foot per year for NNN charges. The total charges of $20,604 divided by 3,000 square feet results in an effective Gross Lease rate of $6.87 per square foot per year for the Laundromat. After I determine the market rents for a Gross Lease for the Subject, I will deduct the $1.43 per square foot to determine the effective market rents for the NNN lease structure of the lease.

Based on the above discussion, the only adjustment that needs to be made on the Comparison Grid below is for comparable #2 which used a Full Service Gross Lease in which the landlord paid for utilities and minor janitorial as well. It is difficult to estimate the amount of utility expenses for this building. However, the 1998 Shopping Center Income/Expenses Analysis\(^2\) report for the Western United States indicates that the average utility expenses for shopping centers $.85 per square foot per year with a low of $.52 and a high of $.93. The average gross revenue for the centers reporting the information for the survey was $14.01 per square foot per year including the collection of NNN charges. That means that the utility expense was approximately 5.72% of the gross revenue of those centers. Based on this data, I have used an adjustment of 6.0% to Comparable #2 reducing the rent charged by this amount, making it equivalent to a Gross Lease rather than a Full Service Gross Lease.

**Conditions of Lease.** This factor involves items in a lease such as free rent concessions, tenant improvements paid for by the landlord beyond what the market dictates, or other considerations to induce either the tenant or landlord to sign the lease. In the case of the comparables, the properties were already existing and the leases are all second generation leases\(^3\). No initial absorption concessions were

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\(^1\) The source for the total paid is the Laundromat financial statements which were provided by the owner of Mrs. O'Kleen's Laundromat. The NNN Charges are extracted by subtracting the contract rent in the lease for 1998 from the amount shown on the financial statement as rent paid. The tenant's books did not segregate the base rent from the other charges by the landlord.


\(^3\) **Second Generation Lease.** A lease on a space that was previously occupied after initial construction of a building. Second generation leases generally do not require extensive interior tenant improvements to make them ready for occupancy. Often, however, the space needs to be reconfigured and payment for the expense for reconfiguration or remodeling is a negotiated item between tenant and landlord and can have a substantial impact on the effective rental rate under the lease. **A First Generation Lease** is a lease to the first occupant of
required and no other atypical provisions in the leases were found. The landlords with whom I spoke specifically indicated that no rent concessions or extra tenant improvements were required to obtain the tenants. No adjustment is made for this item.

**Market Conditions.** This adjustment reflects changes in the market during the time between the effective date of the appraisal and the time of the sale of the comparables. This is often referred to as a “time adjustment.” However, time alone does not explain the changes in the market. I specifically asked the landlords, and the one tenant, for leases that were executed in 1998. The information provided was of that time period so no market conditions adjustment is required.

**Lease Term.** A lease term that extends for a longer time than the typical lease in the market will often have a negative impact on value as a new owner would be unable to modify the lease structure to conform to the market until the lease expires. A month-to-month lease could also have a negative impact on the value because of the uncertainty of the continued income stream. However, month-to-month leases often charge a premium rental rate to offset the risk of vacancy so each situation must be evaluated on its own merits.

In the case of the comparables, all had leases from one to three years. The most common lease term was one year term. The initial term of the Subject lease was four years. It appears that the market was accepting leases from one to five years, so no adjustment is required for this item.

**Location.** Location is a very important component of value determination. All four of the rent comparables for which I have complete information are located in the older downtown area of Fernley. The subject property is located near the I-80 freeway a block from Exit #48, which has much better exposure to through-traffic and is surrounded by newer residential neighborhoods. The location is much superior to the comparables. Because I have no contemporaneous rental data for the Subject property area (until I receive information on the Radio Shack lease), I have performed a "paired sale analysis" of the two areas of Fernley using 2007 rents.

I inquired from the landlord of Comparables #1, 2, and 3, what they are renting their spaces for now. Comparables #1 & 3 are achieving $1.00 per square foot on Gross Leases. Comparable #2 is achieving $1.52 per square foot on the Full Service Gross Lease. When I adjust the utility expense out of Comparable #2 and average these three, the result is $1.15 per square foot on an effective Gross Lease basis.

I called the leasing agent of the **Fernley Village Marketplace Shopping Center** (the name of the Scolari's shopping center as it has been redeveloped). I spoke to the leasing agent, 1 who indicated that they are asking $1.75 per square foot NNN with $.30 per square foot for the NNN charges. They currently have 2 small vacancies (1,200 s/f and 2,600 s/f) and her most recent lease with 1,820 square foot closed 4/15/07. The space was leased at the full asking rate. She said that there has been newly constructed building and often has a "tenant finish allowance" factored that includes base items needed to prepare the space for occupancy, such as installation of HVAC or plumbing. In some cases, I have even seen the pouring of concrete flooring as part of the "T/I Allowance." These, obviously, should not change the effective lease rate as it is assumed that the landlord should deliver the space ready for occupancy in order to obtain "market rents."

---

1  Brenda, at R. Poltl & Associates, San Luis Obispo, California. - 888-283-8031
no need to offer concessions of any kind to obtain tenants. They are delivering the spaces in a “standard finished shell condition” with no free rent beyond what is typically required for the merchant to finish out the space, setup their merchandise, and open for business. This means that the effective Gross Lease rate for this shopping center in April 2007 is $2.05.

The difference between the downtown rental market in April 2007 and the rental market at the I-80 Exit #48, then, is the difference between $2.05 and $1.15, or a 44% difference. Some of this difference is due to the condition of the property (the new shopping center verses buildings that are 20 years old or more), and some is due to the different location. There is no market extracted data to distinguish between the two factors. However, in my judgment, about 60% would be due to location and 40% due to property condition. Therefore, I have used a 25% positive adjustment on the comparable rentals for location. Rent comparables #1 - $4 all require this adjustment as they are in the same relative downtown location. Comparable #5 would not require any location adjustment as it is next door to the Subject property.

**Building Size.** Building size will sometimes make a difference in rental rate with larger properties renting for a lower rate and smaller properties for a higher rate. Comparables #1 - #4 are about the same size. The Subject property leased space is substantially larger. However, there is no data to assist in quantifying an adjustment for size so I have not made a quantitative adjustment but will utilize the fact that the comparables are smaller, thus generally requiring a higher rental rate per square foot when I reach the final conclusion. Comparable #5 is identical in size to the Subject leased space which would require no adjustment.

**Building Age/Condition/Quality.** Building age, condition (deferred maintenance, etc.) and quality (type of construction), will impact the rental rate. Comparables #1 - #4 are all older properties but fairly well maintained. The construction is inferior to the Subject. The condition is about the same. The Subject property, however, is designed as a more contemporary retail shopping center where comparables #1 - #4 do not have the contemporary design (as of 1998 aesthetics) as does the Subject property. The paired sale analysis used above for Location indicated that there was a 44% difference, about 25% of which I estimated was for the location and the balance would be attributable to the age, quality and condition of the properties. Since the difference was based on the new development as it stands in 2007, not all of that difference can be attributed to the Subject property in its 1998 condition. Therefore, I am using about half of that difference for building age/condition/quality and using a 10% positive adjustment to comparables #1 - #4. Comparable #5 will not need any adjustment as it is adjacent in the same building so shares all the same attributes as the Subject property in this respect.

**Other.** There are no other differences that I can identify that would create a rental value differential so no other adjustments are required.
Rent Value Conclusion.

The Rent Comparable Grid on the following page shows all of the above adjustments and indicates a mean average adjusted rental rate of $14.09 per square foot per year on a Gross Lease Basis. I have weighted the comparables differently because of various factors. Comparable #4 is given the least amount of weight because the information was gained from the tenant who had only limited information about the building and was working with approximate data. Comparable #2 was given more weight than #4 but less than #1 and #3 because it is a commercial office building rather than a retail building so is of a different character. It also uses a full service gross lease which required a more subjective application of an adjustment to equate to the Gross Lease which I have used as the standard for this analysis. The greatest weight is given to comparables #1 and #3 for the reasons just explained. The result are a weighted average of $13.91 per square foot.

However, the qualitative differences, which did not have a quantity adjustment need to be factored as well. The size adjustment had no quantity and the larger size of the Subject space would deserve a somewhat lower lease rate. The fact that the landlord in the Subject property was offering a longer term lease than the comparables would also indicate a somewhat lower rate as the risk to the landlord of a more frequent vacancy would be reduced with the longer term lease. These qualitative factors, that cannot be quantified because of the lack of market extracted data, require a reduction in the conclusion of market rents. I have deducted $1.09 from the Mean Average, and $.91 from the weighted average, and concluded that the Market Rents for the Subject leased premises was $13.00 per square foot on a Gross Lease Basis.

However, the Fernley Plaza Shopping Center, where the Subject property was located, was being leased on a NNN Lease basis and the Lease Agreement which is the Subject of this appraisal is also a NNN Lease. Therefore, one more adjustment needs to be done before I can reach an appropriate conclusion. I concluded above that the NNN charges that the Laundromat was paying in 1998 amounted to $1.43 per square foot. When that amount is backed out of the $13.00 per square foot, the resulting Market Value NNN Lease rate for the Subject property is $11.57 per square foot. I am rounding this amount to $11.50 per square foot.

Therefore, it is my opinion that the Market Rental Value of the Leased Premises, known as 1375 US Highway #40 North, Fernley, Nevada, as of December 31, 1998, was $11.50 per square foot per year under a NNN Lease arrangement, or about $.96 per square foot per month.
### Comparable Number

<table>
<thead>
<tr>
<th>Property</th>
<th>Subject</th>
<th>165 W Main</th>
<th>15-25 E Main</th>
<th>140 E. Main</th>
<th>65 W. Main</th>
<th>1370 Hwy #40</th>
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<td>Annual Rent</td>
<td>$6,120</td>
<td>$7,200</td>
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<td>$4,500</td>
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<td>Adjusted Mean</td>
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</table>
Estimating the Income Stream.

The next step in the process is to determine the Income Stream that can be anticipated from the rental value of the Subject property. To do this, I need to determine what the anticipated rental income would be and deduct from that the expenses that would be incurred before a Net Income is received.

From the perspective of the owner of the Leasehold Estate, the income that the asset would produce is the market rents as determined above. The expense would be the rent payments due to the landlord under the lease. To use an analogy, it would be as if the tenant under the Subject Lease Agreement were to find a person who wanted the space and agreed to sub-lease the space at the market rates. This third party would pay market rents to the lessee and the lessee would pay the landlord what was due under the Lease Agreement. The lessee would pocket the difference which would be his cash flow, or his "income stream."

**Market Rent Projection.** Since the Subject Lease Agreement had, as of December 31, 1988, another eight years to run its course, I must estimate what will happen to the Market Rents during that same eight years. As evidenced by the fact that the Lease Agreement has rental increases each year, it is the expectation of the landlord, and of market participants generally, that the market rental value will increase over time. To determine what the general expectation is about rent value increases in Northern Nevada, I emailed a brief survey to about thirty commercial real estate brokers who hold the CCIM designation¹ and indicate on the CCIM membership roster that part of their practice involved shopping center property. I received about a 30% response.

In this survey I asked which of the following methods were used in setting rent structure in shopping center leases.

1) No annual increase - flat rate for number of years.
2) Annual increase based on a fixed percent (3.0%, 5.0%) each lease year.
3) Annual increase based on fixed dollar amount each lease year.
4) Annual increase based on Consumer Price Index (CPI) formula.
5) If CPI increases, do you find San Francisco CPI used Most?
6) If CPI increases, do you find Western US CPI used most?

Based on the results from this small survey, the most commonly used structures are #2 and #3 - annual increases based on either a fixed amount or a fixed percentage. None of the respondents indicated #1 - no annual increases were used. A few indicated that the CPI using the San Francisco CPI was used but that the inflation rate has been at record lows recently, however, and the CPI has gone out of favor. However, that is a recent development and the CPI was more common in previous decades.² It is reasonable to assume from the responses of these market participants that there will be some sort of increase in market rents over the term of a typical shopping center lease.

To see if this is reflected in the overall economy, I assembled the table and graphic below which show the change in the San Francisco Consumer Price Index over the

---

¹ **CCIM Designation** (Certified Commercial Investment Member) is a professional designation awarded by the CCIM Institute, an affiliate of the National Association of Realtors in Chicago, Illinois, to real estate brokers who specialize in selling and leasing of commercial and industrial property.

² I remember my own leasing experiences in the early 1980's in Colorado when I was writing leases with rent escalations based the greater of either (a) the change in the Consumer Price Index or (b) eight percent (8.0%) per year. Expectations were very high then for a continued rapid increase in rental rates.
eight years covered by the Subject Lease Agreement. It is clear that the expectations of the market for an increase in the overall economy have typically come true. The expectation of 3.0% to 5.0% per year was not quite met in this case, but the expectation is there and the market perception is what causes the anticipation of future benefits. Since it is the anticipation of the market on the effective date of the appraisal that must be used to estimate value, I have used an assumption of 3.0% per year in the increase in market rents.

<table>
<thead>
<tr>
<th>Year</th>
<th>Dec CPI</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
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<td></td>
</tr>
<tr>
<td>1999</td>
<td>174.5</td>
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<tr>
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<td>2.1</td>
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</tr>
<tr>
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<td>203.4</td>
<td>3.9</td>
<td>1.95%</td>
</tr>
<tr>
<td>2006</td>
<td>210.4</td>
<td>7.0</td>
<td>3.44%</td>
</tr>
</tbody>
</table>

Average Change 5.38 2.91%

The table on the left shows the CPI each December and calculates the percentage change as well as the average percentage change. The graphic on the right illustrates the trends in the changes.
Selection of Yield Capitalization Rate.

The next step is to select a Yield Capitalization Rate to apply to the income stream that will be determined using the above data and assumptions. Since the income stream is generated by a shopping center lease, the most logical place to look for a yield capitalization rate is the yield anticipated by buyers of shopping centers.

One reliable source to find this information is the RealtyRates.com¹ website, which tracks data on all types of real estate transactions, mortgage transactions, and investor expectations. From data on this website, respected and utilized by many real estate appraisers nationwide, I have assembled the table below.

This table has the data for the overall rates of return on sales that occurred between the fourth quarter of 2000 and the third quarter of 2006. The columns indicate the low, high, and average rates for anchored shopping center sales during this period, on a nationwide basis. The range of the averages is from 6.31% to 14.6% with a mean average of 9.31%. The better located and leased centers in the strongest metropolitan markets would deserve the lowest rates and the lesser centers in the weaker and less desirable markets would be achieving the higher rates because of the higher risk involved in their ownership.

The Fernley Plaza Shopping Center would be considered a medium to high risk as the population center is low and the commercial activity in 1998 was not experiencing the dynamic activity that it has recently seen. It was well anchored and the tenant mix was healthy at that time and its location at exit #48 on I-80 would make it attractive to shopping center investors. Thus, it would be appropriate to estimate that the shopping center would probably deserve an overall rate of something in the area of 10.0%.

¹ [http://www.realtyrates.com](http://www.realtyrates.com)
### Shopping Centers - Survey Numbers

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<thead>
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<th>Year</th>
<th>Qtr</th>
<th>Low</th>
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<td>2006</td>
<td>4</td>
<td>6.66%</td>
<td>12.64%</td>
<td>9.44%</td>
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**Averages**

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<th>Low</th>
<th>High</th>
<th>Average</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>7.25%</td>
<td>12.41%</td>
<td>9.31%</td>
</tr>
</tbody>
</table>

This Overall Rate (OAR), however, is not the Yield Capitalization Rate but only a component of it. This Overall Rate is the Direct Capitalization Rate and is calculated by estimating one year's Net Operating Income in a shopping center and dividing that Net Operating Income by the sale price of the center. The Yield Capitalization Rate must factor onto this Overall Rate an expectation of future growth of the income.¹

I have already identified above that the expectation of the market participants is that a 3.0% to 5.0% growth expectation exists in the market rents, which would, of course, cause an increase in the market value of the shopping centers. The CPI during this eight year period, as shown in the table above, actually grew at just less than 3.0%.

When I combine the Overall Rate shown in the RealtyRates.com data with the expected growth rate² in the rental value, and thus, the shopping center value, the results are just over 12.0% Yield Capitalization Rate.

### Yield Rate Calculation

<p>| | |</p>
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<tbody>
<tr>
<td>OAR Rate</td>
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</tr>
<tr>
<td>CPI Rate</td>
<td>2.91%</td>
</tr>
<tr>
<td>Yield Rate</td>
<td>12.22%</td>
</tr>
</tbody>
</table>

¹ "... the direct capitalization rate is a single figure representing the cost of a certain type of capital (the present value discount rate), modified by the projected annual percentage growth (or decline) in the economic income flow available to the capital structure being valued." — Valuing a Business, page 213.

² For simplicity purposes, I am here using the average annual rate of change in the San Francisco CPI as the expected growth rate used to determine the Yield Capitalization Rate. Other expectations could be used but this is an objective and quantifiable measurement that, in this case, actually did occur in the US economy during this time period.
Conclusion. Using the above data, the appropriate Yield Capitalization Rate for a Shopping Center investment would be between 12.0% and 13.0% with higher risk property deserving the upper end of that range. The rate used to determine the value of the Leasehold Interest in a shopping center lease would be the same rate as that for the income stream generated by the shopping center itself.

In the following three pages I have assembled a long table that completes the tabulation of value of the Subject Leasehold Interest. This table has the contract rent under the Subject Lease Agreement in one column and the market rent determined above in the next column. The contract rent is subtracted from the market rents to determine the net cash flow from the Leasehold Interest and is shown in the last column labeled Rent Differential. Each year the market rent has been increased based on the change for that year in the San Francisco CPI. As was shown above, this is actually a little more conservative than what the market would expect and a person placing a value on the Leasehold Interest on December 31, 1998 would have had the benefit of knowing the actual CPI and would have, instead, used the more customary 3.0% to 5.0%. Thus, this projection is actually more conservative than what would probably have happened on that date.¹

¹ This is, technically, a deviation from the principle of not using information that was not available as of the effective date of value. However, it results in a more conservative value and does illustrate the actual behavior of the economy in response to the market expectations.
Assume: Market Rents increase at the annual rate of the Consumer Price Index Using the San Francisco CPI, which is the most common for Retail leasing in Reno.

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Contract Rent</th>
<th>Market Rent</th>
<th>CPI Base Yr</th>
<th>CPI Adj Yr</th>
<th>CPI Increase</th>
<th>Rent Differential</th>
</tr>
</thead>
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<td>1999</td>
<td>January</td>
<td>$1,400</td>
<td>$2,875</td>
<td>167.4</td>
<td>167.4</td>
<td>0.00%</td>
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**Sensitivity Analysis.** I have used the 13.0% yield capitalization rate in this tabulation and the opinion of market rental value of $11.50 per square foot as concluded above. Another way to test the reasonableness of this conclusion is to perform a sensitivity analysis and perform some "what if"s" on this data.

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<td>$11.50 1.00% $80,897</td>
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The variables used in this sensitivity analysis were (a) Yield Rate and (b) rate of change in the CPI. The rental rate was constant at $11.50 per square foot per year. The highest value of the Leasehold Estate was $120,489, with a 5.0% CPI change and a 10.0% Yield Capitalization Rate. The lowest value of $80,897 came from a 1.0% change in CPI and a 15.0% Yield Capitalization Rate. These variables have quite a spread. The range of Overall Rates in the RealtyRates.com data above was about 8.0%. This was for all types of shopping centers in all types of market conditions over a six year period. The range in value with these wide swings in the variables is still only about $40,000, or about a 33% variation from high to low. This would indicate that the value conclusion reached in the table of $100,120 as a midrange is supportable from the data available in the market.

CONCLUSION:

Based on the above analysis, it is my opinion that the Retrospective Investment Value of the Leasehold Interest in the Lease Agreement between Scolari's Warehouse Markets and Mrs. O'Kleen's Coin Operated Laundromat, as of December 31, 1998, is

One Hundred Thousand Dollars
$100,000

Hypothetical Condition.

Renewal Options. The lease which is the Subject of this appraisal contains two options to renew the lease for an additional five years each. These options are "personal" to the original tenants, and conditioned on the fact that they are still in possession and operating the business in the premises when they exercise the renewal options. Based on the wording of this provision (Paragraph 2.b., page 2), it appears that the options would not automatically be available to a replacement tenant in the lease if an assignment of the tenant's position in the lease were accomplished.

Therefore, in reaching an opinion of Leasehold Investment Value in this appraisal, it is expressly a Hypothetical Condition of this appraisal that the original tenant would be in possession of the Leased Premises at the times required to exercise the renewal options. The value conclusion below is not valid without this hypothetical condition. If an assignment of the lease took place, or the tenant elected to vacate without renewing the option, the value conclusion would likely be different.

Since the effective date of this appraisal is December 31, 1998, and the appraiser, in reaching a value conclusion, is prohibited from considering information or conditions not available in the marketplace as of that date, subsequent events cannot influence the judgment of the appraiser in this assignment. It is a known fact that the tenant did not remain in possession and exercise the second renewal option. But that fact was not available on December 31, 1998, thus this Hypothetical Condition is required to fulfill this assignment within the guidelines of the Uniform Standards of Professional Appraisal Practice.

1 The table of RealtyRates.com survey numbers had a low of 6.26% in 4Q2005 and a high of 14.50% in 2Q2001. This is a difference of 8.24% which is a range equal to about a 56% variance.
CERTIFICATION

I certify that, to the best of my knowledge and belief:

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

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

3. 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.

4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

6. 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.

7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

8. I have made a personal inspection of the property that is the subject of this report. My inspection was of the site where the real estate encumbered by the Leasehold Interest was located. The improvements have been demolished and new improvements have been constructed so I was not able to see the improvements that were in place as of the effective date of the appraisal. Photographs of the Subject used in this report were provided by Chris Buchanan.

9. No one provided significant real property appraisal assistance to the person signing this certification.

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

11. As of the date of this report, I am not subject to continuing education requirements of the Appraisal Institute but am subject to continuing education requirements of the states in which I hold appraisal licenses or certifications. I am current on all continuing education requirements of such jurisdictions.

____________________________________
Paul Lorenzen
CCIM, CPM, CSM
TX-1336071-G
NV-A-0006527-CG
ASSUMPTIONS & LIMITING CONDITIONS

Unless otherwise specifically stated within this report, this appraisal and report are subject to the following assumptions and limiting conditions. Acceptance and use of this report by the client and intended user(s) shall be deemed to be acceptance of these Assumptions and Limiting Conditions.

LEGAL ASPECTS

Legal Description. Legal description(s) furnished is/are assumed to be correct. No responsibility is assumed for matters legal in nature, nor is any opinion rendered with respect to title, which is assumed to be good and marketable.

Liens & Encumbrances. All existing liens and encumbrances, if any, have been disregarded and the property has been considered as though free and clear of liens and encumbrances.

Encroachments. Unless otherwise stated in this report, there were no encroachments observed by the appraiser during the appraiser’s visit. The opinion of value is rendered without regard to other possible encroachments.

Ownership/Management. It is assumed that the property is under responsible ownership and competent management.

PROPERTY DESCRIPTIONS

Drawings, Engineering, Plans & Measurements. Any sketches, maps or other exhibits included have been prepared to assist the reader in visualizing and understanding the subject property. Basic measurements and calculations of the boundaries and dimensions of the site(s) and of the improvements, if any, are based upon information supplied by others are not guaranteed and no responsibility for accuracy is assumed. Unless otherwise stated in the report, the appraiser was not provided with a survey, parcel map, architectural drawings, or other documents relative to the location, boundaries, or dimensions of the property. The appraiser is not an architect or civil engineer and cannot guarantee the accuracy of measurements taken by the appraiser.

Proposed Improvements/Renovations. Any proposed improvements, renovations, or remodeling of the property are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications. Deviation from these plans and specifications may require a revision to this report and its value conclusions.

Structural/Mechanical Items. Descriptions and conclusions regarding structural items, if any, have been based on observed condition at the time of appraiser’s visit to the property. No responsibility is assumed for any deficiencies not visible by external observation. Unless otherwise indicated, all structural components, plumbing, electrical, and mechanical items are assumed to be operative, but no warranty is made as to their condition or future life. No responsibility is assumed as to the structural soundness of the improvements. 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 liability is assumed by the appraiser for any engineering-related issues.

Hazardous Substances. Unless otherwise stated in this report, the appraiser has not been informed of the existence of hazardous substances, including but not limited to asbestos, polychlorinated biphenyl, petroleum leakage, agricultural chemicals, toxic waste or hazardous materials which might affect the subject property. The existence of potentially hazardous materials used in construction, operation, or maintenance of the property, such as the presence of asbestos,
urea formaldehyde foam insulation, and/or existence of toxic waste which may or may not be present in the property, has not been considered. The appraiser is not qualified to detect such substances or conditions. The concluded value is predicated on the assumption that there is no such condition on, in or near the property that would cause a loss in value. The valuation is subject to modification if any such potentially hazardous materials were detected by a qualified expert in these areas. The appraiser reserves the right to modify this valuation if so warranted.

**Soil Conditions.** The appraiser has not performed soil or drainage tests. Nor has the appraiser been provided with soil or drainage tests results. Therefore, the appraiser assumed that there are no subsoil or drainage conditions which would adversely affect the subject or its final valuation. No known waste hazards affecting the subject site were evident upon site inspection. The appraiser has not been provided with information concerning soil conditions. An expert in this field should be consulted for an opinion on this matter, if so desired.

**Americans with Disability Act (ADA).** The “Americans with Disability Act of 1990” (ADA) is intended to provide full access and participation for disabled Americans and contains areas of coverage including employment, public services, public accommodations, and telecommunications. Subchapter III of the ADA addresses architectural and procedural barriers to disabled individuals in connection with the public accommodations. The appraiser has not been afforded a survey with regard to the subject property to indicate whether or not it conforms to the ADA requirements. Should such a survey be provided, this appraiser reserves the right to adjust and/or modify the value conclusion, if warranted.

**Compliance with Laws/Regulations.** It is assumed that the property is in full compliance with all applicable zoning, building, use, environmental, and other regulations and laws imposed by federal, state, local, or other jurisdictions unless non-compliance is specifically identified, described, and considered in this report. It is assumed that all required licenses, certificate of occupancy, consents, or other legislative or administrative requirements either have been or can be obtained or renewed for any use on which the value estimated is based.

**OTHER ITEMS**

**Information Provided by Others.** The various data reported herein, as supplied by others, have been obtained from sources deemed reliable, but no responsibility is assumed for accuracy. It is assumed that all information known to the client and relative to the valuation has been accurately furnished and that there are no undisclosed leases, agreements, liens, or other encumbrances affecting the use of the property. Some information and data was obtained from public records and, where possible and feasible, was checked and verified, and deemed to be correct.

**Subsequent Testimony.** The appraiser, by reason of this report, is not required to give testimony in court, litigation deposition, or any other hearing with reference to the property in question. If the appraiser is requested to appear in any such court, deposition, or hearing, the appraiser shall have the right to bill the client or other person(s) requesting such testimony at the appraiser’s normal and customary hourly fee then in effect.

**Distribution of Value.** The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and improvements should not be used in conjunction with any other appraisal and are invalid if so used.

**Confidentiality of Report.** This report was obtained from Paul Lorenzen, CCIM, CPM, CSM, and consists of “trade secrets and commercial or financial information” which is protected, privileged and confidential and exempted from public disclosure under 5USC552(b)(4). Possession of this report, or a copy, does not carry with it the right of publication. It may not be used for any purpose or any person other than the client and intended users identified in the report, without the prior written
consent of the appraiser. If consent is given, the entire report shall be used without deleting or omitting any portions of the report. Under the Bylaws and Regulations of the Appraisal Institute, each designated or general member is required to control the use and distribution of each appraisal report signed by such member. No third parties may rely upon this appraisal report for any purpose whatsoever, including the provision of financing for the acquisition or improvement of the subject property. This appraisal was prepared specifically for our client, as addressed in this report. Third parties who desire us to prepare an appraisal of the subject property for their use should contact the addressee of this report to obtain approval for Paul Lorenzen, CCIM, CPM, CSM, to prepare an additional appraisal report for their specific needs.

Publication / Distribution of Report. The contents of this report, in whole or in part, shall not be given to third parties without prior written consent of the person signing this appraisal report. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media, or other media for public communication without the prior written consent of the person signing this appraisal report. Nor shall any reference be made to the Appraisal Institute, the MAI designation, the CCIM Institute, or the CCIM designation, the Institute of Real Estate Management, the CPM designation, the International Council of Shopping Centers, the CSM designation, in any reference to the contents of this report or the value conclusions reported, without prior written approval of the person signing this report.

National/Local Economy. This appraisal report is based on the condition of local and national economies, purchasing power of money, and finance rates prevailing at the effective date of value. Any change in these conditions subsequent to the date of this report may affect the value conclusions.

Real Estate Taxes. All taxes are assumed to be current. Actual taxes have not been verified and may be owed. If they are owed, no deduction has been made from the reported value conclusions. In instances, when the client specifically requires information on outstanding balances, the data has been presented in the Real Estate Taxes and Assessed Value section of this report.
QUALIFICATIONS OF APPRAISER

Paul Lorenzen
CCIM, CPM, CSM

Since 1976 I have been involved professionally in some aspect of real estate. Beginning in residential sales, I quickly determined that selling houses was not my destiny. In 1978 I transitioned to commercial / investment real estate and have been active in that discipline since then.

During the years since 1976, I have held real estate broker's licenses and worked in California (1976-80, 2000-2002), Colorado (1980-85, 86-87), Arizona (1985-86), Nevada (1987-2002), Oregon (2001-2005), and Texas (2005 - Present). During this time I have been involved in virtually every phase of commercial / investment real estate including Sales, Real Estate Leasing, Property Management, Real Estate Appraisal, Real Estate Development, Real Estate Financing, and Real Estate Consulting.

In 1992 I obtained a Certified General Appraiser license in Nevada and in 2005, the same license in Texas.

Below I have listed my certifications, education (both academic and professional), teaching and writing experience applicable to commercial real estate.

Pasadena College / Point Loma Nazarene University, San Diego, California. 1967-70: Completed B.A. degree with major in Psychology and minor in New Testament Greek.

CCIM - Certified Commercial Investment Member awarded in 1979 by the Commercial Investment Real Estate Institute of the National Association of Realtors

CPM - Certified Property Manager awarded in 1985 by the Institute of Real Estate Management of the National Association of Realtors

CSM - Certified Shopping Center Manager awarded in 1987 by the International Council of Shopping Centers, in New York, New York

Real Estate Broker License - Currently, Texas (#0542412) - Formerly, Oregon, California, Colorado, Arizona, Nevada.

Certified General Appraiser License - Nevada (NV-A.0006527-CG) and Texas (TX-1336071-G).
REAL ESTATE COURSES & SEMINARS

REAL ESTATE APPRAISAL COURSES

Nevada Appraisal Law, Western Nevada Community College (1992 - 3 classroom hours)
Nevada Appraisal Law, McKissock Data Systems (2005 - 3 classroom hours)
Real Estate Appraisal, Lumbelau Real Estate School (3 semester hours)
Fundamentals of Appraisal, Allied Appraisal School (90 classroom hours)
RE 206 Real Estate Appraisal, Truckee Meadows Community College (3 semester hours)
RE 207B Income Valuation Appraising, Truckee Meadows Community College (3 semester hours)
RE 198B Special Topics in Real Estate - Analysis of TMCC Appraisal Curriculum, Truckee Meadows Community College (6 semester hours)

Standards of Professional Practice: Part A - Standards, Appraisal Institute, (2 days)
Standards of Professional Practice: Part B - Ethics, Appraisal Institute, (2 days)
Introduction to Appraising Real Property, Appraisal Institute (10 days)
Litigation Valuation, Appraisal Institute (6 days)

Writing Narrative Appraisal Report, Lincoln Graduate Center (2 day seminar)
Residential Market Analysis & Highest & Best Use, Appraisal Institute (2 day seminar)
Business Practice & Ethics, Appraisal Institute (1 day seminar)

Uniform Standards of Professional Practice (USPAP) Course, Appraisal Institute (2 day seminar - multiple times from 1992 - 2005)

Principles of Appraisal Review, Lincoln Graduate Center (2 day seminar)

Course 510 - Advanced Income Capitalization, Appraisal Institute (Self-Study and Challenge Exam)
Course 520 - Highest & Best Use and Market Analysis, Appraisal Institute (Self-Study and Challenge Exam)
Course 530 - Advanced Sales Comparison and Cost Approaches, Appraisal Institute (40 classroom hours)
Course 540 - Report Writing & Valuation Analysis, Appraisal Institute (40 classroom hours)
Course 550 - Advanced Applications, Appraisal Institute (Self-Study and Challenge Exam)

REAL ESTATE MARKETING COURSES

CI-101 Fundamentals of Real Estate Investment and Taxation, Realtors National Marketing Institute (6 days)
CI-102 Fundamentals of Creating a Real Estate Investment, Realtors National Marketing Institute (6 days)
CI-103 Advanced Real Estate Taxation and Marketing Tools for Investment Real Estate, Realtors National Marketing Institute (6 days)
CI-104 Impact of Human Behavior on Commercial Investment decision-Making, Realtors National Marketing Institute (6 days)
CI-105 Case Studies in Commercial Investment Real Estate Brokerage, Realtors National Marketing Institute (6 days)
REO Super Session, Dallas Texas, September, 1988, Realtors National Marketing Institute (3 days)

The Art of Real Estate Counseling - 500, Charles Chatham (5 days) Trade Secrets of Exchanging Warren Harding (6 days)

Lowery/Nickerson Real Estate Investment Seminar, Education Advancement Institute (3 days)
Developing, Syndicating and Big Money Brokerage, Chet Allen (3 days)
Money Making Formulas for Creative Real Estate, Barney Zick (3 days)

Course 501 - Fundamentals of Syndication, Real Estate Securities & Syndication Institute (5 days)
Real Estate Practice, Lumbelau Real Estate School (3 semester hours)
Marketing Real Estate In An Automated Office, Arnold Information Institute, Inc. (2 days)

Leasing Commercial Real Estate, Northwest Center for Professional Education (2 days)
Leasing Commercial Real Estate, Institute of Real Estate Management, Ron Simpson, CPM, RPA, Instructor (1 day)
Real Estate Investments, Truckee Meadows Community College, Reno, Nv, (3 semester hours) - creator and instructor for the course

REAL ESTATE MANAGEMENT COURSES
IREM 302 - Leasing and Management of Office Buildings, Institute of Real Estate Management (6 days)
IREM 400 - Managing Real Estate As An Investment, Institute of Real Estate Management (6 days)
IREM 502 - Long Range Management Plan for Office Buildings, Institute of Real Estate Management (6 days)
IREM 503 - Long Range Management Plan for Shopping Centers, Institute of Real Estate Management (6 days)
IREM 800 - Ethics in Real Estate Management, Institute of Real Estate Management (1 day) - Also taught this course for IREM National numerous times

Design, Operation & Maintenance of Building Systems, Part I, Building Owners & Managers Institute, Course 1 of Real Property Administrator (RPA) program, 3 semester hours college level equivalent

Preparing for Disaster, Nevada IREM Chapter, (1 day)

Real Estate Management, Truckee Meadows Community College, Reno, Nv (3 semester hours) - creator and instructor for the course

OTHER REAL ESTATE RELATED TOPICS
Income Tax Aspects of Real Estate Transactions, Charles Considine (4 days)
Business Opportunities, Art Hammel (3 days)
Real Estate Economics, Long Beach Community College (3 semester hours)
Real Estate Finance, Lumbleau Real Estate School (3 semester hours)
Real Estate Law, Lumbleau Real Estate School (3 semester hours)
Basic Arbitrator Training, American Arbitration Association (1 day)
Series 7 Securities License Training, Merrill Lynch (4 months training program - passed federal license exam with score of 96%)

Measuring Commercial Real Estate, Northern Nevada CCIM Chapter, Reno, Nv, - 1 day
Principles of Real Estate, Midwestern State University (30 classroom hours)
Texas Principles of Real Estate II, University of Texas, Arlington (30 classroom hours)
Texas Law of Agency - TREC 1111, University of Texas, Arlington (30 classroom hours)
Law of Contracts - TREC 1200, University of Texas, Arlington (30 classroom hours)
TEACHING

I first began teaching for the Coastline Community College in Costa Mesa, California, in 1979. I have taught both regular college classes and professional continuing education classes under the sponsorship of community colleges, universities, the Nevada State Real Estate Division, local Realtor Associations, the National Association of Realtors, and numerous smaller real estate educational organizations over the last 28 years. Below is a listing of the courses I have taught.

Real Estate Investments, Coastline Community College, Costa Mesa, California 1979-80, developed and taught a 3 semester hour course in real estate investments, 2 semesters.

RE 199, Real Estate Investments, Truckee Meadows Community College, Reno, Nevada 1988 - 1994, 3 semester hour course in real estate investments, 1 semester each year.

RE 205B & REM 201, Real Estate Management, Truckee Meadows Community College, Reno, Nevada 1990 - 1994, 3 semester hour property management course developed by the Institute of Real Estate Management in Chicago, giving credit toward the CERTIFIED PROPERTY MANAGER (CPM) designation as well as college credit toward an Associates or Bachelors degree, 1 semester each year.

IREM 800 - Ethics in Real Estate Management, Facilitator for local IREM Chapter of course which is required for the CERTIFIED PROPERTY MANAGER (CPM) designation from the Institute of Real Estate Management, Chicago, Illinois. Offered periodically from 1992 - 1998 in Reno, Nevada.

Commercial Property Management, University of Nevada - Reno, Continuing Education Department, developed and taught one day course, three times in 1988 and two times in 1991.

Measuring Commercial Real Estate, Northern Nevada CCIM Chapter, developed and taught 1/2 day seminar on methods of measuring commercial and industrial real estate, including BOMA and IREM methods as well as AIA methodology. Taught 2 times in 1988 in Nevada and at National Association of Realtors national convention, November 1990.

Real Estate Strategies - Business Opportunities Section, GRI Course, Nevada Association of Realtors, 1/2 day session in GRI program, developed and taught 2 times in 1988.

Real Estate Strategies - Real Estate Investments Section, GRI Course, Nevada Association of Realtors, 1/2 day session in GRI program, developed and taught in 1989 and 1990.

BROKERS RECORDS: How To Survive A Real Estate Division Audit, Real Estate Research Institute, 4 hour seminar developed with the Nevada Real Estate Division -- offered periodically beginning in 1990.

Strategic Marketing of Commercial Real Estate: How to Sell 100% of your Listings, National Association of Realtors Convention, Las Vegas, Nevada, Education Session, 1991; University of Nevada, Reno, Continuing Education Department, 1994, 6 hrs Nevada Continuing Education Credits.


Environmental Hazards And The Real Estate Professional, Big Ten Seminars, 1993, 1994 (offered monthly for real estate continuing education for real estate and appraisal licensees).
How To Negotiate The Best Lease For Your Business, Small Business Development Center, University of Nevada, Reno, one day seminar, 1992.

PUBLISHED ARTICLES

Listed below are articles published in professional newsletters, magazines and journals.

**Programs For The HP-38E Calculator**, 25 page booklet published in 1979 with creative real estate programs to be used in the first programmable Hewlett Packard hand-held calculator for commercial/investment real estate brokers.


**Trust Fund Accounting and Record Keeping for Nevada Brokers**, A Reference Manual published by the Education Section of the Real Estate Division, Nevada Department of Commerce, 1990, 28 pages. Although no author is listed, I am acknowledged in the inside cover of the book as having assisted by drafting about 50% of the book and critically reviewing the entire book for the Real Estate Division.


"Reno Shopping Center Survey" Published 1989 and 1991.

"Reno/Sparks Industrial Property Survey" Published 1990.

TEXAS APPRAISER LICENSING AND CERTIFICATION BOARD

BE IT KNOWN THAT

PAUL THOMAS LORENZEN

HAVING PROVIDED SATISFACTORY EVIDENCE OF THE QUALIFICATIONS REQUIRED
BY THE TEXAS APPRAISER LICENSING AND CERTIFICATION ACT,
TEXAS OCCUPATIONS CODE, CHAPTER 1103,
IS AUTHORIZED TO USE THE TITLE

STATE CERTIFIED
GENERAL REAL ESTATE APPRAISER

Number: TX-1336071-G

Date of Issue: April 11, 2006
Date of Expiration: April 30, 2008

In Witness Thereof

Shirley J. Ward, Chair
Larry D. Kokel, Vice-Chair
Dona S. Scurry, Secretary
Elroy Carson
Malcolm J. Deason
William A. Faulk, Jr.
L.W. (Wayne) Mayo
Paul E. Moore
Clinton P. Sayers
APPRAISER CERTIFICATE

STATE OF NEVADA DEPARTMENT OF BUSINESS AND INDUSTRY

NOT TRANSFERABLE

REAL ESTATE DIVISION

NOT TRANSFERABLE

This is to Certify That: PAUL T LORENZEN                      Certificate Number: A 0006527-CG

Is duly authorized to act as a CERTIFIED GENERAL APPRAISER from the issue date to the expiration date at
the business address stated here in, unless the certificate is sooner revoked, cancelled, withdrawn, or invalidated.

Issue Date: February 23, 2006                           Expire Date: February 29, 2008

In witness whereof, THE DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION, by virtue of the
authority vested in Chapter 645C of the Nevada Revised Statutes, has caused this Certificate to be issued with its Seal printed
thereon. This certificate must be conspicuously displayed in place of business.

FOR: PAUL LORENZEN                             REAL ESTATE DIVISION
      8151 EASY MEADOW DR
      CONVERSE, TX  78109

GAIL J. ANDERSON
Administrator
BIBLIOGRAPHY


http://en.wikipedia.org/wiki/Shopping_center


Managing the Shopping Center, Institute of Real Estate Management, Chicago, Illinois, 1983.


Mrs. O’Kleen’s Laundromat
in
Fernley Plaza Shopping Center

Location Map of Subject in City Context
Mrs. O'Kleen's Laundromat
in
Fernley Plaza Shopping Center

Assessor's Parcel Map of Subject
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LEASE AGREEMENT

THIS LEASE is made and entered into as of this 28TH day of DECEMBER, 1992, by and between Socolar's Warehouse Markets, INC., a Nevada corporation (hereinafter referred to as "LESSOR"), and Howard Mc. Gowan and Virginia Mc. Gowan, HOW Enterprises, INC., DBA: Mrs. O'Kleen's (hereinafter referred to as "LESSEE"), collectively referred to at times as "the parties."

WITNESSETH:

1. PREMISES:

The LESSOR hereby leases to LESSEE and LESSEE leases from LESSOR, on the terms and conditions herein set forth, approximately 3,000 square feet, commonly known as 1375 Highway 40, Fernley, Nevada 89408 (said premises is hereinafter referred to as the "demised premises" or "premises") located in the Fernley Plaza Shopping Center in Fernley, Lyon County, Nevada, which area is shown on Exhibit "A", attached hereto and made a part hereof, together with any additional property that may from time to time be designated by LESSOR for use as part of the shopping center (hereinafter referred to as the "shopping center" or "center"). LESSOR may elect at LESSOR's sole discretion to change or renovate the center at any time in the future, including but not limited to building new buildings, changing driveways and curb cuts, and adding or selling parcels of land.

2. TERM:

a. Initial Term: The term of this Lease shall commence upon the execution of this lease agreement and the term of this Lease shall expire at 12:00 pm on December 31, 1996.

b. Option: Provided LESSEE is not then in default with respect to this Lease, and has kept and performed all of its obligations under said Lease, LESSOR shall have the right and option to extend the term thereof twice by exercising two (2) separate option periods of five (5) years each by delivering written notice of exercise of each option to LESSOR at least six (6) months before the expiration of the then current term. The first five (5) year option shall expire at 12:00 pm on December 31, 2001 and the second five (5) year option shall expire at 12:00 pm on December 31, 2006. Said notices of exercise of option shall only be effective if in writing and sent to LESSOR as provided in the Lease for the mailing of notices. Such Lease extension shall be upon the identical terms and conditions as set forth in the Lease, and the minimum rent shall continue to increase as set forth below in Paragraph 3.

In the event of LESSEE's default in payment of the increased rent as set forth below, LESSOR shall have the same rights and remedies as upon default in the rent otherwise provided for in the Lease.
This option to renew or extend may be exercised only by the "Original LESSEE" - Howard and Virginia Mc Gowan, Inc. - while physically occupying the premises and any consent by LESSOR to assignment or sublease of the premises shall not be construed as a waiver of the prohibition.

3. **RENT:**
   
a. **Rent Commencement Date:** Minimum Rent and NNN Charges shall commence **January 1, 1993.**
   
b. **Minimum Rent:** LESSEE agrees to pay LESSOR as rent at the place where rent is payable as hereinafter specified, without any deduction or offset whatsoever, an annual fixed minimum rental of **Fourteen Thousand Seventy-Six and 97/100 Dollars ($14,076.97), payable in equal monthly installments of One Thousand One Hundred Seventy Three and 90/100 Dollars ($1,173.90) in advance on the first day of each and every calendar month through the term of this Lease and any extension thereof. In the event the term of this Lease commences other than on the first day of the calendar month, then rent shall be prorated on a per diem basis for any fraction of a month during the term thereof. The minimum monthly rent provided in this Paragraph 3 shall be adjusted in accordance with Subparagraph (c).
   
c. **Rent Increases:** The monthly minimum rent provided in Paragraph 3 of the subject Lease shall be adjusted upward with **three (3%) percent** annual increases commencing the first day of January, 1994, and every January 1st of each calendar year thereafter during the initial and option terms of the Lease on a yearly basis, according to the following schedule:

   **Initial Term:**
   - January 1, 1994: $1,208/mo ($14,496/yr)
   - January 1, 1995: $1,244/mo ($14,928/yr)
   - January 1, 1996: $1,281/mo ($15,372/yr)

   **First Option Term:**
   - January 1, 1997: $1,319/mo ($15,828/yr)
   - January 1, 1998: $1,359/mo ($16,308/yr)
   - January 1, 1999: $1,400/mo ($16,800/yr)
   - January 1, 2000: $1,442/mo ($17,304/yr)
   - January 1, 2001: $1,485/mo ($17,820/yr)

   **Second Option Term:**
   - January 1, 2002: $1,530/mo ($18,360/yr)
   - January 1, 2003: $1,575/mo ($18,912/yr)
   - January 1, 2004: $1,623/mo ($19,476/yr)
   - January 1, 2005: $1,672/mo ($20,064/yr)
   - January 1, 2006: $1,722/mo ($20,664/yr)

   **d. Deposit:** It is hereby agreed and acknowledged that prior to the signing of this Lease, the LESSEE paid **One Thousand Fifty and No/100 Dollars ($1,050.00) at the commencement of the original term as set forth in the original lease dated 1985.**

   **INITIAL**
said $1,050.00 shall be applied as security deposit under this Lease. Said security deposit shall be held as security against any damages caused by LESSEE during the term of this Lease. Security deposit shall not be applied to the last month's rent. LESSEE shall not be entitled to any interest on said security deposit.

e. Payment of Rent: LESSEE shall pay all rent herein provided to LESSOR at its accounting department, P.O. Box 5070, Reno, Nevada 89513, or to such other person or place as LESSOR may from time to time designate in writing.

f. Late Charges: LESSEE hereby acknowledges that late payment by LESSEE to LESSOR of rent and other sums due hereunder will cause LESSOR to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Accordingly, if any installment of rent or any other sum due from LESSEE as additional rent shall not be received by LESSOR or LESSOR's designee within ten (10) days after date due (on or before the 10th day of each month), said amount shall then be considered past due, and LESSEE shall pay to LESSOR a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the cost LESSOR will incur by reason of late payment by LESSEE. Acceptance of such late charge by LESSOR shall in no event constitute a waiver of LESSEE's default with respect to such overdue amount, nor prevent LESSOR from exercising any of the other rights and remedies granted hereunder. The parties hereby agree that LESSEE's failure to pay said late charge when due will constitute a default under Section 16 hereinafter.

4. OPERATION OF BUSINESS:

a. LESSEE shall operate its aforesaid business on the demised premises during the entire term of this Lease with due diligence and efficiency. LESSEE agrees that the business conducted on the demised premises will comply with all requirements of all county, municipal, state, federal and all other applicable governmental authorities, now in force, or which may hereafter be in force, pertaining to the demised premises; in addition, LESSEE shall obtain, at its own cost and expense, all necessary licenses and permits for the conduct of its business.

b. LESSEE must be open for all normal business hours and days for the use intended, which shall not be less than seven (7) days per week; twelve (12) hours per day Monday through Sunday.

c. LESSEE agrees that it, and its respective customers, employees and invitees will use such access roads and will operate trucks and trailers in delivering supplies and

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merchandise to and from the demised premises upon and over such access roads as are reasonably designated therefor by LESSOR as a means of ingress and egress from the demised premises.

d. All automobiles of LESSEE’s employees shall be parked only in the rear of the center or in areas that may be from time to time designated by LESSOR as employee parking areas; LESSEE agrees that, when and if requested by LESSOR so to do, LESSEE will furnish LESSOR with the license numbers of the vehicles of LESSEE’s employees. LESSEE agrees to make compliance with this Paragraph a condition of employment for all its employees.

5. LESSOR’S COVENANT OF QUIET ENJOYMENT:
   The LESSOR covenants and agrees that the LESSEE paying the rents and observing the terms and conditions of this Lease shall quietly and peacefully enjoy the premises herein demised for the whole of the term hereof.

6. LESSEE’S USE:
   a. LESSEE shall use the demised premises solely for the purpose of operating a coin-operated laundromat. LESSEE shall not use the demised premises for any other purpose without the written consent of the LESSOR.
   b. LESSEE shall not conduct or permit to be conducted any sale by auction on or from said premises. LESSEE shall not commit, or suffer to be committed, any waste upon said premises, or any nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant in the building in which the demised premises may be located, or in any way obstruct, interfere with, injure, or annoy them, or do or permit to be done anything in any way tending to disturb the occupants of neighboring property or tending to injure the reputation or appearance of the building.
   c. Coin Operated Machines: LESSEE is granted permission to operate no more than three (3) gaming machines and eleven (11) video arcade machines. LESSEE shall not install any additional gaming or video machines on the premises without prior written consent of LESSOR which may be withheld at LESSOR’s sole discretion.

7. REMODELING, ALTERATIONS AND IMPROVEMENTS:
   a. Any and all work done by LESSEE on the demised premises must be approved by LESSOR prior to the commencement of said work. Anything herein to the contrary notwithstanding, LESSOR shall not be liable for any penalties, fines or assessments should all such work not be completed.
b. Signs: LESSEE shall have the right to install and maintain its own exterior sign provided such sign is submitted to LESSOR for review and approval prior to installation. Such signs shall conform to existing local sign ordinances, the center sign criteria, if any, and shall compliment the sign format of other signs in the center.

c. Approval by LESSOR: LESSEE shall not make or cause to be installed any lighting, plumbing fixtures, or make any changes to the demised premises other than those specified in Subparagraph (a) of Paragraph 7, without first obtaining LESSOR's written approval and consent. LESSEE shall present to LESSOR plans and specifications for such work at the time approval is sought. In no event shall LESSEE make any alterations or additions to the demised premises which would in any way weaken or in any way affect the structural design of the demised premises.

d. Removal and Restoration by LESSEE: All alterations, additions and improvements (excepting, however, LESSEE's furniture, furnishings, equipment and trade fixtures) made by LESSEE shall remain the property of LESSEE for the term of this Lease. Such alterations, additions and improvements shall not be removed from the demised premises prior to the end of the term hereof (except for the purpose of repair or replacement) without prior written consent from LESSOR. Upon expiration of this Lease, at LESSOR's election, LESSEE shall remove all such alterations, decorations, additions and improvements, and restore the demised premises as provided in Subparagraph (c) of Paragraph 8 hereof. If LESSEE fails to remove such alterations, additions and improvements within thirty (30) days after LESSOR's delivery of written notice, then all such alterations, additions and improvements shall thereafter become the property of LESSOR or at LESSOR's election, LESSOR may perform such work at LESSEE's expense and LESSOR may deduct the cost or part of the cost thereof from the security deposit, if any.

e. LESSEE Shall Discharge All Liens: LESSEE shall promptly pay all contractors and materialmen that it engages to perform work on or supply material for the demised premises, so as to minimize the possibility of a lien attaching to the demised premises, and should any such lien be made or filed, LESSEE shall bond against or discharge the same within ten (10) days after written request by LESSOR.

8. MAINTENANCE OF THE DEMISED PREMISES:

a. Maintenance by LESSEE: LESSEE, at its sole cost and expense, shall at all times keep the demised premises, including but not limited to, all floors, windows (plate glass,
doors), damage to sewer lines caused by LESSEE’s misuse thereof, grease trap(s), if any, and all fixtures, equipment and appurtenances thereof in good order, condition and repair, damage by fire and unavoidable casualty excepted, except for the roof, the exterior walls, gutters and downspouts, foundation, water and sewer lines outside the premises, which shall be maintained by LESSOR. In the event any repairs are necessary in LESSOR’s reasonable opinion, LESSOR shall provide written notice of said repairs to LESSEE; and, if said repairs are not made within thirty (30) days after written notice is received by LESSEE, then LESSOR shall have the right to make said repairs and add the cost thereof to LESSEE’s rent which shall thereafter become due or, at LESSOR’s election, deduct the cost from LESSEE’s security deposit. LESSOR may make such repairs without liability to LESSEE for any loss or damage that may accrue to LESSEE’s merchandise, fixtures, or other property to LESSEE’s business by reason thereof. However, if the nature of LESSEE’s obligation requires more than thirty (30) days for performance, then LESSEE shall not be in default if LESSEE commences performance within such thirty (30) days and thereafter diligently prosecutes the same to completion. If LESSOR is required to make any repairs to maintain the structural integrity of the premises by reason of LESSEE’s negligent act or omission to act, LESSOR may add the cost of such repairs to the rent which shall thereafter become due or, at LESSOR’s election, deduct such cost from LESSEE’s security deposit. It is the intent of the LESSOR that the cost of all repairs, maintenance or replacement excluding the structural integrity of the demising walls, the floor and structure to support the roof, will be borne by the LESSEE.

b. Building Maintenance by LESSOR: The LESSOR shall, at LESSOR’s expense, maintain the structural integrity of the demising walls, the floor and structure to support the roof. The LESSEE shall be responsible and pay for all other necessary and ordinary repairs in and upon the demised premises, and shall keep the same in good condition, ordinary wear and deterioration excepted. With the exception of the structural integrity of the demising walls, the floor, and the structure to support the roof which LESSOR shall maintain at LESSOR’s expense, all LESSOR repairs, maintenance or replacement of whatever nature necessary to maintain the center will be borne proportionally by all the tenants in the shopping center as set forth in Paragraph 9 below.

c. Surrender of Demised Premises: At the expiration of the tenancy hereby created, LESSEE shall surrender the demised premises, broom clean, in good condition and repair (reasonable wear and tear and damage by Acts of God or fire excepted) pursuant to Paragraph 7 (d). LESSEE’s obligation to observe or perform this covenant shall survive the expiration or other
termination of the term of this Lease. If LESSEE fails to surrender the premises in good condition and repair as set forth above then, LESSOR may, at LESSOR’s election, perform the necessary repairs at LESSEE’s expense and LESSOR may choose to deduct the cost or part of the cost thereof from LESSEE’s security deposit, if any.

9. MAINTENANCE OF BUILDINGS, PARKING LOTS AND COMMON AREAS (Common Area Maintenance, “CAM”); and NNN Charges:
   a. Maintenance: Throughout the term of this Lease, LESSOR agrees to do all things necessary or desirable for the repair and maintenance of the buildings, parking lots and common areas, including but not limited to: roof repair or replacement (excluding the structure to support the roof), painting buildings, repair or replacement of heating and air conditioning equipment (except those units provided by LESSEE such as restaurant vents and equipment), lighting of parking lots, and other common areas, gardening and landscaping, keeping common areas free and clear of debris and snow and do necessary parking lot patching, resurfacing, base repair and restriping. Subject to the foregoing, the manner in which such parking and common areas shall be maintained and the expenditures therefor shall be at the sole discretion of LESSOR, and LESSOR shall have the right to close temporarily all or any portion of such areas or facilities for the purpose of maintaining or repairing them. The operating and maintenance cost (hereinafter referred to as “CAM expenses”) shall include all costs and expenses as LESSOR from time to time deems appropriate for the best interest of the tenants of the shopping center and shall be billed to LESSEE in accordance with Subparagraph (b) below.

   b. Pro Rata NNN Charges: LESSEE agrees to reimburse LESSOR as additional rental during the term of this Lease, upon demand, but not more often than once each calendar month, LESSEE’s pro rata share of all expenses set forth in Subparagraphs i - iv below (hereinafter referred to as “NNN expenses”). LESSEE’s pro rata share of NNN expenses is to be determined by the ratio which the floor area of the premises (3,000 square feet), bears to the total leasable floor area of the shopping center (currently 44,900 square feet) measured in the same manner, for a pro rata percentage factor of 6.8%. Said square foot areas and LESSEE’s resulting percentage may change based on actual future increases or reductions in building sizes. If a particular expense relates only to some of the tenants, then the percentage for that particular expense will be based on the square footage of the applicable tenants. Payment shall be made by check on the first of the month next following the request for payment. Subject to periodic adjustment by LESSOR, and exclusive of
certain one time, unusual or out of the ordinary costs, LESSEE's pro rata share of expenses may be estimated in advance by LESSOR based upon the previous year's expenditures and translated into a monthly amount which LESSEE will pay as additional rent (hereinafter referred to as "estimated monthly NNN expenses"). For the purposes of this Lease, LESSEE's share of NNN expenses is established at an initial monthly rate of One Hundred Eighty Three and No/Hundreds Dollars ($183.00), Two Thousand One Hundred Ninety Six and No/Hundreds Dollars ($2,196)/year. This amount may be adjusted annually and/or upon thirty (30) day written notice by LESSOR to LESSEE. LESSOR, upon written request, shall present to LESSEE verified copies of the bills for such services or costs. NNN expenses shall include the following:

i. All CAM expenses - costs and expenses of maintaining and operating the common areas and facilities, as set forth in Paragraph 9 (a) and Paragraph 12.

ii. The premium for the insurance on the center as set forth below in Paragraph 13.

iii. All real property taxes and assessments as set forth in Paragraph 10.

iv. A management fee equal to fifteen percent (15%) of all items i, ii and iii above.

10. TAXES AND ASSESSMENTS:
During the term hereof, LESSEE shall pay to LESSOR prior to delinquency, as part of NNN charges, its pro rata share of all real property taxes and assessments, levied or assessed against the premises and the improvements thereon, together with LESSEE's pro rata share of taxes and assessments on the common areas of the center. LESSEE shall pay any and all taxes levied on all personal property, tenant improvements, and trade or other fixtures on the demised premises.

11. MUTUAL INDEMNIFICATION:
Except in the case of LESSOR's gross negligence or willful misconduct, LESSEE does hereby indemnify LESSOR against and save LESSOR harmless from all demands, claims, causes of action or judgments, and all reasonable expenses incurred in investigating or resisting the same, for injury to person, loss of life or damage to property occurring on the demised premises and arising out of LESSEE's use and occupancy. LESSOR does hereby indemnify LESSEE against and hold LESSEE harmless from all demands, claims, causes of action or judgments, and all reasonable expenses incurred in investigating or resisting the same, for injury to person, loss of life or damage to property occurring in the common areas of the center, except if caused by
the act or neglect of LESSEE, its contractors, agents or employees. The parties shall maintain adequate insurance covering their obligations under this paragraph in respect of injury to person and loss of life and furnish each other with evidence of such coverage.

12. **UTILITIES:**
LESSEE shall pay for all utility costs that exclusively serve LESSEE's premises; and its pro rata share of utilities and sewer use fees shared with other tenants. The monthly pro rata share is estimated in advance based upon average consumption for the previous year, adjusted periodically and this expense may be included in the estimated monthly NNN expenses as stated in Paragraph 9.

13. **INSURANCE:**
   a. **Liability Insurance:** LESSEE, at LESSEE's expense, shall procure and maintain in full force during the lease term general liability insurance ("LESSEE's liability insurance") insuring against liability for bodily injury and property damage occurring on the premises or resulting from the use or occupancy of the premises. The policy shall be written on an occurrence basis and may be on a comprehensive liability or commercial general liability insuring form, and shall include, as additional minimum coverage, personal injury, products liability and contractual liability. LESSEE's liability policy shall provide for an amount of not less than $1,000,000 per occurrence combined single limit for bodily injury, personal injury and property damage. If the policy contains a general policy aggregate limit and insures locations other than the premises, the policy shall be amended to provide that the general policy aggregate limit applies solely to the premises.

   b. LESSOR shall procure and maintain in full force during the lease term general liability insurance insuring against bodily injury and property damage occurring in the shopping center ("LESSOR's liability insurance"). LESSOR’s liability insurance shall be in an amount not less than $1,000,000 combined single limit for bodily injury and property damage. LESSEE shall reimburse LESSOR, as additional rent, for the premiums incurred by LESSOR for LESSOR’s liability insurance in the manner provided in Paragraph 9.

   c. If, in the commercially reasonable opinion of LESSOR's lender or of the insurance broker or insurance consultant retained by LESSOR, the amount of coverage under LESSEE's liability insurance or LESSOR's liability insurance is not then adequate, LESSEE or LESSOR, as the case may be, shall

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Initial: [Initial]
By: [Signature]
increase the insurance coverage as recommended by either LESSOR's lender, insurance broker or insurance consultant.

d. The limit of insurance liability shall not limit either party's liability under this Lease.

e. LESSEE shall at all times maintain workers' compensation insurance in compliance with Nevada law.

f. **Property Insurance:** LESSOR shall procure and maintain in full force and effect a standard form policy or policies covering the improvements in the shopping center in an amount equal to their full replacement cost (excluding architectural fees, foundations below ground and underground piping, but not the wiring therein), and rental insurance not less than the sum of minimum rent, real property taxes and casualty insurance, for up to one year, together with standard form of vandalism, malicious mischief and sprinkler leakage coverage (if applicable). The policy or policies shall cover standard form perils of fire, extended coverage and (at LESSOR's election) all risk insurance covering direct physical loss of the improvements, which may or may not include earthquake and/or flood. Property insurance shall be subject to a standard form of lenders loss payable endorsement issued to the holder or holders of a mortgage or deed of trust secured by any part of the shopping center and may be subject to deductible provisions deemed commercially reasonable by LESSOR. LESSEE shall reimburse LESSOR, as part of NNN charges, for LESSEREE's share of the premiums and the deductible expense incurred by LESSOR. If the foregoing casualty insurance covers premises in addition to LESSEE's premises, LESSEE's share of the premiums shall be based on the premium allocation made by the insurance carrier or agent. If the carrier or agent does not make the allocation, LESSEREE's share shall be a proportionate share in accordance with Paragraph 9 or any other reasonable basis determined by LESSOR because of rate differentials based on LESSEREE's use of the premises compared to the use of other premises in this shopping center covered by the property insurance.

g. LESSEE shall procure and maintain in full force and effect a standard form policy or policies of fire insurance with standard form of extended coverage, vandalism and malicious mischief endorsements in an amount equal to the full replacement cost, and if full replacement cost coverage is not available, then equal to the full insurable value of all items of LESSEREE's work described in this Lease, any alterations made by LESSEREE, LESSEREE's stock in trade, trade fixtures, equipment and other personal property located in the premises and used by LESSEREE in connection with its business, together with full coverage plate glass insurance.
h. All policies of insurance required to be carried hereunder by LESSEE shall be written by insurance companies licensed to do business in Nevada with a general policyholder's rating of not less than A and a financial rating of not less than Class VII, as rated in the most current edition of Best's Key Rating Guide.

i. LESSEE's liability policy shall name, severally and not collectively, LESSOR and any other party with an insurable interest designated by LESSOR as additional insureds. The policy shall contain cross-liability endorsements or their equivalent.

j. Each policy of general liability insurance required to be carried under Paragraphs 13 (a) and (b) shall contain a provision that it is primary insurance with respect to LESSOR and any other additional insured, and that the policy shall be non-contributory with any other insurance available to protect the interest of each additional insured.

The insurance that LESSEE is required to maintain shall not be subject to cancellation or change in coverage except upon at least 30 days' prior written notice to each additional insured. LESSEE's policies of insurance or duly executed certificates evidencing them, together with satisfactory evidence of the payment of premiums, shall be delivered to LESSOR before LESSEE takes possession of the premises and not less than 10 days before the expiration of the term of such coverage. If LESSEE fails to comply with this requirement, LESSOR may, but need not, obtain such insurance and keep it in effect, and LESSEE shall pay to the additional insured the premium upon demand with interest from date of payment by LESSOR to the date of repayment by LESSEE. Nevertheless, LESSOR may treat LESSEE's failure to comply with any provision of this Paragraph 13 as a default under this Lease.

Any deductible provisions in policies carried by LESSEE shall be solely for the account of LESSEE. LESSOR and any other additional insureds shall not be required to participate in any reimbursement of the deductible requirements imposed by any insurer. LESSEE may self-insure any of the obligations imposed by this Lease only with prior written approval of LESSOR.

Each party shall be entitled to fulfill its insurance obligations hereunder by maintaining a so-called "blanket" policy or policies of insurance in such form as to provide by specific endorsement coverage not less than that which is required for the particular property or interest referred to herein.

Each party ("insured") hereby waives its entire right of recovery against the other party, the other party's partners, officers, directors, agents, representatives, employees, successors, and assigns with respect to any loss or damage, including consequential loss or damage, to the insured's property.
caused or occasioned by any peril or perils (including negligent acts) covered by any policy or policies of property insurance carried by the insured. If an extra cost is chargeable for obtaining a waiver of subrogation endorsement, the insured shall advise the other party of the amount of the extra cost, and the other party, at its election, may pay it, but shall not be obligated to do so.

14. **DESTRUCTION OF DEMISED PREMISES:**
   a. **Total or Partial Destruction:** In the event that any part or portion of the shopping center or subject premises (of which the demised premises form a part) shall be damaged or destroyed by fire, the elements, unavoidable accident or other casualty, and regardless of whether any part or portion of the demised premises is rendered untenantable or is not affected by such fire or other cause, LESSOR may elect to demolish or renovate part or all of the center and LESSOR may terminate this Lease, provided LESSOR gives notice of termination to LESSEE within sixty (60) days following the date of said occurrence. Rent shall be adjusted as of the date of such termination. If by reason of such occurrence, the premises shall be rendered untenantable, the fixed minimum rent meanwhile shall abate until the demised premises have been restored and rendered tenable.

   b. The obligation of LESSOR (should they elect or be obliged to repair or rebuild) shall be limited to the basic building and LESSEE shall, at LESSEE's expense, forthwith replace or fully repair all of the LESSEE's work, exterior signs, trade fixtures, equipment, display cases and other installations originally installed by LESSEE. Should LESSOR elect to replace or rebuild, all insurance proceeds payable under LESSOR's fire and extended coverage risk insurance to replace or rebuild the basic building shall be payable solely to LESSOR, and LESSEE shall have no interest therein. Should LESSOR elect not to replace or rebuild, all insurance proceeds payable under LESSOR's fire and extended coverage risk insurance shall be payable to LESSOR and LESSEE as set forth in Paragraph 13 (b) in accordance with the original improvements provided by LESSOR and LESSEE per this Lease.

15. **EMINENT DOMAIN:**
   a. **Total Condemnation of Demised Premises:** If the whole of the demised premises shall be acquired or condemned by eminent domain, or in lieu thereof, through an agreement reached between LESSOR and the authority having the power of eminent domain, for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as of the date of title vesting in such proceedings and all rent shall be paid up.
to that date and LESSEE shall have no claim against LESSOR nor the condemning authority for the value of any unexpired term of this Lease. LESSOR is to receive the full amount of such award, LESSEE hereby expressly waiving any right or claim to any part thereof, except for (i) LESSEE's equipment and fixtures, (ii) the unamortized value of LESSEE's improvements, provided such condemnation occurs in the basic term of this Lease and, (iii) LESSEE's business interruption and relocation expenses, to the extent said expenses are specifically reimbursed by said award.

b. Partial Condemnation: If any part of the demised premises shall be acquired or condemned as aforesaid, and in the event that such partial taking or condemnation shall render the demised premises unsuitable for the business of LESSEE, then the term of this Lease shall cease and terminate as of the date title vesting in such proceedings. LESSER shall have no claim against LESSOR nor the condemning authority for the value of any unexpired term of this Lease, and rent shall be adjusted to the date of such termination. In the event of a partial taking or condemnation which is not extensive enough to render the premises unsuitable, in LESSOR's sole opinion, for the business of LESSEE, the LESSOR may elect to restore the demised premises to a condition comparable to its condition at the time of such condemnation less the portion lost in the taking, and this Lease shall continue in full force and effect without any reduction or abatement of rent, unless the size of LESSEE's premises has been reduced, in which event a proportionate reduction in minimum rent shall be made. In the event of any condemnation or taking as aforesaid, LESSEE shall not be entitled to any part of the award, LESSEE hereby expressly waiving any right or claim to any part thereof, except for (i) LESSEE's equipment and fixtures, (ii) the unamortized value of LESSEE's improvements, provided such condemnation occurs in the basic term of this Lease, and (iii) LESSEE's business interruption and relocation expenses to the extent said expenses are specifically reimbursed by said award.

16. DEFAULTS BY LESSEE:

a. The occurrence of any of the following shall constitute a material default and breach of this Lease by LESSEE:

i. Any failure by LESSEE to pay the rental or make any other payment required to be made by LESSER hereunder (where such failure continued for ten (10) days after written notice thereof by LESSOR to LESSEE).

ii. The abandonment or vacation of the demised premises by LESSEE.

iii. A failure by LESSEE to observe and perform any other provision of this Lease to be observed or performed by LESSEE, where such failure continues for

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thirty (30) days after written notice thereof by LESSOR to LESSEE; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, LESSEE shall not be deemed to be in default if LESSEE shall within such period commence such cure and thereafter diligently prosecute the same to completion.

iv. The making by LESSEE of any general assignment for the benefit of creditors; the filing by or against LESSEE of a petition to have LESSEE adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating bankruptcy (unless, in the case of a petition filed against LESSEE, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of LESSEE's assets located in the demised premises or of LESSEE's interest in this Lease, where possession is not restored to LESSEE within thirty (30) days; or the attachment, execution to other judicial seizure of substantially all of LESSEE's assets located at the demised premises or of LESSEE's interest in this Lease, where such seizure is not discharged within thirty (30) days.

b. In the event of such default by LESSEE, then in addition to any other remedies available to LESSOR at law or in equity, LESSOR shall have the immediate option to terminate this Lease and all rights of LESSEE hereunder by giving written notice of such intention to terminate. In the event that LESSOR shall elect to so terminate this Lease, then LESSOR may recover from LESSEE any rental unpaid at the time of judgment plus future rent for the balance of the lease term less an amount, if any, as proven by LESSEE, that the LESSOR could reasonably net by reletting the premises, together with any other of LESSOR'S consequential damages.

c. In the event of any such default by LESSEE, LESSOR shall also have the right, with or without terminating this Lease, to re-enter the demised premises and remove all persons and property from the demised premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of LESSEE.

d. In the event of any default by LESSEE and if the LESSOR does not elect to terminate the Lease, the LESSOR may, from time to time, either recover all rental due at the time or relet the demised premises or any part thereof for whatever rental LESSOR can obtain, applying such rent first to the payment of such expenses as LESSOR may have in re-entering and re-letting said premises, and then to the payment of rent due under this
Lease, and LESSOR shall retain any profit derived from re-letting the premises. In the case of any deficiencies, LESSEE shall remain liable therefor.

e. No re-entry or taking possession of the demised premises or any part thereof by LESSOR hereunder shall be construed as an election to terminate this lease unless a written notice of such intention be given to LESSEE or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any re-letting without termination by LESSOR because of any default by LESSEE, LESSOR may at any time after such re-letting elect to terminate this lease for any such default.

f. The term "rent" as used herein shall be deemed to be and to mean the minimum annual rental together with all other sums required to be paid by LESSEE pursuant to the terms of this lease based on the yearly rate for the prior calendar year preceding said default.

17. SERVICE OF NOTICE:

All notices, demands, or communications regarding this Lease shall be in writing, signed by the party serving the same and served by personal service or by U. S. certified or registered mail, postage prepaid, return receipt requested or other delivery service (such as Federal Express) to the following address:

TO LESSOR: Warehouse Market Shopping Center
P.O. Box 5070
Reno, Nevada 89513

TO LESSEE: MRS. O'KLEEN'S
P.O. Box 882
Fernley, Nevada 89408

or to such other address as either party may have furnished to the other in writing as a place for service of notice. Any notice so mailed shall be deemed to have been given as of the time the notice is postmarked, or the date of the return receipt but if delivery is refused or the notice is unclaimed, the notice shall conclusively be deemed served 48 hours after mailing.

18. MUTUAL COVENANTS:

It is stipulated and agreed that the respective covenants and agreements by LESSOR and LESSEE contained in this Lease are, and each of said covenants and agreements is, mutual and dependent.

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19. **COSTS AND ATTORNEY'S FEES:**

If, by reason of any default on the part of LESSEE, it becomes necessary for LESSOR to employ an attorney, or in the case LESSOR shall bring suit to recover any rent due hereunder or for breach of any provision of this Lease, or to recover possession of the leased premises, or if LESSEE shall bring any action for any relief against LESSOR, declaratory or otherwise, arising out of this Lease, the prevailing party in such action shall be entitled to actual attorney's fees and costs.

20. **LEASE NOT TO BE RECORDED:**

This Lease, or Memorandum of Lease, shall not be recorded by LESSEE unless the written consent of LESSOR is first obtained.

21. **AMENDMENTS:**

This Lease contains the entire agreement between the parties with respect to the demised premises and merges all prior agreements, verbal or written, into this Lease. No waivers, alterations or modifications of this Lease shall be valid unless in writing and signed by both LESSOR and LESSEE.

22. **ASSIGNMENT AND SUBLETTING:**

LESSEE shall not assign this Lease in whole or in part, nor sublet all or any part of the demised premises without the prior written consent of LESSOR, which consent shall not be unreasonably withheld so long as the assignee in LESSOR's judgment is financially able to bear the obligation of this Lease and has a business experience and knowledge acceptable to LESSOR; and provided any and all rental to be paid by Sublessee, in excess of the rental set forth in this Lease, or any fee or purchase price paid by Sublessee for the right to acquire the assignment of this Lease shall be paid to LESSOR; and provided LESSOR may elect to increase the minimum rent to the amount then paid for comparable space of the same size in this shopping center. The consent by LESSOR to any assignment or subletting shall not constitute a waiver of the necessity of such consent to any subsequent assignment or subletting. This prohibition against assigning and subletting shall not be construed to include a prohibition against any assignment or subletting by operation of law, merger or consolidation. In the event of such an assignment or subletting as herein contemplated, LESSEE shall continue to remain liable for the performance of the terms, conditions and covenants hereof, except the LESSOR may at any time elect to terminate this Lease and enter into a new Lease directly with SUBLESSEE, in which case LESSEE would no longer be liable under the terms of this Lease. Any such assignment or
subletting without the prior written consent of LESSOR, shall, at
the option of LESSOR, terminate this Lease and any such attempted
assignment or sublease shall be null and void.

23. **LESSOR'S ACCESS TO PREMISES:**
LESSOR and his duly authorized agents, employees and
independent contractors employed by him shall have access to the
demised premises at all reasonable times and hours for the
purpose of examining and inspecting the same. This right shall
be limited to the building and premises and does not extend to an
examination or inspection of LESSEE's equipment and fixtures or
records.

24. **REAL ESTATE BROKERS, FINDERS:**
Each party represents that it has not had dealings with
any real estate broker, finder, or other person, with respect to
this Lease in any manner and no commissions or fees are due and
payable. Each party shall hold harmless the other party from all
damages resulting from any claims that may be asserted against
the other party by any broker, finder or other person, with whom
the other party has or purportedly had dealt.

25. **CAPTIONS:**
The captions appearing in this Lease are inserted only
as a matter of convenience and in no way define, limit, construe
or describe the scope or intent of such paragraphs of this Lease
or in any way affect this Lease. Any gender used herein shall be
deemed to refer to any other gender more grammatically applicable
to the party to whom such use of gender relates. The use of
singular herein shall be deemed to include the plural; the use of
the plural shall be deemed to include the singular. The obligations of LESSEE hereunder shall be the joint and several obliga-
tions of each tenant.

26. **BINDING ON SUCCESSORS, AND ASSIGNS:**
All the covenants, agreements and provisions herein
contained shall extend to and be binding upon the parties hereto,
their heirs, devisees, executors, administrators and successors
in interest.

27. **HOLD-OVER TENANCY:**
If LESSEE holds over or remains in possession or
occupancy of the leased premises after the expiration of the term
of this Lease, or after any sooner termination thereof, without
written consent of LESSOR, or any option herein contained being
exercised by written notice, such holding over or continued
possession or occupancy shall not be deemed or held to operate as

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any renewal or extension of this Lease and shall, if rent is paid by LESSEE and accepted by LESSOR for or during any period of time it so holds over or remains in possession or occupancy, only create a tenancy from month to month, otherwise governed by the terms of this Lease except that the rental shall be two (2) times the monthly minimum rent paid during the last month of the term prior to the lease expiration or termination, which may at any time be terminated by LESSOR's giving to LESSEE thirty (30) days' notice of such intention to terminate the same.

28. OFFSET STATEMENT:
   Either party shall at any time upon not less than ten (10) days prior written notice by the other party, execute, acknowledge and deliver to such party a statement in writing certifying: (i) that the terms of this Lease and modifications hereto are in full force and effect; (ii) that there are no defaults existing; or if there is any claimed default, stating the nature and extent thereof; (iii) the date to which rent and other charges have been paid in advance; (iv) the amount of any advance payments held by LESSOR which have not been applied to the cure of any prior breach; (v) the existence or non-existence of any agreement other than this Lease between LESSOR and LESSEE, or between LESSOR and any leased premises.
   Any such statement delivered pursuant to this section may be relied upon by any prospective assignee or sublessee or the leasehold estate or estates of LESSEE, or any prospective purchaser of the estate of LESSOR, or any lender or prospective assignee of any lender on the security or the leased premises or center, and any third person.

29. PARTIAL INVALIDITY: If any term or provision of this Lease or the applicability thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons other than those as to which it is held invalid or unenforceable shall not be affected thereby and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law and this lease shall remain in force and effect.

IN WITNESS WHEREOF, LESSOR and LESSEE have duly executed and affixed their respective hands hereto on the day and year first above written.
LESSOR: SCOLARI'S WAREHOUSE MARKETS, INC.

BY: Robert Nugent, Chief Financial Officer  /1/3/81

LESSEE: HOW ENTERPRISES, INC.
DBA: MRS. O'KLEEN'S

BY: Howard McGowan  /4/3/93

LESSEE: HOW ENTERPRISES, INC.
DBA: MRS. O'KLEEN'S

BY: Virginia McGowan  /1/8/93
Comparable Rental #1

**Property Identification**
- **Record ID**: NV-1
- **Building Name**: No name commercial Building
- **Property Type**: Commercial Retail building
- **Address**: 165 W. Main Street, Fernley, Nevada
- **Location**: About 2 blocks West of US Highway #95, on the South side of Main Street.
- **Unit/Space Leased**: All spaces leased during 1998 - various times during the year.

**Lease Data**
- **Landlord**: Bill Meyer, GRI
- **Tenant**: Several tenants. The front space was occupied by Realty 500 office.
- **Business of Tenant**: Retail and office - The front office was occupied by a real estate office. Other office and retail tenants in the other spaces.
- **Lease Date**: Several written in 1998
- **Lease Rate**: $.85 per square foot per month was typical rate during 1998.
- **Lease Terms**: Gross Lease - utilities were separately metered for gas and electric and paid by tenant. Owner paid water, sewer, rubbish, taxes, insurance and outside maintenance.
- **Length of Lease**: Typically 1 year leases.
- **Tenant Improvements**: No tenant improvements required. Spaces were delivered with a finished shell condition ready to move in but no interior partitions
- **Rent Concessions**: None required
- **GLA of Leased Space**: Varied but about 600 square feet each
- **GLA of Entire Building**: 4,000 s/f
- **Site area**: unknown
- **Space Description**: Typical retail space with glass store fronts and glass entry doors. Spaces were provided with carpet or tile flooring, HVAC, one
restroom, suspended ceiling and lighting. No signage is available except on front door.

Verification
Bill Meyer - owner - conversation 4/23/07 - 775-771-4095

Remarks
Building is concrete block. Tenants do not have signage exposure to the street so passing traffic does not see the signage or entrances to the spaces. Poor visibility. Parking is minimal, at best. Owner said that there was zero vacancy by the end of 1998. Slow leasing but once the spaces were filled, there were very few vacancies and they were easy to fill when they happened. APN 021-132-37 -
## Comparable Rental #2

### Property Identification
- **Record ID**: NV-2
- **Building Name**: No Name
- **Property Type**: Commercial / Office Building
- **Address**: 15-25 E. Main St., Fernley, Nevada
- **Location**: SEC of Main St & East St., (US Highway #95)
- **Unit/Space Leased**: See rent roll below for details of spaces and rents

### Lease Data
- **Landlord**: Robert Bennett
- **Tenant**: Multi-tenant - rent roll has list of the spaces. I did not ask for the individual tenant names.
- **Business of Tenant**: Numerous - primarily office, such as real estate broker offices and law offices
- **Lease Date**: All within the 12 months preceding 12/31/98 - two leases were written for new tenants in the building within the previous 4 months and all of the other leases had renewed within the last 12 months.
- **Lease Rate**: Average lease rate was $1.04 per square foot per month. The new tenants were paying $1.18 and 1.23 per square foot.
- **Lease Terms**: Full Service Gross Lease (FSGL) in which landlord pays all operating expenses without recovery from the tenants. One tenant (#1) pays utilities and is on a 3 yr lease.
- **Length of Lease**: All but one tenant were on 1 year leases with annual renewals. The largest space was leased on a 3 year lease that was renewed during 1998.
- **Tenant Improvements**: Standard office improvements were provided. All spaces are second generation and no major alterations were needed to move tenants into the spaces.
Rent Concessions: None

GLA of Leased Space: Spaces ranged from 242 square feet to 1,250 square feet. Average was 503 square feet.

GLA of Entire Building: 6,000 square foot. The unaccounted for s/f was a combination of the owners small law office and the building common areas.

Site area: 21,532 s/f

Space Description: Standard office space. All units have outside entrances. No janitorial service is provided inside the spaces.

Verification: Conversation with owner - Robert Bennett - 4/23/07. Owner opened his lease files and discussed each lease with lease files in front of him.

Remarks: The property is on a very high profile corner location with signage available to the tenants on the side of the building. Parking is adequate but not plentiful. APN #020-041-01

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### 15-25 E. Main St.

<table>
<thead>
<tr>
<th>Units</th>
<th>Size</th>
<th>Rents</th>
<th>Rate S/F</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-1</td>
<td>1,250</td>
<td>$1,250</td>
<td>$1.00</td>
<td>Tenant pays heating bill - 3 yr lease term</td>
</tr>
<tr>
<td>15-2</td>
<td>450</td>
<td>$550</td>
<td>$1.22</td>
<td>FSGL - 1 yr lease</td>
</tr>
<tr>
<td>15-3</td>
<td>327</td>
<td>$350</td>
<td>$1.07</td>
<td>FSGL - 1 yr lease</td>
</tr>
<tr>
<td>15-4</td>
<td>350</td>
<td>$250</td>
<td>$0.71</td>
<td>FSGL - Concessions for helping manage building</td>
</tr>
<tr>
<td>15-5</td>
<td>320</td>
<td>$395</td>
<td>$1.23</td>
<td>FSGL - 1 yr lease - New tenant 9/98</td>
</tr>
<tr>
<td>15-6</td>
<td>425</td>
<td>$500</td>
<td>$1.18</td>
<td>FSGL - 1 yr lease - New tenant 10/98</td>
</tr>
<tr>
<td>25-1</td>
<td>697</td>
<td>$710</td>
<td>$1.02</td>
<td>FSGL - 1 year lease</td>
</tr>
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<td>$1.24</td>
<td>FSGL - 1 year lease</td>
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<tr>
<td>25-4</td>
<td>724</td>
<td>$625</td>
<td>$0.86</td>
<td>FSGL - 1 year lease</td>
</tr>
<tr>
<td>5,029</td>
<td></td>
<td></td>
<td>$1.04</td>
<td></td>
</tr>
</tbody>
</table>

$ 1.04 Rent S/F FSGL
$ 0.27 NNN Recovery Items Pd by LL
$ 0.77 Effective NNN Lease Rate
Comparable Rental #3

Property Identification
Record ID: NV-3
Building Name: No Name Commercial/Retail building
Property Type: Commercial / Retail
Address: 140 E. Main Street, Fernley, Nevada
Location: About 1 block east of intersection of US highway #95, on the North side of Main Street.
Unit/Space Leased: All spaces leased during 1998 - various times during the year.

Lease Data
Landlord: Bill Meyer, GRI
Tenant: Various tenants - multi-tenant building
Business of Tenant: Retail and office - owner occupied the front unit as real estate brokerage office.
Lease Date: Several written in 1998
Lease Rate: $.75 per square foot per month was typical rate during 1998.
Lease Terms: Gross Lease - utilities were separately metered for gas and electric and paid by tenant. Owner paid water, sewer, rubbish, taxes, insurance and outside maintenance.
Length of Lease: Typically one year leases.
Tenant Improvements: No tenant improvements required. Spaces were delivered with a finished shell condition ready to move in but no interior partitions
Rent Concessions: None required
GLA of Leased Space: Varied but about 600 square feet each
GLA of Entire Building: 4,000 s/f
Site area: Unknown
Space Description: Typical retail space with glass store fronts and glass entry doors. Spaces were provided with carpet or tile flooring, HVAC, one
restroom, suspended ceiling and lighting. No signage is available except on front door.

Verification
Bill Meyer - owner - conversation 4/23/07 - 775-771-4095

Remarks
Building is concrete block. Tenants do not have signage exposure to the street so passing traffic does not see the signage or entrances to the spaces. Poor visibility. Parking is minimal, at best. Owner said that there was zero vacancy by the end of 1998. Slow leasing but once the spaces were filled, they were very few vacancies and they were easy to fill when they happened.
Comparative Rental #4

**Property Identification**
- Record ID: NV-4
- Building Name: Country Shopping Center
- Property Type: Retail Shopping Center
- Address: 65 W. Main St., Fernley, Nevada
- Location: SWC of Main St & US Highway #95
- Unit/Space Leased: Unnumbered space - Leela's Salon

**Lease Data**
- Landlord: Unknown - property sold recently- tenant did not have name of previous owner at time of 1998 lease.
- Tenant: Leela's Salon
- Business of Tenant: Beauty Shop
- Lease Date: 1998 - Renewal during 1998
- Lease Rate: $375 per month
- Lease Terms: Gross Lease - tenant pays elect/gas with separate meters. Landlord pays all other operating expenses.
- Length of Lease: 3 year initial term with one 2-year renewal option.
- Tenant Improvements: None
- Rent Concessions: None
- GLA of Leased Space: 500 square feet
- GLA of Entire Building: Unknown
- Site area: Unknown
- Space Description: Retail space finished for beauty salon. one restroom, linoleum flooring,
- Verification: Conversation with tenant - 4/20/07 - has leased the space for 25 years.
Remarks

This is a very small space in a very old center. Adequate parking. Next to Laundromat that was owned by the same ownership as Mrs. O'Kleen's laundry in December 1998. APN #21-232-20
## Comparable Rental #5

### Property Identification
- **Record ID**: NV-6
- **Building Name**: Fernley Plaza Shopping Center
- **Property Type**: Shopping Center
- **Address**: 1370 Highway #40, Fernley, Nevada
- **Location**: SWC of Newland and Highway #40 (Now called #95A) - Adjacent to the Subject space.
- **Unit/Space Leased**: 1370

### Lease Data
- **Landlord**: Scolari's Warehouse Markets, Inc.
- **Tenant**: Radio Shack
- **Business of Tenant**: Consumer electronics retail store
- **Lease Date**: 1998
- **Lease Rate**: Unknown
- **Lease Terms**: Unknown - presumably the same type of lease as the Subject lease
- **Length of Lease**: Unknown
- **Tenant Improvements**: Unknown
- **Rent Concessions**: Unknown
- **GLA of Leased Space**: 3,000 s/f
- **GLA of Entire Building**: 58,800 s/f
- **Site area**: Approximately 7 acres
- **Space Description**: Typical retail space with store-front glass windows and glass entry doors. Fascia signage available.
- **Verification**: Have not been able to verify with lease document yet.

### Remarks
- **This space is virtually identical to the Subject space and is situated between the Subject space and the Scolari’s grocery store.**
Good afternoon, Paul:

Chris has given the OK for you to share his appraisal information with prospective clients. Hope all is well with you.

--

Forwarded Message

Hi Paul;

As it stand now there are no funds to have an appeal, I hurt my neck painting and I'm unsable to earn any money for while till I heal. Tell Paul he can us what ever he wants.

Chris

Paul Malikowski <paul@nvlaw.com> wrote:

Good afternoon, Paul:

I am forwarding your inquiry to Chris Buchanan for his input. I see no reason why he shouldn't approve of you using his work as an example of your appraisal capabilities, but I will leave it to him.

As far as I can tell, all claims set forth in the First Amended Complaint filed in the lawsuit were disposed of by either dismissal, on Scolari's initial Motion to Dismiss, or through Orders granting Summary Judgment on various claims over the past several months. There is still no one document comprising a final judgment which could be appealed from, or from which a prevailing party could be determined.

On February 29, 2008, I e-mailed opposing counsel, offering to stipulate to a full dismissal of all claims, with each party bearing its own fees and costs. I have conferred since with Chris on this, and he may still want to appeal. If the matter is not dismissed by stipulation along the above lines, Scolari's may be seeking an award of attorney's fees and costs against the Trust as a prevailing party under the civil rules and its lease contract. You may recall that I mentioned to Justice Agosti at settlement conference that the Trust was essentially judgment proof, as all of its assets were distributed earlier, and the only remaining Trust asset was the Scolari's lawsuit.

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From: "Paul Lorenzen" <paul@lorenzenrealtyadvisors.com>
To: "Paul Malikowski" <paul@nvlaw.com>
Subject: Two Questions on Fernley Appraisal Assignment
Date: Thu, 1 May 2008 11:46:01 -0600

Paul,

RE: Two Questions on Fernley Appraisal Assignment
(1) Has the litigation been settled and finalized or will I need to keep a July court date on my calendar. Please advise on status so I can clear my calendar if not needed.

(2) I have a prospective employer/client who would like to see a couple “real” appraisals that I have done and I would like to give him the two appraisals I did for you on the Mrs. O’Kleen’s Laundromat. However, I need your permission before I can release a copy of your appraisals. May I have your permission to release a copy to prospective employer’s or clients?

Please advise on these two items.

Thanks
Paul Lorenzen

Paul Lorenzen
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