

HUCK APPRAISAL OFFICE

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September 6, 2011

Mr. Larry Tarkowski
Town of Prescott Valley
7501 E. Civic Circle
Prescott Valley, Arizona 86314

Re: Comments regarding an appraisal of an existing commercial property located at 8466 E. Long Mesa Drive in Prescott Valley, Arizona.

Dear Mr. Tarkowski:

In accordance with our agreement as outlined in our engagement letter dated July 13, 2011, I transmitted to you a summary appraisal report which contained the result of my appraisal of the above captioned subject property. Pursuant to the request you made in our telephone conversation of this date, I submit the following comments regarding various concepts of value and how they may relate to decisions to be made by the Town of Prescott Valley regarding the property.

The value reported in the above captioned appraisal is *market value*. Market value is defined in the appraisal report as:

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite a fair sale, the buyer and seller each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is consummation of a sale as of a specified date and passing of title from seller to buyer under conditions whereby:

- 1. Buyer and seller are typically motivated;*
- 2. Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- 3. A reasonable time is allowed for exposure in the open market;*

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4. *Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto;*
5. *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*¹

While many definitions of market value exist, it is generally agreed that market value results from the collective value judgments of market participants. An opinion of market value must be based on objective observations of the collective actions of the market.² Market value is generally viewed as being an impersonal concept that does not address the preferences or requirements of any specific market participant, but rather reflects the collective preferences or requirements of the typical market participant.

A concept which is different from *market value* is *use value*. Use value is the value a specific property has for a specific use. When an appraiser is asked to estimate use value, he focuses on the value the real estate contributes to the enterprise of which it is (or is expected to become) a part, without regard to the highest and best use of the property or the monetary amount that might be realized from its sale. Real property has both a use value and a market value, which may be the same or different depending on the property and the market. For example, an older manufacturing plant that is still used by the original owner may have considerable *use value* to the owner but only a nominal *market value* for another use.³

The appraisal of the subject property provided an opinion of the market value of the property per the client's instructions. However, had the client's instruction been to provide an opinion of the use value of the property, a different conclusion of value may have resulted. This different conclusion of value would likely have considered the benefits to the Town of Prescott Valley provided by the acquisition of a property which adjoins the Town's existing facilities. The specific location of the subject property may provide more convenient administration of some of the Town's services, allow the sharing of employees among departments, reduce travel time and expense for Town employees, etc.

Still another type of value which is sometimes addressed is *public interest value*. Public interest value is a general term covering a family of value concepts that relate the highest and best use of property to noneconomic uses. Public interest value is

¹ Rules and Regulations, Federal Register, Vol. 55, No. 165, page 34696.

² The Appraisal of Real Estate, Thirteenth Edition, P.23, The Appraisal Institute, 2008.

³ The Appraisal of Real Estate, Thirteenth Edition, P.27.

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driven by social, political and public policy goals. It is not based strictly on economic principles. Rather, public interest value is based on a noneconomic highest and best use.

The notion of public interest value does have an important potential application when it is defined and applied in public benefit terms. For example, a highway department acquiring private land for an interstate highway might adopt a policy of determining market value of each parcel to be acquired. Then, in the public interest, the highway department determines it appropriate to offer 25% more than market value to avoid potential transaction and litigation costs that would be required in condemnations. This formula would demonstrate that the first 100% was the department's opinion of market value and the last 25% (of the 125% paid) was paid in the public interest rather than directly for market value.⁴

The foregoing example may parallel the Town's desire to acquire the subject property and the practicality which may result from paying an amount which is greater than the appraiser's opinion of market value.

Two final appraisal concepts which may be of value to the Town in making decisions regarding the subject property are *assemblage* and *plottage*. Assemblage is:

The combining of two or more parcels, usually but not necessarily contiguous, into one ownership or use; the process that creates plottage.

Plottage is:

The increment of value created when two or more sites are combined to produce greater utility.

Sometimes highest and best use results from assembling two or more parcels of land under one ownership. If the combined parcels have a greater unit value than they did separately, plottage value is created. Plottage is an increment of value that results when two or more sites are combined to produce a larger site with greater utility.⁵

While plottage typically pertains to vacant sites, the concept may also be relevant in the analysis of improved properties. That is, the combining of adjoining properties may result in greater value to one or more of the properties being combined. When this concept is considered in concert with the foregoing definitions of use value and public interest value, it may be relevant in the Town's analyses regarding the subject property.

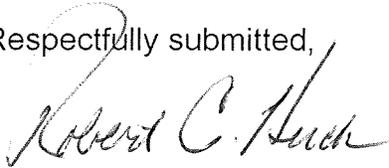
⁴ The Appraisal of Real Estate, Thirteenth Edition, P.31.

⁵ The Appraisal of Real Estate, Thirteenth Edition, P.213.

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I hope that these discussions are of value to the Town of Prescott Valley in making decisions regarding the subject property. If I can provide any clarification or other services relating to this matter, please, do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert C. Huck". The signature is written in black ink and is positioned below the text "Respectfully submitted,".

Robert C. Huck, MAI
Certified General Real Estate Appraiser
Certificate No. 30123