Valuation Viewpoint

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MISSED OPPORTUNITIES
WETLAND BANKING

BY JOHN T. SCHMICK

In the development of real property, the emphasis is generally on maximization of the property either in the form of new buildings or in land development. With the exception of retaining excess land for future phases of the project or future expansions for the user, maximization of the property is consistent with the concept of highest and best use. However, occasionally we find situations where the physical characteristics of a site suggest that maximization of the site is in the form of something other than building density. In this article, we discuss the development of wetland bank credits.

It is important to note that previously designated wetlands are monitored by the United States Army Corps of Engineers. Any type of disturbance to wetlands is subject to government approval and requires a permit. Over the years, many areas of natural wetlands were drained, filled and developed. With an eye to the future, the Department of Natural Resources and the Army Corps of Engineers designated and protected the remaining natural wetlands. In an attempt to reverse the decline in wetland areas, the Wetland Bank System was developed to provide an incentive to restore former wetlands or create new wetlands. Wetland banking provides all of the benefits of existing wetlands: enhanced water quality, reduced flooding, increased wildlife habitat, recreational opportunities and so on. It also provides a financial opportunity to the land owner as well.

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MARKET TRENDS AND INDICATORS

Office Buildings	↓	5%
Retail Centers	↑	2%
Industrial Buildings	→	5%
Apartments	↓	1%
New Housing Starts	↑	6.0%
Productivity	↑	4.7%
Composite PE	↓	29
Consumer Confidence Index	↓	64
Number of IPOs	↑	70

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MARKET TRENDS AND INDICATORS

ECONOMIC INDICATOR

	1996	1997	1998	1999	2000	2001	2002
New Housing Starts	254,000	238,000	332,000	349,600	303,200	330,300	350,200

P/E RATIOS IN SELECT INDUSTRIES

Industry (Year end)	1985	1990	1995	1999	2000	2001	2002
Automotive	6	N/M	12	9	9	34	16
Banking	9	14	12	13	19	18	13
Retailing—General*	16	23	22	34	33	28	24
Food & Drug Retailing*	14	22	18	19	24	24	18
Fuel-Oil & Gas*	11	15	40	26	16	18	39
Health Care Equipment & Services*	18	22	22	40	45	58	22
Manufacturing—Capital Goods*	20	16	16	30	20	42	20
Service Industries—Commercial*	22	21	18	25	32	26	21
Telecommunications	11	15	21	34	26	25	24
Transportation	18.3	28	21	20	18	33	NM
Utilities*	11	15	17	14	17	16	22
Pharmaceuticals & Biotechnology*	—	—	—	—	—	—	24
Composite	15	17	19	29	26	32	29

*Reporting categories changed in 3rd Qtr 2002 to more accurately identify and report industry activity. NM=not measurable

ECONOMIC INDICATORS

Indicator (5 yr. avg.)	1985	1990	1995	1999	2000	2001	2002
Inflation	5.0%	4.0%	3.1%	2.2%	3.4%	1.8%	2.3%
Productivity	1.7%	0.6%	1.5%	2.4%	2.9%	1.1%	4.7%
GDP	4.0%	1.8%	2.7%	4.1%	3.0%	.3%	2.4%
Consumer Confidence	84.9	104.2	99.2	144.4	128.6	97.3	64
Initial Public Offerings	169	144	512	548	339	91	70
IPO in Volume $Billion	5.7	9.9	26.6	100.6	55.46	37.1	24

RATES OF RETURN AND RISK HIERARCHY

Investment	Current
30 Year Treasury	4.8%
Aaa Bond	5.9%
Bbb Bond	7.0%
Commercial Mortgage	7–8%
Institutional Real Estate	6.5–8%
Non-Institutional Real Estate	7.5–10%

Investment	Current
Speculative Real Estate	11–14%
S & P Equity (Ibbotson)	12.9%
Land Development	11–16%
Equipment Finance Rates	15–18%
NYSE/OTC Equity (Ibbotson)	17.8%
NYSE Smallest Cap. Equity (Ibbotson)	20.8%

Sources: National Real Estate Index (2003), Appraisal Institute; F.W. Dodge Division, Business Week, Value Line, U.S. Chamber of Commerce, Standard & Poors, Investment Dealers Digest, U.S. Government Census.

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IMPAIRMENT OF INTANGIBLE ASSETS AND GOODWILL
A VALUATION OVERVIEW

BY G. DENNIS BINGHAM AND SCOT A. TORKELSON

Introduction

In June of 2001, the Financial Standards Accounting Board (FASB) issued two standards that significantly affected the accounting for intangible assets and goodwill: SFAS 141, *Business Combination* and SFAS 142, *Goodwill and Other Intangible Assets*.

This article provides an overview of the valuation requirements of SFAS 141 and 142 and presents a simplified illustration of the goodwill impairment test.

SFAS 141 and SFAS 142

SFAS 141 requires the use of the purchase accounting method and prohibits the use of the pooling-of-interest method of accounting for business combinations. SFAS 141 also requires that companies recognize and value acquired intangible assets separately from goodwill, if certain criteria are met.

When using the purchase accounting method for business combinations, the total fair market value of the consideration given up to acquire the target company is included in the investment account. The investor may pay more or less than the book value of the target company's assets when acquiring the target. This difference between cost and book value is composed of two elements: the first is the excess of fair market value over book value of the identifiable assets of the target company. The second element is goodwill.

> *"...impairment is the difference between an intangible asset's current carrying cost and its current fair value."*

SFAS 142 requires that companies no longer amortize goodwill, but must perform impairment tests annually, or earlier if indicators of potential impairment are identified. In addition, SFAS 142 requires that the amortization of intangible assets with indefinite lives must be discontinued, and the existing recognized intangible assets should have their remaining useful lives (RUL) reassessed.

> *"Appraisers frequently group intangible assets into categories that utilize the same or similar valuation methods."*

For the purpose of this discussion, impairment is the difference between an intangible asset's current carrying cost and its current fair value. Goodwill impairment is the end result when the earnings of a company are compared to the value of the assets booked; if the earnings cannot "carry" the assets, then the goodwill is impaired and it is written down.

Intangible Assets and Intellectual Property Identification

Congress enacted IRS Revenue Code Section 197 as part of the Revenue Reconciliation Act of 1993. Section 197 was written for the capitalization and amortization of purchased intangible assets for tax purposes, though the definitions and guidelines are commonly applied to intangible asset valuation for other purposes as well.

According to the guidelines in Section 197, intangible assets are assets that lack physical substance, are created in the normal course of business

and have certain attributes such as: a specific identification, legal existence, legal transferability, tangible evidence of existence, created at a specific, identifiable point in time or as a result of identifiable events, are subject to termination and destruction, and have the capacity to earn income. Appraisers frequently group intangible assets into categories that utilize the same or similar valuation methods. Shown below is one way of categorizing intangible assets:

- **Artistic-related:** musical composition copyrights, literary composition copyrights, and film copyrights
- **Data processing-related:** computer software copyrights, automated databases, and chip masks and masters
- **Engineering-related:** patents and trade secrets
- **Marketing-related:** trademarks, trade names, and service marks
- **Technology-related:** engineering drawings, technical documentation, and patent applications
- **Goodwill-related:** going-concern value

Intellectual property is a special class of intangible assets. Intellectual property is "created by human intellectual and/or inspirational activity"[1]. Common categories of intellectual property include creative/artistic and innovative/engineering.

A brief description of some of the major intangible assets and intellectual properties is presented below[2].

- **Copyright:** According to Black's Law Directory a copyright is "An intangible, incorporeal right granted by statute to the author or originator of certain literary or artistic productions, whereby he is invested, for a specified period of time, with the sole, exclusive privilege of multiplying copies of the same and publishing and selling them." The copyright arises from the creation of the work—neither registration nor publication is a condition to obtaining a copyright. Works included as copyright include: literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audio visual works; and sound recordings.
- **Patent:** There are three types of U.S. patents: design patents covering the ornamental appearance of articles of manufacture or machines; utility patents covering machines, articles of manufacture, compositions of matter, and process; and plant patents covering asexually reproduced plants. U.S. design patents have a term of 14 years from the date of issuance. Plant patents have a term of 17 years, while utility patents vary from 17 to 20 years.
- **Trademark/Service Mark:** A trademark may take many forms including a word, name, symbol or device, which indicates the source of origin of goods and is capable of distinguishing those goods from the goods of others. A service mark applies to services rather than goods.
- **Trade Secrets:** Proprietary information that may be protected is virtually limitless. Examples include such types of information as: architectural plans; blue prints; business plans; customer lists; computer software; designs; formulas; information on manufacturing techniques; marketing analysis and plans; and methods of doing business.

> *"Intellectual property is a special class of intangible assets."*

Standard of Value

The standard of value to be used is fair value. Fair value is defined as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale[3]. Fair value is to be determined by quoted market prices in active markets. If quoted market prices are not available,

then the best information available should be utilized.

With regard to the FASB rules, fair value and fair market value are equivalent.

Valuation Approaches and Methods

The valuation of intangible assets tends to follow the "Best Method Rule." This means that an appraiser would not typically use all three approaches (income, market, asset)—but would utilize the best method.

IRS Section 482 provides a comprehensive discussion of the various methods that can be used for the valuation of intangible assets specifically related to intercompany transfers. These techniques can also be applied to more general intangible asset valuation matters. FASB's use of the best method rule is a good example. In cases of intangible asset valuations the appraiser frequently finds that while all three approaches to value can theoretically be used, there is insufficient data to perform all three. The best method rule allows the appraiser to select and use the best method available, and, for intangible asset valuations, this analysis is deemed sufficient to support the concluded value.

"The best method rule allows the appraiser to select and use the best method available."

For intangible assets, other than goodwill, valuation methods may include replacement cost, reproduction cost, income allocation, direct capitalization, yield capitalization, sales comparisons, license comparison, and royalty rates. For goodwill, the most frequently used method to demonstrate value is the excess earnings method, which is best at allocating earnings to the tangible assets and showing the excess earnings which are then allocated to the goodwill category. This gives the appraiser the total goodwill value and, in essence, the write-down target if there is impairment.

"For goodwill, the most frequently used method to demonstrate value is the excess earnings method"

Impairment Testing

For intangible assets with a finite life, impairment testing is required only if an indication of impairment is identified. If an event has occurred, an appraiser must determine if the asset's useful life needs to be revised or if impairment should be determined using the undiscounted cash flow test.

For intangible assets with an indefinite life, an impairment test must be performed annually. If the asset's fair value is less than the carrying value, the carrying value should be adjusted for the impairment.

Goodwill is to be tested for impairment at the reporting unit level at least annually. A reporting unit is an operating segment or one level below an operating segment. An operating segment is a component of the enterprise that is characterized by the following: engages in business activities from which it may earn revenues and incur expenses; whose results are regularly reviewed; and for which discrete financial information is available.

The goodwill test is a two-part test. Step 1 is a test of the carrying value of the reporting unit to its fair value. If the fair value of the reporting unit is less than its carrying value, then step 2 must be completed. Step 2 compares the "implied fair value of goodwill" to the carrying value of goodwill. If the implied fair value is less than the carrying value, then the carrying value should be adjusted for the impairment. The best method of valuation for the test of impairment is the excess earnings method. Many valuation practitioners criticize the excess earn-

ings method of valuation, but no other method can as effectively delineate between the tangible assets and the goodwill being valued: which is necessary for the test of impairment. It is therefore incumbent upon valuation experts to learn the appropriate application of this important and useful method in the area of intangible asset valuation.

> *Goodwill is to be tested for impairment at the reporting unit level at least annually.*

It should be noted that if goodwill and another intangible asset of a reporting unit are tested at the same time, the other intangible asset must be tested for impairment before goodwill.

Example: Goodwill and Impairment Calculation

The following is a simplified example of the application of the accounting process used to determine goodwill and the impairment of intangible assets.

Goodwill at Acquisition

Assume that P Company acquires 100% of S Company for $5,000,000. At the time of the acquisition, S had recorded assets of $10,500,000 and liabilities of $7,300,000. The assets had a fair market value (FMV) of $11,800,000.

FMV of assets	$ 11,800,000
Less: liabilities	7,300,000
Net assets	4, 500,000
Less: purchase price	−5,000,000
Differential	**$ (500,000)**

Further, P determines that S has recognizable intangible assets apart from goodwill. S has definite life intangible assets of $100,000 and indefinite life intangible assets of $150,000. The remaining unidentified intangible asset ($250,000) is goodwill.

Definite life of intangible assets	$ 100,000
Indefinite life of intangible assets	150,000
Goodwill	250,000

Test of impairment

Assume that two years later, P is preparing the year-end financial statements. The company's appraiser is asked to perform an impairment test of P's intangible assets. The following financial information pertains to P's latest 12-months operations.

Balance Sheet As of December 31, 2003

ASSETS	
Current assets (cash, receivables & inventory)	$ 7,500,000
Fixed assets—net	9,000,000
Intangible assets	1,500,000
Total assets	$ 18,000,000
LIABILITIES & EQUITY	
Current liabilities (payables and accruals)	$ 6,000,000
Long-term debt	6,000,000
Equity	6,000,000
Total Liabilities & Equity	$ 18,000,000

Net Cash Flow As of December 31, 2003

Net cash flow (invested capital basis)	$ 2,250,000

- **Definite life intangible assets:** The appraiser first determines if there is any indication of impairment of the intangible assets that are subject to amortization. A few of the impairment indicators an appraiser may consider include the following: a significant decrease in the market value of the asset(s); any significant change in the useful life of the asset(s); significant changes in the business climate that could adversely impact the value of the asset(s); and a current period cash flow loss coupled with a history of cash flow losses.

  Assume, in this example, that there are no indications of impairment and net cash flow is positive. Accordingly, there is no indication of impairment and no adjustment is required.

- **Indefinite life intangible assets:** As noted above, the appraiser first attempts to determine if there is any indication of impairment. A few of the impairment indicators an appraiser may consider include the following: a significant change in the business climate; a change in the regulatory environment; and the loss of key personnel.

  Assume that there was a recent major breakthrough in technology and that the value of the indefinite intangible asset has fallen by $100,000. After determining the amount of impairment the appraiser should also consider whether the asset now has a definite life.

- **Goodwill:** Using the excess earnings method, the appraiser must determine two rates of return: a reasonable rate of return on the subject's net tangible assets and an excess earnings capitalization rate. In this example, 12% and 25%, respectively. Using this analysis, the estimated intangible asset value of P is $1,080,000. From this amount the appraiser must subtract the estimated fair value of the definite life and indefinite life intangible assets. This results in an estimated fair value of goodwill of $180,000. The $180,000 fair value is less than the subject's carrying value. Accordingly, there is an impairment of goodwill in the amount of $320,000.

> *"Each valuation of intangible assets, including intellectual property and goodwill, is unique."*

Excess Earnings Calculation of Impaired Goodwill

Net cash flow (after-tax)		$ 2,250,000
Fair market value tangible assets	16,500,000	
Required return on tangible assets	12%	
Required level of economic icome		1,980,000
Excess economic income		270,000
Direct capitalization rate		25%
Estimated intangible asset value		$ 1,080,000
Estimated intangible asset value		$ 1,080,000
Less: fair value		
definite life intangible assets		−500,000
indefinite life intangible assets		−400,000
Estimated fair value of goodwill		180,000
Carrying value of goodwill		500,000
Impaired Goodwill		$ (320,000)

Conclusion

Each valuation of intangible assets, including intellectual property and goodwill, is unique and requires the close cooperation of the company, its public accountants, and the appraiser. Accordingly, by following a well-planned, step-by-step appraisal process, each team member can complete his/her work assignment in a timely and cost efficient manner. The end result is a reasonable, defensible indication of value. VV

[1] Schweihs, Robert S., *Valuing Intellectual Property*. Washington D.C.: The Institute of Business Appraisers' 2002 Conference.

[2] *Overview of Intellectual Property for Business Lawyers*, 8th Edition. (Minneapolis: Kinney & Lange, P.A., 1995)

[3] SFAS 141

continued from page 1

Wetland bank credits represent the creation of new wetlands specifically for the purpose of selling or transferring credit for the new wetland to developers and others who must replace wetlands destroyed as part of development projects. Following the general principle of "avoid, minimize or replace wetlands," a developer who destroys wetlands on his or her project site must replace those wetlands. Wetland bank credits from a new site will offset the loss of damaged wetlands. Through the wetland bank system, the developer can also "buy" credits for new wetlands instead of physically creating new wetlands.

> *"In an attempt to reverse the decline in wetland areas, the Wetland Bank System was developed."*

The Minnesota Wetland Bank is maintained through the Minnesota Board of Water and Soil Resources (MBWSR). This is essentially a clearinghouse for those who have restored old (or created new) wetlands specifically to sell or transfer those credits and those who must buy the credits. The actual wetland bank credits are held by the entity that creates the new wetland through a procedure approved by the Minnesota Board of Water and Soil Resources. A current list of available wetland credits can be found on the Internet by going to: Minnesota Board of Water and Soil Resources (**www.bwsr.state.mn.us**). Click on Wetlands, click on Wetland Banking and select Wetland Bank Account Listing.

An important distinction must be recognized went discussing wetland bank credits. We are not talking about land that is currently delineated as wetland. Rather, we are talking about land that is currently usable but can be turned into a wetland. The obvious question is why would someone intentionally destroy usable land to make an unusable wetland? The simple answer is that this process can have attractive economic benefits to the wetland developer in the form of real cash profit. Just as a land developer sells finished lots to builders, wetland bank credits can be sold as well.

> *"Sometimes these low areas can be turned into wetlands and the credits sold."*

Not all land parcels are attractive candidates for wetland development and we certainly do not advocate turning valuable commercial/industrial sites into wetlands. It is equally true that not all land parcels are nice square sites with high, dry, level ground. It is quite common to find irregular sites in which there are some lower areas that may need to be filled to make them usable as building sites. These low areas are often turned into water retention ponds to support development of that particular site. However, sometimes these low areas can be turned into wetlands and the credits sold.

The process of developing a wetland bank is similar to other development projects. It starts with a survey of the physical characteristics of the land and soils. The land owner must first determine whether the low land is already defined as a wetland. If not, do the soil and hydrology tests show that the area is suitable for transformation into a wetland? Once the survey is completed, a wetland development plan can be created, detailing the changes to be made to the area, the types of vegetation that will be restored/introduced and the overall costs, as well as the time needed to ensure that the wetland restoration plan takes place and is successful. With regard to this last issue, the land owner must agree to monitor the new wetland for a designated period of time and make any changes necessary

to ensure that the wetland and vegetation replacement is stable.

Once the wetland restoration plan is completed, it must be approved by the MBWSR. The wetland restoration project is now just like any other development project; site design and engineering is completed, construction of the wetland takes place, and operation of the site begins. Operation of the wetland refers to the ongoing monitoring and management of the new site to ensure that the hydrology and vegetation take hold and the ecosystem functions as planned. In terms of wetland development timing, the survey, plan development and approval process, depending on the size of the project, can be accomplished in approximately four to six months. Construction timing is dependent on the overall plan and complexity of the wetland ecosystem to be developed, but it can generally be completed in one construction season or less. The wetland credits become available sometime after the construction phase and review of the site for compliance to the plan. We are aware of a modest-sized wetland bank project which was planned, approved and successfully completed (with credits available for sale), in a twelve month time frame.

> *The sale price of credits is a function of location, supply and demand.*

The economics of a wetland bank project can be quite surprising. The sale price of credits is a function of location, supply and demand. Generally, wetland credits should be within the same watershed district as the wetlands that are being destroyed. To the extent that this is true, proximity can increase value. Secondly, when there is a large supply of wetland credits, the price will decline as the number of entities offering credits increases. There is a difference between one entity offering 100 credits versus 10 entities offering 10 credits each. Additionally, as demand for credits increases relative to the number of credits available, the price will increase as well. Furthermore, due to the fact that there are different types of wetlands, a particular type of wetland may be in short supply at any given time. We have seen prices for wetland credits range from a low of $15,000 per acre for buffer wetland to as much as $76,000 per acre, or more, for full wetland. In contrast, the construction cost for wetland restoration can be as low as a few thousand dollars per acre. We know of one project which required only that some drainage ditches be blocked to allow water levels to rise and let nature return the site to wetland. Other projects may be more extensive and costly. Wetland bank sites, or the restoration of wetlands, can be as small as a few hundred square feet to as large as many acres in size. As of this writing, there were only 7.65 acres of type four wetland credits available in Hennepin County in a single wetland bank.

> *The restoration or creation of wetlands is a process that can add value to a development project and turn marginal land into an asset.*

In conclusion, the restoration or creation of wetlands is a process that can add value to a development project and turn marginal land into an asset. It is important to remember that the project land cannot be classified as wetland before starting the project. Marginal land that may be expensive to fill to create a level building site might be less expensive to turn into a wetland bank, thereby creating value to the owner as well as an enhancement to the remaining land area surrounding the new wetland. This is a valuable opportunity that is easy to miss in the overall development of real property. VV

MARKET TRANSACTION: BUSINESS VALUATION

BLUE DOT

A Subsidiary of Northwestern Corporation
125 South Dakota Avenue
Sioux Falls, South Dakota

Blue Dot was established, as a roll-up consolidator, to purchase and operate companies which provide heating, ventilation, air conditioning, plumbing and related services (HVAC) to residential and commercial customers. Blue Dot was founded in late 1997 by Northwestern Growth Group Corp, the development arm of Northwestern Corporation (a business with extensive utility and other consumer services), with revenues of over 4.2 billion.

Immediately upon formation, Blue Dot began acquiring local HVAC providers in major metropolitan markets. Blue Dot's strategy was to purchase a leading local company with experience, an established reputation and a revenue mix of predominantly residential and light commercial HVAC services. One of their key acquisitions, in the local Minneapolis/St. Paul market, was Standard Heating and Air Conditioning. Their primary objective was the acquisition of companies with superior management teams and strong profit margins. As with most roll-ups, Blue Dot intended to streamline operations, reduce costs, enhance training of employees on a national basis, establish preferred provider groups or group-buying arrangements and, lastly, to bring the corporate resources of Northwestern into play. Realize that the major end game is to go public with the consolidated, enhanced group.

BLUE DOT
Acquisitions

	1998	1999	Total
No. of Acquired Companies	28	34	62
Investment	$87.4 million	$68 million	$155.4 million
Pro-Forma Revenue	$210 million	$136 million	$346 million
Multiple of Revenue	41.7%	50.0%	44.9%

Summary of Acquisitions

As of the year-end 1999, Blue Dot had acquired 62 HVAC companies investing $155.4 million with a pro-forma revenue base of $346 million. This equals, on average, a price to revenue multiple of 44.9%. Blue Dot used a combination of stock and cash to purchase these companies.

Hindsight Is 20/20

As the income statements below indicate, it would appear that Blue Dot had considerable difficulty implementing its strategy. In 2000, the first year in which the company had most of its acquired units on line for a full year, Blue Dot lost $2.2 million after tax. In 2001, the company, on a pre-tax basis and before restructuring charges, lost $6.5 million. On a positive note, however, the HVAC units of Blue Dot continue to cash flow. As of April 1, 2003 the company has asked for an extension for filing its 10K; nonetheless, Blue Dot is looking at $302 million in write-offs due to the impairment of goodwill.

Based on the first few years of operation and the write-down of the goodwill, it would appear that Blue Dot paid too much for this company, way too much.

In hindsight, we believe that it is much more difficult to transition from "ma and pa operations" to the corporate culture than was anticipated by Blue Dot. Furthermore, most of the original management team members, the glue that kept these small operations profitable, took their money and exited. Long term customer-management relationships ended, leaving corporate people to manage the crucial accounts.

In concept, the consolidation of HVAC service providers was a worthy idea whose time had come. Nonetheless, merging 62 different ways of doing business into one sleek operation is very difficult to accomplish, as Blue Dot discovered.

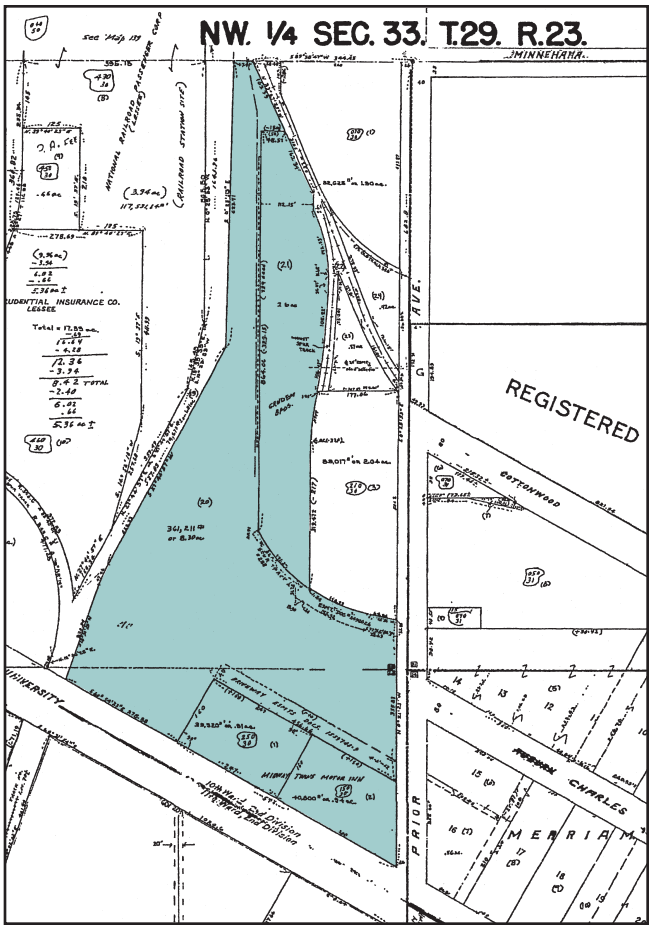
BLUE DOT
HVAC
Historical Financial Statements

	1998	%	1999	%	2000	%	2001	2002*
Revenue	$124,880		$293,736		$408,829		$423,803	
Income Before Minority Interests	$3,375	2.7%	$3,073	1.1%	($2,265)	(0.5%)	($13,562)	
Total Assets	$57,035		$279,140		$378,711		$386,249	
Capital Expenditures	$2,641		$7,763		$7,366		$8,521	
Cash Flow	$4,263		$3,881		$4,161		$1,549	

* As of 4/1/2003, 2002 figures were not available

MARKET TRANSACTION: REAL ESTATE

Property:	Menards Assemblage NWC of University and North Prior Avenues St. Paul, MN 55104
Buyer:	Menards Stores
Seller:	See Table
Source:	Buyer and Public Documents
Zoning:	I-1 and B-3
Utilities:	All Available
Topography and Soil:	Level, assumed stable
Visibility and Access:	Good, access from North Prior Avenue only



Location	Seller	Date of Sale	Land Size	Sale Price	Price/SF
573 North Prior Avenue	Payless Cashways, Inc.	2/2002	439,884 SF	$3,715,000	$8.45
1975 University Avenue	Em-Ty Partnership	7/2002	80,320 SF	$5,092,000	$63.40
635 North Prior Avenue	Alfred Sundberg, Jr.	8/2002	113,700 SF	$648,550	$26.61
		Totals	633,904 SF	$9,455,550	$14.92

Remarks:

Menards completed an assemblage of three parcels of land at the Northwest corner of University and North Prior Avenues in St. Paul. The company will be constructing a home improvement store in 2003 at this location. The three parcels were formerly improved with a Knox Lumber Store, a light manufacturing building and the Twin's Motor Inn, a 60 unit motel built in 1962 and most currently used as a home for lower income residents. This transaction required no government assistance. Total reported demolition costs, included in the purchase price, were $350,000 for the Knox property and $92,000 for the Twin's site. Purchase of these land parcels included driveway easements to the former buildings. The assemblage could not have been effectively completed without the Twin's Motor Inn parcel.

SCOPE OF SERVICES

Shenehon Company is a Real Estate and Business Valuation firm, serving both the private and public sectors throughout the United States. Our unique combination of real estate and business valuation expertise allows us to provide a wide range of services and to offer innovative solutions to difficult valuation issues. Obtaining accurate and reliable industry information and expertise should play a key role in any decision-making process, and Shenehon Company is dedicated to equipping its clients with the tools necessary to make informed and knowledgeable decisions regarding their capital investments.

Areas of Expertise:

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- Bankruptcy proceedings
- Charitable donations
- Commercial properties
- Condemnation
- Contamination impact studies
- ESOP/ESOT
- Estate planning
- Feasibility analyses
- General and limited partnership interests
- Gift tax evaluations
- Going public or private
- Highest and best use studies
- Industrial properties
- Insurance indemnification
- Intangible asset valuation
- Internal management decisions
- Investment counseling
- Land development cost studies
- Lease and rental analyses
- Lost profit analyses
- Marriage dissolution
- Mortgage financing
- Multi-family residential properties
- Municipal redevelopment studies
- Potential sales and purchases
- Railroad right-of-ways
- Special assessment appeals
- Special purpose real estate
- Tax abatement proceedings
- Tax increment financing
- Utility and communication easements

Shenehon Company
Business & Real Estate Valuations

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