October 29, 2020

Angela Brown
Kansas Department of Revenue
900 Southwest Jackson, Suite 451-South
Topeka, Kansas 66612

RE: Appraisal Report
Multifamily Capitalization Rate
Effective Gross Income Multiplier
State of Kansas

Dear Ms. Brown:

In accordance with your request, we have performed an appraisal of the above referenced scope of work. The appraisal report sets forth the pertinent data gathered, the techniques employed, and the reasoning leading to our value opinions. This letter of transmittal is not valid if separated from the appraisal report.

The report includes the development of an overall multifamily capitalization rate and an effective gross income multiplier (EGIM) analysis for affordable housing properties in the State of Kansas. The study will be used by the Kansas Department of Revenue and Kansas County Appraisers in the valuation of federally sponsored affordable housing projects within the State of Kansas. The analysis includes the following components:

- Capitalization rate analysis using traditional sales
- A capitalization rate analysis using the Band of Investments
- An effective gross income multiplier analysis
- An expense ratio analysis

We developed our analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

The client is the Kansas Department of Revenue. The intended user(s) in this assignment is the Kansas Department of Revenue and Kansas County Appraisers. The report was prepared for the Kansas Department of Revenue to assist Kansas County Appraisers in the valuation of federally sponsored affordable housing projects within the State of Kansas. The report was prepared by Daniel Kann, MAI MSRE.
Neither Valbridge Property Advisors nor the appraisers herein have any present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved. The client herein and the appraisers have no relationship that would interfere with a fair reporting herein.

The acceptance of this appraisal assignment and the completion of the appraisal report submitted herewith are subject to the General Assumptions and Limiting Conditions contained in the report. The findings and conclusions are further contingent upon the following extraordinary assumptions and/or hypothetical conditions which might have affected the assignment results:

**Extraordinary Assumptions:**
- Properties utilized in our analysis that were not personally appraised were verified through reliable third-party data sources consisting of a Sales Validation Questionnaire, County Appraisers, Recorder of Deeds, CoStar, Real Capital Analytics, appraisers active in the State of Kansas, and the Multiple Listing Service. In addition, if historical and projected operating data was not provided for review, a reconstructed operating statement using market information was included in our analysis. A reconstructed statement reflecting the buyer’s anticipated year one net income is consistent with the principal of anticipation and the direct capitalization process. If this information is found to be false our conclusions could require revision.

**Hypothetical Conditions:**
- There are no hypothetical conditions utilized in our analysis.

**Other Conditions:**
- There are no other conditions utilized in our analysis.

Please note real estate is an inefficient market with incomplete data, which results in a range of value. Therefore, a 25 +/- basis point difference for each of the concluded rates is within a typical range of reason for an affordable housing project in the State of Kansas. Based on the analysis contained in the following report, our conclusions are summarized as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Primary Markets</th>
<th>Secondary Markets</th>
<th>Tertiary Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Market Extraction</td>
<td>6.00%</td>
<td>6.75%</td>
<td>7.25%</td>
</tr>
<tr>
<td>Band of Investments</td>
<td>6.25%</td>
<td>6.75%</td>
<td>7.25%</td>
</tr>
<tr>
<td>Third Party Surveys (MKT)</td>
<td>5.25%</td>
<td>6.00%</td>
<td>6.75%</td>
</tr>
<tr>
<td><strong>Reconciled Rate</strong></td>
<td>6.00%</td>
<td>6.75%</td>
<td>7.25%</td>
</tr>
</tbody>
</table>

*Concluded rates include a typical reserve requirement ranging from $200 to $300 per unit (varies by investment class)*
*Primary - Kansas City MSA*
*Secondary - Wichita, Topeka, Lawrence, and Manhattan*
*Tertiary - All remaining markets*

Respectfully submitted,
Valbridge Property Advisors | Kansas City

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Introduction

Client and Intended Users of the Appraisal
The client is the Kansas Department of Revenue. The intended user in this assignment is Kansas Department of Revenue.

Intended Use of the Appraisal
The report was prepared for the Kansas Department of Revenue to assist Kansas County Appraisers in the valuation of federally sponsored affordable housing projects within the State of Kansas.

Real Estate Identification
The study relies on recent sale transactions within the State of Kansas and the Kansas City MSA (Missouri and Kansas). In addition, we have analyzed mortgage financing terms, equity capitalization rates, third-party survey data, and effective gross income multipliers in our analysis.

Use of Real Estate as of the Effective Date of Value
As of the effective date of value, the comparable sales consist of market rate and low-income housing tax credit properties subject to a Land Use Restriction Agreement (LURA). The sales range from six to 624 units and were built from 1897 to 2018.

Use of Real Estate as Reflected in this Appraisal
As of the effective date of value, the comparable sales consist of market rate and low-income housing tax credit properties subject to a Land Use Restriction Agreement (LURA). The sales range from six to 624 units and were built from 1897 to 2018.

Abbreviated Legal Description
A legal description for each property sale is retained in the work file.

Ownership/Listings/Offers/Contracts
The sales history of each reported sale is retained in the work file.

Type and Definition of Value
Value is based on the future benefits the buyer (market demand) anticipates receiving, which must reflect typical market operations. Real estate is an inefficient market with incomplete data, therefore, there are two values and one price for each transaction. The price of the property moves within the value range until it overlaps with the buyer’s highest value and the seller’s lower value.

According to The Appraisal of Real Estate 14th Edition,

Market value is the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.
Valuation Scenarios, Property Rights Appraised, and Effective Dates of Value
The purpose of the appraisal is to develop an overall capitalization rate and an effective gross income multiplier (EGIM) for use in mass valuation of affordable housing projects in the State of Kansas. The concluded rates are based on the market value of the fee simple estate of each sale. According to The Dictionary of Real Estate Appraisal, the fee simple estate interest is absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

<table>
<thead>
<tr>
<th>Valuation Scenarios</th>
<th>Effective Date of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee Simple Market Value</td>
<td>January 1, 2021</td>
</tr>
</tbody>
</table>

We completed an appraisal inspection of several of the subject properties that were personally appraised. Additional sales were utilized in our analysis that were not appraised and inspected but verified with reliable third-party data. A comparison of the date of the report to the effective date of the appraisal indicates that our conclusions are reflective of current market conditions. The extent of the inspection is further detailed in the Scope of Work Section of this report on the following page.

Date of Report
The date of this report is October 29, 2020, which is the same as the date of the letter of transmittal.

Highest and Best Use
The highest and best use of each comparable sale is for the continued use as a multifamily property. If a property is operating below stabilized occupancy or suffers from deferred maintenance that needs to be immediately cured in order to adequately operate the property, the adjusted sales price is reflective of any additional expenditures or lost revenue to reach stabilization, which is consistent with the highest and best use of each property.
Scope of Work

The elements addressed in the Scope of Work are (1) the extent to which the subject property is identified, (2) the extent to which the subject property is inspected, (3) the type and extent of data researched, (4) the type and extent of analysis applied, (5) the type of appraisal report prepared, and (6) the inclusion or exclusion of items of non-realty in the development of the value opinion. These items are discussed as below.

Extent to Which the Property Was Identified

The three components of the property identification are summarized as follows:

- **Legal Characteristics** – Subject sales were legally identified via County records and information provided by the property contact (if applicable).

- **Economic Characteristics** - Economic characteristics of each property were identified by the Site-To-Do-Business, a subscription service for demographic data, various online databases, County Appraiser’s office and online databases, the United States Department of Labor, the U.S Census Bureau, CoStar, Multiple Listing Service (MLS), in-house database, and market participants familiar with the property and surrounding submarket.

- **Physical Characteristics** – Several of the subject sales were personally appraised and physically identified by a personal inspection consisting of an interior and exterior tour near the date of sale. The tour consisted of a representative sampling of units and the common areas. Requested data for appraised properties included the following:
  - Architectural plans or representative floor plans
  - Title work
  - Site survey
  - Rent roll
  - Profit and loss (past three years and a trailing 12-months)
  - Year one budget or pro forma
  - Loan terms
  - Itemized capital improvements
  - Confirmation of prior sales (if applicable)
  - Market rental survey
  - Phase I
  - Property condition report

Properties utilized in our analysis that were not personally appraised were verified through reliable third-party data sources consisting of a Sales Validation Questionnaire, County Appraiser, Recorder of Deeds, CoStar, Real Capital Analytics, appraisers active in the State of
Kansas, and the Multiple Listing Service. In addition, if historical and projected operating data was not provided for review, a reconstructed operating statement using market information was included in our analysis. A reconstructed statement reflecting the buyer’s anticipated year one net income is consistent with the principal of anticipation and the direct capitalization process. A stabilized, year one projection allows for an alignment of risk, buyer motivation (market demand), and consistency in the extracted data.

Type and Extent of Data Researched
We researched and analyzed: 1) market area data, 2) property-specific market data, 3) zoning and land-use data, and 4) current data on comparable listings, sales, and rentals in the competitive market area. We also interviewed property managers, lenders, and buyers and sellers who are active in the multifamily space in the State of Kansas.

Type and Extent of Analysis Applied (Methodology)
Income-producing properties are developed and purchased for investment purposes, where earning power, including an income stream and return of investment, are the most critical elements impacting value. Market value is the present value of future benefits. The forecast of income and selection of appropriate rate(s) are critical components of the valuation process. The income capitalization approach is developed by converting a projection of future income (year one) into a present value through direct or yield capitalization. The income capitalization approach is performed through the following procedure:

- Project potential gross income (PGI) – Year 1
- Project total economic loss (vacancy, collection loss, loss to lease, and incentives) – Year 1
- Project other revenue items (parking, tenant charges, utilities, etc.) – Year 1
- Project stabilized (year one) operating expenses (recurring) - Year 1
- Select and apply an overall capitalization rate to reflect the growth and volatility of the revenue stream (uncertainty and growth) – Year 1

Direct Capitalization
Direct capitalization involves the capitalization of anticipated net operating income for the following 12-months at an overall rate of return. This rate is also commonly referred to as the “going-in” capitalization rate (OAR). Using a perpetuity model such as direct capitalization is a valid method and can result in an accurate property value if stabilized income and expense data is utilized. Net operating income is considered as perpetuity although properties do not have infinite lives. Properties have limited economic value beyond 50 years unless significantly updated with capital improvements. However, the present value of those future returns is negligible and ignored in a perpetuity model. Direct capitalization does not quantify a residual or reversion value, which balances the assumption of perpetual returns.

Overall Capitalization Rate (OAR)
The following criteria are main component of an overall capitalization rate.

- Unlevered cash return (single period)
Static – Point in time ratio
- Amount, timing, and reversion are implicit in rate
- Greater upside = Lower rate and higher present value
- Less upside = Higher rate and lower present value
- Rate reflects uncertainty and growth of cash flows (NOI) and resale value (reversion)
- Rates are property type, location, and submarket specific
- Modeled after bond and annuity market (perpetual returns)
- Requires stabilized (constant, long-term pattern) and perpetual income stream
- Cannot capitalize temporary or atypical income and expenses
- Three main components of the overall rate include:
  1. Risk free rate (10-year treasury rate most common)
  2. Risk premium (quality and durability of income stream)
  3. Minus expected appreciation (inflation or growth of cash flows and reversion)

Sources of Capitalization Rates
There are a variety of data sources that report capitalization rates. The most used data sources are market extraction (sale comparables), market participants (investors, brokers, lenders, and appraisers), third party surveys (PwC, IRR, CBRE, RERC, and RealtyRates.com), Band of Investments (mortgage-equity), and the Debt Coverage Ratio (Gettel). Extracting a rate from the market (comparables sales) is the most reliable source since it captures the intention of an investor with actual market data. Market participants, third party surveys, Band of Investments, and Debt Coverage Ratio are considered secondary sources and are used as a test of reason or when or when there is a lack of market data to extract a rate or return. Third party surveys typically include a range of rates that include extreme outliers, which are not representative of the general market. Relying on the median rates reported in third party surveys instead of the low or high rate is a more accurate indication of the representative market.

External Obsolescence
Most LIHTC projects are built in an area where external obsolescence occurs. External obsolescence is a reduction in value, usually incurable, that is caused by negative influences outside the site. In the case of a typical tax credit project, effective rents in most market are generally inadequate to support the cost of new construction for average to good quality apartments, which is supported by the actual rents achieving a lower rate than required to entice new development and earn a return on cost.

The low-income housing tax credit (LIHTC) program is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. Lawmakers created the program as an incentive for private developers and investors to provide more low-income housing. Without the incentive, affordable rental projects do not generate sufficient profit to warrant the investment and risk. A comparison of actual development costs to the market value of a typical LIHTC project as a test of feasibility would deter any prudent investor from building the project.
The following table reports the minimum rent level required to construct a LIHTC project based on typical market parameters.

<table>
<thead>
<tr>
<th>Data Inputs</th>
<th>Building size</th>
<th>50,000 Square feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction cost</td>
<td>$200,000 per unit</td>
<td>Building size</td>
</tr>
<tr>
<td>Land cost</td>
<td>$5,000 per unit</td>
<td>Land size</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$4,500 per unit</td>
<td>% Building rentable</td>
</tr>
<tr>
<td>Overall rate (OAR)</td>
<td>6.75%</td>
<td>Incentive</td>
</tr>
<tr>
<td>Normal vacancy</td>
<td>5.00%</td>
<td></td>
</tr>
</tbody>
</table>

### Calculations of Required Rent

- **Building and site improvement cost**: 50 x $200,000 = $10,000,000
- **Plus Profit**: 10.00% x $200,000 = $200,000
- **Land cost**: 50 x $5,000 = $250,000
- **Total cost**: $11,250,000

### Calculation of Feasibility Rent

- **Required NOI**: $11,250,000 x 6.75% = $759,375
- **Add operating expenses**: $4,500 x 50 = $225,000
- **Effective gross income (EGI)**: $759,375 + $225,000 = $984,375
- **Vacancy and collection loss**: $51,809
- **Potential gross income**: $984,375 - $51,809 = $932,566

### Calculation of Minimum Required Rent for New Construction

- **PGI**: $1,036,184
- **Divided By**: # of Units
  - 50

  | Required Annual Rent per Unit | $20,724 |
  | Required Monthly Rent per Unit | $1,727 |
  | Required Monthly Rent per SF   | $1.73  |

As shown above, the hypothetical LIHTC project requires an average rental rate of $1,727 per month to earn a sufficient return on cost. A comparison of achievable rents in most LIHTC markets ($600 to $900 per month) are considerably lower than the required rental threshold to generate a return on cost. Based on a comparison of the two rents, it is not considered financially feasible to build a LIHTC project in most markets in the State of Kansas without some form of economic incentive.

### Appraisal Conformity and Report Type

We developed our analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
Investment and Property Classification

Economic Life
There is a strong correlation between the effective age of a property and the corresponding risk profile. Older projects have a shorter remaining economic life and generally sell for a higher capitalization rate to compensate the investor for greater cash flow disruptions due to capital improvements, repairs, and a shift in tenant base. Additionally, a property with a shorter remaining economic life must earn a greater return to fulfill the return on and of capital.

Employment Data
There is a correlation between employment growth and the supply and demand of real estate. The occupancy rate is a leading indicator of the strength of a market and the interacting forces of supply and demand. Employment has an impact on the market occupancy rate which in turn influences the rental rate and volatility of the cash flows and reversion. Housing demand is traditionally generated by employment growth and household formation, which are sustainable and long-term demand drivers. Markets that experience greater employment growth and diversification have a more stable economic base and attract more investment capital. This is supported by greater capital flow to primary markets and less investment in secondary and tertiary markets. The following chart reports employment change for select cities in the State of Kansas that have a population of more than 25,000 residents. As shown below, larger, more urbanized cities have experienced more employment growth from 2010 to 2019, which creates greater demand for all types of space.

Investment Market
The investment market is separated into three distinct categories: primary, secondary, and tertiary. Demographic and economic characteristics such as population, employment growth, traditional and alternative economic drivers, amount of existing inventory, number of transactions, and cap rate analysis are key criteria in determining the classification. Although there is no concise definition or standard practice across the industry, the following briefly discusses each investment market.
Primary (Gateway) – The largest markets with populations of more than 5 million and an established economy. Multiple trade routes, international airports, and major sports teams attract domestic and foreign capital. Investment strategies involve medium to long-term appreciation and less cash flow return. Examples include New York, Los Angeles, Chicago, San Francisco, Boston, and Washington DC. Most active investors include pension funds, REITs, and foreign offices.

Secondary – Smaller markets with populations of 1 to 5 million and a less established economic base. Investment strategies involve a cash flow and/or an appreciation specific strategy due to higher growth rates. Examples include Portland, Raleigh-Durham, Salt Lake City, Atlanta, Charlotte, Kansas City, and Nashville. Most active investors include institutions and regional or local family offices.

Tertiary – Markets with populations of less than one million that have one or two dominate industries. Investment strategies involve cash flow or repositioning a property due to less investor demand. Examples include Omaha, Des Moines, Wichita, Sioux Falls, and Albuquerque. Most active investors include local offices.

The following chart reports historical rates from Marcus and Millichap for primary, secondary, and tertiary markets throughout the United States. Rates are generally higher in secondary and tertiary markets due to less flow of capital and greater economic uncertainty. During growth periods the risk premium between each market class tends to compress as investors look outside primary markets in search of higher yield in secondary and tertiary markets. However, when the economy is contracting, such as the Great Recession, the spread tends to widen as investors favor the stability of larger, more diversified markets.
State of Kansas
The State of Kansas has a population of approximately 2.9 million people, which is the 34th largest state in the nation. The largest metropolitan statistical area (MSA) in the state is the Kansas City, MO-KS MSA, which contains approximately 2.2 million people. The remaining cities contain less than 500,000 people with most containing less 50,000 residents. Most population in the state is concentrated in the central and eastern portion in the Kansas City MSA, Wichita, Topeka, and Lawrence. Consequently, most apartment transactions are in these higher density areas due to increased supply and greater economic activity. By traditional standards noted above, the Kansas City MSA is considered a secondary investment market and the remaining cities are considered tertiary markets. However, for the purpose of our analysis we have categorized cities based on their size within the State of Kansas. The following is the reclassification of cities for analytical purposes:

- Primary – Kansas City MSA
- Secondary – Wichita MSA, Topeka, Lawrence, and Manhattan
- Tertiary – All remaining cities

The following map shows the location of the 15 largest cities in the state with the highest concentration of population located in the northeast portion of the state.

Investment Class
Multifamily properties are generally classified into three investment categories, Class A, B, and C. Investment class is market specific and represents the ideal improvement for the local market. A Class A property in Dodge City will have different demand characteristics, design, and quality of construction when compared to a Class A property in Wichita. However, for the purpose of our analysis we have categorized investment class in relation to the Kansas City MSA. Although there is no concise definition or standard practice across the industry, the following briefly discusses each investment class.
• Class A Space
  - Highest quality space
  - Recent construction (15 years or newer)
  - Prime locations
  - High quality construction
  - Top rental rates
  - Highest $ / sf
  - Institutional investors
  - Lowest cap rates
  - Stable cash flows

Representative Class A Property (Ranch at Prairie Trace – Overland Park, Kansas)

• Class B Space
  - Modern (not necessarily new)
  - Built 15 to 30 years
  - Class C structures recently renovated
  - Good locations
Competitive rents
Some but not all Class A amenities
Some deferred maintenance
Private & institutional investors
Slightly higher cap rates

Representative Class B Property (Country Park Residences – Park City, Kansas)

- Class C Space
  - Lowest quality space
  - Older buildings in fair condition
  - 30 plus years old
  - Lowest rents in submarket
  - Not built to modern standards
  - Often deferred maintenance
  - Risker and less stable tenant base
  - Private investors or investment groups
  - Volatile cash flows
Representative Class C Property (Heather Ridge Apartments – Salina, Kansas)
COVID-19

Introduction
Financial markets are seeing dramatic impacts due to the novel coronavirus pandemic. This economic crisis is unique from others in that there have been shocks to both the supply and demand side. This worry is exacerbated by record corporate debt. According to the Federal Reserve, American non-financial corporate debt has risen to 49% of GDP. In 2009 it was 43%. Two-thirds of non-financial corporate bonds in the US are rated “BBB” or lower.

The United States has posted a 4.8% decrease in GDP for the first quarter of 2020. China’s Q1 GDP contracted 6.8% year over year, then rebounded for a 3.2% growth in Q2, year over year. Real GDP is expected to decline 12% from peak to trough between Q419 and Q220, and contract by 6.6% in all of 2020. Unemployment as of late July was 11% nationwide, and expected to remain in double digits through the early Fall, according to Moody’s Analytics.

CRE markets have been reporting reduced transaction volumes due to travel restrictions, quarantines and “stay at home” orders. Movements in the stock market and interest rates as well as stimulus packages and legislation have caused many deals in progress to be put on hold while participants reconstruct return expectations. Moody’s recorded a 47% drop in transaction activity by dollar volume in the first quarter. The end date of this period of volatility is impossible to foresee, but a historical picture of the relationship between volatility (as measured by deviations in the 10-Yr Treasury prices) and the historical transaction volume of commercial real estate may provide some insight.

Source: Moody’s Analytics REIS
The National Council of Real Estate Investment Fiduciaries (NCREIF) tracks the values and returns for institutionally owned commercial real estate. NCREIF compared the recession in the early 1990s to the financial crisis that began in 2007-08. They found a 27% decline in values across 40,000 individual office, industrial, retail, multi-family and hotel properties for the 2007-08 period. While this was slightly higher than the 25% value drop during the recession of the early 1990s, the recovery was much quicker. The NCREIF study attributes the faster recovery in values to better data for valuation being available and a desire by investment managers to get the properties in their funds marked to market quickly. The addition of more frequent outside appraisals likely also helped. In the current crisis, we have even more data available (now nearly in real time), as well as stronger analytic models and the benefit of a financial stimulus playbook from which to act more quickly to respond to systemic shocks. The strong federal response has been well received and has kept many markets solvent. The second half of 2020 may see increased volatility again as legislators argue over additional stimulus options, eviction moratoria ends and the additional unemployment benefit from the federal government of $600 per week is no longer being sent to affected households.

Impacts to values have not been consistent across sectors, asset classes and markets. Study and analysis on micro levels is critical. Moreover, the analysis of markets and properties prior to the downturn is important as is the market’s vulnerability to recession. The Brookings Institution used Moody’s Analytics to identify “most at risk” industry groups, from which it compiled a list of five particularly vulnerable sectors: mining/oil and gas, transportation, employment services, travel arrangements, and leisure/hospitality. The following map illustrates areas most affected by employment in these sectors.
Property types will also be asymmetrically affected. In the multi-family sector, markets that are oversupplied, or which have a history of rising vacancy or low to flat rent growth are indications of areas that may be harder hit by the new crisis. Markets with volatility in rent growth are still vulnerable, even if vacancy was stable in the past 12 months. For office and retail properties, Moody’s predicts a protracted slump.

Multi-family has yet to see a significant impact to vacancies and rents. It is unclear to what extent this will continue through the year. As we enter into the period where the CARES Act’s eviction moratorium has ended (as of July 24) and 12 states have no protections in place for renters outside of the federal programs, we may see vacancies begin to rise. As of July 20, the National Multifamily Housing Council (NMHC) reported that 91.3% of apartment households paid full or partial rent. The end of federal unemployment benefits may impact this number in Q3. Vacancies are expected to peak at 7% in 2021, and asking and effective rents to drop 4 to 5% between 2020 and 2021. For comparison, this is a less dramatic impact than what was seen in 2008 and 2009.

Senior housing has seen a dramatic impact. This is not surprising given the disproportional impact of the virus on elderly populations. Vacancies in the sector rose to 10.1% in the first quarter of 2020. Rates for Q2 are not available at this time but are expected to continue to rise. The property type will have substantial challenges both creating safe environments for residents and staff and then convincing residents and their families of that safety.
Affordable housing, on the other hand, does not appear to have been impacted by the downturn. Vacancies in the sector are only at 2.4% and asking rents increased by 0.6% in Q1. As families continue to feel the employment strain the demand is unlikely to slacken, however, investors are watching closely as there is talk of issuing rent waivers in certain locales and/or extending eviction moratoria.

Across all asset classes, investors are also watching the interest rate landscape closely. Rates are expected to remain low for the foreseeable future. Conversely, cap rates are expected to rise over the next couple of years before trending back down in 2023 and 2024. Retail rates are the highest, expected to peak near 10% in 2023, and multifamily is steadier, staying below 7% for the duration of the period forecasted.

To complement the Moody’s predictive modeling, NCREIF published a breakdown of impact on market value by property sector, tracking from 1978 to the end of Q4 2019. As shown below, multifamily experienced one of the largest value drops in 2007-09, but was also the first to recover, and that recovery was the largest and fastest. Industrial followed the curve, even surging in recent years. Hotels never returned to their pre-recession peak, even as the economy as a whole was growing. Office and retail both recovered around seven years after the low point. Office however, had the second most dramatic drop in value and was last to recover (after hotels). This is likely to repeat in the recovery from this crisis as firms may discover that their employees and clients can be served by work-from-home models, allowing them to consolidate square footage.
The following chart summarizes the back-to-normal index, which is updated frequently by CNN Business with cooperation from Moody’s Analytics.

The index indicated its lowest point in April 2020 when cases were rising and increased into June 2020 as the economy started to reopen. However, the back-to-normal index has been increasing at a significantly slower rate since June as infections have been increasing.
Impact on Employment

Due to rapidly increasing positive case counts, the coronavirus outbreak has forced many businesses to suddenly shut down as the country tries to slow the spreading of the virus. For many businesses that meant laying off or furloughing workers, at least temporarily. On March 26, 2020, it was announced that unemployment claims rose to 3,280,000 from 282,000 the prior week. This is the second highest number of initial jobless claims in the history, since the Department of Labor started tracking the data in 1967. The previous high was 695,000 in October 2, 1982. On April 2, 2020, it was announced that unemployment claims rose to 6,648,000 from 3,280,000 the prior week becoming the highest number of jobless claims in the history. Total unemployment claims over the past 27 weeks has totaled 60 million. The current number of people receiving benefits totals 14.5 million indicating a short-term unemployment rate ranging from 10% to 15%. The following chart shows the total unemployment claims in the prior 16 weeks compared to seasonally adjusted insured unemployment.

![Initial Claims vs. Seasonally Adjusted Insured Unemployment](image)

The jobless claims peaked during the week of March 28, 2020 and has been decreasing through August 2020 indicating less claims as the stay at home orders have been removed. However, due to the recent increase in positive test rates, several states and counties are placing restrictions on businesses at high risk areas to slow the spread.

Federal Reserve Quantitative Easing Efforts

The Federal Reserve announced a plan for $700 billion in quantitative easing to provide liquidity to the market. Later, the Federal Reserve announced an unprecedented expansion of quantitative easing by uncapping the quantity of quantitative easing in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy. Second, it is expanding the scope of what can be purchased to include commercial real estate backed by Fannie Mae and Freddie Mac to ensure low interest rates throughout the sector. In addition, the Federal Reserve announced new credit facilities to provide additional liquidity and confidence in the market.
COVID-19's Impact on Commercial Real Estate

According to Deloitte Center for Financial Services, COVID-19 is impacting commercial real estate fundamentals and operations including liquidity, leasing volume, capitalization rates, investments, and operations. The following chart summarizes the impact at the national level.

<table>
<thead>
<tr>
<th>CRE fundamentals and operations</th>
<th>Current impact</th>
<th>Trending toward</th>
</tr>
</thead>
</table>
| **Lending**                     | - Markets have remained accessible, but given the enhanced risk, most lenders are treading with caution.  
- Commercial mortgage-backed securities (CMBS) delinquency rates moved up slightly in March to 2.1 after three years of consistent low levels.  
- Many CRE borrowers, especially from the most affected sectors, such as hotels, have applied for debt relief due to a short-term liquidity crunch. | ![arrow] |
| **Liquidity**                   | - Some property owners face short-term liquidity management issues due to delays in rent collection and increased costs. For instance, shopping center REITs received only 46 percent of their typical rent in the first few weeks of April.  
- Many CRE borrowers, especially from the most affected sectors, such as hotels, have applied for debt relief due to a short-term liquidity crunch. | ![down] |
| **Leasing volume**              | - Some of the submarkets, such as Manhattan, saw a 25 percent YoY decline in leasing volumes, the lowest since 2013. | ![down] |
| **Capitalization (cap) rates**  | - Cap rates have varied by property types. Between January 31 and March 16, cap rates for hotel and mall REITs rose by 402 basis points (bps) and 206 bps, respectively.  
- In contrast, cell towers and data centers have shown more resilience, with moderate cap rate increases of around 30 bps. | ![up] |
| **Investments**                 | - New investments are slowing down, due to increased uncertainty and valuation concerns. However, there is significant dry powder, and other sources of capital are poised for opportunistic investing.  
- In a March 24 survey by Pension Real Estate Association, nearly 74 percent of respondents have shelved their CRE investment plans and 63 percent were worried about uncertainties in property appraisals. | ![down] |
| **Operations**                  | - As a result of social distancing and government directives, many hotels, shops, malls, offices, and coworking/living spaces have been closed.  
- Higher operational costs due to enhanced focus on cleaning and sanitation, security, and thermal checkpoints.  
- E-commerce players, grocery stores, pharmacies, and warehouses experienced a surge in demand. | ![down] |

Conclusions

While the impact of COVID-19 is unknown, the commercial real estate sector appears to be in balance with an overall pessimistic short-term and a neutral to positive long-term investment climate. Past shocks such as SARS, H1N1, and 9-11 generated short-term volatility that stabilized in less than six months. The current economy is in a recession with most economists anticipating a rebound when the virus has been contained and a vaccine is properly administered on a wide scale basis, which could take 18 to 24 months from the COVID-19 pandemic start (Late 2021, or early 2022).
COVID-19’s Impact on the National Apartment Sector

The following analysis summarizes COVID-19’s impact to the national apartment sector, which was provided from Marcus and Millichap’s Special Multifamily Report in Q3 2020. The U.S. vacancy rate moved up 30 basis points to 4.7 percent in the second quarter. Although, this may not reveal the true economic vacancy as eviction moratoriums allowed renters to occupy units despite failing to meet obligations. While mass eviction in the second half of this year is unlikely given recent job additions and talks to extend federal programs, vacancy will continue to face upward pressure as re-emerging COVID-19 threats keep much of the economy shut down and millions jobless. Subdued demand and more frequent renewals at flat rates will weigh on rent growth, as was the case last quarter when the average effective rent fell 0.9% to $1,415 per month. Rent within the Class A segment will face additional pressure going forward as more operators use concessions to draw tenants amid competition from new supply. The following summarizes the average effective rent in comparison to the vacancy.

Vacancy Rises In All Three Classes With More Pressure On The Horizon

Despite the federal unemployment benefits that reinforced the multifamily sector, occupancy still regressed in the first half of this year. Class A vacancy rose by 100 basis points year over year, largely driven by new development, reaching its highest level since 2009. The jumps within Class B and C were more subdued and only pushed vacancy near 2018 levels. Higher-end space will continue to face upward pressure as slow wage growth limits new potential tenants, and aging millennials with
sufficient savings may be inclined to seek single-family housing. Mid-tier and lower-tier space will also face new headwinds in the coming months as back-loaded evictions could work through the legal system. However, the new economic environment could underpin demand for lower-tier space as financial burdens lead more to seek housing options that do not stretch their budgets. The following summarizes historical vacancy by asset class.

![Class A Vacancy Climbed the Most in 2Q](image)

**Rent Correction Hits Higher Tiers First**
The first half of the year typically coincides with strong rent gains for apartments as leasing activity is elevated in the spring season. However, the global health crisis kept potential renters hunkered down this year and many owners chose to offer renewals at flat rates, stunting overall rent growth. Class A and B space had to endure muted leasing activity amid competition from new supply additions, which likely induced concessions and pressed on rental rates. On the other hand, rent within the Class C segment was up more than 5 percent year over year as of the second quarter. This segment remains undersupplied, and the economic disruption may persuade more renters to seek lower-cost housing, which could hold rents more stable. Adjustments to Class C rent will likely be smaller than within Class A and B space. However, rates could slip later this year as finding tenants for newly vacant space remains a challenge.

**Deliveries Consistent with Previous Quarters Despite Shutdowns.**
Roughly 150,000 units were completed in the first half of 2020 as construction was able to resume after brief shutdowns in the spring. These newly built complexes are facing challenges filling units as the global health crisis has stalled moving plans and complicated the leasing process. Future projects in planning may be under higher scrutiny in markets where fundamentals have shifted dramatically.
over the past few months. However, the multifamily sector as a whole is still undersupplied, and developers remain confident in the long-term outlook for the sector. Additionally, developers may be learning from COVID-19 trends and altering design concepts to meet renters’ priorities. Units that accommodate remote working have the infrastructure to facilitate seamless e-commerce and food delivery will be on the top of many potential renters’ wish lists going forward. The following summarizes historical supply.

**Supply Pipeline Keeps Moving Along**

Pricing and Cap Rates Stable Amid Limited Transactions

Movement out of high-density areas could support secondary and tertiary metros. The global pandemic could permanently alter the population’s living preferences, prompting more people to search for residences in less crowded cities. While distinguished coastal markets such as Los Angeles and New York will always attract a demographic seeking this urban lifestyle, inland metros may gain favor with some. Additionally, cost-conscious renters will find more options within their budgets in smaller markets. Aging millennials seeking more space to accommodate marriage and children fueled the early stages of this shift, benefiting metros such as Phoenix, Austin and Nashville. Strong population in-migration trends and continued robust economic growth in some secondary and tertiary metros over the next decade will provide investors with greater upside potential.

Disconnect delays price and cap rate adjustments. Investment activity was down roughly 50 percent year over year in the second quarter largely due to valuation uncertainty and logistical complications. Meanwhile, average pricing and cap rates remain unchanged through the first half of 2020 as the decreasing cost of capital helped offset potential revenue declines. The next few months should help
price discovery as the impacts delayed by generous federal unemployment benefits and eviction moratoriums will come to light. Investors with a long-term mindset will remain keen on multifamily as underlying demand trends are favorable. Suburban garden-style complexes may be on investors’ radars as household growth trends shift out of urban cores. Meanwhile, downtown properties could experience a more dynamic adjustment, yet the long-term prospects are promising. The following summarizes vacancy change by market type.

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### Local Market

According to market participants, the commercial real estate market in most cities in the State of Kansas has generally remained unaffected by the current coronavirus pandemic except for retail and hospitality sectors, which have been negatively impacted. There have been deals across all sectors that have fell out of contract, or delayed closing to allow investors clarity on the potential impact of COVID-19. Brokers, sellers, and third parties were becoming cautious when it comes to new listings to prevent the spread of coronavirus and public safety in the early pandemic with several canceled listings across the market due to market uncertainty. However, market activity appears to be increasing with new listings and some sales activity in the past few months. Market participants generally anticipate a softening in commercial market fundamentals through 2020 with a rebound occurring in 2021. The following summarizes market participant’s thoughts on the COVID-19 impact.

**Rents** – Asking rent growth has slowed due to the COVID-19 pandemic; however, asking rents have not shown negative growth rates as most secondary and primary markets have shown.
**Concessions** – Concessions have not been impacted by the COVID-19 pandemic yet.

**Occupancy** – Occupancy has been slightly impacted with some property managers reporting occupancy that is less than typical for peak leasing season (Summer 2020). However, most property managers report occupancy has been better than expected during the pandemic as record renewal rates are being achieved as tenants remain in similar housing options during uncertainty. Property managers have been able to do in-person tours by an appointment and offer virtual and online tours to fill vacant units.

**Collections** – According to local market participants, rent collections have generally not been impacted by the COVID-19 pandemic yet. The unemployment stimulus helped most tenant’s secure on-time payments. According to the National Multifamily Housing Council, rent collections in April 2020 were 94.6%, which were 3.1% less than one year ago indicating collections were less favorable. Rent collections in May, June, July, and August 2020 were 95.1%, 95.9%, 95.7%, and 95.8%, respectively when compared to one year ago at 96.6%, 96.0%, 96.6%, and 94.5% indicating slightly weaker rent collections than one year ago.
Property Price Indices

To gauge the impact of COVID-19 on market fundamentals, we have reviewed several indexes as a point of comparison. The indexes report pricing and fundamental data at the national level and provide an overall view of the current state of the industry.

Real Capital Analytics – CPPI
The RCA Commercial Property Price Indices (RCA CPPI™) are a suite of price indices developed and published by Real Capital Analytics. They are transaction-based and accurately measure commercial real estate price movements using repeat-sales regression methodology. There are currently over 350 indices which provide direct comparability across markets and property types in 15 countries.

The RCA CPPI measure the actual price experience of property investors – the capital appreciation component of total return, by quantifying the change in prices based on empirical results of validated transactions.
The US National All-Property Index was flat in August from July and gained 1.6% over the past year. The index was increasing at around a 6.0% rate at the start of the year and has dropped off amid the ongoing economic and health crisis. The apartment sector increased at the same rate as industrial, up 7.4% from a year ago. The multifamily index briefly overtook industrial as the fastest growing sector at the beginning of 2020, but it has since dipped to rates not seen since 2011.

**AIA Architectural Billings Index (ABI)**

The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. The survey panel asks participants whether their billings increased, decreased, or stayed the same in the month that just ended. According to the proportion of respondents choosing each option, a score is generated, which represents an index value for each month. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.

Business conditions remained stalled at architecture firms in August, with the Architecture Billings Index (ABI) recording a score of 40 for the third consecutive month (a score below 50 indicates declining firm billings). While fewer firms reported declining billings in August than during the early months of the COVID-19 pandemic, the fact that the score has been unchanged for the last three months means that the share of firms reporting increasing billings has not risen during that time.

Billings continued to decline at firms in the rest of the country as well, but the pace of that decline has slowed from the low point in the spring. On the other hand, firms with a multifamily residential
specialization continued to report stabilizing conditions, and almost saw overall billings growth in August for the first time in seven months. However, conditions remained very weak at firms with a commercial/industrial specialization, and have stabilized modestly at firms with an institutional specialization.

**Freddie Mac Multifamily Apartment Investment Market Index (AIMI®)**

AIMI portrays how the relative value of investing in multifamily properties has changed over time. The relative value of investing is estimated by comparing the growth in net operating income (NOI) to the growth in mortgage debt service for investors. Mortgage rates and growth rates in property prices are used to determine changes in the debt service, while rental income growth (which includes changes in rent growth and vacancy rates) is used to determine changes in NOI.

Each variable affects the Index differently. If mortgage rates or property prices increase, with all else equal, AIMI’s value will decrease due to the increasing cost of investing, as captured by higher debt service payments investors pay for the property. Conversely, if NOI increases, with all else equal, AIMI’s value will increase due to the higher rental income investors are receiving on the property. In other words, higher mortgage rates or property prices increase the cost to the borrower, decreasing AIMI; whereas higher NOI increases the income received by the borrower, increasing AIMI. The combination of these conditions provides a simple measure of the changes in the relative value of investments.

The national Apartment Investment Market Index (AIMI) as of the first quarter 2020 is 128.5. The index decreased over the quarter (-0.3%) but increased over the year (6.1%). The annual increase indicates that it may be easier to find attractive investment opportunities compared to the prior year.
The strong increase in the Index over the past year is a result of slight growth in net operating income (NOI) and substantially lower mortgage rates, which offset the growth in property prices. Over the past year, property prices grew by 2.8%, mortgage rates decreased by 67 basis points (bps), while NOI grew by 0.4%. Combining these changes in the Index, it suggests that investors are paying less per dollar of property income compared to one year ago. Similar to the last few quarters, mortgage rates experienced a decline which was the primary cause of the increase in the Index over the year. Over the past quarter, the Index decreased due to a decline in NOI, which countered the effect of property price depreciation, while mortgage rates remained flat. Due to the impact of the COVID-19 pandemic, quarterly NOI growth was very weak in the nation, just like it was for every market. Typically, the second quarter is the best quarter in terms of NOI and AIMI performance. The subdued quarterly growth of AIMI is a clear reflection of COVID-19’s immense impact.

Green Street Commercial Property Price Index
Green Street’s Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, its emphasis on high-quality properties, and its ability to capture changes in the aggregate value of the commercial property sector.

<table>
<thead>
<tr>
<th>Property Sector</th>
<th>Index Value</th>
<th>Change in Commercial Property Values</th>
<th>Change in Commercial Property Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Past Month</td>
<td>From Pre Covid</td>
</tr>
<tr>
<td>All Property</td>
<td>121.7</td>
<td>1%</td>
<td>-10%</td>
</tr>
<tr>
<td>Core Sector</td>
<td>123.7</td>
<td>2%</td>
<td>-8%</td>
</tr>
<tr>
<td>Apartment</td>
<td>143.5</td>
<td>3%</td>
<td>-8%</td>
</tr>
<tr>
<td>Industrial</td>
<td>168.9</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Mall</td>
<td>77.0</td>
<td>0%</td>
<td>-20%</td>
</tr>
<tr>
<td>Office</td>
<td>107.2</td>
<td>0%</td>
<td>-9%</td>
</tr>
<tr>
<td>Strip Retail</td>
<td>95.5</td>
<td>0%</td>
<td>-15%</td>
</tr>
<tr>
<td>Health Care</td>
<td>133.1</td>
<td>0%</td>
<td>-7%</td>
</tr>
<tr>
<td>Lodging</td>
<td>81.6</td>
<td>0%</td>
<td>-25%</td>
</tr>
<tr>
<td>Manufactured Home Park</td>
<td>248.4</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Net Lease</td>
<td>91.8</td>
<td>0%</td>
<td>-8%</td>
</tr>
<tr>
<td>Self-Storage</td>
<td>176.9</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Student Housing</td>
<td>137.9</td>
<td>3%</td>
<td>-11%</td>
</tr>
</tbody>
</table>

The Green Street Commercial Property Price Index increased 1.3% in August. Values for industrial, manufactured homes, student housing, and apartments all increased, while pricing of other property sectors was unchanged. The all-property index is 10% below pre-COVID levels, though pricing varies significantly across property sectors.

Prices of properties with income streams that will be largely unaffected by the pandemic—either because of property type, lease structure, or some combination of the two—are at, or near, record
highs. At the other end of the spectrum, pricing of those assets most impacted—lodging and some retail—has moved so much that buyers and sellers are still trying to figure it out.

**National Multifamily Housing Council Quarterly Survey of Apartment Conditions**

The reported index numbers are based on data compiled from quarterly surveys of NMHC members. Survey responses reflect the change, if any, from the previous quarter. The indexes are standard diffusion indexes, hence are convenient summary measures showing the prevailing direction and scope of changes. They are calculated by taking one-half the difference between positive (tighter markets, higher sales volume, equity financing more available, a better time to borrow) and negative (looser markets, lower sales volume, equity financing less available, a worse time to borrow) responses and adding 50. This produces a series bounded by 0 (if all respondents answered in the negative) and 100 (if all respondents answered in the positive).

- A Market Tightness Index reading above 50 indicates that, on balance, apartment markets around the country are getting tighter; a reading below 50 indicates that market conditions are getting looser; and a reading of 50 indicates that market conditions are unchanged.

- A Sales Volume Index reading above 50 indicates that, on balance, sales volume and the country is increasing; a reading below 50 indicates that sales volume is decreasing; and a reading of 50 indicates that market conditions are unchanged.

<table>
<thead>
<tr>
<th></th>
<th>Market Tightness Index</th>
<th>Sales Volume Index</th>
<th>Equity Financing Index</th>
<th>Debt Financing Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2020</td>
<td>19</td>
<td>18</td>
<td>34</td>
<td>60</td>
</tr>
<tr>
<td>April 2020</td>
<td>12</td>
<td>6</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>January 2020</td>
<td>48</td>
<td>43</td>
<td>61</td>
<td>68</td>
</tr>
<tr>
<td>October 2019</td>
<td>54</td>
<td>46</td>
<td>55</td>
<td>75</td>
</tr>
<tr>
<td>July 2019</td>
<td>60</td>
<td>48</td>
<td>56</td>
<td>80</td>
</tr>
<tr>
<td>April 2019</td>
<td>52</td>
<td>45</td>
<td>53</td>
<td>81</td>
</tr>
<tr>
<td>January 2019</td>
<td>46</td>
<td>33</td>
<td>50</td>
<td>59</td>
</tr>
</tbody>
</table>

Apartment market conditions weakened in the National Multifamily Housing Council’s Quarterly Survey of Apartment Market Conditions for July 2020, as the industry continues to cope with the ongoing COVID-19 pandemic. The Market Tightness (19), Sales Volume (18) and Equity Financing (34) indexes all came in well below the breakeven level (50). However, in a positive sign, the index for Debt Financing (60) signaled improving conditions.

“Recent spikes in COVID-19 cases have caused many areas of the U.S. to scale back or completely reverse their attempts at reopening their local economy. As a result, unemployment levels stand elevated in double digits as much of the nation’s business activity remains temporarily shuttered,” noted NMHC Chief Economist Mark Obrinsky. “Amidst this COVID economy, 71 percent of respondents
reported looser market conditions this quarter compared to the prior three months, marking the second consecutive quarter of deteriorating conditions.”

“The Federal Reserve has countered this economic malaise with aggressively accommodative monetary policy, resulting in historically low interest rates. This, in turn, has created favorable pricing for debt financing, leading more respondents than not (44% to 25%) in this round of the survey to report improving conditions for borrowing. Nevertheless, these improved financing conditions have been largely confined to stabilized multifamily assets, and underwriting standards remain fairly stringent.”

CoStar Commercial Repeat-Sale Indices (CCRSI)
The CoStar Commercial Repeat-Sale Index was developed by using the repeat-sale regression technique, which has been increasingly accepted as a clear-cut method to meet investors’ requirements. The repeat-sale analysis, based on properties that have sold more than once without any significant change in building characteristics between sales, is fundamentally comparable to stock and bond indices, which are based on stock (or bond) price changes from one period to the next.

Both of CCRSI’s two major composite price indices showed modest growth in August 2020, stemming from losses sustained in May 2020 and June 2020. However, both composite indices remained below pre-pandemic levels. The equal-weighted U.S. Composite Index, which weights each trade equally and therefore reflects the more numerous, but lower-priced property sales typical of smaller markets, ticked up 0.2% in August 2020 but was still down 2.3% from its pre-pandemic peak reached in March 2020. Meanwhile, the value weighted U.S. Composite Index, which puts more weight on higher-value assets common in larger markets, rose 1.4% in August 2020, but was still down 0.4% from its April 2020 pre-pandemic high.
In absence of sales data to gauge changing market conditions, the public real estate investment trust market can provide valuable guidance. A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. Many REITs are publicly traded on major securities exchanges, and investors can buy and sell them like equities. REITs typically trade under substantial volume and are considered a highly liquid instrument. The REIT business model is to lease space and then distribute the income as dividends to shareholders. Since REITs are required to pay a minimum of 90% of taxable income in the form of shareholder dividends, they mirror private ownership of real estate.

IRET owns and operates 11,445 apartment units within the Midwest and Great Plains region. In September 2020, the market capitalization was $1.7 billion with an average rental rate of $1,324 per unit. The following table reports operating data from IRET, which shows a slight downward trend in operations in the first half of 2020 due to COVID-19.

The following chart shows the stock price of Investors Real Estate Trust (IRET), which reflects the markets expectations of future performance and the impact of the COVID-19. The stock price took a
sharp decline in April due to the uncertainty of COVID-19. Market pricing rebounded in the summer months, which is peak leasing season stimulated by the economic stimulus. Pricing has fluctuated from July to current as the market searches for price discovery amid uncertainty of future rental collections and investor demand.

National Council of Real Estate Investment Fiduciaries (NCREIF)
The NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. The following table reports quarterly returns for apartment properties in the Midwest.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q2019</td>
<td>0.78%</td>
</tr>
<tr>
<td>4Q2019</td>
<td>0.66%</td>
</tr>
<tr>
<td>1Q2020</td>
<td>0.17%</td>
</tr>
<tr>
<td>2Q2020</td>
<td>-1.06%</td>
</tr>
<tr>
<td>2020 ANNUAL TOTAL</td>
<td>0.54%</td>
</tr>
</tbody>
</table>

The most recent data reports a slowdown in property returns (cash flow and capital appreciation) in the first quarter 2020. Fundamentals started to decline in the second quarter 2020 due to COVID-19, which is consistent with other metrics reported earlier. Annualized returns for the trailing four quarters are below the historical average due to increased pricing, supply pressure, and COVID-19.

**Survey Conclusions**
The various indices reported a downward trend in market fundamentals in the 1st and 2nd Quarter of 2020 due to COVID-19. However, fundamentals have shown signs of stabilization due to favorable loan terms, historically low yields for alternative investments, and continued rental demand. The following table summarizes the various sources.
It is projected that fundamentals will continue to recover in the 3rd and 4th Quarter of 2020 as the economy slowly rebounds from COVID-19. As investors continue to search for yield in a volatile equities market, capitalization rates are projected to remain flat or slightly decline in the second half of 2020.

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Conclusions</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Capital Analytics - Commercial Property Price Index (CPPI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image1.png" alt="Graph" /></td>
</tr>
<tr>
<td>AIA Architecture Billings Index (ABI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image2.png" alt="Graph" /></td>
</tr>
<tr>
<td>Freddie Mac - Multifamily Apartment Investment Index (AIMI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image3.png" alt="Graph" /></td>
</tr>
<tr>
<td>Green Street Commercial Property Price Index (CPPI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
<tr>
<td>National Multifamily Housing Council Quarterly Survey</td>
<td>Downward with favorable financing</td>
<td><img src="image5.png" alt="Graph" /></td>
</tr>
<tr>
<td>CoStar Commercial Repeat-Sale Indices (CCRSI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image6.png" alt="Graph" /></td>
</tr>
<tr>
<td>Investors Real Estate Trust (IRET)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image7.png" alt="Graph" /></td>
</tr>
<tr>
<td>NCREIF Property Index (NPI)</td>
<td>Downward but starting to stabilize</td>
<td><img src="image8.png" alt="Graph" /></td>
</tr>
</tbody>
</table>

**Overall Trend**
![Graph](image9.png)
Sales Comparison (Market Extraction)

According to *The Appraisal of Real Estate, 14th Edition*, deriving capitalization rates from comparable sales is the preferred technique when sufficient information is available. When this data is available, the choice of capitalization method (director yield) does not affect the indication of value.

**Principal of Anticipation**

Operating data available for comparable sales is often from the trailing year (actual income), which requires adjustment for time difference to account for the principal of anticipation (forward looking). Both income and expense data (in the forecasted 12 months after the date of valuation) and the structure of expenses in terms of replacement allowances and other components must be similar to those of the subject property for accurate analysis.

If the market-derived capitalization rates are based on the properties’ net operating income expectancies for the first year—i.e., the 12 months after the date of sale—the capitalization rate for the subject property should be applied to its anticipated net operating income for the first year of operation, which reflects the buyer’s anticipated income stream. The following example shows the calculation of market extracted rates.

<table>
<thead>
<tr>
<th>Table 23.1</th>
<th>Derivation of Overall Capitalization Rates from Comparable Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sale A</td>
</tr>
<tr>
<td>Net operating income</td>
<td>$35,100</td>
</tr>
<tr>
<td>Price</td>
<td>$368,500</td>
</tr>
<tr>
<td>Indicated $R_0$</td>
<td>0.0953</td>
</tr>
</tbody>
</table>

Source: *The Appraisal of Real Estate, 14th Edition*

Year one capitalization rates are often 25 to 50 basis points higher than in place or actual rates to account for rent growth in an upward trending market. The following example reports overall rates for various time periods for an existing apartment project based on the appraised value.

**Data Consistency**

There are numerous combinations of operating variables used to extract an overall rate from the market. Care must be taken to apply the same methodology and set of variables to the subject that was used to extract a rate from the market. If different income and expense projections are utilized in the comparables sales when compared to the subject, the properties will have differing risk profiles and investor motivations and can result in a non-market capitalization rate.
The comparable properties (sales) should have similar income-expense ratios, land value-to-building value ratios, risk characteristics, and future expectations of income and value changes over a typical projection period. It is critical that the net operating income of each comparable property is calculated and estimated in the same manner that the net operating income of the subject property is estimated.

Operating Expenses (Recurring)
Operating a Section 42 property is slightly more expensive for certain categories than a market rate property due to increased management expertise and administrative overhead. Other operating categories are relatively similar to operating a market rate multifamily property. Real estate taxes depending on the level of rent restrictions can also vary between a market rate and restricted property. The most recent CohnReznick report supports an increase in management and administrative expenses for Section 42 properties. Additionally, payroll expenses are generally higher if a service coordinator is on staff. Generally, real estate taxes will be lower for Section 42 properties (all else equal) due to restricted rents, which helps offset increased expenses for other categories. The following discusses the main operating expenses that vary between a market and tax credit project.

- **Management (Third-Party)**
  The operation of a LIHTC property is heavily reliant upon the selection and retention of a knowledgeable property management company. It is a common practice to underwrite property management fees that are at market in the event a property manager needs to be removed in the event of property underperformance. Affordable Housing Investors Council (AHIC) Underwriting Guidelines recommend that a typical property management fee be underwritten between 4% and 8% of effective gross income. AHIC recommends a property management fee amount that is no more than 10% of the total net income, with a minimum of $25 to $30 per unit requirement. The specialized management expertise of a tax credit project can result in a 100 to 300 basis point increase in management expense when compared to a traditional project.

- **Administrative and Marketing Expenses**
  Administrative expenses in the context of LIHTC properties typically include office supplies, marketing, legal, audit, accounting/bookkeeping, compliance, marketing, and other general operating expenses. Legal and audit fees often account for the bulk of the administrative expenses for smaller projects with fewer units. Annual compliance fees are often in excess of $5,000, which is an additional $100 to $300 per unit expense when compared to a traditional project.

- **Replacement Reserves (Capital Improvements)**
  A capital improvement is an investment in equipment or alterations, typically short-lived items such as mechanical systems, appliances, carpeting, parking areas, etc. that last for more than one year and increases the value or extends the economic life of the property. In contrast, a repair preserves the property but does not lengthen its economic life and is required for ongoing operations. Replacement reserves are market specific and the inclusion or exclusion from the year one pro forma does not impact the value of the property but instead results in a corresponding change in the risk profile of the asset, which is reflected in the overall capitalization rate. The following table reports the impact of reserves to the overall rate.
Fannie Mae reports a market-oriented replacement reserve to range from $150 to $350 per unit depending on the age, quality, and amenities of the project. In addition, it is common for the housing agency to require a replacement reserve of $300 per unit with annual escalations of 3% annually during the restriction period.

Existing LIHTC Projects
Most existing LIHTC projects are in urbanized areas (Kansas City, Wichita, and Topeka) with fewer projects in outlying communities. Due to a higher concentration of supply in the Kansas City MSA and Wichita MSA, the sale comparables are largely located in cities with increased population density. The following map shows the location of existing LIHTC projects in the State of Kansas, according to HUD.

Comparable Sales (Traditional Projects)
According to CoStar Analytics and a Selectability Study from 17 counties in the State of Kansas, most sales activity is occurring in the Kansas City MSA and Wichita MSA, which contain the most existing
supply and population density. The following map shows multifamily sales transactions from 2018 to
current according to CoStar Analytics.

Methodology
The sales comparison approach is most applicable in an active market in which several similar
properties have recently sold. The appraiser gathers data on sales of comparable properties and
analyzes the nature and conditions of each sale, making logical adjustments for dissimilar
characteristics. Typically, a common denominator, or unit of comparison is found such as price per
square foot, price per unit, or gross income multiplier. Under typical operations, few LIHTC properties
sell, which precludes a reliable analysis by the sales comparison approach. Most sales transactions have
been sales of partnerships or partial interests in the partnership that own these projects, however,
there are few sales consisting of open market transactions wherein the actual real estate was sold.
While it is legally permissible for a property owner to sell a LIHTC property during the restriction period,
difficulties in evaluating the differences between the LURAs present formidable obstacles to
performing a credible sales comparison approach. For these reasons, the sales comparison approach
was only performed for the “fee simple” value based on market rents. The following table summarizes
the sales data utilized in our analysis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>Class A</th>
<th>Class B</th>
<th>Class C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>76</td>
<td>29</td>
<td>14</td>
<td>25</td>
<td>39</td>
<td>55</td>
</tr>
<tr>
<td>Median Units</td>
<td>92</td>
<td>94</td>
<td>34</td>
<td>200</td>
<td>60</td>
<td>84</td>
</tr>
<tr>
<td>Median Unit Price</td>
<td>$75,122</td>
<td>$68,183</td>
<td>$42,896</td>
<td>$178,030</td>
<td>$83,625</td>
<td>$52,258</td>
</tr>
<tr>
<td>Median OAR (OAR)</td>
<td>6.83%</td>
<td>6.69%</td>
<td>7.35%</td>
<td>5.64%</td>
<td>6.69%</td>
<td>7.29%</td>
</tr>
<tr>
<td>Operating Expense Ratio (OER)</td>
<td>47.70%</td>
<td>48.64%</td>
<td>51.66%</td>
<td>38.71%</td>
<td>46.81%</td>
<td>53.90%</td>
</tr>
<tr>
<td>Median EGIM</td>
<td>7.73</td>
<td>7.71</td>
<td>6.50</td>
<td>10.84</td>
<td>8.20</td>
<td>6.44</td>
</tr>
</tbody>
</table>
The data indicates a lower capitalization rate, higher EGIM, and lower operating expense ratio for Class A properties when compared to Class B and Class C properties, which is consistent with valuation theory. However, the data reports a similar capitalization rate for primary markets when compared to secondary markets, which is inconsistent with valuation theory. Most recent sales activity has been focused on value-add acquisitions of Class B and C properties. The buyer of these assets plans to reposition an aging property with interior and exterior improvements to enhance the overall yield. The investment strategy has created increased demand for older projects in infill locations, which primarily consist of smaller apartment projects (6 to 18 units) resulting in a slightly higher rate in primary markets.

The following table summarizes the capitalization rate data used in our analysis.

<table>
<thead>
<tr>
<th></th>
<th>Primary Markets</th>
<th>Secondary Markets</th>
<th>Tertiary Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Range</td>
<td>5.06% - 6.51%</td>
<td>5.25% - 7.67%</td>
<td>6.01% - 8.26%</td>
</tr>
<tr>
<td>Average</td>
<td>5.65%</td>
<td>6.34%</td>
<td>7.29%</td>
</tr>
<tr>
<td>Median</td>
<td>5.56%</td>
<td>6.27%</td>
<td>7.29%</td>
</tr>
<tr>
<td>Trend</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Primary - Kansas City MSA
*Secondary - Wichita, Topeka, Lawrence, and Manhattan
*Tertiary - All remaining markets

**Class A Investment Properties**

The following chart reports overall capitalization rates for Class A properties in the State of Kansas.

Class A rates report a median range of 5.56% to 6.04% depending on the investment market. The following table reports capitalization rates for Class A investment properties in the State of Kansas.

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>Average</th>
<th>Average Spread (Basis Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.64%</td>
<td>5.81%</td>
<td>50</td>
</tr>
</tbody>
</table>
Class B Investment Properties
The following chart reports overall capitalization rates for Class B properties in the State of Kansas.

Class B Capitalization Rates - All Markets

Class B rates report a median range of 6.27% to 7.14% depending on the investment market. The following table reports capitalization rates for Class B investment properties in the State of Kansas.

<table>
<thead>
<tr>
<th>Median</th>
<th>Average</th>
<th>Typical Spread (Basis Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.69%</td>
<td>6.67%</td>
<td>100</td>
</tr>
</tbody>
</table>

Class C Investment Properties
The following chart reports overall capitalization rates for Class C properties in the State of Kansas.

Class C Capitalization Rates - All Markets
Class C rates report a median range of 7.27% to 7.70% depending on the investment market. The following table reports capitalization rates for Class C investment properties in the State of Kansas.

<table>
<thead>
<tr>
<th>Median</th>
<th>Average</th>
<th>Average Spread (Basis Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.29%</td>
<td>7.38%</td>
<td>150</td>
</tr>
</tbody>
</table>

Concluded Market Extracted Rates (Market Rate Projects)
The following table reports the market going-in capitalization rates for primary markets, which includes market-oriented replacement reserves and stabilized operating data.

<table>
<thead>
<tr>
<th>Capitalization Rate</th>
<th>Primary Markets - Market Rate</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary Markets - Market Rate</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Range</td>
<td>5.25% - 5.75%</td>
<td>5.75% - 6.50%</td>
<td>6.50% - 7.25%</td>
</tr>
<tr>
<td>Midpoint</td>
<td>5.50%</td>
<td>6.25%</td>
<td>6.75%</td>
</tr>
</tbody>
</table>

*Primary - Kansas City MSA

The following table reports the market going-in capitalization rates for secondary markets

<table>
<thead>
<tr>
<th>Capitalization Rate</th>
<th>Secondary Markets - Market Rate</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Secondary Markets - Market Rate</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Range</td>
<td>5.50% - 6.00%</td>
<td>6.00% - 6.75%</td>
<td>6.75% - 7.50%</td>
</tr>
<tr>
<td>Midpoint</td>
<td>5.75%</td>
<td>6.50%</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

*Secondary - Wichita, Topeka, Lawrence, and Manhattan

The following table reports the market going-in capitalization rates for tertiary markets

<table>
<thead>
<tr>
<th>Capitalization Rate</th>
<th>Tertiary Markets - Market Rate</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tertiary Markets - Market Rate</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Range</td>
<td>-</td>
<td>6.75% - 7.75%</td>
<td>7.75% - 8.50%</td>
</tr>
<tr>
<td>Midpoint</td>
<td>-</td>
<td>7.50%</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

*Tertiary - All remaining markets

Restricted OAR Profile
Capitalization rates for restricted properties often vary from capitalization rates for market rate properties. According to Peter S. Eckert & Company, Inc. the prevailing custom in the marketplace is to add 25, 50, or 100 basis points to the conventional rate to reflect the LIHTC encumbrance, depending upon the variable characteristics of each property. Projects with greater income restrictions (40%, 50%, and 60% AMI) or a lower rental advantage when compared to market rate housing tend to have a higher spread to compensate for the additional risk and less upside. The most common income restriction in the State of Kansas is 60% AMI with income and rent restrictions tied to the federal maximum allowable restrictions according to HUD. Therefore, we have adjusted the market rate capitalization rate upward 50 basis points to the account for a typical LIHTC encumbrance (60% AMI). If a project is encumbered with greater income restrictions or an atypical replacement reserve requirement a higher risk premium would be warranted due to a more narrowly defined target market.

The following summarizes the risk factor analysis of LIHTC properties compared to conventional (market rate) apartments from the *Valuation Techniques for Affordable Housing* published by the Appraisal Institute.
Subject Risk Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market Area Characteristics</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Risk</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>High income growth in the local market = less risk</td>
<td></td>
</tr>
<tr>
<td>High number of cost-burdened households = less risk</td>
<td></td>
</tr>
<tr>
<td>High housing cost market = less risk</td>
<td></td>
</tr>
<tr>
<td>High barriers for development = less risk</td>
<td></td>
</tr>
<tr>
<td>Superior schools, access, employment, shopping = less risk</td>
<td></td>
</tr>
<tr>
<td>2. Overall Risk Levels (Rent Advantage / Disadvantage)</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Project Based Section 8 = less risk</td>
<td></td>
</tr>
<tr>
<td>Maximum rent &lt; market</td>
<td></td>
</tr>
<tr>
<td>3. Quality and Durability of Income</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Income at 40% of average median income = significantly more risk</td>
<td></td>
</tr>
<tr>
<td>Income at 50% of average median income = more risk</td>
<td></td>
</tr>
<tr>
<td>Income at 60% of average median income = slightly more risk</td>
<td></td>
</tr>
<tr>
<td>4. Expenses</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Ability to control expenses</td>
<td></td>
</tr>
<tr>
<td>Expense risk (utility payment)</td>
<td></td>
</tr>
<tr>
<td>5. Site and Area Characteristics</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Neighborhood in stable stage = moderate risk</td>
<td></td>
</tr>
<tr>
<td>6. Physical Characteristics</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Comparable design/materials/date of construction = similar risk</td>
<td></td>
</tr>
<tr>
<td>7. Locational Characteristics</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Comparable, access, employment, shopping = similar risk</td>
<td></td>
</tr>
<tr>
<td>8. Program Structure</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Illiquidity, difficulty in selling = greater risk</td>
<td></td>
</tr>
<tr>
<td>Long-term income restrictions = greater risk</td>
<td></td>
</tr>
<tr>
<td>Debt structure and type of non-recourse debt availibility = greater risk</td>
<td></td>
</tr>
<tr>
<td>Anticipation of strong housing market when unrestricted</td>
<td></td>
</tr>
</tbody>
</table>

Source: Valuation Techniques for Affordable Housing (Appraisal Institute)

The following table reports various risk characteristics to consider in supporting a project level overall rate of return. Properties and markets with increased economic growth and income growth tend to have greater investor demand and a lower overall rate of return.

<table>
<thead>
<tr>
<th>Investment Class</th>
<th>Tenant Profile</th>
<th>Market Size</th>
<th>GDP Growth Rate</th>
<th>Employment Growth Rate</th>
<th>Historical Rent Growth</th>
<th>Income Volatility</th>
<th>Reversionary Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>A,B,C</td>
<td>Market/LIHTC</td>
<td>P,S,T</td>
<td>Low, Mod, High</td>
<td>Low, Mod, High</td>
<td>Low, Mod, High</td>
<td>Low, Mod, High</td>
<td>Less, More</td>
</tr>
</tbody>
</table>

Concluded LIHTC Rates

The following table reports the concluded LIHTC capitalization rates for primary markets after an upward adjustment of 50 basis points to reflect a typical restricted operation.
The following table reports the adjusted LIHTC capitalization rates for secondary markets

<table>
<thead>
<tr>
<th>Capitalization Rate</th>
<th>Secondary Markets - LIHTC</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Range</td>
<td>6.00% - 6.50%</td>
<td>6.50% - 7.25%</td>
<td>7.25% - 8.00%</td>
</tr>
<tr>
<td>Midpoint</td>
<td>6.25%</td>
<td>7.00%</td>
<td>7.50%</td>
</tr>
</tbody>
</table>

*Secondary - Wichita, Topeka, Lawrence, and Manhattan

The following table reports the adjusted LIHTC capitalization rates for tertiary markets

<table>
<thead>
<tr>
<th>Capitalization Rate</th>
<th>Tertiary Markets - LIHTC</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Range</td>
<td>6.50% - 7.25%</td>
<td>7.25% - 8.25%</td>
<td>8.25% - 9.00%</td>
</tr>
<tr>
<td>Midpoint</td>
<td>6.75%</td>
<td>8.00%</td>
<td>8.50%</td>
</tr>
</tbody>
</table>

*Tertiary - All remaining markets
Affordable Housing Sales

Under typical operations few LIHTC properties sell. Most sales transactions have been sales of partnerships or partial interests in the partnership that own these projects, however, there are few sales consisting of open market transactions wherein the actual real estate was sold. Most sales of LIHTC projects are assets exiting the tax credit program due to the expiration of the LURA or through the Qualified Contract Process (QCP) and reflect potential upside as a market rate project.

LIHTC Listings
As a test of reason, we have included a current LIHTC listing and a prior offering for the general partnership interest in a tax credit project.

Primary Market – Class B Investment
The listing represents the general partnership interest in a Class B LIHTC project in the Kansas City MSA. The offering reports a year one cash return of 9.11% with a terminal capitalization rate of 7.00% at the end of the initial 15-year compliance period.

Secondary Market – Class B Investment
The listing represents the leased fee interest in a Class B LIHTC project in the Wichita MSA. An appraisal at the time of refinance reported a year one capitalization rate of 6.56% based on stabilized occupancy the offering price of $2,800,000 or $58,333 per unit.

Gallery
LIHTC Sales
As a test of reason, we have included recent LIHTC sales in the State of Kansas. The sales represent existing LIHTC projects coming out of the program as a market rate project.

Secondary Market – Class B Investment
Ridgeport Apartments contains 88 units and was built in 2004. According to the listing broker, the property was marketed for 30-days with eight offers and sold in May 2019 for $5,900,000. The broker reported rental upside of $25 to $50 per unit once the decontrol period ended in 2022. The year one capitalization rate is reported at 6.97% and reflects rent loss to market and planned improvements by the buying entity.

Secondary Market – Class B Investment
Wyndam Place Senior Residences contains 54 units and was built in 2004. According to various sources the property sold in December 2018 for $2,975,000. It was reported that the buyer and seller negotiated the purchase price based on a fee appraisal and the property will continue as a Section 42 project. The purchase was a 1031 exchange but did not impact the acquisition price. The buyer reported the capitalization rate at 6.50% with a year one rate calculated at 7.35%.

Conclusions
The listings and past sales support the rates from market extraction, band of investments, and third-party surveys and are consistent with risk adjusted returns for multifamily investments.
Effective Gross Income Multiplier (EGIM)

Linear Regression Analysis
An investor is acquiring a future income stream; therefore, a comparison of economic characteristics is a better indicator of value when comparables sales are lacking. We have considered and analyzed the income earning capacity (effective gross income per unit) in comparison to the stabilized, year one effective income per unit of several recent sales in the State of Kansas. This methodology best reflects the markets perception indicating value is directly related to the income generating capacity of the property, assuming risk is held constant. Income multipliers are mathematically related to direct capitalization because rates are the reciprocals of multipliers or factors. The following are important considerations to consider when selecting an income multiplier:

- Sales must be similar in physical, locational, and investment characteristics
- Sales must have similar income characteristics (investment and property class, ancillary items, and economic loss)
- Extracted multipliers must be applied to the subject in a similar manner as extracted
- Avoid reliance on an average EGIM unless the sales are overall similar to the subject
- A range of multipliers is reasonable and reflects varying risk profiles and growth expectations of the sales. A higher EGIM reflects less uncertainty and more income growth potential, which is the equivalent of a lower overall capitalization rate.
- Effective income multipliers are less sensitive to input variables than potential income multipliers due to more of the ‘how much” and “when” explicit in the calculated income instead of the multiplier.

The following example shows the potential and effective gross income calculations. As shown below, the EGIM is generally higher than the PGIM to account for less income and a static sales price.

\[
\text{Potential Gross Income Multiplier} = \frac{\text{Sale Price}}{\text{Potential Gross Income}} = \frac{\$368,500}{\$85,106} = 4.33 \text{ (rounded)}
\]

\[
\text{Effective Gross Income Multiplier} = \frac{\text{Sale Price}}{\text{Potential Gross Income}} = \frac{\$368,500}{\$80,000} = 4.61 \text{ (rounded)}
\]
Effective Gross Income Multiplier (EGIM)

We have evaluated the sales using the effective gross income multiplier (EGIM) as a unit of comparison. The EGIM is the ratio developed by dividing the sale price by the projected year one effective gross income based on a stabilized, year one operation. The following chart reports the EGIM for the dataset consisting of 119 sales in the State of Kansas. The sales reflect stabilized operations including a typical replacement reserve requirement ranging from 200 to 300 per unit.

Older properties and LIHTC assets typically have a higher operating expense ratio (OER) resulting in less net operating income, a lower per unit value, and a lower EGIM. As a property ages, the production of net income declines in relation to operating expenses due to increased maintenance costs, the inability to continue to grow rents at or above the rate of inflation, a shift in the tenant base to “renters by circumstance,” and large capital outlays due to needed updates. This is shown in the previous chart using linear regression, which indicates that properties with a higher OER have a lower EGIM. The following chart reports the EGIM for the 76 sales in primary investment markets.
The following chart reports the EGIM for the 29 sales in secondary investment markets.

The following chart reports the EGIM for the 14 sales in tertiary investment markets.

**Reliability**

The coefficient of determination (R^2) is a dependent variable's percentage of variation explained by one or more related independent variables (income earning capacity per unit and per unit value). The coefficient of determination tells how well the data fits the model (the goodness of fit). The standard R^2 scale is measure from 0 to 1.00 with 1.00 the highest indicator of correlation. If the R^2 is 0.50 (50%), it means that half of the correlation can be explained by the independent variable. A value of 1.00 is a perfect correlation (fit) and a value greater than 0.70 indicates a highly significant relationship and reliability of data.
The correlation of EGIM to operating expense ratios for the dataset is highly reliable with all four indicators over 0.70%. This indicates an EGIM multiplier is a reliable tool to value multifamily properties with a lower EGIM associated with increased operating expenses. The following table reports a hypothetical value of a multifamily property using the EGIM.

<table>
<thead>
<tr>
<th>Coefficient of Determination (R²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EGIM Dataset</td>
</tr>
<tr>
<td>0.7427</td>
</tr>
</tbody>
</table>

Using the linear regression model reported in each investment market, the data indicates a lower multiplier (higher capitalization rate) in secondary and tertiary markets when compared to a primary market due to less investor demand and less growth potential. The following table reports the pricing spread for the hypothetical property based on market size.

<table>
<thead>
<tr>
<th>Value Spread</th>
<th>Value Spread Primary</th>
<th>Value Spread Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,100,000</td>
<td>$1,000,000</td>
<td>($100,000)</td>
</tr>
</tbody>
</table>

The following table reports concluded EGIMs for each market and investment class.

<table>
<thead>
<tr>
<th>Operating Expense Ratio</th>
<th>Primary Markets</th>
<th>Secondary Markets</th>
<th>Tertiary Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>12.00</td>
<td>11.00</td>
<td>10.00</td>
</tr>
<tr>
<td>35%</td>
<td>11.00</td>
<td>10.50</td>
<td>9.50</td>
</tr>
<tr>
<td>40%</td>
<td>10.00</td>
<td>9.50</td>
<td>8.50</td>
</tr>
<tr>
<td>45%</td>
<td>9.00</td>
<td>8.50</td>
<td>7.50</td>
</tr>
<tr>
<td>50%</td>
<td>7.75</td>
<td>7.50</td>
<td>7.00</td>
</tr>
<tr>
<td>55%</td>
<td>6.75</td>
<td>6.50</td>
<td>6.00</td>
</tr>
<tr>
<td>60%</td>
<td>5.75</td>
<td>5.50</td>
<td>5.00</td>
</tr>
<tr>
<td>65%</td>
<td>4.75</td>
<td>4.50</td>
<td>4.00</td>
</tr>
<tr>
<td>70%</td>
<td>3.75</td>
<td>3.50</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Range: 3.75 - 12.00  3.50 - 11.00  3.00 - 10.00

*Primary - Kansas City MSA
*Secondary - Wichita, Topeka, Lawrence, and Manhattan
*Tertiary - All remaining markets

Please note the EGIM analysis is less reliable if there are atypical income streams, expense reimbursements, and varying project sizes. The EGIM is most applicable when applied to a standard property in a typical market and provides a reliable test of reason.
Band of Investments (BOI)

Overview
Most properties are purchased with debt and equity capital; therefore, the overall capitalization rate must satisfy the market return requirements of both investment positions. Lenders must anticipate receiving a competitive interest rate commensurate with the perceived risk of the investment and equity investors must anticipate receiving a competitive equity return commensurate with the perceived risk. Therefore, the overall capitalization rate is a weighted average cost of capital that satisfies both the mortgage and equity component. The two main components of the band of investments are the mortgage capitalization rate and the equity capitalization rate.

- Mortgage capitalization rate is a function of the interest rate, the frequency of amortization (e.g., annual, monthly), and the amortization term of the loan. The rate is the payment to amortize $1 based on the loan terms or the annual debt service relative to the loan balance.

- Equity capitalization rate is the anticipated cash flow to the equity investor for the first year of the projection period divided by the initial equity investment.

Ten Year Treasury and Mortgage Rates
There is a positive although not direct relationship between capitalization rates and interest rates. According to TH Real Estate, the correlation between capitalization rates and ten-year treasury yields since 2000 has been 0.55 (not a perfect 1.00). Aside from changes in interest rates, capitalization rates are also influenced by capital flow, returns for alternative investments, future expectations of income growth, inflation, and perceived uncertainty. Since treasury rates influence mortgage rates, and mortgage rates have a positive but not direct impact on capitalization rates, we have analyzed past and current trends. We have also included the federal funds rates in our analysis since it controls short term lending rates, which in turn impacts ten-year treasury rates.
The previous chart shows trends for various data points. Until COVID-19, there was a correlation between short-term lending rates, the 10-year treasury, and mortgage rate with all three metrics increasing at a near consistent rate through 2019. However, capitalization rates for institutional properties have not increased at the same level as short and long-term lending rates due to investor’s perception of risk. Apartments are currently considered a safe and favorable investment among market participants, which has resulted in increased capital flow to the apartments located primary, secondary, and some tertiary markets. The following chart shows the spread (risk premium) between overall rates for institutional apartment properties, according to PwC.

Historically, spreads have generally ranged between 200 and 400 basis points above the ten-year rate to reflect increased risk and a liquidity premium for investing in real estate. From 2002 to current, the average spread has been 310 basis points with a current spread of 454 basis points. The risk premium widened in 2020 due to COVID-19 and increased uncertainty surrounding real estate investments.

The current 10-Year Treasury Rate is 0.68% (October 2020). Rates have decreased from 1.89% in February 2020 due to economic stimulus relating to COVID-19. The FOMC kept the federal funds rate range at 0.00% to 0.25% at its September meeting. Rates will remain there until the Fed believes that employment levels are consistent with maximum employment, and that inflation has risen to 2% and is on track to moderately exceed 2% “for some time.” The following table summarizes the FOMC rate predictions through 2022.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease</td>
<td>0</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td>No Change</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Increase</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Federal Open Market Committee (FOMC)

The latest Fed dot plot indicates that most FOMC members think the fed funds rate will remain where it is through 2022 with a long-run rate of approximately 2.5%. The fed dot plot illustrates each FOMC member’s projection for the federal funds rate midpoint over the next few years.
Loan Parameters

Developers’ may claim housing tax credits directly or sell the tax credits to raise equity for the housing project. Tax credits can be claimed annually over a 10-year period by the property owner. However, most projects are built in an area with external obsolescence requiring the developer to syndicate the credits by selling the rights to the future credits in exchange for development equity.

Due to external obsolescence proposed tax credit projects are often built with substantial equity and limited debt due to the syndication of the tax credits. The tax credits are an intangible financial benefit that are valued separately from the real property and excluded from ad valorem tax purposes. A typical loan to cost (LTC) for a proposed tax credit project is 20% to 40% of the development costs due to substantial tax credit equity as part of the capital stack. Since the construction period of a tax credit project is a short-term, temporary period that is often taxed using the cost approach to value based on the percentage completed, we have excluded the contributory value of the tax credits from the deal structure in our analysis. According to market participants, current loan parameters for the real property subject to real estate taxes include the following variables.

<table>
<thead>
<tr>
<th>Lender</th>
<th>Program</th>
<th>Type</th>
<th>LTV</th>
<th>Rate</th>
<th>Term</th>
<th>Amortization</th>
<th>DCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gershman Investment Corp.</td>
<td>FHA</td>
<td>LIHTC 223(f)</td>
<td>85%</td>
<td>3.00%</td>
<td>35</td>
<td>35</td>
<td>1.15</td>
</tr>
<tr>
<td>Gershman Investment Corp.</td>
<td>FHA</td>
<td>LIHTC 221(d)(4)</td>
<td>87%</td>
<td>3.50%</td>
<td>40</td>
<td>40</td>
<td>1.15</td>
</tr>
<tr>
<td>Legacy Bank and Trust</td>
<td>Conventional</td>
<td>LIHTC Permanent</td>
<td>85%</td>
<td>4.25%</td>
<td>15</td>
<td>35</td>
<td>1.17</td>
</tr>
<tr>
<td>Midwest Equity Housing Group</td>
<td>Conventional</td>
<td>LIHTC Construction</td>
<td>80%</td>
<td>5.00%</td>
<td>15</td>
<td>30</td>
<td>1.15</td>
</tr>
<tr>
<td>Midwest Equity Housing Group</td>
<td>Conventional</td>
<td>LIHTC Permanent</td>
<td>80%</td>
<td>4.50%</td>
<td>15</td>
<td>30</td>
<td>1.15</td>
</tr>
<tr>
<td>NorthMarq / Berkadia</td>
<td>Freddie Mac</td>
<td>Market Rate Refinance</td>
<td>80%</td>
<td>3.00%</td>
<td>7</td>
<td>30</td>
<td>1.25</td>
</tr>
<tr>
<td>NorthMarq / Berkadia</td>
<td>Fannie Mae</td>
<td>Market Rate Refinance</td>
<td>80%</td>
<td>3.00%</td>
<td>7</td>
<td>30</td>
<td>1.25</td>
</tr>
</tbody>
</table>

*Lenders reported rates are lower than historically reported by 100 to 200 basis points
FHA insured loans carry the lowest interest rate and most favorable term. Small balance ($3 million or less) tax credit properties are often financed by community or regional banks and carry a slightly higher interest rate. In all scenarios, the loan to value, amortization period, and minimum debt coverage ratio are similar regardless of the type of financing.

**Freddie Mac Structured Pass Through Certificates (SPC)**

Freddie Mac Multifamily is a leading issuer of agency-guaranteed structured multifamily securities. K-Deals are part of the company’s business strategy to transfer a portion of the risk of losses away from taxpayers and to private investors who purchase the unguaranteed subordinate bonds. K Certificates typically feature a wide range of investor options with stable cash flows and structured credit enhancement. The following table reports loan terms for existing LIHTC projects included in the securitized loan.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Interest Rate</th>
<th>Administration Fee Rate</th>
<th>Monthly Amount (Annually)</th>
<th>Monthly Debt Service (Annually)</th>
<th>Amortization Term (Years)</th>
<th>Amortization Timing</th>
<th>Loan Term (Years)</th>
<th>Prepayment Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.50%</td>
<td>0.150%</td>
<td>120,000</td>
<td>112,000</td>
<td>25</td>
<td>3</td>
<td>16</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>3.25%</td>
<td>0.145%</td>
<td>100,000</td>
<td>95,000</td>
<td>30</td>
<td>5</td>
<td>18</td>
<td>0%</td>
</tr>
<tr>
<td>3</td>
<td>2.75%</td>
<td>0.140%</td>
<td>80,000</td>
<td>75,000</td>
<td>40</td>
<td>7</td>
<td>20</td>
<td>0%</td>
</tr>
<tr>
<td>4</td>
<td>2.50%</td>
<td>0.135%</td>
<td>60,000</td>
<td>55,000</td>
<td>50</td>
<td>9</td>
<td>25</td>
<td>0%</td>
</tr>
<tr>
<td>5</td>
<td>2.25%</td>
<td>0.130%</td>
<td>40,000</td>
<td>35,000</td>
<td>60</td>
<td>11</td>
<td>30</td>
<td>0%</td>
</tr>
</tbody>
</table>

Most LIHTC loans were issued with an interest rate ranging from 3.00% to 3.50%, a ten-year term, and 30-year amortization. The following table reports operating metrics from each project included in the loan securitization.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Minimum Debt Coverage Ratio</th>
<th>Loan to Value</th>
<th>Going-in Capitalization Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.25</td>
<td>70%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2</td>
<td>1.30</td>
<td>80%</td>
<td>5.6%</td>
</tr>
<tr>
<td>3</td>
<td>1.25</td>
<td>70%</td>
<td>4.9%</td>
</tr>
<tr>
<td>4</td>
<td>1.30</td>
<td>80%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Operating metrics for the included projects include a debt coverage ratio ranging from 1.25 to 1.35, a loan to value ranging from 70% to 80%, and a going-in capitalization rate ranging from 4.9% to 5.6%. The following table reports operating metrics for a sampling of properties in the offering.
Based on current pricing and overall economic conditions, the following loan terms have been used in our analysis for a typical LITHC project in the State of Kansas.

<table>
<thead>
<tr>
<th>Property</th>
<th>Appraised Value</th>
<th>LTV</th>
<th>Equity</th>
<th>NOI</th>
<th>OAR</th>
<th>Debt Service</th>
<th>DCR</th>
<th>Equity Cash Flow</th>
<th>Equity OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$70,460,000</td>
<td>80.0%</td>
<td>$14,092,000</td>
<td>$3,478,874</td>
<td>4.9%</td>
<td>$228,330</td>
<td>1.27</td>
<td>$738,915</td>
<td>5.2%</td>
</tr>
<tr>
<td>2</td>
<td>$44,000,000</td>
<td>79.4%</td>
<td>$9,064,000</td>
<td>$2,466,921</td>
<td>5.6%</td>
<td>$157,192</td>
<td>1.31</td>
<td>$580,617</td>
<td>6.4%</td>
</tr>
<tr>
<td>3</td>
<td>$21,800,000</td>
<td>70.0%</td>
<td>$6,540,000</td>
<td>$1,068,866</td>
<td>4.9%</td>
<td>$65,911</td>
<td>1.34</td>
<td>$269,934</td>
<td>4.1%</td>
</tr>
<tr>
<td>4</td>
<td>$14,600,000</td>
<td>76.0%</td>
<td>$3,504,000</td>
<td>$812,850</td>
<td>5.6%</td>
<td>$48,674</td>
<td>1.39</td>
<td>$228,760</td>
<td>6.5%</td>
</tr>
<tr>
<td>5</td>
<td>$7,460,000</td>
<td>77.7%</td>
<td>$1,663,580</td>
<td>$396,741</td>
<td>5.3%</td>
<td>$24,235</td>
<td>1.36</td>
<td>$105,926</td>
<td>6.4%</td>
</tr>
<tr>
<td>Min</td>
<td>70.0%</td>
<td>4.9%</td>
<td></td>
<td>1.27</td>
<td>4.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max</td>
<td>80.0%</td>
<td>5.6%</td>
<td></td>
<td>1.39</td>
<td>6.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>77.7%</td>
<td>5.3%</td>
<td></td>
<td>1.34</td>
<td>6.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Loan-to-Value (LTV), Interest Rate (I), Term (N), Amortization, Debt Coverage Ratio (DCR), Trend
Various: 80% - 85% 3.50% - 5.00% 7 - 40 30 1.15 - 1.25
Valbridge: 80% 4.50% 15 30 1.15

Equity Capitalization Rates (Dividend)
Equity dividend rates are one of the main components influencing the overall rate derived from the Band of Investments. According to RealtyRates Investor Survey, equity dividend rates for apartments range from 6.27% to 15.16% depending on the investment class and project location (primary, secondary, and tertiary). The following chart reports average equity capitalization rates for apartments in the United States.

Equity capitalization rates have been decreasing since 2012 due to favorable market conditions, compressing capitalization rates, and low-cost debt. The following table reports current equity capitalization rates.
The equity capitalization rate is directly influenced by the cost of debt and the going-in capitalization rate (land and building). A property is considered to have positive leverage if the property rate (OAR) is greater than the mortgage capitalization rate. If the cost of debt is less than the return to the property on an unlevered basis, the use of borrowed funds will enhance the return to the equity position and create positive leverage. The greater the spread the more the equity return is enhanced due to risk.

An income stream with greater uncertainty due to an aging property, lower quality tenant base, or less favorable location is typically purchased with a higher capitalization rate resulting in greater uncertainty to the equity position. The additional risk and uncertainty results in relatively low rental rates, high operating expenses ratios, and less cash flow to service the debt component. The following chart reports the return to the equity position based on static financing and various capitalization rates.
Based on yields for alternative investments and a typical spread (risk premium) between current mortgage rates and property capitalization rates, the following equity capitalization rates have been used in our analysis.

<table>
<thead>
<tr>
<th>Equity Cap Rate</th>
<th>Concluded Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% - 8%</td>
<td>7.0%</td>
</tr>
<tr>
<td>8% - 10%</td>
<td>9.0%</td>
</tr>
<tr>
<td>10% - 13%</td>
<td>12.0%</td>
</tr>
<tr>
<td>7% - 9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>9% - 11%</td>
<td>10.0%</td>
</tr>
<tr>
<td>11% - 14%</td>
<td>13.0%</td>
</tr>
<tr>
<td>9% - 11%</td>
<td>10.0%</td>
</tr>
<tr>
<td>11% - 13%</td>
<td>12.0%</td>
</tr>
<tr>
<td>13% - 17%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

**Band of Investments Conclusions**

Based on the concluded capitalization rates from the Market Extraction Section, the following table reports the concluded rates using the Band of Investments method (rounded).

<table>
<thead>
<tr>
<th>Component</th>
<th>Primary Markets</th>
<th>Secondary Markets</th>
<th>Tertiary Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Mortgage Ratio</td>
<td>80.00%</td>
<td>80.00%</td>
<td>80.00%</td>
</tr>
<tr>
<td>Equity Ratio</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Amortization</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Mortgage Cap Rate</td>
<td>6.08%</td>
<td>6.08%</td>
<td>6.08%</td>
</tr>
<tr>
<td>Equity Cap Rate</td>
<td>7.00%</td>
<td>9.00%</td>
<td>12.00%</td>
</tr>
<tr>
<td>Mortgage Rate Weighted</td>
<td>4.86%</td>
<td>4.86%</td>
<td>4.86%</td>
</tr>
<tr>
<td>Equity Rate Weighted</td>
<td>1.40%</td>
<td>1.80%</td>
<td>2.40%</td>
</tr>
<tr>
<td>Weighted Cap Rate (rd)</td>
<td>6.25%</td>
<td>6.75%</td>
<td>7.25%</td>
</tr>
</tbody>
</table>

*Primary - Kansas City MSA

*Secondary - Wichita, Topeka, Lawrence, and Manhattan

*Tertiary - All remaining markets
Third Party Surveys

Third party surveys are considered secondary sources and used as a test of reason to support market extraction or when there is a lack of market data to extract a rate or return. Third party surveys typically include a range of rates that include extreme outliers, which are not representative of the general market as a whole. Please note we have excluded the PwC and RealtyRates survey in our analysis. These surveys do not distinguish market size or property classifications resulting in less reliable data.

CBRE Capitalization Rate Survey (2nd Half 2019)

CBRE prepares a semiannual North America Cap Rate Survey each year. The survey reports current cap rates for stabilized acquisitions, expected returns on cost for value-add acquisitions, cap rate trends since the previous survey, and expectations of cap rate movements over the next six months. According to the most recent survey overall rates range from 4.75% to 5.25% for Class A properties, 5.25% to 5.75% for Class B properties, and 5.75% to 6.25% for Class C properties in the Kansas City MSA. The reported rates are based on trailing 3-months income (in place) resulting in a slightly lower rate. Adjustments to the in-place rate to account for year one projections results in a rate range that is 25 to 50 basis points higher than reported below.

Johnson County Capitalization Rate Study

Each year Keller Craig & Associates prepares a market derived capitalization rate study for the Johnson County Appraiser. According to the most recent survey overall rates range from 5.50% to 6.00% for Class A properties, 6.50% to 7.25% for Class B properties, and 7.50% to 8.50% for Class C properties in the Kansas City MSA. The reported rates do not include replacement reserves resulting in a slightly higher rate. Adjustments to the reported rates to account for replacement reserves results in a rate range that is 25 to 50 basis points lower than reported below.
Douglas County Capitalization Rate Study

Douglas County performs an in-house capitalization rate study each year that involves researching appropriate rates of return for various property types and investment classes. The 2020 Capitalization Rate Study included a survey of local appraisers, banks, analysis of recent local sales, as well as national and regional real estate investor publications. According to the most recent survey overall rates range from 5.75% to 6.15% for Class A properties, 6.15% to 6.75% for Class B properties, and 7.00% to 8.00% for Class C properties in Douglas County. The reported rates do not include replacement reserves resulting in a slightly higher rate. Adjustments to the reported rates to account for replacement reserves results in a rate range that is 25 to 50 basis points lower than reported below.

<table>
<thead>
<tr>
<th>Income Use Group</th>
<th>Investment Class</th>
<th>A</th>
<th>A+</th>
<th>A-</th>
<th>B+</th>
<th>B-</th>
<th>B</th>
<th>C+</th>
<th>C-</th>
<th>C</th>
<th>D+</th>
<th>D-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td></td>
<td>6.15%</td>
<td>6.25%</td>
<td>6.75%</td>
<td>7.00%</td>
<td>7.50%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>9.75%</td>
<td></td>
</tr>
<tr>
<td>C-Store</td>
<td></td>
<td>9.00%</td>
<td>9.50%</td>
<td>10.00%</td>
<td>10.25%</td>
<td>10.50%</td>
<td>10.75%</td>
<td>11.00%</td>
<td>11.25%</td>
<td>11.50%</td>
<td>11.75%</td>
<td>12.00%</td>
</tr>
<tr>
<td>Downtown</td>
<td></td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>9.75%</td>
</tr>
<tr>
<td>Fast Food</td>
<td></td>
<td>7.00%</td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
</tr>
<tr>
<td>General</td>
<td></td>
<td>7.25%</td>
<td>7.50%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.75%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>10.00%</td>
<td>10.25%</td>
<td>10.50%</td>
<td>10.75%</td>
</tr>
<tr>
<td>Hotel</td>
<td></td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>9.75%</td>
<td>10.00%</td>
<td>10.25%</td>
<td>10.50%</td>
<td>11.00%</td>
<td>11.25%</td>
<td>11.50%</td>
<td>11.75%</td>
</tr>
<tr>
<td>Industrial</td>
<td></td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>9.75%</td>
<td></td>
</tr>
<tr>
<td>Large Retail</td>
<td></td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td>9.75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Office</td>
<td></td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mini-Storage</td>
<td></td>
<td>6.25%</td>
<td>6.50%</td>
<td>6.75%</td>
<td>7.00%</td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office</td>
<td></td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail (Free-Standing)</td>
<td></td>
<td>6.25%</td>
<td>7.00%</td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurant (Full-Svc)</td>
<td></td>
<td>7.25%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td>9.25%</td>
<td>9.50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strip Retail</td>
<td></td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.75%</td>
<td>8.00%</td>
<td>8.25%</td>
<td>8.50%</td>
<td>8.75%</td>
<td>9.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CoStar Analytics

CoStar Analytics includes information pertaining to 470,000 multifamily properties with data imported from Apartments.com, personal surveys of apartment projects, and direct feeds from various online and third-party sources. The following table reports overall rates in larger markets tracked by CoStar. As noted earlier, the size of the market and transaction volume has a direct impact on the pricing and overall rate due to varying levels of investor demand.

<table>
<thead>
<tr>
<th>Market</th>
<th>Market Type</th>
<th>Sales Volume*</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2024</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas City</td>
<td>Primary</td>
<td>$700,000,000</td>
<td>7.3%</td>
<td>6.6%</td>
<td>6.1%</td>
<td>5.9%</td>
<td>5.5%</td>
<td>6.1%</td>
<td>6.9%</td>
<td>↓</td>
</tr>
<tr>
<td>Wichita</td>
<td>Secondary</td>
<td>$50,000,000</td>
<td>8.7%</td>
<td>8.1%</td>
<td>7.5%</td>
<td>7.2%</td>
<td>6.7%</td>
<td>7.3%</td>
<td>8.3%</td>
<td>↓</td>
</tr>
<tr>
<td>Lawrence</td>
<td>Secondary</td>
<td>$50,000,000</td>
<td>8.5%</td>
<td>7.4%</td>
<td>7.2%</td>
<td>6.9%</td>
<td>6.9%</td>
<td>7.2%</td>
<td>7.5%</td>
<td>↓</td>
</tr>
<tr>
<td>Topeka</td>
<td>Secondary</td>
<td>$20,000,000</td>
<td>9.1%</td>
<td>8.1%</td>
<td>7.9%</td>
<td>7.6%</td>
<td>6.8%</td>
<td>7.5%</td>
<td>8.4%</td>
<td>↓</td>
</tr>
<tr>
<td>Manhattan</td>
<td>Secondary</td>
<td>$10,000,000</td>
<td>8.7%</td>
<td>8.1%</td>
<td>8.0%</td>
<td>7.7%</td>
<td>7.7%</td>
<td>7.8%</td>
<td>8.5%</td>
<td>↓</td>
</tr>
</tbody>
</table>

*Excludes smaller and non-arm's length transactions
The reported rates provide a general range but do not directly account for transactional or atypical circumstances that can impact the pricing and rate of return. Kansas City is the only primary market in our analysis and consequently contains the highest volume of transactions and investor pricing. The overall trend for all tracked markets indicates that capitalization rates have been trending downward since 2010 due to increased investor demand and yield compression for alternative investments. However, the rate of compression has slowed as pricing is at an all-time high with several projects acquired with negative going-in leverage.

RERC Real Estate Report (2nd Quarter 2020)
Real Estate Research Corporation (RERC) was the nation’s first independent real estate firm that specialized in both real estate research and analysis. The firm monitors key sectors of the economy that influence the real estate industry. Current risk premiums (spreads) have increased as rates have remained stable, but financing costs have declined due to economic stimulus from COVID-19.

![Historical Spreads Over 10-Year Treasuries 2009-2020](source: RERC, 2Q 2020)

Class A rates for the Kansas City market are reported at 5.8%. The rates reported below are an unlevered rate and include replacement reserves.
Concluded Survey Rates

The following table summarizes the various sources.

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Market Size</th>
<th>Reserves</th>
<th>Class A</th>
<th>Class B</th>
<th>Class C</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBRE</td>
<td>Primary</td>
<td>Yes</td>
<td>5.00%</td>
<td>5.50%</td>
<td>6.00%</td>
<td></td>
</tr>
<tr>
<td>Johnson County</td>
<td>Primary</td>
<td>No</td>
<td>5.75%</td>
<td>7.00%</td>
<td>7.75%</td>
<td></td>
</tr>
<tr>
<td>CoStar (CCRSI)</td>
<td>Primary</td>
<td>No</td>
<td>5.50%</td>
<td>6.10%</td>
<td>6.90%</td>
<td></td>
</tr>
<tr>
<td>RERC</td>
<td>Primary</td>
<td>Yes</td>
<td>5.80%</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Douglas County</td>
<td>Secondary</td>
<td>No</td>
<td>6.00%</td>
<td>6.25%</td>
<td>7.50%</td>
<td></td>
</tr>
<tr>
<td>CoStar (CCRSI)</td>
<td>Secondary</td>
<td>No</td>
<td>7.03%</td>
<td>7.45%</td>
<td>8.18%</td>
<td></td>
</tr>
<tr>
<td>Overall Conclusions (Primary)*</td>
<td></td>
<td></td>
<td><strong>5.25%</strong></td>
<td><strong>6.00%</strong></td>
<td><strong>6.75%</strong></td>
<td></td>
</tr>
<tr>
<td>Overall Conclusions (Secondary)*</td>
<td></td>
<td></td>
<td><strong>6.25%</strong></td>
<td><strong>6.75%</strong></td>
<td><strong>7.50%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Includes replacement reserves

The concluded rates range from 5.25% to 6.25% for Class A projects, 6.00% to 6.75% for Class B projects, and 6.75% to 7.50% for Class C projects. The concluded rates were adjusted downward 25 to 50 basis points from the reported rates to account for replacement reserves. The rates report a typical spread of 75 to 100 basis points between primary and secondary markets and 50 to 75 basis points between investment class to account for varying risk profiles and investment demand, which is consistent with other metrics reported in the study.
General Assumptions and Limiting Conditions

This appraisal is subject to the following limiting conditions:

1. The legal description – if furnished to us – is assumed to be correct.

2. No responsibility is assumed for legal matters, questions of survey or title, soil or subsoil conditions, engineering, availability or capacity of utilities, or other similar technical matters. The appraisal does not constitute a survey of the property appraised. All existing liens and encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management unless otherwise noted.

3. Unless otherwise noted, the appraisal will value the property as though free of contamination. Valbridge Property Advisors | Kansas City will conduct no hazardous materials or contamination inspection of any kind. It is recommended that the client hire an expert if the presence of hazardous materials or contamination poses any concern.

4. The stamps and/or consideration placed on deeds used to indicate sales are in correct relationship to the actual dollar amount of the transaction.

5. Unless otherwise noted, it is assumed there are no encroachments, zoning violations or restrictions existing in the subject property.

6. The appraiser is not required to give testimony or attendance in court by reason of this appraisal, unless previous arrangements have been made.

7. Unless expressly specified in the engagement letter, the fee for this appraisal does not include the attendance or giving of testimony by Appraiser at any court, regulatory, or other proceedings, or any conferences or other work in preparation for such proceeding. If any partner or employee of Valbridge Property Advisors | Kansas City is asked or required to appear and/or testify at any deposition, trial, or other proceeding about the preparation, conclusions or any other aspect of this assignment, client shall compensate Appraiser for the time spent by the partner or employee in appearing and/or testifying and in preparing to testify according to the Appraiser’s then current hourly rate plus reimbursement of expenses.

8. The values for land and/or improvements, as contained in this report, are constituent parts of the total value reported and neither is (or are) to be used in making a summation appraisal of a combination of values created by another appraiser. Either is invalidated if so used.

9. The dates of value to which the opinions expressed in this report apply are set forth in this report. We assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions.
10. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraiser has made no survey of the property and assumed no responsibility in connection with such matters.

11. The information, estimates and opinions, which were obtained from sources outside of this office, are considered reliable. However, no liability for them can be assumed by the appraiser.

12. Possession of this report, or a copy thereof, does not carry with it the right of publication. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to property value, the identity of the appraisers, professional designations, reference to any professional appraisal organization or the firm with which the appraisers are connected), shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval.

13. No claim is intended to be expressed for matters of expertise that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers. We claim no expertise in areas such as, but not limited to, legal, survey, structural, environmental, pest control, mechanical, etc.

14. This appraisal was prepared for the sole and exclusive use of the client for the function outlined herein. Any party who is not the client or intended user identified in the appraisal or engagement letter is not entitled to rely upon the contents of the appraisal without express written consent of Valbridge Property Advisors | Kansas City and Client. The Client shall not include partners, affiliates, or relatives of the party addressed herein. The appraiser assumes no obligation, liability or accountability to any third party.

15. Distribution of this report is at the sole discretion of the client, but third-parties not listed as an intended user on the face of the appraisal or the engagement letter may not rely upon the contents of the appraisal. In no event shall client give a third-party a partial copy of the appraisal report. We will make no distribution of the report without the specific direction of the client.

16. This appraisal shall be used only for the function outlined herein, unless expressly authorized by Valbridge Property Advisors | Kansas City

17. This appraisal shall be considered in its entirety. No part thereof shall be used separately or out of context.

18. Unless otherwise noted in the body of this report, this appraisal assumes that the subject property does not fall within the areas where mandatory flood insurance is effective. Unless otherwise noted, we have not completed nor have we contracted to have completed an investigation to identify and/or quantify the presence of non-tidal wetland conditions on the subject property. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

19. The flood maps are not site specific. We are not qualified to confirm the location of the subject property in relation to flood hazard areas based on the FEMA Flood Insurance Rate Maps or
other surveying techniques. It is recommended that the client obtain a confirmation of the subject property’s flood zone classification from a licensed surveyor.

20. If the appraisal is for mortgage loan purposes 1) we assume satisfactory completion of improvements if construction is not complete, 2) no consideration has been given for rent loss during rent-up unless noted in the body of this report, and 3) occupancy at levels consistent with our “Income and Expense Projection” are anticipated.

21. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

22. Our inspection included an observation of the land and improvements thereon only. It was not possible to observe conditions beneath the soil or hidden structural components within the improvements. We inspected the buildings involved, and reported damage (if any) by termites, dry rot, wet rot, or other infestations as a matter of information, and no guarantee of the amount or degree of damage (if any) is implied. Condition of heating, cooling, ventilation, electrical and plumbing equipment is considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. Should the client have concerns in these areas, it is the client’s responsibility to order the appropriate inspections. The appraiser does not have the skill or expertise to make such inspections and assumes no responsibility for these items.

23. This appraisal does not guarantee compliance with building code and life safety code requirements of the local jurisdiction. It is assumed that all required licenses, consents, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value conclusion contained in this report is based unless specifically stated to the contrary.

24. When possible, we have relied upon building measurements provided by the client, owner, or associated agents of these parties. In the absence of a detailed rent roll, reliable public records, or “as-built” plans provided to us, we have relied upon our own measurements of the subject improvements. We follow typical appraisal industry methods; however, we recognize that some factors may limit our ability to obtain accurate measurements including, but not limited to, property access on the day of inspection, basements, fenced/gated areas, grade elevations, greenery/shrubbery, uneven surfaces, multiple story structures, obtuse or acute wall angles, immobile obstructions, etc. Professional building area measurements of the quality, level of detail, or accuracy of professional measurement services are beyond the scope of this appraisal assignment.

25. We have attempted to reconcile sources of data discovered or provided during the appraisal process, including assessment department data. Ultimately, the measurements that are deemed by us to be the most accurate and/or reliable are used within this report. While the measurements and any accompanying sketches are considered to be reasonably accurate and reliable, we cannot guarantee their accuracy. Should the client desire a greater level of measuring detail, they are urged to retain the measurement services of a qualified professional.
(space planner, architect or building engineer). We reserve the right to use an alternative source of building size and amend the analysis, narrative and concluded values (at additional cost) should this alternative measurement source reflect or reveal substantial differences with the measurements used within the report.

26. In the absence of being provided with a detailed land survey, we have used assessment department data to ascertain the physical dimensions and acreage of the property. Should a survey prove this information to be inaccurate, we reserve the right to amend this appraisal (at additional cost) if substantial differences are discovered.

27. If only preliminary plans and specifications were available for use in the preparation of this appraisal, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and we reserve the right to amend this appraisal if substantial differences are discovered.

28. Unless otherwise stated in this report, the value conclusion is predicated on the assumption that the property is free of contamination, environmental impairment or hazardous materials. Unless otherwise stated, the existence of hazardous material was not observed by the appraiser and the appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required for discovery. The client is urged to retain an expert in this field, if desired.

29. The Americans with Disabilities Act (“ADA”) became effective January 26, 1992. We have not made a specific compliance survey of the property to determine if it is in conformity with the various requirements of the ADA. It is possible that a compliance survey of the property, together with an analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in developing an opinion of value.

30. This appraisal applies to the land and building improvements only. The value of trade fixtures, furnishings, and other equipment, or subsurface rights (minerals, gas, and oil) were not considered in this appraisal unless specifically stated to the contrary.

31. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated, unless specifically stated to the contrary.

32. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute prediction of future operating results. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance.
33. Any estimate of insurable value, if included within the scope of work and presented herein, is based upon figures developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage. This analysis should not be relied upon to determine insurance coverage and we make no warranties regarding the accuracy of this estimate.

34. The data gathered in the course of this assignment (except data furnished by the Client) shall remain the property of the Appraiser. The appraiser will not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to the appraiser. Notwithstanding the foregoing, the Appraiser is authorized by the client to disclose all or any portion of the appraisal and related appraisal data to appropriate representatives of the Appraisal Institute if such disclosure is required to enable the appraiser to comply with the Bylaws and Regulations of such Institute now or hereafter in effect.

35. You and Valbridge Property Advisors | Kansas City both agree that any dispute over matters in excess of $5,000 will be submitted for resolution by arbitration. This includes fee disputes and any claim of malpractice. The arbitrator shall be mutually selected. If Valbridge Property Advisors | Kansas City and the client cannot agree on the arbitrator, the presiding head of the Local County Mediation & Arbitration panel shall select the arbitrator. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, by agreeing to binding arbitration, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury. In the event that the client, or any other party, makes a claim against Kansas City or any of its employees in connections with or in any way relating to this assignment, the maximum damages recoverable by such claimant shall be the amount actually received by Valbridge Property Advisors | Kansas City for this assignment, and under no circumstances shall any claim for consequential damages be made.

36. Valbridge Property Advisors | Kansas City shall have no obligation, liability, or accountability to any third party. Any party who is not the “client” or intended user identified on the face of the appraisal or in the engagement letter is not entitled to rely upon the contents of the appraisal without the express written consent of Valbridge Property Advisors | Kansas City “Client” shall not include partners, affiliates, or relatives of the party named in the engagement letter. Client shall hold Valbridge Property Advisors | Kansas City and its employees harmless in the event of any lawsuit brought by any third party, lender, partner, or part-owner in any form of ownership or any other party as a result of this assignment. The client also agrees that in case of lawsuit arising from or in any way involving these appraisal services, client will hold Valbridge Property Advisors | Kansas City harmless from and against any liability, loss, cost, or expense incurred or suffered by Valbridge Property Advisors | Kansas City in such action, regardless of its outcome.

37. The Valbridge Property Advisors office responsible for the preparation of this report is independently owned and operated by Kansas City. Neither Valbridge Property Advisors, Inc., nor any of its affiliates has been engaged to provide this report. Valbridge Property Advisors, Inc. does not provide valuation services, and has taken no part in the preparation of this report.
38. If any claim is filed against any of Valbridge Property Advisors, Inc., a Florida Corporation, its affiliates, officers or employees, or the firm providing this report, in connection with, or in any way arising out of, or relating to, this report, or the engagement of the firm providing this report, then (1) under no circumstances shall such claimant be entitled to consequential, special or other damages, except only for direct compensatory damages, and (2) the maximum amount of such compensatory damages recoverable by such claimant shall be the amount actually received by the firm engaged to provide this report.

39. This report and any associated work files may be subject to evaluation by Valbridge Property Advisors, Inc., or its affiliates, for quality control purposes.

40. Acceptance and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions.
Certification – Daniel Kann, MAI MSRE

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, impartial, and 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. The undersigned has not performed valuation services regarding the property that is the subject of this report in the prior three-year period immediately preceding acceptance of this assignment.

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

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

7. 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 value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

8. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

9. Daniel Kann, MAI MSRE did not personally inspect all the sales utilized in our analysis.

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

11. 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 and Standards of Professional Appraisal Practice of the Appraisal Institute.

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

13. As of the date of this report, the undersigned has completed the continuing education program for Designated Members of the Appraisal Institute.

Daniel Kann, MAI MSRE
Managing Director – Multifamily Valuation
Kansas License G-2762
Date: October 29, 2020
Addenda

Engagement Letter
Qualifications
CONTRACT AWARD

Date of Award: July 09, 2020
Contract ID: 00000000000000000048732
Event ID: EVT0007492
Replace Contract: New

Procurement Officer: Angela Brown
Telephone: 785/296-7251
E-Mail Address: angela.brown@ks.gov
Web Address: http://admin.ks.gov/offices/procurement-and-contracts

Item: Income Capitalization Rate and Effective Gross Income Multiplier (EGIM) Analysis
Agency/Business Unit: Kansas Department of Revenue

Period of Contract: July 09, 2020 through June 30, 2024
(With the option to renew for one (2) additional 12-month periods)

Contractor: SHANER APPRAISALS INC
DBA VALBRIDGE PROPERTY ADVISORS
10990 QUIVIRA RD STE 100
OVERLAND PARK, KS 66210-2016

Vendor ID: 0000053939
FEIN: On file
Contact Person: Laird Goldsborough
E-Mail: lgoldsborough@valbridge.com
Local Telephone: 913-451-1451
Fax: 913-529-4121

Payment Terms: Net 30

Political Subdivisions: Pricing is not available to the political subdivisions of the State of Kansas.

Procurement Cards: Agencies may not use a P-Card for purchases from this contract.

Administrative Fee: No Administrative Fee will be assessed against purchases from this contract.

The above referenced contract award was recently posted to Procurement and Contracts website. The document can be downloaded by going to the following website: http://www.da.ks.gov/purch/Contracts/
1. Terms and Conditions

1.1. **Contract Documents**
   In the event of a conflict in terms of language among the documents, the following order of precedence shall govern:
   - Form DA 146a;
   - written modifications to the executed contract;
   - written contract signed by the parties;
   - the Bid Event documents, including any and all amendments; and
   - Contractor's written offer submitted in response to the Bid Event as finalized.

1.2. **Captions**
   The captions or headings in this contract are for reference only and do not define, describe, extend, or limit the scope or intent of this contract.

1.3. **Definitions**
   A glossary of common procurement terms is available at http://admin.ks.gov/offices/procurement-and-contracts, under the "Procurement Forms" link.

1.4. **Contract Formation**
   No contract shall be considered to have been entered into by the State until all statutorily required signatures and certifications have been rendered and a written contract has been signed by the contractor.

1.5. **Notices**
   All notices, demands, requests, approvals, reports, instructions, consents or other communications (collectively "notices") that may be required or desired to be given by either party to the other shall be IN WRITING and addressed as follows:

   Kansas Procurement and Contracts
   900 SW Jackson, Suite 451-South
   Topeka, Kansas 66612-1286
   RE: Contract Number 48732

   or to any other persons or addresses as may be designated by notice from one party to the other.

1.6. **Statutes**
   Each and every provision of law and clause required by law to be inserted in the contract shall be deemed to be inserted herein and the contract shall be read and enforced as though it were included herein. If through mistake or otherwise any such provision is not inserted, or is not correctly inserted, then on the application of either party the contract shall be amended to make such insertion or correction.

1.7. **Governing Law**
   This contract shall be governed by the laws of the State of Kansas and shall be deemed executed in Topeka, Shawnee County, Kansas.

1.8. **Jurisdiction**
   The parties shall bring any and all legal proceedings arising hereunder in the State of Kansas District Court of Shawnee County, unless otherwise specified and agreed upon by the State of Kansas. Contractor waives personal service of process, all defenses of lack of personal jurisdiction and forum non conveniens. The Eleventh Amendment of the United States Constitution is an inherent and incumbent protection with the State of Kansas and need not be reserved, but prudence requires the State to reiterate that nothing related to this Agreement shall be deemed a waiver of the Eleventh Amendment.

1.9. **Mandatory Provisions**
   The provisions found in Contractual Provisions Attachment (DA 146a) are incorporated by reference and made a part of this contract.
1.10. **Termination for Cause**

The Director of Purchases may terminate this contract, or any part of this contract, for cause under any one of the following circumstances:

- the Contractor fails to make delivery of goods or services as specified in this contract;
- the Contractor provides substandard quality or workmanship;
- the Contractor fails to perform any of the provisions of this contract, or
- the Contractor fails to make progress as to endanger performance of this contract in accordance with its terms.

The Director of Purchases shall provide Contractor with written notice of the conditions endangering performance. If the Contractor fails to remedy the conditions within ten (10) days from the receipt of the notice (or such longer period as State may authorize in writing), the Director of Purchases shall issue the Contractor an order to stop work immediately. Receipt of the notice shall be presumed to have occurred within three (3) days of the date of the notice.

1.11. **Termination for Convenience**

The Director of Purchases may terminate performance of work under this contract in whole or in part whenever, for any reason, the Director of Purchases shall determine that the termination is in the best interest of the State of Kansas. In the event that the Director of Purchases elects to terminate this contract pursuant to this provision, it shall provide the Contractor written notice at least 30 days prior to the termination date. The termination shall be effective as of the date specified in the notice. The Contractor shall continue to perform any part of the work that may have not been terminated by the notice.

1.12. **Rights and Remedies**

If this contract is terminated, the State, in addition to any other rights provided for in this contract, may require the Contractor to transfer title and deliver to the State in the manner and to the extent directed, any completed materials. The State shall be obligated only for those services and materials rendered and accepted prior to the date of termination.

In the event of termination, the Contractor shall receive payment prorated for that portion of the contract period services were provided to or goods were accepted by State subject to any offset by State for actual damages including loss of federal matching funds.

The rights and remedies of the State provided for in this contract shall not be exclusive and are in addition to any other rights and remedies provided by law.

1.13. **Antitrust**

If the Contractor elects not to proceed with performance under any such contract with the State, the Contractor assigns to the State all rights to and interests in any cause of action it has or may acquire under the anti-trust laws of the United States and the State of Kansas relating to the particular products or services purchased or acquired by the State pursuant to this contract.

1.14. **Hold Harmless**

The Contractor shall indemnify the State against any and all loss or damage to the extent arising out of the Contractor's negligence in the performance of services under this contract and for infringement of any copyright or patent occurring in connection with or in any way incidental to or arising out of the occupancy, use, service, operations or performance of work under this contract.

The State shall not be precluded from receiving the benefits of any insurance the Contractor may carry which provides for indemnification for any loss or damage to property in the Contractor's custody and control, where such loss or destruction is to state property. The Contractor shall do nothing to prejudice the State's right to recover against third parties for any loss, destruction or damage to State property.

1.15. **Force Majeure**

The Contractor shall not be held liable if the failure to perform under this contract arises out of causes beyond the control of the Contractor. Causes may include, but are not limited to, acts of nature, fires, tornadoes, quarantine, strikes other than by Contractor's employees, and freight embargoes.
1.16. **Assignment**

The Contractor shall not assign, convey, encumber, or otherwise transfer its rights or duties under this contract without the prior written consent of the State. State may reasonably withhold consent for any reason.

This contract may terminate for cause in the event of its assignment, conveyance, encumbrance or other transfer by the Contractor without the prior written consent of the State.

1.17. **Third Party Beneficiaries**

This contract shall not be construed as providing an enforceable right to any third party.

1.18. **Waiver**

Waiver of any breach of any provision in this contract shall not be a waiver of any prior or subsequent breach. Any waiver shall be in writing and any forbearance or indulgence in any other form or manner by State shall not constitute a waiver.

1.19. **Injunctions**

Should Kansas be prevented or enjoined from proceeding with the acquisition before or after contract execution by reason of any litigation or other reason beyond the control of the State, Contractor shall not be entitled to make or assert claim for damage by reason of said delay.

1.20. **Staff Qualifications**

The Contractor shall warrant that all persons assigned by it to the performance of this contract shall be employees of the Contractor (or specified Subcontractor) and shall be fully qualified to perform the work required. The Contractor shall include a similar provision in any contract with any Subcontractor selected to perform work under this contract.

Failure of the Contractor to provide qualified staffing at the level required by the contract specifications may result in termination of this contract or damages.

1.21. **Subcontractors**

The Contractor shall be the sole source of contact for the contract. The State will not subcontract any work under the contract to any other firm and will not deal with any subcontractors. The Contractor is totally responsible for all actions and work performed by its subcontractors. All terms, conditions and requirements of the contract shall apply without qualification to any services performed or goods provided by any subcontractor.

1.22. **Independent Contractor**

Both parties, in the performance of this contract, shall be acting in their individual capacity and not as agents, employees, partners, joint ventures or associates of one another. The employees or agents of one party shall not be construed to be the employees or agents of the other party for any purpose whatsoever.

The Contractor accepts full responsibility for payment of unemployment insurance, workers compensation, social security, income tax deductions and any other taxes or payroll deductions required by law for its employees engaged in work authorized by this contract.

1.23. **Worker Misclassification**

The Contractor and all lower tiered subcontractors under the Contractor shall properly classify workers as employees rather than independent contractors and treat them accordingly for purposes of workers' compensation insurance coverage, unemployment taxes, social security taxes, and income tax withholding. Failure to do so may result in contract termination.

1.24. **Immigration and Reform Control Act of 1986 (IRCA)**

All contractors are expected to comply with the Immigration and Reform Control Act of 1986 (IRCA), as may be amended from time to time. This Act, with certain limitations, requires the verification of the employment status of all individuals who were hired on or after November 8, 1986, by the Contractor as well as any subcontractor or sub-contractors. The usual method of verification is through the Employment Verification (I-9) Form.

The Contractor hereby certifies without exception that such Contractor has complied with all federal and state laws relating to immigration and reform. Any misrepresentation in this regard or any employment of persons
not authorized to work in the United States constitutes a material breach and, at the State’s option, may subject the contract to termination for cause and any applicable damages.

Unless provided otherwise herein, all contractors are expected to be able to produce for the State any documentation or other such evidence to verify Contractor’s IRCA compliance with any provision, duty, certification or like item under the contract.

1.25. **Proof of Insurance**
Upon request, the Contractor shall present an affidavit of Worker’s Compensation, Public Liability, and Property Damage Insurance to Procurement and Contracts.

1.26. **Conflict of Interest**
The Contractor shall not knowingly employ, during the period of this contract or any extensions to it, any professional personnel who are also in the employ of the State and providing services involving this contract or services similar in nature to the scope of this contract to the State. Furthermore, the Contractor shall not knowingly employ, during the period of this contract or any extensions to it, any state employee who has participated in the making of this contract until at least two years after his/her termination of employment with the State.

1.27. **Nondiscrimination and Workplace Safety**
The Contractor agrees to abide by all federal, state and local laws, and rules and regulations prohibiting discrimination in employment and controlling workplace safety. Any violations of applicable laws or rules or regulations may result in termination of this contract.

1.28. **Confidentiality**
The Contractor may have access to private or confidential data maintained by State to the extent necessary to carry out its responsibilities under this contract. Contractor must comply with all the requirements of the Kansas Open Records Act (K.S.A. 45-215 et seq.) in providing services under this contract. Contractor shall accept full responsibility for providing adequate supervision and training to its agents and employees to ensure compliance with the Act. No private or confidential data collected, maintained or used in the course of performance of this contract shall be disseminated by either party except as authorized by statute, either during the period of the contract or thereafter. Contractor agrees to return any or all data furnished by the State promptly at the request of State in whatever form it is maintained by Contractor. On the termination or expiration of this contract, Contractor shall not use any of such data or any material derived from the data for any purpose and, where so instructed by State, shall destroy or render it unreadable.

1.29. **Environmental Protection**
The Contractor shall abide by all federal, state and local laws, and rules and regulations regarding the protection of the environment. The Contractor shall report any violations to the applicable governmental agency. A violation of applicable laws or rule or regulations may result in termination of this contract for cause.

1.30. **Care of State Property**
The Contractor shall be responsible for the proper care and custody of any state owned personal tangible property and real property furnished for Contractor’s use in connection with the performance of this contract. The Contractor shall reimburse the State for such property’s loss or damage caused by the Contractor, except for normal wear and tear.

1.31. **Prohibition of Gratuities**
Neither the Contractor nor any person, firm or corporation employed by the Contractor in the performance of this contract shall offer or give any gift, money or anything of value or any promise for future reward or compensation to any State employee at any time.

1.32. **Retention of Records**
Unless the State specifies in writing a different period of time, the Contractor agrees to preserve and make available at reasonable times all of its books, documents, papers, records and other evidence involving transactions related to this contract for a period of five (5) years from the date of the expiration or termination of this contract.

Matters involving litigation shall be kept for one (1) year following the termination of litigation, including all appeals, if the litigation exceeds five (5) years.
The Contractor agrees that authorized federal and state representatives, including but not limited to, personnel of the using agency; independent auditors acting on behalf of state and/or federal agencies shall have access to and the right to examine records during the contract period and during the five (5) year post contract period. Delivery of and access to the records shall be within five (5) business days at no cost to the state.

1.33. Off-Shore Sourcing
If, during the term of the contract, the Contractor or subcontractor plans to move work previously performed in the United States to a location outside of the United States, the Contractor shall immediately notify the Procurement and Contracts and the respective agency in writing, indicating the desired new location, the nature of the work to be moved and the percentage of work that would be relocated. The Director of Purchases, with the advice of the respective agency, must approve any changes prior to work being relocated. Failure to obtain the Director's approval may be grounds to terminate the contract for cause.

1.34. On-Site Inspection
Failure to adequately inspect the premises shall not relieve the Contractor from furnishing without additional cost to the State any materials, equipment, supplies or labor that may be required to carry out the intent of this Contract.

1.35. Indefinite Quantity Contract
This is an open-ended contract between the Contractor and the State to furnish an undetermined quantity of a good or service in a given period of time. The quantities ordered will be those actually required during the contract period, and the Contractor will deliver only such quantities as may be ordered. No guarantee of volume is made. An estimated quantity based on past history or other means may be used as a guide.

1.36. Prices
Prices shall remain firm for the entire contract period and subsequent renewals. Prices shall be net delivered, including all trade, quantity and cash discounts. Any price reductions available during the contract period shall be offered to the State of Kansas. Failure to provide available price reductions may result in termination of the contract for cause.

1.37. Payment
Payment Terms are Net 30 days. Payment date and receipt of order date shall be based upon K.S.A. 75-6403(b). This Statute requires state agencies to pay the full amount due for goods or services on or before the 30th calendar day after the date the agency receives such goods or services or the bill for the goods and services, whichever is later, unless other provisions for payment are agreed to in writing by the Contractor and the state agency. NOTE: If the 30th calendar day noted above falls on a Saturday, Sunday, or legal holiday, the following workday will become the required payment date.

Payments shall not be made for costs or items not listed in this contract.

Payment schedule shall be on a frequency mutually agreed upon by both the agency and the Contractor.

1.38. Accounts Receivable Set-Off Program
If, during the course of this contract the Contractor is found to owe a debt to the State of Kansas, a state agency, municipality, or the federal government, agency payments to the Contractor may be intercepted / setoff by the State of Kansas. Notice of the setoff action will be provided to the Contractor. Pursuant to K.S.A. 75-6201 et seq, Contractor shall have the opportunity to challenge the validity of the debt. The Contractor shall credit the account of the agency making the payment in an amount equal to the funds intercepted.

K.S.A. 75-6201 et seq. allows the Director of Accounts & Reports to setoff funds the State of Kansas owes Contractors against debts owed by the Contractors to the State of Kansas, state agencies, municipalities, or the federal government. Payments setoff in this manner constitute lawful payment for services or goods received. The Contractor benefits fully from the payment because its obligation is reduced by the amount subject to setoff.

1.39. Federal, State and Local Taxes
Unless otherwise specified, the contracted price shall include all applicable federal, state and local taxes. The Contractor shall pay all taxes lawfully imposed on it with respect to any product or service delivered in accordance with this Contract. The State of Kansas is exempt from state sales or use taxes and federal excise
taxes for direct purchases. These taxes shall not be included in the contracted price. Upon request, the State shall provide to the Contractor a certificate of tax exemption.

The State makes no representation as to the exemption from liability of any tax imposed by any governmental entity on the Contractor.

1.40. Debarment of State Contractors  
Any Contractor who defaults on delivery or does not perform in a satisfactory manner as defined in this Agreement may be barred for up to a period of three (3) years, pursuant to K.S.A. 75-37,103, or have its work evaluated for pre-qualification purposes. Contractor shall disclose any conviction or judgment for a criminal or civil offense of any employee, individual or entity which controls a company or organization or will perform work under this Agreement that indicates a lack of business integrity or business honesty. This includes (1) conviction of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or subcontract or in the performance of such contract or subcontract; (2) conviction under state or federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property; (3) conviction under state or federal antitrust statutes; and (4) any other offense to be so serious and compelling as to affect responsibility as a state contractor. For the purpose of this section, an individual or entity shall be presumed to have control of a company or organization if the individual or entity directly or indirectly, or acting in concert with one or more individuals or entities, owns or controls 25 percent or more of its equity, or otherwise controls its management or policies. Failure to disclose an offense may result in the termination of the contract.

1.41. Materials and Workmanship  
The Contractor shall perform all work and furnish all supplies and materials, machinery, equipment, facilities, and means, necessary to complete all the work required by this Contract, within the time specified, in accordance with the provisions as specified.

The Contractor shall be responsible for all work put in under these specifications and shall make good, repair and/or replace, at the Contractor's own expense, as may be necessary, any defective work, material, etc., if in the opinion of agency and/or Procurement and Contracts said issue is due to imperfection in material, design, workmanship or Contractor fault.

1.42. Industry Standards  
If not otherwise provided, materials or work called for in this contract shall be furnished and performed in accordance with best established practice and standards recognized by the contracted industry and comply with all codes and regulations which shall apply.

1.43. Implied Requirements  
All products and services not specifically mentioned in this contract, but which are necessary to provide the functional capabilities described by the specifications, shall be included.

1.44. Inspection  
The State reserves the right to reject, on arrival at destination, any items which do not conform with specification of the Contract.

1.45. Acceptance  
No contract provision or use of items by the State shall constitute acceptance or relieve the Contractor of liability in respect to any expressed or implied warranties.

1.46. Ownership  
All data, forms, procedures, software, manuals, system descriptions and work flows developed or accumulated by the Contractor under this contract shall be owned by the using agency. The Contractor may not release any materials without the written approval of the using agency.

1.47. Information/Data  
Any and all information/data required to be provided at any time during the contract term shall be made available in a format as requested and/or approved by the State.
1.48. **Certification of Materials Submitted**
   The Bid document, together with the specifications set forth herein and all data submitted by the Contractor to support their response including brochures, manuals, and descriptions covering the operating characteristics of the item(s) proposed, shall become a part of the contract between the Contractor and the State of Kansas. Any written representation covering such matters as reliability of the item(s), the experience of other users, or warranties of performance shall be incorporated by reference into the contract.

1.49. **Transition Assistance**
   In the event of contract termination or expiration, Contractor shall provide all reasonable and necessary assistance to State to allow for a functional transition to another vendor.

1.50. **Integration**
   This contract, in its final composite form, shall represent the entire agreement between the parties and shall supersede all prior negotiations, representations or agreements, either written or oral, between the parties relating to the subject matter hereof. This Agreement between the parties shall be independent of and have no effect on any other contracts of either party.

1.51. **Modification**
   This contract shall be modified only by the written agreement and approval of the parties. No alteration or variation of the terms and conditions of the contract shall be valid unless made in writing and signed by the parties. Every amendment shall specify the date on which its provisions shall be effective.

1.52. **Severability**
   If any provision of this contract is determined by a court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this contract shall not be affected and each provision of this contract shall be enforced to the fullest extent permitted by law.
2. Specifications

Contract includes the development of an Income Capitalization Rate and an Effective Gross Income Multiplier (EGIM) analysis. The studies will be used by the Kansas Department of Revenue and Kansas county appraisers in the valuation of federally sponsored Affordable Housing projects within the State of Kansas.

1. Income Capitalization Rate

- The primary study will be developed using sales of traditional housing market transactions across the state and the KC metro area. Sales of affordable housing projects should also be considered if applicable.
- In addition to the sale method above, a supporting Band of Investment method can be developed if applicable in the opinion of the vendor. Primary lenders of local affordable projects should be consulted to determine current financing rates, along with brokers, owners, appraisers, etc. to determine equity return expectations.
- The stratification for either analysis will be broken into two groups, location and investment class.
  - Location based on the county population, urban regions with populations of 50,000 or greater and rural regions with populations of less than 50,000. The population data source is at the discretion of the consultant.
  - Investment classes should be identified by Class A, B and C and general definitions of each class summarized.
- The capitalization rate should consider typical replacement reserves for this property type, but local practice should also be considered when determining whether to include.
- The report will provide a breakdown of all sales utilized with the indicated cap rate, a written narrative detailing the methodology used and the recommended cap rate ranges for each stratification.
- The analysis will include a list of all sales

2. Effective Gross Income Multiplier (EGIM)

- The stratification for the analysis should be the same as outlined for the Income Capitalization rate analysis.
- The individual corresponding expense ratios for the EGIM’s must be included.

The vendor will consult with a working group consisting of Property Valuation Division (PVD) staff, industry representatives and members of the Kansas County Appraisers Association (KCAA).

Deliverables:

1. A Capitalization Rate Analysis using traditional sales
2. A separate Capitalization Rate Analysis using the Band of Investment method if the vendor feels it is applicable
3. An Effective Gross Income Multiplier Analysis
4. Corresponding Expense Ratios for all sales used in the analysis
4. Contractual Provisions Attachment
DA-146a Rev. 07/19

4.1. Important
This form contains mandatory contract provisions and must be attached to or incorporated in all copies of any contractual agreement. If it is attached to the vendor/contractor's standard contract form, then that form must be altered to contain the following provision: The Provisions found in Contractual Provisions Attachment (Form DA-146a, Rev. 07-19), which is attached hereto, are hereby incorporated in this contract and made a part thereof. The parties agree that the following provisions are hereby incorporated into the contract to which it is attached and made a part thereof, said contract being the _____ day of __________________, 20_____.

4.2. Terms Herein Controlling Provisions
It is expressly agreed that the terms of each and every provision in this attachment shall prevail and control over the terms of any other conflicting provision in any other document relating to and a part of the contract in which this attachment is incorporated. Any terms that conflict or could be interpreted to conflict with this attachment are nullified.

4.3. Kansas Law and Venue
This contract shall be subject to, governed by, and construed according to the laws of the State of Kansas, and jurisdiction and venue of any suit in connection with this contract shall reside only in courts located in the State of Kansas.

4.4. Termination Due to Lack of Funding Appropriation
If, in the judgment of the Director of Accounts and Reports, Department of Administration, sufficient funds are not appropriated to continue the function performed in this agreement and for the payment of the charges hereunder, State may terminate this agreement at the end of its current fiscal year. State agrees to give written notice of termination to contractor at least thirty (30) days prior to the end of its current fiscal year and shall give such notice for a greater period prior to the end of such fiscal year as may be provided in this contract, except that such notice shall not be required prior to ninety (90) days before the end of such fiscal year. Contractor shall have the right, at the end of such fiscal year, to take possession of any equipment provided State under the contract. State will pay to the contractor all regular contractual payments incurred through the end of such fiscal year, plus contractual charges incidental to the return of any such equipment. Upon termination of the agreement by State, title to any such equipment shall revert to contractor at the end of the State's current fiscal year. The termination of the contract pursuant to this paragraph shall not cause any penalty to be charged to the agency or the contractor.

4.5. Disclaimer of Liability
No provision of this contract will be given effect that attempts to require the State of Kansas or its agencies to defend, hold harmless, or indemnify any contractor or third party for any acts or omissions. The liability of the State of Kansas is defined under the Kansas Tort Claims Act (K.S.A. 75-6101, et seq.).

4.6. Anti-Discrimination Clause
The contractor agrees: (a) to comply with the Kansas Act Against Discrimination (K.S.A. 44 1001, et seq.) and the Kansas Age Discrimination in Employment Act (K.S.A. 44-1111, et seq.) and the applicable provisions of the Americans With Disabilities Act (42 U.S.C. 12101, et seq.) (ADA), and Kansas Executive Order No. 19-02, and to not discriminate against any person because of race, color, gender, sexual orientation, gender identity or expression, religion, national origin, ancestry, age, military or veteran status, disability status, marital or family status, genetic information, or political affiliation that is unrelated to the person's ability to reasonably perform the duties of a particular job or position; (b) to include in all solicitations or advertisements for employees, the phrase "equal opportunity employer"; (c) to comply with the reporting requirements set out at K.S.A. 44-1031 and K.S.A. 44-1116; (d) to include those provisions in every subcontract or purchase order so that they are binding upon such subcontractor or vendor; (e) that a failure to comply with the reporting requirements of (c) above or if the contractor is found guilty of any violation of such acts by the Kansas Human Rights Commission, such violation shall constitute a breach of contract and the contract may be cancelled, terminated or suspended, in whole or in part, by the contracting state agency or the Kansas Department of Administration; (f) Contractor agrees to comply with all applicable state and federal anti-discrimination laws and regulations; (g) Contractor agrees all hiring must be on the basis of individual merit and qualifications, and discrimination or harassment of persons for the reasons stated above is prohibited; and (h) if it is determined that the contractor has violated the provisions of any portion of this paragraph, such violation shall constitute a breach of contract.
and the contract may be canceled, terminated, or suspended, in whole or in part, by the contracting state agency or the Kansas Department of Administration.

4.7. Acceptance of Contract
This contract shall not be considered accepted, approved or otherwise effective until the statutorily required approvals and certifications have been given.

4.8. Arbitration, Damages, Warranties
Notwithstanding any language to the contrary, no interpretation of this contract shall find that the State or its agencies have agreed to binding arbitration, or the payment of damages or penalties. Further, the State of Kansas and its agencies do not agree to pay attorney fees, costs, or late payment charges beyond those available under the Kansas Prompt Payment Act (K.S.A. 75-6403), and no provision will be given effect that attempts to exclude, modify, disclaim or otherwise attempt to limit any damages available to the State of Kansas or its agencies at law, including but not limited to, the implied warranties of merchantability and fitness for a particular purpose.

4.9. Representative's Authority to Contract
By signing this contract, the representative of the contractor thereby represents that such person is duly authorized by the contractor to execute this contract on behalf of the contractor and that the contractor agrees to be bound by the provisions thereof.

4.10. Responsibility For Taxes
The State of Kansas and its agencies shall not be responsible for, nor indemnify a contractor for, any federal, state or local taxes which may be imposed or levied upon the subject matter of this contract.

4.11. Insurance
The State of Kansas and its agencies shall not be required to purchase any insurance against loss or damage to property or any other subject matter relating to this contract, nor shall this contract require them to establish a "self insurance" fund to protect against any such loss or damage. Subject to the provisions of the Kansas Tort Claims Act (K.S.A. 75-6101, et seq.), the contractor shall bear the risk of any loss or damage to any property in which the contractor holds title.

4.12. Information
No provision of this contract shall be construed as limiting the Legislative Division of Post Audit from having access to information pursuant to K.S.A. 46-1101, et seq.

4.13. The Eleventh Amendment
"The Eleventh Amendment is an inherent and incumbent protection with the State of Kansas and need not be reserved, but prudence requires the State to reiterate that nothing related to this contract shall be deemed a waiver of the Eleventh Amendment."

4.14. Campaign Contributions / Lobbying
Funds provided through a grant award or contract shall not be given or received in exchange for the making of a campaign contribution. No part of the funds provided through this contract shall be used to influence or attempt to influence an officer or employee of any State of Kansas agency or a member of the Legislature regarding any pending legislation or the awarding, extension, continuation, renewal, amendment or modification of any government contract, grant, loan, or cooperative agreement.
Subject to the terms and conditions of the bid specifications and this contract, State hereby accepts the offer of Contractor as expressed by Contractor’s bid submitted to Procurement and Contracts on June 28, 2020 in response to Bid Event Number EVT0007432.

It is understood and agreed by the parties that pursuant to the bid, Contractor agrees to furnish Income Capitalization Rate and Effective Gross Income Multiplier (EGIM) Analysis for Kansas Department of Revenue on order of the Agency at the price or prices contained herein.

This contract is entered into this 9th day of July, 2020 by and between the State of Kansas (State) and Shaner Appraisals, Inc., Overland Park, KS (Contractor).

Contractor: Shaner Appraisals, Inc.                             Agency: Kansas Department of Revenue
By: [Signature]                                                By: Mark A. Burghart
Printed Name: Laird Goldsborough                                Printed Name: Mark A. Burghart
Title: Senior Managing Director                                  Title: Secretary of Revenue

I hereby certify that the competitive bid/procurement laws of the State of Kansas have been followed.

State of Kansas
By: [Signature]

RICHARD BEATTIE
DIRECTOR OF PURCHASES
Qualifications of Daniel Kann, MAI MSRE
Managing Director / Partner – Multifamily and ROW
Valbridge Property Advisors | Kansas City

Independent Valuations for a Variable World

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<th>State Certifications</th>
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<td>State of Missouri</td>
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<td>Urban Land Institute (Young Leaders)</td>
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<td>Real Estate Finance &amp; Investments (University of Denver)</td>
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<td>University of Northern Iowa</td>
<td>Real Estate Tax (University of Denver)</td>
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<td>Real Estate Finance</td>
<td>Residential Construction Systems (University of Denver)</td>
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<td>Understanding Commercial Capitalization Rates (ULI)</td>
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<td>General Market Analysis and Highest &amp; Best Use (Appraisal Institute)</td>
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<td>Discounted Cash Flow Model: Concepts &amp; Issues (Appraisal Institute)</td>
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<td>Analyzing Operating Expenses (Appraisal Institute)</td>
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<tr>
<th>Contact Details</th>
<th>Experience</th>
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<tr>
<td>913-451-1451 (O)</td>
<td>Managing Director / Partner</td>
</tr>
<tr>
<td>913-647-4094 (D)</td>
<td>Valbridge Property Advisors</td>
</tr>
<tr>
<td>913-529-4121 (F)</td>
<td>Real Estate Analyst / General Certified Appraiser</td>
</tr>
<tr>
<td>Valbridge Property Advisors</td>
<td>Shaner Appraisals, Inc. (2007 - 2012)</td>
</tr>
<tr>
<td>10990 Quivira Road, Suite 100</td>
<td></td>
</tr>
<tr>
<td>Overland Park, Kansas 66210</td>
<td>I currently perform review, valuation, and due diligence for investors/developers, life insurance companies, lenders, REITS, and public entities. The analysis consists of property valuation (FHA, Fannie Mae, Freddie Mac, and conventional financing), market studies, feasibility studies, real estate tax analysis, and before and after analysis pertaining to right of way and easement acquisitions.</td>
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www.valbridge.com
DKann@Valbridge.com
State of Kansas

Real Estate Appraisal Board

This is to certify that

Daniel J. Kann

has complied with the provisions of the Kansas State Certified and Licensed Real Property Appraisers Act to transact business as a

Certified General Real Property Appraiser

in the State of Kansas

License No: G-2762
Effective Date: 7/1/2020
Expiration Date: 6/30/2021

Chairman