DEMONSTRATION APPRAISAL REPORT

OF A

SINGLE-FAMILY RESIDENCE

LOCATED AT

4932 Clear Spring Road
Minnetonka MN 55345

Prepared for

International Association of Assessing Officers
314 West 10th Street
Kansas City, MO 64105

Prepared by

Date of Appraisal

August 1, 2002

I

June 2, 2008

International Association of Assessing Officers
Professional Designation Subcommittee
314 West 10th Street
Kansas City, MO 64105

Dear Subcommittee Members:

Attached is a demonstration appraisal of a single-family dwelling located at 4932 Clear Spring Road, Minnetonka, Minnesota, 55345 and legally described as:

Lot 6, Green Valley Second Unit, Hennepin County, Minnesota

This a self-contained appraisal report. It contains 174 pages and an addenda of 19 exhibits. It is presented as a documentation of my knowledge and ability to apply appraisal procedures to an actual property in fulfillment of one of the requirements of the International Association of Assessing Officers (CAE) designation. The purpose of the report is to estimate the market value of fee simple title to the unencumbered rights of the subject property, as of

August 1, 2002

Market value as used in the context of this report is defined as:

> **"The most probable price which a property should bring in a competitive open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:**
>
> 1. **Buyer and seller are typically motivated;**
> 2. **Both parties are well informed or well advised, and both acting in what they consider their own best interest;**
> 3. **A reasonable time is allowed for exposure in the open market;**
> 4. **Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and**
> 5. **The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."**
>
> Glossary for Property Appraisal and Assessment (Chicago: International Association of Assessing Officers, 1997).

According to the Uniform Standards of Professional Appraisal Practice (USPAP), this valuation assignment can best be described as encompassing the Appraisal Process in which the salient facts and conclusions are published in a Self Contained Report Format.

On the basis of my analysis, which is detailed in this report, I estimate the market value of the subject property as of the appraisal date as:

Two Hundred Six Thousand Three Hundred Dollars
($206,300)

Sincerely,

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ADDENDA

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Purpose of the Appraisal:

To estimate the market value of the subject property in fee simple title as of August 1, 2002.

Property Rights Appraised:

Unencumbered fee simple interests

Property Address:

4932 Clear Spring Road, Minnetonka, Minnesota, 55345

Description of Improvements:

One-story, wood frame, single-family dwelling, built in 1958, with 1,140 square feet on the main level, three bedrooms, one full bath on the main level, a three-quarter bath in the basement, a deck, and a two-car attached garage.

Description of Site:

Slightly sloped, rectangular shaped site, approximately 80 feet by 162 feet, total square footage equals 12,621 square feet.

Zoning:

R-1, Low Density Residential

Assessed Valuation and Taxes:

Assessor's 2001 Estimated Taxable Market Value	$158,300
Total 2002 Net Taxes Payable (Homestead)	$ 1,914.44

Highest and Best Use:

Site if Vacant – Single-Family Residential
Site as Improved – Single-Family Residential

Year Built: 1958

Total Economic Life: 100 years

Effective Age: 35 years

Remaining Economic Life: 65 years

Reproduction Cost New (RCN): $182,153

Total Depreciation: $69,792

Depreciated Value of Improvements: $112,361

Depreciated Value of the Site Improvements: $4,150

Site Value: $90,200

Indicated Value by Cost Approach: $206,700

Indicated Value by the Income Approach: $209,300

Indicated Value by Sales Comparison Approach: $206,300

Final Value Estimate as of August 1, 2002: $206,300

Date of Report: September 1, 2003

IDENTIFICATION OF SUBJECT PROPERTY

The subject property is a single-family residential property located at 4932 Clear Spring Road, Minnetonka, Minnesota. This site is slightly sloped, rectangular shaped site, approximately 80 feet by 162 feet. The total square footage of the site equals 12,621. The improvement is a one-story, wood frame, single-family dwelling, built in 1958 by Joe Semrad, with 1,140 square feet on the main level, 1,646 square feet on the basement level, a deck, and a two-car attached garage.

The legal description is Lot 6, "Green Valley Second Unit" according to the plat on file and of record in the office of Registrar of Titles in and for said County.

The Property Identification Number (PIN) is 29-117-22-24-0030, which is the tax parcel number.

OWNERSHIP/SALES HISTORY

John E. McCooley was the fee owner from March, 1959 until June 17, 1976, as recorded by the Register of Titles of Hennepin County, Minnesota.

Scott F. Emon, Et Ux, was the fee owner from June 18,1976, until May 20, 1988, as recorded by the Registrar of Titles of Hennepin County, Minnesota.

Eugene T. Jundt and Teri L. Jundt were the fee owners from May 20, 1988, until January 13, 1994, as recorded by the Registrar of Titles of Hennepin County, Minnesota.

Kraig H. Berger and Elisabet J. Berger are the fee owners and occupants since January 14, 1994, as recorded by the Registrar of Titles of Hennepin County, Minnesota as document number 2481806.

PHYSICAL PROPERTY HISTORY

The home was built in 1958 by Joe Semrad, a local contractor. As evidences by permits taken with the City of Minnetonka and by owner Craig Berger, improvements since the time of construction have been made to the property. These improvements were:

- Furnace and air conditioner were replaced in 1987.
- Roof and roof vents were replaced in 1993.
- One-stall garage addition with basement was built in 1995.
- New carpet was installed in the basement family room in 1998.
- New basement bathroom floor and fixtures were installed in 1999.
- Deck was built in 2000.

IDENTIFICATION OF CLIENT

The client for whom this appraisal is made is the International Association of Assessing Officers.

PROPERTY RIGHTS APPRAISED

The rights of the subject property being appraised are known as the bundle of rights. These six basic rights associated with ownership are the right to use, to sell, to rent or lease, to enter or leave, to give away, and to refuse to do any of these.

These legal rights are obtained with fee simple title,

> **"Fee simple title indicates ownership that is absolute and subject to no limitation other than eminent domain, police power, escheat, and taxation."**[1]

Fee simple title is free and clear of all encumbrances, including easements, right of way, and liens. This title is the greatest possible degree of ownership. However, these property rights are subject to certain governmental restrictions such as taxation, eminent domain, escheat, and police power.

INTENDED USE AND USERS OF THE APPRAISAL

The intended use of the appraiser's opinion and conclusions is for demonstration purposes to fulfill the narrative appraisal report requirement for the Certified Assessment Evaluator (CAE) designation. In addition, it is to demonstrate the appraiser's understanding of the appraisal process by estimating a logical, defensible value of the subject property.

The intended user of the appraiser's opinions and conclusions is the International Association of Assessing Officers.

PURPOSE OF THE APPRAISAL REPORT

The purpose of the appraisal report is to estimate the market value of a fee simple estate for the subject property located at 4932 Clear Spring Road, Minnetonka, Minnesota, as of August 2, 2002.

Fee simple estate, as defined in Appraising Residential Properties is:

> **"an absolute ownership unencumbered by any other interest or estate. The owner of a fee simple title possesses all the rights and benefits of the real estate subject only to the powers of government, which include taxation, eminent domain, escheat, and police power. The owner of a fee simple title possesses a complete bundle of rights."[2]**

Market Value, is defined as:

> **"The most probable price which a property should bring in a competitive open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:**
>
> 1. **Buyer and seller are typically motivated;**
> 2. **Both parties are well informed or well advised, and both acting in what they consider their own best interest;**
> 3. **A reasonable time is allowed for exposure in the open market;**
> 4. **Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and**
> 5. **The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."[3]**

The basic points in this definition include:

1. It is the most probable price, not the highest, lowest, or average price.

2. It is expressed in terms of money.

3. The property must be exposed on the open market for a reasonable period of time.

4. Both the buyer and seller are informed of the uses to which the property may be put.

5. An arm's-length transaction is required in the open market.

6. The buyer and seller are both well informed and are acting prudently.

7. It recognizes the present use as well as the potential use of the property.

Numerous definitions of market value exist. They have been created by professional organizations, legislation, and by the courts. As conditions and standards change, the definition of market value may change.

SCOPE OF WORK

The extent of the appraisal report encompasses the research and analysis necessary to prepare a report in accordance with the Uniform Standards of Professional Appraisal Practice as adopted by the Appraisal Foundation.

In regard to the subject property, the following steps were involved:

- The property at 4932 Clear Spring Road, Minnetonka was physically inspected on October 25, 2001. The photographs of the subject were taken on April 9, 2002.

- Regional, city, and neighborhood data was compiled using several sources. Primary sources consulted were the Metropolitan Council and the Minnesota Department of Trade and Economic Development. Information was also obtained from conversations with the City of Minnetonka Assessing, Planning, Engineering, and Community Development departments.

- Contacts were made with appropriate buyers and sellers, real estate agents, and county officials to substantiate information stated in this report.

- All sales information including site sales, rental sales, and market sales, as well as sales used to support adjustments were collected from public records.

- All three approaches to value were considered and developed.

- Each approach to value indicated a different market value and was reconciled to a final estimate of value.

ASSUMPTIONS AND LIMITING CONDITIONS

1. The final estimate of value developed in this appraisal is as of August 1, 2002. The use of the property at that time determined the distribution of the valuation between land and improvements. Any change in the present utilization of the property or the date of the valuation may or may not affect the final conclusion of value that is stated in this report.

2. The legal description, status of title, and other matters legal in nature are assumed to be correct. No responsibility is assumed by the appraiser for such legal matters and this appraisal should not be construed as an opinion on such legal matters.

3. In the process of completing this appraisal, information was obtained from individual opinions, public records, and other sources deemed to be reliable and accurate. Such information is presumed to be correct and reliable. No responsibility is assumed for any errors or omissions on such data.

4. The description and analysis of the improvements are based upon visual inspection of the subject property. No liability is assumed for any hidden or unapparent defects in any structure, improvement, or soil that would render the property more or less valuable.

5. Building sketches, plot plans, photographs, and other such exhibits are included in the report only to aid in visualizing the property. No survey of the property was completed and drawings may not be to correct scale. No liability is assumed through any errors or omissions in such exhibits.

6. The existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property and is not qualified to detect such substances. The value estimate is predicated on the assumption there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

7. Possession of this report or a copy thereof does not provide the right of publication, nor may it be used for any other purposes by anyone other than the applicant without prior written consent of the appraiser.

8. The appraiser does not consent to appear or give testimony in any court, hearing, or conference unless proper prior arrangements have been made.

TAX AND ASSESSMENT ANALYSIS

Minnesota has an "ad valorem" property tax system, which means that taxes are based upon "value." All taxable property in Minnesota is classified and valued each year as of January 2. The value and classification established as of that date are the basis for taxes payable the following year. Minnesota is a 100% market value state; therefore the estimated market value represents a theoretical selling price of the property as of the assessment date.

The formula for property tax is established by the state legislature and is implemented statewide. Due to the complexity of the property tax system, numerous attempts have been made to simplify it. In 1988, the Minnesota legislature passed the Omnibus Tax Bill and changed the tax system from one based on mill rates and tax capacities to a system based on tax capacities and tax extension rates.

While the bill was designed to simplify the tax system, the basic principle of calculating taxes remained the same. Under the old tax system, the market value was multiplied by a different assessment percentage based upon the classification of the property. This determined the assessed value, which, in turn, was multiplied by a mill rate to arrive at a gross tax. Any state credits that were applicable (i.e. homestead credit) were subtracted from the gross tax to determine the net tax payable.

The tax system in place for the appraisal date consisted of four general classifications for real property as described by the state statutes. The four classifications encompass forty-six different property types. The classifications are based upon use, and assigned to the property by the assessor's office. Depending upon the classification, various tax capacity percentages are applied to the estimated market value (EMV) to determine the total tax capacity of the parcel. The tax capacity is then multiplied by a tax extension rate to arrive at a gross tax. The tax extension rate is composed of the levies imposed by the various jurisdictions affecting the property such as the school district, county, city, and other miscellaneous taxing jurisdictions. To determine the net taxes payable, any credits available to the property are subtracted from the gross tax to arrive at a net tax payable.

In 1993, the legislature passed a law limiting how much the assessor's estimated market value (EMV) could increase from one year to the next. The limited market value was retroactive to the EMV established as of January 2, 1993. At that time the law was to remain in effect through the value established as of January 2, 1998. The 1999 legislature amended the law. The amended law imposing the limit was retroactive to the estimated market values assessors determined as of January 2, 1999, for use in computing property tax bills payable in 2000. The law remains in effect through the estimated market values assessors determine as of January 2, 2001, for property tax bills payable in 2002, at which time the law is scheduled to expire.

The limited market value law states:

- The property must be classified as a residential use.
- The amount of increase for the current assessment year must not exceed the greater of:

    1. 8.5% of the preceding year's value or, if applicable the preceding year's limited value, or
    2. 15% of the difference between the current year the preceding assessment or preceding limited value.

This limitation does not include increases in value to due to improvements.

In 1993, state law provided a deferral for of a portion of the market value added to older homes through new improvements. Since its inception, the "This Old House" law underwent many revisions. The subject property had done home improvements that qualified for this deferral. The calculation of limited and taxable values for assessment year 2002 is provided on page 13.

As can be depicted from the tax calculation on page 13, the property has three values that are calculated. The first is the estimated market value of which is calculated by the assessor. The next value calculation is the limited market value, as was described earlier. The final value is the taxable value of which is the limited market value less the "This Old House" exclusion.

On January 2, 2002, the subject property was classified as 1A, residential homestead (refer to Exhibit B for an example of the classification chart). A homestead property is one that is owned and occupied by the fee holder and used as their principal residence as of the assessment date. An affidavit must be signed to attest to these facts and retain the classification. Any property that was not used for the purpose of a homestead or was partially homestead on the assessment date, but is used for the purpose of a homestead on December 1, will qualify as Class 1.

A homestead tax capacity is determined by taking portions or "tiers" of the estimated market value of the property and multiplying that value by two tax capacity percentages to arrive at a total tax capacity. The total tax capacity is then multiplied by the appropriate tax extension rate to determine a gross tax. This gross tax is further reduced by subtracting a homestead credit allowance from it, with a maximum dollar amount of $390.00. The school district rate and solid waste fee are added back in to equal the net payable real estate tax. Historically, homestead (owner-occupied) property has received favorable tax treatment in Minnesota versus non-homestead property. If the property was not the principal residence of the owner, for example a rental property, the property would be classified as a non-homestead property.

The flow chart on page 14 depicts how the 2002 homestead real estate taxes were calculated for the subject property. An example of non-homestead tax calculation can also be found on the same page.

Property taxes are a perpetual lien on the property and are due each year. The first half is due May 15, and the second half is due October 15.

2001 TAXABLE MARKET VALUE CALCULATION

2000 ESTIMATED MARKET VALUE*	**$147,600**
2000 THIS OLD HOUSE VALUE EXCLUSION	**$(3,000)**
2000 TAXABLE MARKET VALUE	**$144,600**

2001 ESTIMATED MARKET VALUE		**$171,300**
(INCLUDES $1,200 OF IMPROVEMENT VALUE)		
2001 LIMITED MARKET VALUE		**$161,300**
CALCULATION:		
2000 EMV $147,600 X 1.085 (LMV %) =	$160,100	
IMPROVEMENT VALUE +	$ 1,200	
	$161,300	
2001 THIS OLD HOUSE VALUE EXCLUSION		**$(3,000)**
2001 TAXABLE MARKET VALUE		**$158,300**

*In 2000, the property did not qualify for a limited market value.

TAX CALCULATION FOR TAXES PAYABLE 2002
HOMESTEAD

Taxable **Market Value:**	**$158,300**
Tax Capacity:	
$158,300 x .01	1583.00
Total Tax Capacity:	1583.00
Tax Extension Rate (S.D. 276)	1.11266
Property Taxes	**$1761.34**
Education Credit	($230.00)
Property Taxes	**$1,531.34**
Market Value	$158,300
Market Value Referendum Rate	.22296
Market Value Tax	**$352.94**
Market Value	$158,300
Solid Waste Market Value Rate	.01901
Solid Waste Fee	**$30.17**
Property Taxes	$1,531.34
Market Value Tax	$352.94
Solid Waste Fee	$30.17
TOTAL PROPERTY TAXES	**$1914.44**

EXAMPLE IF PROPERTY WAS NON HOMESTEAD

Market Value:	**$158,300**
Tax Capacity:	
$158,300 x .01	1583.00
Total Tax Capacity:	1583.00
Tax Extension Rate (S.D. 276)	1.11266
Property Taxes	**$1,761.34**
Market Value	$158,300
Market Value Referendum Rate	.22296
Market Value Tax	**$352.94**
Market Value	$158,300
Solid Waste Market Value Rate	.01901
Solid Waste Fee	**$30.17**
Property Taxes	$1,761.34
Market Value Tax	$352.94
Solid Waste Fee	$30.17
TOTAL PROPERTY TAXES	**$2144.44**

Special assessments are any liens against a property for public improvements such as city water, storm and sanitary sewer, street improvements, and street lighting. If there are any special assessments they must be added to the total payable tax. There are no special assessments levied against the subject property.

Revenue generated from property taxes is used to pay for the services provided by local government. The $1914.44 of taxes payable in 2002 are distributed as follows:

	Dollars	Percent
Minnetonka School District	$ 840.06	43.88%
Hennepin County	$ 611.28	31.93%
City of Minnetonka	$ 292.53	15.28%
Metropolitan Special Taxing District	$ 94.76	4.95%
Other Special Taxing Districts	$ 52.65	2.75%
Waste Management Fee	$ 22.97	1.20%
TOTAL	$1914.44	

*Special Taxing Districts include: Metro Transit, Watershed District, Mosquito Control, Metropolitan Council, Metro Council Waste Bond & Interest, Park Museum, Hennepin Parks.

HISTORY OF TAX

Historically, the valuation for the subject property has been steadily increasing. The subject property's taxes have decreased and again recently increased. The following chart compares the market values, extension rates, and taxes of the subject for the past five years.

Assessment/Tax Years	Market Value	Extension Rate	Taxes
01/02	$171,300	111.2660	$1,914.44
00/01	$147,600	111.8630	$2,229.58
99/00	$137,000	128.0400	$2,165.40
98/99	$132,000	139.8840	$2,192.30
97/98	$128,500	142.1810	$2,209.28

Over the past five year period, the market value increased 33.3 percent while the tax extension rate decreased 25 percent, and the overall tax decreased 27.8 percent. As a result of the four-year reappraisal cycle, the subject property was reappraised for the 2000 assessment year. The 2001 valuation of the subject property increased from $147,600 to $171,300.

In Minnesota, the assessor is required by law to view and appraise 25 percent of the parcels annually so that each property in the jurisdiction is physically reappraised once every four years. The fairness of the tax burden can depend on how well local levels of government administer uniform assessment practices

and procedures. The Minnesota Department of Revenue administers the tax law and assessment procedures for the state.
Assessment levels are measured by annual sales ratio studies conducted by the Department of Revenue. The sales ratio is the relationship between the assessor's estimated market value and the actual sale price of the sold property.

$$\frac{\text{Estimated Market Value}}{\text{Sale Price}} = \text{Sales Ratio}$$

The minimum median sales ratio allowed for any class of properties is 90 percent and the maximum is 105 percent. Over and above the state standards, the Hennepin County Assessor's Office also imposes its own standards. The minimum median sales ratio allowed for any class of property is 95 percent. Minnetonka's 2002 residential sales ratio study conducted on properties sold between October 1, 2000 and September 30, 2001 met both state and county standards. The following statistical data was reported:

Median	95.4%
Mean	95.9%
COD	5.4%
Number of Sales	479

Another measurement of the assessment is the Coefficient of Dispersion (COD). The COD measures the uniformity of a sample. The lower the COD, the greater the degree of uniformity. The International Association of Assessing Officers (IAAO) recommends a COD of 10.0 or less for a fairly homogeneous area.

The assessment level for the subject neighborhood appears consistent with other neighborhoods and with the overall city sales ratio. The following data represents the subject neighborhood during the same time frame.

Median	96.3%
Mean	95.7%
COD	7.3%
Number of Sales	53

Below is a sales ratio study of the subject property and five properties located within the subject neighborhood, which were utilized in the sales comparison approach.

	SALE DATE	ADDRESS	2002 EMV	SALE PRICE	SQ FT	ASSMT / SQ FT	SALES RATIO
Sales Comp 1	08/2002	16421 Norwood La	$181,200	$215,000	1,350	$134.22	84.3%
Sales Comp 2	11/2001	5434 Woodland Rd	$168,800	$174,900	992	$170.16	96.5%
Sales Comp 3	12/2001	5518 Woodland Rd	$201,400	$189,900	1,244	$161.90	106.1%
Sales Comp 4	08/2001	5304 Forest Rd	$186,600	$209,000	1,383	$134.92	89.3%
Sales Comp 5	03/2002	5239 Holiday Rd	$183,100	$199,900	1,100	$166.45	91.6%
Subject		4932 Clear Spring Rd	$191,800	$206,000*	1,140	$168.25	93.1%
				Range			84.3-106.1%
				Median			90.5%
				Mean			92.5%

This cursory sales ratio indicates that the subject property and the sales comparables have an equitable level of assessment.

*Value calculated in the Sales Comparison Approach

	ADDRESS	2001 EMV	2002 PAYABLE TAXES	SQ. FT.	TAX PER SQ. FT.
Sales Comp 1	16421 Norwood La	$146,900	$1514.92	1,350 sq ft	$1.12
Sales Comp 2	5434 Woodland Rd	$111,900	$1240.62	992 sq ft	$1.25
Sales Comp 3	5518 Woodland Rd	$161,200	$1952.04	1,244 sq ft	$1.57
Sales Comp 4	5304 Forest Rd	$146,000	$1736.82	1,383 sq ft	$1.26
Sales Comp 5	5239 Holiday Rd	$160,600	$1942.92	1,100 sq ft	$1.77
Subject	4932 Clear Spring Rd	$158,300	$1914.44	1,140 sq ft	$1.73

The five comparables were used to analyze the tax per square foot in relation to the subject. The comparables have similar tax burden per square foot to the subject.

CONCLUSION

The subject property's tax burden has decreased from payable 1998 to 2002. It has been shown that the assessment level for the subject property and neighborhood is fair and equitable. With changes to the property tax system each legislative session, it is difficult to predict the effect on the taxes for the subject property.

The trend of increasing values and is expected to continue as the demand for residential properties in the area increase. An increase in tax may be expected as further demands for services from the local governments continue to increase due to expected park and school referendums.

Recent studies of properties sold in the subject neighborhood do not indicate any measurable effect on sale prices as a result of the tax decrease or any of the new property tax legislation.

CITY ANALYSIS

DESCRIPTION AND HISTORY

The City of Minnetonka is the twelfth largest community in Minnesota with a population of 53,000. Minnetonka is located 10 miles directly west of Minneapolis. It is located in the middle ring of suburbs of the Twin Cities Metropolitan Area.

The neighboring cities include Plymouth to the north, St. Louis Park, Hopkins, and Edina to the east, Eden Prairie to the south, and the lakeshore communities of Deephaven, Shorewood, Greenwood, Woodland, and Wayzata to the west. Minnehaha Creek flows from Gray's Bay across the city and serves as a tributary to the Mississippi River. The city comprises 17,983 acres in 28 miles.

After the Native Americans gave up their rights to territory west of the Mississippi River, the first two settlers to "rediscover" and explore Lake Minnetonka were Simon Stevens and Calvin Tuttle. The two men went in search of the best location for water-power on Minnehaha Creek. They chose the site below the outlet of the lake to Gray's Bay (then Outlet Lake). Settlement of the area began in 1852 with the construction of a sawmill on Minnehaha Creek. The area that was developed was referred to as Minnetonka Mills and was the first permanent settlement west of Minneapolis in Hennepin County. In 1956, Minnetonka was incorporated as a village and became a city by charter in 1969.

GOVERNMENT AND SERVICES

Minnetonka has a Council-Manager form of government. The City Council exercises the legislative power of the city and determines all policy matters. The council has the responsibility of basic decisions for the community including appointment of the city manager. The city manager is responsible for implementing the council policies and carrying out the business of city government. The City Council is comprised of a mayor and six council members. Four council members are elected from wards and two are elected at large on a non-partisan basis. Each council member and the mayor serve a term of four years.

City services are provided by a staff of 216 full-time employees, 54 sworn police officers, 76 paid-on-call (volunteer) firefighters, and 350 seasonal workers. The city staff is also complemented by numerous volunteers. The city budget for 2001 was $18,700,000. The City maintains a bond rating of AAA as established by Moody's. The January 2, 2002 total estimated market value for the city was $6.08 billion.

Minnetonka has 40 parks that comprise over 1,100 acres throughout the city. Most of the park system has been left in a natural state. The city is also in the process of developing the Minnetonka Loop Trail System that will provide a link to the community parks and offer over 30 miles of running, walking, and biking trails. It is currently 75% complete, and takes advantage of the interesting terrain

provided by three major creek corridors that include Minnehaha, Purgatory, and Nine Mile Creeks.
The city is currently fully developed and the next phase of growth will be redevelopment. Two examples of this redevelopment have already occurred on the north side of Interstate No. 394 and Hopkins Crossroad. Both projects, Boulevard Gardens and Crescent Ridge, contain a mix of high-density residential and commercial buildings on property that was previously low-density residential development.

There are three public school districts in Minnetonka: Hopkins School District No. 270, Minnetonka School District No. 276, and Wayzata School District No. 284. There are six elementary schools, two junior high schools, and three senior high schools. Also, there are two parochial and three private schools in the city.

Minnetonka has over 4,000,000,000 square feet of Class A office space and the diverse commercial/industrial sector constitutes almost 50% of the tax base in the city. Minnetonka is also home to the Ridgedale Center that includes 1.2 million square feet of retail space and is anchored by Sears, J.C. Penney's and Marshall Fields. The city also contains a power center, a community center, a specialty center, and several neighborhood and strip centers.

There are three hotels in Minnetonka with a total of 840 rooms.

Within the city there are, 23 churches, representing many denominations.

POPULATION AND INCOME
The population has shown steady growth from 25,000 in 1960 to the present estimate of 53,000. Projected population estimates indicate the growth will continue until the year 2010 and reach a peak of 56,500. In addition to this residential development, careful planning has resulted in a significant commercial/industrial base that contributes toward a healthy distribution of the tax base between residential and commercial sectors. The largest part of the population is employed in managerial and professional occupations as well as technical, sales, or administrative support positions.

Demographic	*1970*	*1980*	*1990*	*2000*
Population	35,776	38,683	48,370	51,102
Occupied Households	9,088	12,667	18,687	21,393
Employment	5,290	19,818	35,536	46,000

According to the last US Census in 2000, the City of Minnetonka population is 51,102. The State Demographer has estimated the 2000 median family income among resident of Minnetonka as $50,069. The 2000 estimate for median family income had not been released as of time of appraisal. The largest part of the population is employed in managerial and professional occupations. Sales, technical and administrative support positions are also common amongst

Minnetonka residents. In August 2002, the unemployment rate in the Twin Cities was estimated at 4.0%.

HOUSING

Minnetonka has a wide variety of residential home styles, ages, and price ranges on wooded sites and hillsides. Of the total market value in Minnetonka, approximately 73 percent were residential property. Also, there were approximately 17,000 total housing units in Minnetonka of which approximately 75 percent of was single-family and 25 percent was multi-family. Minnetonka, along with the majority of the metropolitan communities, has seen a steady increase in sale prices of existing homes throughout the 1990's. Beginning in 1998, this steady increase has been followed by a dramatic change in the real estate market that is reflected by annual double-digit increases to the median sales price of single-family homes in Minnetonka. The typical residence is a three-bedroom rambler, 1,100-1,200 square feet, built in the 1950's or 1960's. Currently, that type of property would sell for about $200,000. The majority of the new residences constructed constitute "executive" style single and multi-family residences with the sale prices that range from $500,000 to $2,000,000. Property in Minnetonka derives its desirability from the scenic nature of the city itself, the excellent public school systems, and the close proximity to Lake Minnetonka and the Minneapolis/St. Paul loop area. The owner-occupancy rate in Minnetonka is 97% and the housing stock is well maintained indicating a high level of "pride in ownership" throughout the city.

Housing by type	*1990 Number of Housing Units*	*1999 Estimated Completed Housing Units*
Single-family	12,321	13,178
Multi-family	7,794	9,318
Total	20,115	22,496

CURRENT HOUSING MARKET DATA

According to the Multiple Listing Service (MLS), Minnetonka's median sale price of single-family residences from January 2002 to August 2002 was $260,000. The mean sale price was $299,628. The percent of listing price received was 97.17%, and the average number of days on the market was 39.61. There were 126 homes on the market at the date of appraisal. There were 20 vacant sites and 15 new homes built in the past year. This supports the evidence that Minnetonka has a strong real estate market and a positive effect on the subject property.

TRANSPORTATION

Access to any point in the Twin Cities Metropolitan Area from Minnetonka is excellent due to the extensive highway system. Interstate No. 394, State Highway No. 7, and Crosstown Highway No. 62 form the major east-west connections to the city, while Interstate No. 494 and State Highway No. 169 provide the north-south connections. Because of this central location and easy access to the Twin Cities International Airport, Minnetonka has emerged as a commercial and corporate center.

Scheduled airline service is provided by several major airline carriers at the Minneapolis-St. Paul International Airport, which is located 20 miles southeast of Minnetonka. There are two local airports; Crystal and Flying Cloud that also provide air service. There are three bus companies, both local and interstate which serve the area. The intra-city bus service is provided by the Metropolitan Council Transit Operations (MCTO). Amtrak provides rail passenger service. The station is located in St. Paul, eighteen miles east of Minnetonka.

EMPLOYMENT

Approximately 35,500 individuals are employed in Minnetonka and it is home to such major corporations as Cargill, Carlson Companies, Opus Corporation, Datacard, Normark, United Health Care, Fingerhut, Osmonics, Scicom Data Service, Allina Health Systems, American Medical Systems, and Norstan.

CONCLUSION

The City of Minnetonka is regarded as a desirable place to live and work. With a diversified economy, it provides a stable employment base for residents and local businesses.

The projections for the future are for a stable population, growing slightly. The occupied households are expected to rise by approximately 25 percent. Employment is also projected to rise by 25 percent.

A negative perception by potential new homeowners may be the lack of a central downtown business area. The City does have several small business centers, but there is not one central downtown location.

With continued growth of housing and employment there should continue to be a stable, positive effect on the subject property and comparable properties. The property's value should continue to increase as should those comparable to it.

NEIGHBORHOOD ANALYSIS

A neighborhood is defined as

> "**the environment of the subject property that has a direct and immediate impact on its value.**"[4]

The surrounding amenities provided to the subject property and the immediate neighborhood have a direct affect on market value. The neighborhood boundaries can be natural, such as lakes, rivers, ravines, hills, or undeveloped land; political, such as city limits, school or zoning districts; or man-made, such as streets, highways, freeways, or railroad tracks.

Market value is affected by physical, economic, governmental, and social forces. These forces must be analyzed in reference to the subject neighborhood to determine their impact on market value of the subject property.

NEIGHBORHOOD DESCRIPTION

The subject neighborhood is bounded on the north by Minnesota State Highway No. 7, which is an intermediate arterial road moving traffic east and west through the city. This traffic is not only local, but also a major access to and from Minneapolis and western suburbs to central and western Minnesota. This boundary separates the subject neighborhood from a residential neighborhood to the north that, although comparable to the subject, the homes are generally older split-levels or newer more expensive two-story dwellings.

The eastern border is Woodland Road, which serves as a north-south collector street for the residential areas south of State Highways No. 7. This border is not only man-made, but also political as it is the dividing line between the Minnetonka School District #276, in which the subject property is located, and the Hopkins School District #270 which lies to the east of the subject.

The southern border is another man-made boundary and is a east-west minor arterial street referred to as Excelsior Boulevard or Hennepin County Road No. 3. South of Excelsior Boulevard is a residential neighborhood that is vary similar and in direct competition with the subject neighborhood. As noted these two neighborhoods are physically separated by Excelsior Boulevard and elementary students would attend two separate area schools. In addition, the homes south of Excelsior Boulevard are newer, built between 1960 and 1970, on sites that are larger, averaging around 21,000 square feet. Finally, the west border is the natural boundary formed by Purgatory Creek, separating the residential neighborhood containing the subject property and the commercial district located to the west of Purgatory Creek. This diverse commercial district contains three neighborhood shopping centers, numerous banks and other various retail businesses. In addition, office buildings ranging from small single tenant to large multi-story buildings are located in this commercial district. This district compliments and supports the subject neighborhood by satisfying the daily needs

of those residing in the surrounding neighborhoods and providing employment opportunities.

These boundaries exhibit all three types of boundaries previously referenced and provide distinct divisions from the other neighborhoods in the immediate area. A map of the subject neighborhood is provided in Exhibit G of the addenda.

The subject neighborhood is located in the southwest quadrant of the City of Minnetonka. The neighborhood is irregular in shape and covers approximately 520 acres or less than one square mile. Once predominately pasture, the terrain is mostly rolling with many mature hardwood trees. The neighborhood was primarily developed between 1956 and 1965, and the majority of the homes were constructed by two general contractors: Elmo Ginkel (Ecklund) and Swetland. These craftsmen constructed mostly rambler or ranch style home, approximately 1,000 to 1,400 square feet on the first floor. Three major plats comprise the majority of the neighborhood: Temple Village in the north part of the neighborhood was first developed, followed by Woodland Hills on the south and Clear Springs on the west.

Due to the limited number of builders, the neighborhood is comprised of a very homogeneous group of properties. The majority of the homes are similar in age, style, and quality of construction. When these homes were constructed, the differences included size of the main level, dining rooms, fireplaces, and the size or number of garage stalls. Depending on the terrain, these garages with either attached, detached, or tuck under (basement level). The terrain also allowed for some of the properties to have walkout basements. Over the years, these homes have been remodeled, altered, and upgraded to reflect the current trends and needs of the residents occupying the properties. These homes now differ by air conditioning, basement finish, decks, porches, additions, swimming pools, etc.

Although the majority of the properties are single-family detached resident dwellings, 698 to be exact, there are some other types of properties. The other properties include: 12 double bungalows (two attached single-family resident dwellings), 117 town homes (multiple attached single family residential dwellings) in two separate developments, two city parks, five vacant sites (four single-family and one double bungalow) and one church.

A fire station is located on Excelsior Boulevard in the neighborhood directly south of the subject neighborhood and two-third mile south of the subject property.

As stated, these homes are chronologically 36 to 45 years of age, but generally have effective ages of 30 to 37 years due to the level of maintenance and pride of ownership, similar to most properties in the City of Minnetonka. An exception would be that some of the properties that are located on State Highway No. 7 and Excelsior Boulevard which are the northern and southern boundaries of the subject neighborhood. Properties on these two routes are generally older and suffer from higher levels of physical deterioration.

GOVERNMENT

The residential sites vary in size and shape, but most are landscaped with trees and shrubs. The sites in the neighborhood range from 12,000 to 26,000 square feet. The majority of the properties that are similar to the subject, have site sizes that are 12,000 to 22,000. Thus, the subject site is smaller than most sites in the subject neighborhood at 12,621 square feet. The entire neighborhood is zoned R-1, Low Density Residential District, except for the parcels that have been improved with double bungalows which are zoned R-2, Low Density Residential District, and the two townhouse developments which are zoned R-3, Low or medium Density Residential District. The zoning ordinance, along with building codes that are enforced by the City of Minnetonka Building Division, encourages the continued harmonious use of the properties in the neighborhood.

There are four life stages of a neighborhood. The first is growth which is a period of development, building, and construction. The next stage is stability. This stage is when the supply of and demand for construction are equal. The stage following stability is decline. Decline is a time of diminished demand and lack of desirability. The final stage is revitalization. This is a stage in which a neighborhood that has been in a period of decline experiences renewal and restoration and becomes desirable again. The life stage of the neighborhood has and currently would be considered stable with well-maintained homes. The neighborhood is nearly completely developed with the exception of a few vacant sites that property owners are holding onto for personal reasons.

SOCIAL

The age range of the residents in the subject neighborhood is wide. The style and price range of the typical home represents attractive housing opportunities for first-time homeowners in their late twenties or early thirties. Approximately 25 percent of the population would fall into this category. Approximately 35 percent of the population is elderly or retired, and the remaining 40 percent, would be middle-age families with children still in school or recent "empty nesters".

The subject neighborhood, as well as the entire city, is considered typical for the Twin Cities Metropolitan Area (TCMA) for making residential loans by most lending institutions. Financing is available through VA, FHA, and conventional mortgages. Interest rates range from 6.75 to 7.25 percent for 30-year mortgages.

ECONOMIC

There is a 98 percent owner-occupancy rate. Of the 694 residences, only 14 are currently rented and this would be typical of the entire city. Rental rates range from $1,000 to $2,000 /month. Vacancy rates for rental properties in the neighborhood are virtually non-existent since available homes rent quickly. All verified rental agreements required thirty to sixty day notices. Rents will be discussed in greater detail in the Income Approach section of this appraisal in starting on page 86.

The amenities and services described in the "City Analysis" section hold true for the subject neighborhood. Schools, churches, parks, shopping, entertainment, employment, and public transportation are all in close proximity to the subject property. The neighborhood is served with all utilities and city sanitary sewer, storm sewer, and water. Other utilities available to the subject site include natural gas, electricity, telephone, cable television, and internet access. The costs of these services are comparable to other areas in the city and the TCMA.

The streets in the neighborhood are bituminous surfaced. Streets do not form a standard east-west, north-south grid pattern, but intertwine throughout the neighborhood connecting with collector and arterial roads. There are 12 cul-de-sacs in the subject neighborhood.

CONCLUSION

The subject neighborhood is virtually fully developed and its life cycle stage is stable. There is a high degree of uniformity in zoning, age, style and quality of construction within the neighborhood. City services and utilities are available to the entire neighborhood. Both the city and neighborhood enjoy a stable but slightly growing population, a stable employment and economic base and a well-managed government. The neighborhood has a strong owner-occupancy rate of 98 percent with schools, churches, parks, shopping, entertainment, employment and public transportation all in close proximity to the subject property. There were no detrimental influences noted for the subject neighborhood. The neighborhood is equal when compared to competing neighborhoods. The style and price range for the typical home represent s attractive housing opportunities for first time home buyers with typical financing terms available. All of these factors should serve to maintain the neighborhood's strong real estate market into the near future.

SITE ANALYSIS

LOCATION
The subject site is located in the northeast corner of the subject neighborhood at 4932 Clear Spring Road, Minnetonka, Minnesota. The subject site is legally described as: Lot 6, Green Valley Second Unit, Hennepin County, MN.

It is an interior site located on the west side of Clear Spring Road. There are 47 single-family detached residences on this street. There are 10 single-family twin homes on this street. The estimated market values of the single-family detached properties range $103,000 to $382,100. Clear Spring Road is a north-south public street that is approximately 4,200 feet in length. Temple Drive North, Westmill Road, Clear Spring Drive, and Clear Spring Lane are access streets from the east. The south access is Excelsior Boulevard. Exhibit G illustrates the immediate area surrounding the subject property.

SIZE
The rectangular site has 80 feet of frontage on Clear Spring Road. The north measurement is 162.5 feet, the east or rear measurement is 80 feet, and the south measurement of the site is 185 feet. The total site area is 12,621 square feet. The site is similar in size to other sites south of it on the street. There are sites larger in size to the north and west of the subject. On average the site is smaller than the typical sites in the subject neighborhood.

TOPOGRAPHY AND SOIL CONDITIONS
The site is moderately sloping ten and one half feet from the rear to the front, which ensures adequate drainage. There was not a soil or subsoil tests conducted as part of this appraisal. According the City of Minnetonka engineering staff, the topsoil appears to be sandy clay. Visual observation indicates that there is no evidence of settling or cracking of the foundation of the subject property improvements. Sub-soil conditions do not indicate that any correction would be required prior to construction of the subject property.

There are trees and shrubs in both the front and rear yards, which appears to be typical landscaping for the neighborhood. The yard is in good condition.

UTILITIES
All public utilities including: sanitary sewer, storm sewer, water, natural gas, electricity, telephone, cable television (including digital cable), and internet services are available in the neighborhood and at the subject site.

Service	Provider	Average Monthly Cost
Sanitary Sewer, Storm Sewer, and Water	City of Minnetonka	$66.50
Natural Gas	Minnegasco	$90.00
Electricity	Excel Energy	$90.00
Telephone	Qwest Communications	$35.00
Cable Television	Time Warner Cable	$12.00
Internet Access	Multiple providers available	$21.00

Garbage and recycling services are provided by private hauling companies, and the monthly cost is included in the water billing from the City of Minnetonka.

RESTRICTIONS
There are no deed restrictions or covenants recorded on this site.

STREET IMPROVEMENTS
Clear Spring Road is a two-lane asphalt street with asphalt curb and gutter. The street is 26 feet wide and bituminous surfaced. There are no sidewalks in the subject neighborhood. There is an off-street parking regulation that requires parking for at least two vehicles for all single-family dwellings. There was two twenty-year sewer and water assessment originally levied January 1, 1973, and January 1, 1974. Both of these special assessments were paid in full May 30, 1978.

ZONING

The zoning of the subject property is R-1, Low Density Residential. According to Minnetonka Zoning Ordinance, district standards are stated in Section 300.10, Subdivision 5, a minimum front yard setback of 35 feet from the right-of-way of local streets, a minimum side yard setback of the sum of the side yard set backs shall not be less than 30 feet, a minimum rear yard setback of 40 feet or 20 percent of the depth of the site, whichever is less, a minimum site size of 22,000 square feet, a minimum site width at the front yard set back line of 110 feet, and a minimum site depth of 125 feet. Subdivision 6, lists an additional requirement in which off-street parking shall be provided for at least two vehicles for all single-family dwellings. A suitable location for a garage measuring at least 20 feet by 24 feet that does not require a variance shall be provided and indicated as such on a survey or site plan to be submitted when applying for a building permit to construct a new dwelling or alter an existing garage.

The ordinance does allow variances from the standard for parcels that were platted prior to February 16, 1966, as found in Section 300.07, Subdivision1,b. Green Valley Second Unit was recorded as a plat on 1948, which is prior to February 16, 1966. The subject site would need to meet the following standards:

	Zoning Standard	**Subject Site**
Front Yard Setback	No < 20 Feet	51 Feet
Side Yard Setback – at building setback line	10% of lot width on each side of the structure, No < 7 Feet	5.5 Feet North Side 15 Feet South Side
Rear Yard Setback	20% of lot depth, No < 7 Feet	81 Feet
Site Size	15,000 Square Feet	12,621 Square Feet
Site Width at building setback line	90 Feet	80 Feet
Site Depth	110 Feet	162.5 Feet

According to Susan Thomas, Planner, City of Minnetonka Planning Department, the subject site is a legal non-conforming use. The uses of the site were lawful when established but no longer meet all current ordinance requirements. Section 300.10 and Section 300.07 of the City of Minnetonka Zoning Ordinance are located in the Addenda in Exhibit I.

FUNCTIONAL ADEQUACY

The site is similar in size to other sites south of it on the street. There are sites larger in size to the north and west of the subject. On average the site is smaller than the typical sites in the subject neighborhood. The subject site is functional for the improvements contained upon it. The improvements conform to the size of the typical residence in the neighborhood.

CONCLUSION

The subject site is an interior site located on a quiet residential street. All utilities are accessible and support and improve the subject site. The property is a legal non-conforming site and is functional for its intended use as a single-family residential property. No external influences exist that would adversely affect the site.

IMPROVEMENT ANALYSIS

The subject site is improved with a one-story, wood frame, single-family residence, with a two stall attached garage. The house was constructed in 1958, by Joe Semrad, a local builder of average proficiency.

The dwelling is a basic architectural style typically referred to as a "rambler", and conforms well to the other homes in the subject neighborhood. The grade of construction, materials, and workmanship are average and meet all zoning and building regulations. The homogeneity in the neighborhood is expected to contribute favorably to the future market value of the subject property. This assumption is based on the Principle of Conformity.

The Principle of Conformity:

> **"Conformity affirms that property values are generally maximized and sustained when property features conform to the standards of the market. If a property's architectural style, building cost and quality, lot size, and other physical and legal features are reasonably consistent with the characteristics of other neighborhood properties, market conformity is often indicated. Conformity provided the economic basis for the analysis of a property's highest and best use."[5]**

This style of home is expected to remain in demand by future single-family homebuyers. The structure has been well maintained and is in overall average condition; however there is some evidence of physical depreciation which will be discussed in this section as well as the Cost Approach section starting on page 53 of this report.

Exterior foundation measurements of the house are 38 by 29 feet. There is also one cantilever measuring 38 feet by 1 foot. There is a full basement under the house, with an exception of the overhang. There is also a basement under the two stall attached garage. The total foundation size is 1,646 square feet. The total gross building area including the cantilever is 1,140 square feet. The attached two-stall garage measures 23 feet by 22 feet, which is a total of 506 square feet. There is a wooden deck on the backside of the home. The deck measures 18 feet by 13 feet, totaling 234 square feet. (See Floor Plan, Exhibit L)

GENERAL CONSTRUCTION DETAILS

Foundation – The foundation is constructed of concrete blocks, 8-inch block that are 12 inches wide, and 11 courses high. There is no sump pump or any drain tile around the foundation. Ground drainage is good. There is no evidence of abnormal setting or cracking of the walls.

Floors – The basement floor is poured concrete, four inches in depth with a floor drain. There is no evidence of abnormal settling or cracking in the floor. The

main floor joists are two inch by eight inch and spaced 16 inches on center. The floor joists are supported by wood beans, six inches by ten inches that run down the center of the house, these are supported by four vertical six by six wood posts. The sub-floor consists of two layers. The first is a base of one-inch boards laid diagonally across the floor joists and a second layer of five-eighths inch board laid perpendicular over the base sub-floor.

Exterior Walls – The walls are two inch by four-inch wood studs, sixteen inches on center. The exterior is wood cedar shake. The siding was painted in 1997 and is in good condition, with the exception of the trim, which is in need of repainting.

Roof – The hip style roof is constructed with two inch by six inch ceiling joists and two inch by six-inch rafters; both spaced 16 inches on center. The joists and braces are adequately braced and the roof shows no sign of settling. The roof boards are ¾ inch thick and covered by 15 pound roofing paper and 235 pound asphalt shingles. The roof was re-shingled in 1993. The roof showed no evidence of leakage and appeared to be in average condition. The roof overhangs out over the walls creating two feet eaves around the perimeter of the house and attached garage. The fascia is of one-inch redwood and the soffits are exterior grade plywood. There is an adequate number and size of both soffit and reroof cents providing adequate attic ventilation. The perimeter of the eaves has steel gutters and downspouts.

Insulation – The attic has four inches of fiberglass insulation. The energy rating for the ceiling would be approximately R-12 which is considered to be normal by today's energy standards. The wall insulation is balsam wool, which was common for homes constructed during this era.

Windows and Doors – All windows are the original double-hung, single glazed combination storm and screen. There are five entrances to the structure; one in front that opens to a small foyer, one from the garage to a small foyer, one from the rear main level deck, one from the lower level patio below the deck, and one from the lower level basement cold storage area. The doors for the front entrance, garage entrance, and lower level cold storage entrance are steel frame storm doors. The doors for the main level rear entrance as well as the other lower level entrance are wood frame storm doors with glass storm windows. Interior doors are hollow core oak veneer, stained blonde. All doors and windows are operational and in average condition.

Interior Finish – The interior walls are framed with two-inch by four-inch studs and 16 inches on center. Interior walls and ceilings consist of five-eighth inch drywall, taped and painted or sprayed. All interior millwork is oak stained blonde. The ceiling height on the main level is eight feet throughout the house.

MECHANICAL SYSTEM

Electrical – The electrical system is equipped with 100 amperes service and circuit breakers. The total number of circuits is 14. The electrical box is located in the laundry area of the basement. The electrical service, including outlets and fixtures appear to be adequate and in good working condition.

Heating and Cooling – The heating and air conditioning system is located in the basement. The furnace is a gas fired, force air unit, manufactured by Carrier. The air conditioning system is a Carrier two-ton capacity unit, and was added in 1987, at which time the furnace was replaced as well. The ductwork is galvanized steel providing warm air ducts and cold air returns to the main level and basement. In addition to the gas furnace, additional gas lines have been installed for the gas clothes dryer. The system was operating efficiently and effectively as of the appraisal date.

Plumbing – The water supply lines for both hot and cold water are copper, with the waste and vent lines being cast iron. The 40-gallon water heater is not the original water heater, it was replaced in 1994. The water heater appears to be in good working condition, functioning efficiently. There is a single compartment plastic laundry tub located in the basement laundry room and there is a basement floor drain. The kitchen has a double compartment, stainless steel sink. The main bathroom fixtures include a cast iron white enameled bathtub with a shower over the tub, a white porcelain water closet and a cast iron, white enameled sink. The lower level bathroom includes a cast iron, white enameled pedestal sink, and white porcelain water closet, and a single-unit plastic stand up shower with a glass door. There are ten interior fixtures. There is one outside water faucet located in the rear of the house. The subject property is connected to the city water and sewer with good water pressure available.

Appliances – The appliances in the home that are not built-in and are considered personal property and will not be considered in this report are the washer and dryer located in the basement. In the kitchen there is a refrigerator, oven, and hood. These appliances are typical to competing properties. It does however lack a built-in dishwasher. A built-in dishwasher is deemed a necessity in the current market for a home with three bedrooms that would typical have a family with children. This item will be addressed as functional obsolescence in the cost, income, and sales comparison approaches on pages 81, 104, and 126.

FLOOR PLAN

BASEMENT LEVEL
The basement level contains a family room. Access to the basement is by an interior enclosed staircase, located between the kitchen area and living room. There are two legal entrances from the outside on the rear home on the basement level. One is located in the family room and the other is located in the

cold storage area below the garage. Access to the cold storage is through the laundry room.

The family room (13'6" X 27'6") has a brick, wood-burning fireplace with a brick hearth. There is an average quality carpet in the room which is in average condition. The carpet was installed over the poured concrete floor. The walls framed with two-inch by four-inch studs and are 16 inches on center. They are covered with five-eighth inch drywall, taped and painted. The ceiling is exposed floor joist.

The recreation room (9'6" X 20'6") has a fair quality carpet that is in fair condition. The carpet was installed over the poured concrete floor. The walls framed with two-inch by four-inch studs and are 16 inches on center. They are covered with five-eighth inch drywall, taped and painted. The ceiling is exposed floor joist.

The bathroom (9' X 6') floor is ceramic tile that has been installed over the concrete floor. The walls are framed with two inch by four-inch studs and are 16 inches on center. They are covered with five-eighth inch drywall and taped. Four feet of the lower part of the wall is covered with ceramic tile that matches the floor tile. The remaining portion of the wall is painted. The ceiling is covered with five-eighth inch drywall, taped, and painted.

The balance of the basement is unfinished with concrete floors, bare concrete block walls, and exposed floor joists. This area includes the unfinished cold storage space underneath the garage. This area is used for mechanical, laundry and storage.

MAIN LEVEL
The main floor contains a small foyer, kitchen with eating area, living room, full bathroom, and three bedrooms.

The front door opens to a small foyer (3'5' X 11'6"). The foyer offers access to the kitchen and living room. The floor covering is oak wood floor that are in average condition.

The living room (13'0" X 24'6") has oak hardwood floors that are in average condition. The walls are painted. There is a floor to ceiling brick, wood-burning fireplace, located in the southeast corner of the room. There is a wood and glass storm door that leads to the deck on the west wall.

The kitchen (11'6" X 11'6") includes the informal dining room (6' X 8"). There is wainscoting on the walls to four feet, with the remainder of the walls and ceiling painted. The floor covering is vinyl linoleum. The flooring appears to be in fair to poor condition. The counter tops and backsplash are Formica, also in average condition. The kitchen cabinets are of average quality oak with 14 lineal feet of upper cupboards and 18 lineal feet of base cupboards. There are no built-in appliances including lack of a built-in dishwasher. The informal eating area also

serves as a traffic movement center for moving to and from the kitchen to the front entry and the access to the enclosed stairwell to the basement.

The main level has one full bath (8' X 6'6"), with ceramic tile floor and wainscoting on the wall to four feet. The remainder of the walls and ceiling are painted. The tub and shower is enclosed on all sides with ceramic tile. There is a five foot long oak vanity that has a single basin with one faucet. The vanity has a ceramic tile surface. The bath also has an exhaust fan that is vented through the roof. There is also a linen closet located in the corner of the room.

The hallway (3'6" X 17') has the same flooring finish as the living room. The hallway moves traffic from the living room to the bathroom and bedrooms.

The three bedrooms are located on the south end of the house, two bedrooms are on the front or east side and the other is on the rear or west side of the house. The two secondary bedrooms on the east side are (9'6" X 10'6") and (9'6" X 9'6"), while the largest bedroom (10'6" X 11'6") is on the west or rear side of the house. The measurements are interior and do not include closet areas. Each bedroom has adequate closet space. All of the bedrooms have wood floors that are in good condition. The walls are painted and in average condition, painting or redecoration was not needed as of the date of the appraisal. Each bedroom has an overhead ceiling light with switches located the entrance to each room.

GARAGE

A single-stall attached garage was constructed at the same time, with the same materials, and quality of components used as the house. In 1995, a garage with basement addition was done, making the garage a two-stall garage. Comparable building components were used in the addition. Access into the garage from the house is by the door from the eating area. Access into the garage from the outside is through a 16 feet wide by 7 feet high, wood overhead garage door. The secondary entrance to the garage from the north yard is from a wood service door on the northeast corner of the garage. The garage poured concrete floor four inches thick, has exposed two-inch by four-inch studs, two electrical outlets, and an overhead light. The garage measurements are 22 feet by 23 feet, totaling 506 square feet.

CONDITION AND COMMENTS

There has been no major standard remodeling since the subject improvements have been constructed in 1958, with the exception of the garage with basement addition. The general condition of the structure and components is average, as overall maintenance has been good except for some items of deferred maintenance previously mentioned. The subject does have the cold storage area on the basement level. IT has been determined that this additional unfinished space does not contribute additional value to the home. It will not be addressed in approaches to value.

All forms of depreciation and obsolescence, including deferred maintenance (physical curable depreciation) in the form of the exterior trim needing repainting as well as the kitchen needing new flooring, and functional incurable depreciation due to the lack of a built-in dishwasher, will be covered in further detail in the Cost Approach section of this report starting on page 57.

A floor plan of the subject improvements, both main level and basement, along with exterior photographs of the subject property is included in the Addenda as Exhibit A and L.

FUNCTIONAL UTILITY

Functional utility is defined as

> "**The ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards; the efficiency of a building's use in terms of architectural style, design and layout, traffic patterns and the size and type of rooms.**"[6]

The room layout of the residence is designed efficiently. There is an efficient traffic pattern from room to room. The room sizes are adequate in size; not too small or crowded. The entrances to the home are convenient and accessible.

There is a curable form of obsolescence in the home as it lacks a built-in dishwasher. This will be discussed in detail in the cost approach section of this report.

EFFECTIVE AGE AND ECONOMIC LIFE ANALYSIS

ACTUAL AGE

The actual age is defined as

> **"The number of years that have elapsed since construction of an improvement was completed."**[7]

The actual age or chronological age of the subject is 44 years.

EFFECTIVE AGE

The effective age is defined as

> **"The age indicated by the condition and utility of a structure."**[8]

The effective age of the structure is more difficult to define however, so further analysis must be done.

Effective age may or may not represent actual or chronological age, this depends on factors such as maintenance, design, and location. These factors may increase or decrease the aging process. The effective age is related to the remaining economic life. The total economic life of similar structures, minus the effective age of the subject improvement, equals the remaining economic life of the subject property. Effective age can be greater than, less than, or equal to the chronological age depending on the maintenance of the property.

A study of homes in the subject neighborhood indicates they were constructed between 1956 and 1965, thus having chronological or actual ages of 36 to 45 years. These homes generally are comparable to the subject and have been maintained in average condition regardless of the actual age. The subject property as well as other homes of the same chronological age; are observed to be in the same overall condition as homes constructed between 1964 and 1971.

While considering the average age of other comparable homes in the neighborhood and their observed effective ages, based on condition and overall maintenance, it is estimated the effective age of the subject is closer to 35 years because it is in the same general condition as other homes of that age.

This is further supported by evidence of replacement of some components that have reached their economic life and due to the high level of maintenance, or "pride of ownership," which the homeowners have displayed over the past may years. Items that serve to reduce the effective age, making it less than the actual age and giving the appearance of homes only 35 years old are:

- Replaced roof and replaced roof vents in 1993.
- Replaced furnace and air conditioner in 1987.
- New carpet in basement family room in 1998.
- New basement bathroom floor and fixtures in 1999.
- Constant painting of interior and exterior walls.

TOTAL ECONOMIC LIFE

The total economic life of an improvement is the entire period of time that the improvement is estimated to contribute value to the property. The buildings economic life begins when it is built and ends when the building no longer contributes any value to the property above site value.

A study of several older homes constructed in the late 1800's and early 1900's in the subject neighborhood and throughout the City of Minnetonka, indicates homes of comparable utility and condition have maintained their utility for in excess of 90 years, when there has been average or better maintenance and at least some updating.

While the subject property has had limited updating, if the current level of maintenance continues, with some updating occurring at a later time, one would expect the improvements to contribute to a total economic life of approximately 100 years.

REMAINING ECONOMIC LIFE

The Remaining Economic Life is

> **"The estimated period during which improvements will continue to contribute to property value; an estimate of the number of years remaining in the economic life of the structure or structural components as of the date of appraisal."**[9]

Remaining economic life is the number of years from the date of the appraisal to the date when the building no longer contributes economically to the value of the property.

The total economic life of similar structures, minus the effective age of the subject building, equals the remaining economic life of the subject property.

Total Economic Life	100 Years
- Effective Age	35 Years
Remaining Economic Life	65 Years

Further analysis and support of the total economic life, effective age, and remaining economic life of the subject and the comparable sales used in the sales comparison approach can be found on the next page.

SUPPORT FOR TOTAL ECONOMIC LIFE AND EFFECTIVE AGE ESTIMATES

To use this method, there should be little or no economic or functional obsolescence in the comparable properties and the proportions between short-lived and long-lived components should be roughly equal.

The estimate of economic life and effective age is critical to the cost approach because they are the estimates of physical depreciation. Support of the analysis comes from the market and can be derived from comparable properties through a series of calculations. The analysis for such support is as follows:

1. Begin with the sale price of the comparable properties.

2. Estimate the site value of each comparable property by a proper procedure. Subtract the land value from the sale price to equal the estimated present value of the improvements.

3. Calculate the Reproduction Cost New (RCN) of the comparable improvement.

4. Subtracting the present value of the improvements from the RCN will equal the amount of accrued depreciation indicated by the market.

5. Dividing the amount of accrued depreciation by the RCN will equal the percentage of total depreciation.

6. Diving the percentage of total depreciation by the effective age of the property will equal the annual rate of depreciation.

7. Dividing 100% by the annual percentage rate of depreciation will equal the indicated economic life of the property under the straight-line, age-to-life depreciation premise.

All calculations used to support the estimates of total economic life and effective age can be found on the next page.

SUPPORT FOR ESTIMATES OF ECONOMIC LIFE AND EFFECTIVE AGE

	Sales Comp 1	Sales Comp 2	Sales Comp 3	Sales Comp 4	Sales Comp 5
ADDRESS	16421 Norwood La	5434 Woodland Rd	5518 Woodland Rd	5304 Forest Rd	5239 Holiday Rd
TIME ADJUSTED CASH SALE PRICE	$215,000	$190,641	$205,092	$234,080	$208,950
SITE VALUE	$90,000	$90,000	$90,000	$90,000	$90,000
ESTIMATED VALUE OF IMPROVEMENTS (SALE PRICE – SITE VALUE)	$125,000	$100,641	$115,092	$144,080	$119,895
RCN OF IMPROVEMENTS	$191,700	$157,700	$175,700	$215,200	$183,000
ESTIMATED VALUE OF IMPROVEMENTS	$125,000	$100,641	$115,092	$144,080	$119,895
ACCRUED DEPRECIATION (RCN-IMPROVEMENTS)	$66,700	$57,059	$60,608	$71,120	$63,105
DEPRECIATION % (ACCRUED DEPRECIATION/ RCN)	34.79%	36.18%	34.50%	33.05%	34.83%
EFFECTIVE AGE IN YEARS	35	35	35	35	35
ANNUAL DEPRECIATION RATE (STARIGHT-LINE) (TOTAL% DEPRECIATION/ EFFECTIVE AGE	0.9940%	1.0337%	0.9857%	0.9443%	0.9951%
ESTIMATED ECONOMIC LIFE (100%/ANNUAL DEPRECIATION RATE)	100.60	96.74	101.45	105.90	100.49

ANNUAL DEPRECIATION RATE (STARIGHT-LINE)	Range .9443 - 1.0337%	Median .9940%	Mean .9906%
ESTIMATED ECONOMIC LIFE	Range 96.74- 105.90	Median 100.60	Mean 101.04

TOTAL ECONOMIC LIFE

The properties used in this analysis are the five comparables used in the Sales Comparison approach section of this report. All of these sales are comparable to each other and to the subject property. Comparable Sale No.5 does not suffer from any observed functional obsolescence, while comparable nos. 1, 2, 3, and 4 suffer from the same curable functional obsolescence as the subject property, the lack of a dishwasher in the kitchen. None of the five Comparables suffer from any other forms of functional obsolescence and neither the subject nor the five comparables suffer from any economic obsolescence.

When the five sales are analyzed together, the percent of total depreciation ranges from 33.05 percent to 36.18 percent. This would result in an annual rate (straight-line) of depreciation of the improvements ranging from .9443 percent to 1.0337 percent, with the estimated total economic life ranging from 96.74 to 105.90 years.

Because Comparable No. 5 does not suffer from any observed functional or economic obsolescence, it is inferred that the extracted depreciation is the estimate of the total physical deterioration. This sale indicates an annual rate (straight-line) of depreciation of the improvements of .3483, with total economic life estimated at 100.49 years, respectively.

This compares favorably with the subject property's total amount of observed physical deterioration as follows:

Total Reproduction Cost New of the Improvement:		$182,153
Less: Accrued Depreciation:		
Physical Curable Items:	$ 600	
Physical Incurable Items:		
Short-Lived:	$18,177	
Long-Lived:	$50,315	
Total Physical Deterioration:		$ 69,092

Percent Depreciation $69,092 / $182,153 = 37.93%

Estimated Depreciation rate per year of effective age
(Straight-line premise): 37.93% / 35 years = 1.0837

The four comparables that suffer from the same incurable functional obsolescence as the subject, Nos. 1, 2, 3, and 4, indicate an annual rate of depreciation of .9940%, 1.0337 %, .9857%, and .9443%, with an indicated total economic life of 100.60, 96.74, 101.45, and 105.90, respectively. Because Comparables Nos. 1, 2, 3, and 4 suffer from the same curable functional obsolescence as the subject, it is inferred that the extracted depreciation is the total amount of both physical depreciation and functional obsolescence.

These annual rates of depreciation and total economic life also compare favorably to the subject properties total amount of physical deterioration and functional obsolescence as follows:

Total Reproduction Cost New of the Improvement:		$182,153
Less: Accrued Depreciation:		
Physical Curable Items:	$ 600	
Physical Incurable Items:		
Short-Lived:	$18,177	
Long-Lived:	$50,315	
Functional Curable Obsolescence	$ 700	
Total Physical Deterioration:		$ 69,792

Percent Depreciation $69,792/ $182,153 = 38.32%

Estimated Depreciation rate per year of effective age
(Straight-line premise): 38.32% / 35 years = 1.0949

This analysis of market sales supports the previously measured physical depreciation and functional obsolescence of $69,792 which represents 38.32 percent of the reproduction costs and indicates an annual rate of depreciation for the subject of 1.0949%

HIGHEST AND BEST USE ANALYSIS

The concept of highest and best used is defined as:

> **"the reasonably probable and legal use of vacant land or of an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility and maximum profitability."** [10]

Within this definition are the economic principles of supply and demand, substitution, balance and conformity. The principle of supply and demand states that:

> **"the price of real property varied directly but not necessarily proportionately, with demand and inversely, but not necessarily proportionally with supply."**[11]

Substitution states that:

> **"when similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution."**[12]

Balance states that:

> **"real property value is created and sustained when contrasting, opposing, or interacting elements are in a state of equilibrium."**[13]

The Principle of Conformity is crucial to the concept of highest and best use. It states that:

> **"real property value is created and sustained when a property's characteristics conform to the demands of its market."**[14]

Highest and Best use is the real property site use that is available and in market demand; that is reasonable priced in relation to competitive properties; and that is in balance and conformity with economic perceptions of the site and surrounding land uses with the subject neighborhood and marketplace. The extent to which highest and best use exists is determined by examining both the subject site as if vacant and the property as improved against the four criteria highest and best use; physical possibility, legal permissibility, financial feasibility, and maximum productivity.

PHYSICALLY POSSIBLE

Physically possible examines the physical inventory and capability of the subject site. It considers the size, shape, area, and terrain of a parcel of land and how those characteristics affect the degree to which it can be utilized. The availability of public utilities, topographic conditions, subsoil conditions, and general costs of creating a developable site can affect subject sites. Improved sites must also be examined for physical capability. The existing use is examined for the economic feasibility of continuing that use in terms of site, design, and condition.

LEGALLY PERMISSIBLE

Legally permissible is measured by determining the effect of existing restrictions, zoning, building code, special district or existing restrictions and the likelihood of future changes. Restrictions are a reflection of the existing sentiments of surrounding neighborhood residents. An adverse relationship between the subject site and surrounding properties or permanent restrictions can negate otherwise physically possible land uses.

FINANCIALLY FEASIBLE

Land uses that are physically possible and legally permissible must be economically sound to pursue. The third test of highest and best use examines and determines all potential uses that can produce a positive return to the site. A positive return is one that meets the costs of property ownership: operating expenses, financial obligation and capital amortization. For residential uses the expenses considered are generally accepted to be the cost of property maintenance, property tax, and mortgage expenses.

MOST PRODUCTIVE

The final test is to determine which of the potential uses that are physically possible, legally permissible, and financially sound will produce the greatest return. The most productive land uses are usually those, which are long-term and capable of existing for a normal economic useful life. The use, which meets all four of the criteria, is the highest and best use.

Both the vacant site and the site as improved are examined for highest and best use. The vacant site is examined separately to estimate a value for the site and to determine suitable land sales that are comparable. The remainder of this section of the appraisal will examine the highest and best used of the subject site, as vacant, and as improved.

HIGHEST AND BEST USE AS IF VACANT

The site is always valued as if vacant and available to be put to its highest and best use. The site value is dependent on the uses to which it can be put. Therefore, the highest and best use of the site as though vacant must be considered in relation to its existing use and all potential uses.

PHYSCIALLY POSSIBLE

The rectangular subject site is an exterior building site that has 80 feet of frontage on the north-south public street, Clear Spring Road. The north measurement is 162.5 feet, the east measurement (rear lot line) is 80 feet, and the south measurement of the site is 165 feet. The total site area is 12,621 square feet.

The topography of the site is moderately sloped from the front of the site to the rear, ensuring adequate drainage. The sub-soils are sandy clay, indicating a good base for improvements, making it consistent with neighboring sites. According to conversations with the City of Minnetonka Engineering staff, the subject site would support footings, foundation walls, and utility connections. The subject site is capable of physically supporting development.

LEGALLY PERMISSIBLE

The legally permissible uses of the subject site are limited by the zoning ordinance in effect on August 1, 2002, which was altered by the Minnetonka City Council on February 12, 1966. The upgraded zoning ordinance would have made the property non-conforming, because of the increase in minimum site size from 15,000 square feet to 22,000 square feet, the increase in site width at the building set back line from 90 feet to 110 feet, and increase in site set back line from 90 feet to 110 feet, and the increase in lot depth from 110 feet to 125 feet, except for the variance procedure enacted in the zoning upgrade. As stated in Section 300.07, Subdivision 1,b. "No variance shall be needed to declare buildable any lot which was a lot of record zoned for single family residential use of February 12, 1966, and which meets all of the following minimum standards"

1. 15,000 square feet;
2. 90 feet in width at the building set back line; and
3. 110 feet in depth.

There is an additional requirement in which off-street parking shall be provided for at least two vehicles for all single-family dwellings. A suitable location for a garage, measuring at least 20 feet by 24 feet, that does not require a variance shall be provided and indicated as such on a survey or site plan to be submitted when applying for a building permit to construct a new dwelling or alter an existing garage.

The site does not meet the standard of 15,000 square feet or being 90 feet in width at the building set back line, but does meet the 110 feet in depth standard.

In the event that this owner or future owners desired make an addition to the property, an application for a variance would need to be made to the City of Minnetonka Planning Department.

The existing zoning ordinances will allow one or more of the following permitted uses if the site were vacant:

a) single-family detached dwelling units, but not more than one dwelling unit per site;
b) manufactured home built in conformance with Minn. Sta. Section 327.31, et seq.;
c) public park and recreational areas owned and operated by a governmental unit, including recreational facilities and structures consistent with the area, except as provided for in subdivision 4;
d) licensed residential care facilities or community based residential care facilities for six or fewer persons, provided they are not located with ¼ mile of another similar facility and except as provided for in subdivision 4;
e) licensed day care facilities for 12 or fewer persons, provided there is not more than one outside employee and except as provided for in subdivision 4;
f) public or private schools having a course of instruction approved by the Minnesota board of education for student enrolled in grades K-12, or any portion thereof, provided they do not include boarding or residential facilities and except as provided for in subdivision 4; or
g) agriculture, farming, and truck gardening.

The subject site, although not complying with the zoning ordinance in effect as of the date of appraisal, August 2, 2002, does comply with a part Section 300.07, Subdivision 1.b., which allows the site to become a legal non-conforming single-family residential parcel.

Due to the fact that the subject property would require a variance for additions to the structure, research was conducted on the history of legal non-conforming site in Minnetonka. There are a large number (4,096) of legal non-conforming sites in the City of Minnetonka and historically, it is true, that the majority of variance applications are approved by the Planning Commission and City Council. At the time of the appraisal, August 1, 2002, the status of the subject being a legal non-conforming lot does not indicate a positive or negative influence.

The size of the site, topography, and close proximity of other parks would limit the use to single-family detached dwelling or a vacant residential site use would be legally permissible. Manufactured homes, licensed residential care and licensed day care facilities are applications of the single-family dwelling use.

FINANCIALLY FEASIBLE

These two physically possible and legally permissible uses could produce a financially productive return to the site. The use must be complementary with the

areas rather than competitive and the use must be a probable use and not a highly unlikely or speculative use. A vacant site would probably not be left vacant as that would not be financially feasible, but it could be sold to one of the adjoining property owners as a buffer site or for expansion of the existing homes on those adjoining properties, thus producing a return to the site, equivalent to the value of the vacant site. Although this is a financially feasible use, it would not be complementary or probable use, as a vast majority of the sites in the neighborhood are smaller than the combined size of two sites and alterations to existing adjoining properties would damage their character and/or desirability.

The surrounding residences are generally 36 to 45 years old, three to four bedroom single-family residences between 1,100 and 1,400 square feet in size. The most predominant styles are ramblers, split-levels, and two stories. There is further evidence from sales of vacant sites in the subject neighborhood and other comparable neighborhoods for residential purposes and the demand for residential sites has been very good, in part due to the lack of supply of residential sites.

MAXIMALLY PRODUCTIVE

The final test to determine which of all potential uses that are physically possible, legally permissible and financially feasible will produce the greatest return. The most productive land uses are usually those, which are long-term and capable of existing for a normal economic useful life. The use that meets all four criteria is the highest and best use.

The Principles of Supply and Demand in conjunction with the Principle of Substitution, Balance, and Conformity will influence the highest and best use of a property. Minnetonka is a community that is almost fully developed. There is a scarcity of vacant residential sites, and the demand for this commodity is very high. Due to this demand, it appears that a new single-family home could be constructed that would sell for more than the cost of the site plus the improvements.

CONCLUSION

In considering all of these conditions, it is the opinion of the appraiser that the highest and best use of the subject site as if vacant and available for development on August 1, 2002, the ideal improvement would be the construction of a single-family residence between 1,100 to 1,400 square feet of living area. The residence would probably be similar in size, style, and quality to the current improvement but all elements of accrued depreciation would be absent. This conclusion is based upon the four-stage analysis of the highest and best use: legally permissible, physically possible, economically feasible, and maximally productive.

HIGHEST AND BEST USE AS THOUGH IMPROVED

The ideal improvement for the site would be a single-family residence between 1,100 and 1,400 square feet of living area.

The analysis of the highest and best use of the subject site as improved is to determine if the existing use is the most productive or if the property would produce higher returns if it were converted to an alternative use.

PHYSICALLY POSSIBLE

The subject site is improved with a single-family residence. This improvement consists of a single-level, single-family dwelling constructed in 1958 with 1,140 square feet of living area on the main level. In addition, there is an attached two-stall garage, two fireplaces, a partially finished basement, a full bath and a three-quarter bath. The improvements have been well maintained and are in average condition with no signs of subsoil problems such as cracks in the basement floor, foundation or basement walls. The use of the subject property is limited by its size and location and, therefore, its current use as a single-family residence meets the test of being a physically possible use.

LEGALLY PERMISSIBLE

The existing improvements on the subject site meet all legal and zoning requirements after variances are granted, as was stated in the legal permissibility as though vacant analysis. The dwelling conforms with other neighborhood dwellings, which is zoned low-density residential use, and the improvements conform to current zoning and building regulations. Other legally permissible uses would be a licensed residential care facility, a licensed day care facility, or as a manufactured home.

FINANCIALLY FEASIBLE

Due to the size of the site, landscaping, proximity to other parks, and cost to demolish the existing structure, the legal uses of manufactured homes, public parks, and recreational areas, public or private schools, and agriculture farming and truck gardening would not be physically possible or financially feasible.

The City of Minnetonka has long maintained a reputation as a desirable place to live. The steady population growth and increasing property values are evidence to this. Market sales of residential properties in the neighborhood and city continue to be numerous. The strong market demand is an indication that the current residential use in the neighborhood will continue in further years (Principle of Anticipation).

The reputation of Minnetonka as a desirable place to live is evidenced by the population growth over the past several years and continues to cause an increased demand for housing. An active sales market, reasonable market time of properties in the subject neighborhood, continuing construction of new dwelling units within the neighborhood and throughout Minnetonka, suggests that the market will remain strong. These economic factors indicated the current

single-family residential use of the subject site as improved will support the highest net return to the owner (Principle of Supply and Demand).

Land uses in the subject neighborhood and surrounding neighborhoods are well balanced as evidenced by a mix of residential uses, residential support facilities, and commercial facilities (Principle of Balance).

The subject improvements conform well to surrounding properties. The majority of the dwellings in the subject neighborhood are similar in age, style, size, condition, and value. In addition, characteristics of the residents within this neighborhood are generally compatible, including income, background, and education. The homogeneity of the subject neighborhood is expected in the foreseeable future (Principle of Conformity).

Houses in the subject neighborhood generally range in age from 36 to 45 years. These homes are comparable to the subject and have been maintained in average or better condition regardless of actual age. The subject property has some updating, if the current level of maintenance continues, with some updating occurring, one would expect the improvements to contribute value. (Principle of Contribution)

The current use as is improved is financially feasible and produces the maximum financial return, which is supported by the following analysis.

MAXIMALLY PRODUCTIVE

Although the use as a licensed residential are facility or licensed day care facility are physically possible, legally permissible, and financially feasible, the costs associated to bring the property into compliance with local building codes necessary for safe and legal operation as these uses would not allow the existing improvements to produce maximum financial return that would be necessary to change the highest and best use from as improved to one of those more competitive or speculative uses.

The Principles of Anticipation, Supply and Demand, Balance, Conformity, and Contribution will influence the highest and best use of a property. The strong market demand in the city and neighborhood indicates that the current residential use of the subject site as improved supports the highest net return to the owner. The conformity in the neighborhood creates market values that are relatively consistent therefore the subject property is not affected by dissimilar properties having significantly higher or lower market values. These principles indicate that the current improvements meet the highest and best use test of being financially feasible and maximally profitable.

CONCLUSION

The current use is physically possible, legally permissible, financially feasible, and maximally profitable. The highest and best use of the subject, as improved, as of August 1, 2002, is its current use as single-family residential. It is the appraiser's opinion that the "ideal improvement" for this property, under highest and best used would be a single-family residence containing between 1,100 and 1,400 square feet of living area, having a two-car attached garage, three bedrooms and one full bath on the main level with a built-in dishwasher in the kitchen.

All comparables analyzed in the cost, income, and sales comparison approaches in the following sections of this report, have the same highest and best use as the subject property of single family residential.

The highest and best use of the subject site as vacant and improved, is single-family residential, will be reflected throughout the valuation and reconciliation sections of this appraisal. Single-family residential use will be the underlying basis for the market value estimates of the three approaches to value and the reconciliation of a single-family estimate. The Principle of Substitution will be used as the basis for the cost and sales comparison approach sections of this report. The Principle of Anticipation will be used as the basis for the income approach. All comparable analyzed have the same highest and best use as the subject property; that is single-family residential.

THE APPRAISAL PROCESS

The appraisal process is a step-by-step logical method of processing data into value estimates.

1. Define the problem
   a. Identify the property to be appraised
   b. Specify the property rights involved
   c. State the purpose and function of the appraisal
   d. State the date of the appraisal
   e. Define the value involved

2. Preliminary survey and planning
   a. Estimate the highest and best use of the property
   b. Make a list of date to be collected
   c. Select the dominant approach to be used
   d. Allocate time and resources needed

3. Collect and analyze data
   a. General data includes neighborhood characteristics, trends, and factors
   b. Specific data includes site and improvement data
   c. Comparative data includes costs, sales, and income information

4. Application of the data
   a. Apply the cost approach
   b. Apply the sales comparison approach
   c. Apply the income approach

5. Correlate the three approaches
   a. Discuss the amount and reliability of data used in each approach
   b. Discuss the strengths and weaknesses of each approach
   c. Discuss the relevancy of each approach to the subject property

6. Final value estimate
   a. Consider the purpose of the appraisal
   b. Consider the kind of value sought

All three approaches to value will be used in this report. These are the cost, income, and sales comparison approaches. Each of these approaches has merits and limitations, and each approach will be further defined as they are addressed in this report.

COST APPROACH

The cost approach is:

> **"A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit."[15]**

The value principles which most directly affect the cost approach are the Principle of Substitution.

The Principle of Substitution states

> **"when several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution."[16]**

The Principle of Substitution states that informed buyers will pay no more than the cost of producing a property with the same utility as the subject property and the Principle of Contribution which states that the value of a property component depends on its contribution as a whole.

The following are steps used in the cost approach:

1. Estimate the site value as if vacant
2. Estimate replacement cost new or reproduction cost of the improvement
3. Estimate and justify loss in value from depreciation
   a. Physical deterioration
   b. Functional obsolescence
   c. Economic obsolescence
4. Deduct depreciation from the reproduction cost estimate
5. Add the estimated land value to the estimated depreciated reproduction or replacement cost of improvements to arrive at a value indication

The cost approach method of valuation is more reliable when improvements are new and are the highest and best use to which the land may be used. Because the subject property is not a new structure, problems may exist in estimating accrued depreciation. The estimates of the depreciation and the reproduction costs must be checked in the market to obtain a reliable estimate of value. Market imperfection limits the reliability of this approach.

INCOME APPROACH

"Property value is measured in relation to the anticipated future benefits that can be derived from property ownership." [17]

The income capitalization approach is based on the assumption that the value of a rental property is directly related to its ability to produce income. The approach reflects the appraisal concept of anticipation, which affirms that value is created by expectation of benefits to be derived in the future. Capitalization is the process of converting income into value.

Income capitalization with a gross monthly rent multiplier (*GMRM*) is the most appropriate procedure for valuing single-family residences and is applied in three steps:

1) Derive a *GMRM* from market data. This is accomplished by finding recent sales of similar properties that were rented at the time of sale, divide the sale price of each property by its monthly rental income and reconcile the results.

2) Estimate the monthly rent the subject property should command. This estimate is based on the actual rents of competitive properties that have been adjusted to reflect the features of the subject.

3) The estimated monthly market rent for the subject is multiplied by the indicated *GMRM* to obtain a value indication for the subject property.

Residential properties such as the subject are not usually purchased for investment income for profit, but rather for the amenities they provide for their owners. A lack of adequate rental sales data may reduce the reliability of this approach in estimating the value of the subject property.

SALES COMPARISON APPROACH

The Sales Comparison Approach involves the process of analyzing sales of similar properties, recently sold, to arrive at an indication of value for the subject property. The reliability of the approach is dependent upon the availability of comparative sales data, the verification of the sales data, the degree of comparability, and the extent of necessary adjustments for time differences, and the absence of non-typical conditions affecting the sale prices. The valuation principle, which the approach is based on the Principle of Substitution.

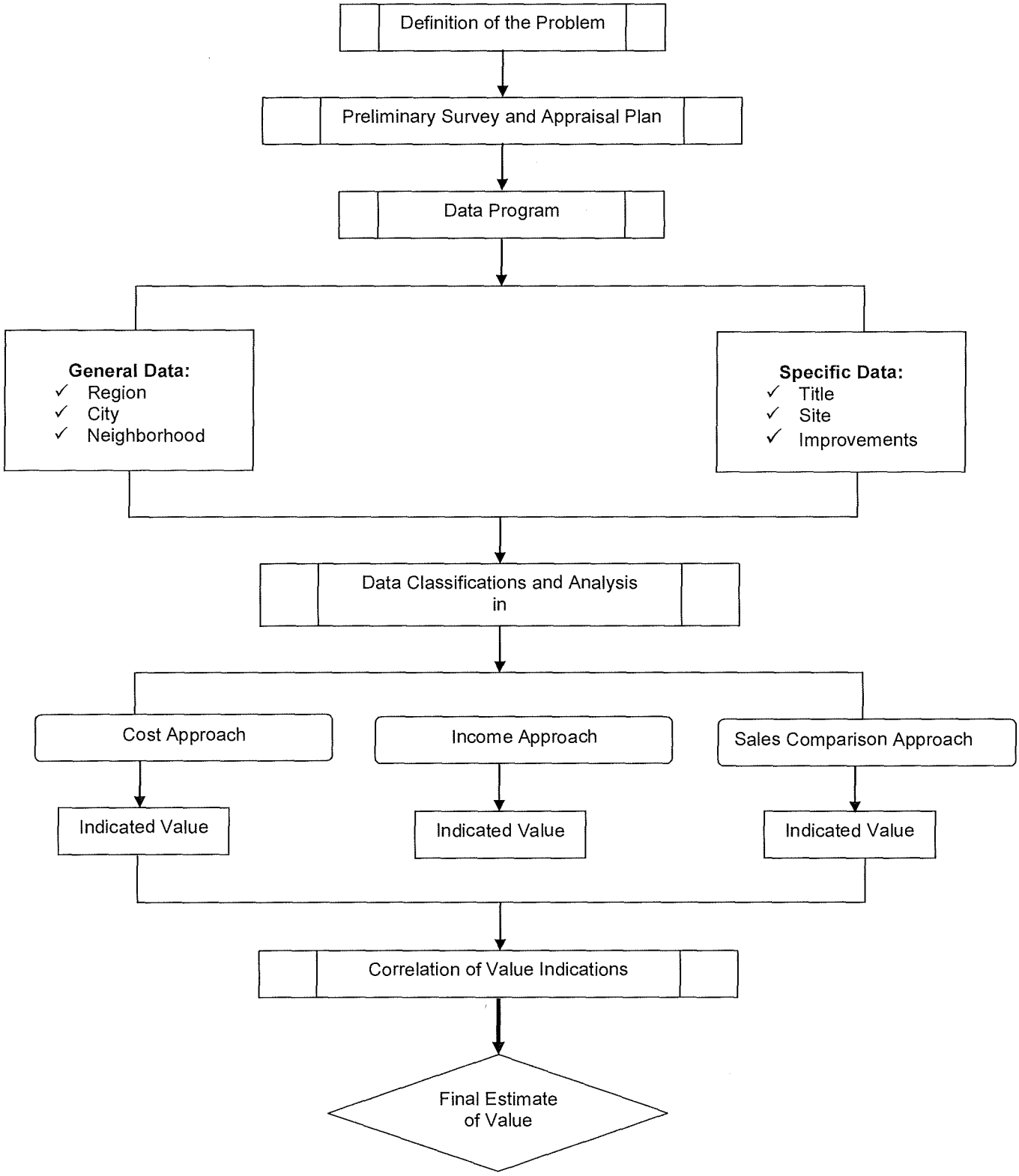
The following steps are sued in the Sales Comparison Approach:

1. Collect and analyze the data
2. Determine the appropriate units and elements of comparison
3. Develop reasonable adjustments based on the market
4. Apply data to the subject property

The sales comparison approach is particularly useful for most single-family residential property appraisals. The subject property is a typical single-family home for this neighborhood. By analyzing sales of similar properties and making derived adjustments from the comparable to the subject, a logical and reliable estimate of market value can be estimated for the subject property.

When the purpose of an appraisal is to establish market value, all approaches to value are in essence market data approaches, since all data input and adjustments are extracted from the market.

THE APPRAISAL PROCESS
(flow chart)



APPLICATION OF THE COST APPROACH

In developing an indication of value by the cost approach, two distinct and separate entities are considered in the process. The first step is to develop a site value, which is the non-wasting entity. The next step is to develop a value for the improvements, which represents the wasting entity that is affected by various types of depreciation. The valuation of the site as if vacant will be determined first.

Valuation of the Site

There are five generally accepted methods of valuation utilized in estimating the site value of the subject property. In each method, the site is valued as if vacant and available to be put to its highest and best use. The five methods are:

1. Sales Comparison Approach: This method compares and adjusts sales of similar unimproved sites to arrive at an indicated value for the subject site.

2. Abstraction or Allocation Approach: This method attempts to establish a typical percentage of a sales price that is attributable to the site. Abstraction subtracts the depreciated replacement cost of the improvements from the sale price and attributes the remaining value to the land.

3. Anticipated Use or Development Approach: This method subtracts the total development costs from the projected sales price to indicate a value for the raw land.

4. Capitalization of Ground Rent Approach: This method is based on sites that are rented on long-term ground leases. The net rental income is capitalized directly to develop an estimate for the site value.

5. Land Residual Approach: This method is used almost exclusively for valuing sites of income producing properties. It involves estimating the projected net income for the total property, subtract the net income attributable to the improvements, and capitalize the remaining income to indicate a value for the subject site.

The sales comparison approach is typically the most applicable method utilized when valuing residential sites. This method is the most reliable when there is sufficient sales data available on vacant parcels similar to the subject site, and is the most appropriate given that the highest and best use of the site is residential. The other methods have limited credibility as an indicator of value due to the great reliance placed on the assumptions and judgment of the appraiser, which may not reflect actual market behavior. The sales comparison approach has been selected to estimate an indicated value for the subject site as if vacant.

The sales comparison approach involves the following steps:

1. Discovery and Verification: Finding, listing, and verifying pertinent information on the sales used for comparison.

2. Selection of Units of Comparison: Determining which of the physical economic units of comparison are most appropriate in valuing the site.

3. Adjustments to Sales Data: Determining what adjustments are appropriate to equalize the comparable sales with the subject site.

4. Application of Adjustments: The process of applying quantifiable amounts or percentages to the sale price of the comparables.

There were few vacant sites in the subject neighborhood as of the appraisal date of August 1, 2002. Sales of vacant sites in developed neighborhoods are very scarce. There have been site sales in new developments, but the developments are generally of upper bracket residences and probably would not be appropriate as comparables. These site sales are usually for $200,000 or greater per developable site and would lead to a higher value conclusion than is warranted for the subject site. However, there was sufficient market data to analyze several vacant site sales in developed neighborhoods similar to the subject site. The appraiser selected five sales to use as comparables, two of which are located in the subject neighborhood.

The following pages contain descriptive information and maps indicating the location of the comparable site sales. Also, a map is included that shows the location of the subject property and the comparable sales can be found in Exhibit N of the Addenda.

SITE SALE
COMPARABLE #1

Date: July 2002

Sale Price: **$72,500** **Sale Date:** **January 2001**

Address: 16414 Temple Drive

Legal Description: Lot 16, Block 5, Temple Village

Terms: Cash **Assumed Special Assessments:** None

Buyer: Chartwell Construction Company **Seller:** Buffalo Creek Development Corporation

Instrument: Warranty Deed **Sale Verified by:** Buffalo Creek Development Corp.

Recorded: In the office of the Registrar of Titles of Hennepin County Document #3417600

Proximity to Subject: .30 miles northeast

Site Dimension: 90 ft. X 154 ft. X 91 ft. X 169 ft. (14,028 Square Feet)

Platted: Temple Village

Zoning: R-1, Low Density Residential **Location:** Quiet street

Topography: Moderate slope **Available Utilities:** All

Price per Front Foot: $805.56 **Price per Square Foot:** $5.17

Comments: This site is slightly larger than the subject site. The topography is similar to the subject as well as the location. The new dwelling was constructed on the site in 2002.

SITE SALE
COMPARABLE #2

Date: July 2002

Sale Price: **$66,500** **Sale Date:** **April 2000**

Address: 12811 Lake Street Extension

Legal Description: Lot 4, Block 1, "The Woods at Lake Street Extension," Hennepin County, Minnesota

Terms: Cash **Assumed Special Assessments:** None

Buyer: Home Builders Incorporated **Seller:** Halley's Custom Homes, Inc.

Instrument: Warranty Deed **Sale Verified by:** Halley's Custom Homes, Inc.

Recorded: In the office of the Registrar of Titles of Hennepin County Document #7350776

Proximity to Subject: 2.75 miles northeast

Site Dimension: 145 ft. X 178 ft. X 126 ft. X 211 ft. (21,764 Sq. Ft.)

Platted: "The Woods at Lake Street Extension," Hennepin County, Minnesota

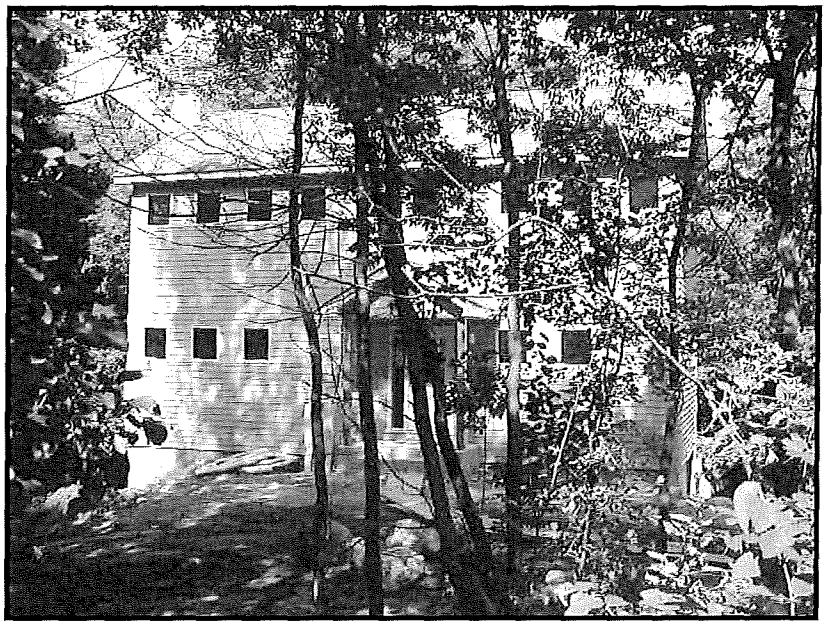
Zoning: R-1, Low Density Residential **Location:** Proximity to highway

Topography: Moderate Slope **Available Utilities:** All

Price per Front Foot: $458.62 **Price per Square Foot:** $3.06

Comments: This site is larger than the subject property. It is being used as a comparable to the subject because due to City restrictions it could not be divided into multiple sites. It is in a neighborhood comparable to the subject. The new dwelling was constructed on the site in 2002.

SITE SALE
COMPARABLE #3



Date: July 2002

Sale Price: $76,000 **Sale Date:** March 2001

Address: 4630 Fairhills Road East

Legal Description: Part 1: That part of Lot 3, Block 2, Fair Hills, lying Southerly of a line from a point on the Westerly line, 30.00 feet Northwesterly from the most Southerly corner of said Lot 3, to a point on the Easterly line of said Lot 3, a distance of 101.7 feet Northwesterly from the most Easterly corner of said Lot 3 and there terminating. Part 2: that part of Lot 4, Block 2, Fair Hills, lying Northerly of a line drawn from a point on the Easterly line of said Lot 4, distant 100 feet Southerly of, measured along said Easterly line from the Northeasterly corner thereof, to a point on the Westerly line of said Lot 4, distant 10 feet Southeasterly of, measured along said Westerly line from the Northwesterly corner thereof; all according to the map or plat of said Fair Hills subdivision on file or of record in the office of the Registar of Titles in and for Hennepin County, Minnesota.

Terms: Cash

Assumed Special Assessments: None

Buyer: Eric Myhran

Seller: James and Nancy Uden

Instrument: Warranty Deed

Sale Verified by: James Uden

Recorded: In the office of the Registrar of Titles of Hennepin County Document #33884883

Proximity to Subject: .80 miles northeast

Site Dimension: 202 ft. X 260 ft. X 40 ft. X 280 ft. (31,805 Square Feet)

Platted: Fair Hills

Zoning: R-1, Low Density Residential

Location: Quiet street

Topography: Moderate slope

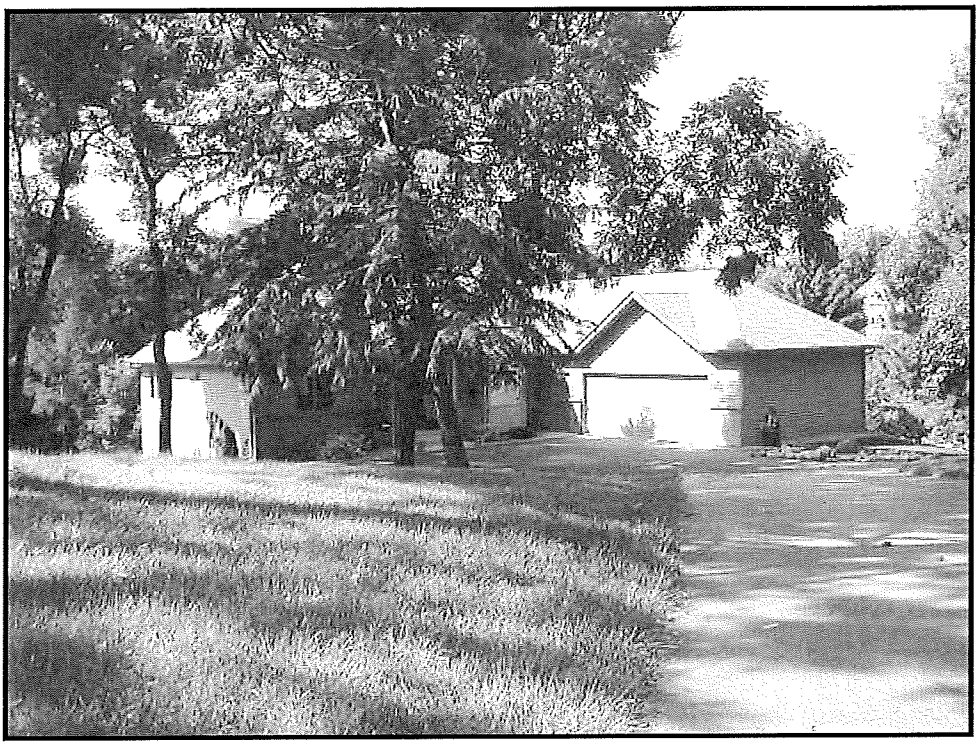
Available Utilities: All

Price per Front Foot: $376.24

Price per Square Foot: $2.39

Comments: This property is larger than the subject site. It is being used as a comparable because it could not be divided into more than one site and so would be considered comparable to the subject. It is in a neighborhood similar to the subject. The new dwelling was constructed on the site in 2002.

SITE SALE
COMPARABLE #4



Date: July 2002

Sale Price: **$56,500** **Sale Date:** **April 2000**

Address: 13415 Maywood Curve

Legal Description: Tract A, Registered Land Survey No. 1703, Hennepin County, Minnesota

Terms: Cash **Assumed Special Assessments:** None

Buyer: William and Michelle Stimpson **Seller:** Erling and Dorothy Emerson

Instrument: Warranty Deed **Sale Verified by:** Dorothy Emerson

Recorded: In the office of the Registrar of Titles of Hennepin County Document #3280212

Proximity to Subject: 2.20 miles southeast

Site Dimension: Irregular – 110 ft. X 229 ft. (effective) (26,532 Sq. Ft.)

Platted: Auditor's Subdivision No. 371, Hennepin County Zoning: R-1, Low Density Residential

Location: Proximity to highway **Topography:** Moderate slope

Available utilities: All

Price per Front Foot: $513.64 **Price per Square Foot:** $2.13

Comments: This property is larger than the subject site. It is being used as a comparable because it could not be divided into more than one site and so would be considered comparable to the subject. It is in a neighborhood similar to the subject. The new dwelling was constructed on the site in 2002.

SITE SALES COMPARISON DATA GRID					
	SUBJECT	**COMP #1**	**COMP #2**	**COMP #3**	**COMP #4**
Property ID	29-117-22-24-0030	29-117-22-13-0070	22-117-22-41-0021	28-117-22-22-0050	27-117-22-42-0030
Address	4932 Clear Spring Rd	16414 Temple Dr	12811 Lake St Ext	4630 Fairhills Rd E	13415 Maywood Rd
Sale Price	---	$72,500	$66,500	$76,000	$56,500
Sale Date	---	Jan-01	Apr-00	Mar-01	Apr-00
ELEMENTS OF COMPARISON					
-Financing	---	cash	cash	cash	cash
-Market Conditions	as of 8/1/02				
PHYSICAL CHARACTERISTICS:					
-Location	Quiet Street	Quiet Street	Proximity to Highway	Quiet Street	Proximity to Highway
-Site Dimensions	80' x 163'	90' x 161'	135' x 194	130' x 270'	110' X 229'
-Site Size	12,621 sf.	14,028 sf.	21,764 sf.	31,805 sf.	26,532 sf.
-Topography	Moderate Slope	Moderate Slope	Moderate Slope	Moderate Slope	Moderate Slope
-Zoning	R-1	R-1	R-1	R-1	R-1
-Available Utilities	All	All	All	All	All

UNITS OF COMPARISON ANALYSIS

Units of comparison are the components into which a property may be divided for purposes of comparison. The appropriate unit is the one that buyers and sellers use to decide on the price they are willing to pay or accept for a particular property. The unit of comparison may be the property as a whole or some smaller measurement. The most common units for residential site valuation include:

- Sale price per front foot
- Sale price per square foot
- Sale price per site

Comp	Sale Price	Front Feet	Sale Price/FF	Square Feet	Sale Price/SF
1	$72,500	90	$805.56	14,028	$5.17
2	$66,500	135	$458.62	21,764	$3.06
3	$76,000	130	$376.24	31,805	$2.39
4	$56,500	110	$513.64	26,532	$2.13

	Low	High	% Difference
Sale Price/Site:	$56,500	$76,000	28.32%
Sale Price/Sq. Ft.:	$2.13	$5.17	142.7%
Sale Price/FF:	$376.24	$805.56	114.1%

All four comparables differ in their front footage and total square footage with no apparent pattern in either the sale price per front foot or sale price per square foot. Due to the limited supply of vacant sites in Minnetonka and based on the analysis of sales data over the past 10 years conducted within the assessor's office, the data indicates that buyers and sellers purchase and sell on a site value basis. As stated earlier, the typical site size in the subject neighborhood is between 12,000-22,000 square feet. Adjusts have been made for sites outside of those parameters. Variations in front footage are not recognized in this market. All comparables site sales have been analyzed on a site value basis. All comparable site sales have been analyzed on a site basis because of the tight range of variation of sale price per site indicating it the best unit of comparison for analysis.

SITE SALES ADJUSTMENT GRID					
	SUBJECT	**COMP #1**	**COMP #2**	**COMP #3**	**COMP #4**
Sale Date	---	Jan-01	Apr-01	Mar-01	Apr-00
Sale Price	---	$72,500	$66,500	$76,000	$56,500
Market Conditions Adjustment	---	$16,965	$13,832	$16,796	$11,572
Adjusted Sale Price	---	$89,465	$80,332	$92,796	$68,252
ELEMENTS OF COMPARISON					
PHYSICAL CHARACTERISTICS :					
-Site Size	12,621 sf.	14,028 sf.	21,764 sf.	31,805 sf.	26,532 sf.
-Size Adjustment		---	---	($2,000)	($900)
-Location	Quiet Street	Quiet Street	Proximity to Hwy	Quiet Street	Proximity to Hwy
-Location Adjustment		---	$22,100	---	$22,100
Net Adjustment		$16,965	$35,932	$14,796	$32,722
Adjusted Sale Price		$89,465	$102,432	$90,796	$89,272
ADJUSTED UNITS OF COMPARISON					
Rounded Sale Price per Site		$89,500	$102,400	$90,800	$89,300

ANALYSIS OF COMPARABLES: ELEMENTS OF COMPARISON

Elements of comparison are property characteristics that cause sale prices to vary. While units of comparison analysis identifies units of value that are important to buyers and sellers of a particular property, elements of comparison analysis attempts to isolate the differences in components between the subject property and the sales comparables so that proper adjustments can be made.

Elements of comparison include:

- Financing terms
- Market conditions
- Location
- Physical characteristics
- Available utilities
- Zoning

In analyzing the four comparable sales, the following characteristics were either the same or similar for the subject and all four of the comparable sales, thus no adjustments are necessary:

- All comparables sold in all cash transactions with no assumed special assessments.
- The subject and comparables are in neighborhoods with similar location amenities.
- The subject and comparables are zoned R-1, Low Density Residential District.
- The subject and comparables have similar topographical attributes.

The differences include:

- Market conditions
- Site Size
- Location

Market Conditions Adjustment

The market conditions adjustment reflects changes in the market over time. These market changes include inflation or deflation and changes in supply and demand. The best indication of these changes is provided by properties that were sold and then re-sold at a later date. Due to the limited supply of vacant lots in Minnetonka there were no re-sales to analyze. When a site is purchased, construction of a home follows, vacant sites are not held for speculative purposes. The development of a market conditions adjustment is possible however, using a paired-sales analysis.

As stated earlier in the Units of Comparison Analysis, vacant sites are bought and sold on a site value basis. To estimate the appropriate amount of adjustment, a search was done for a paired sales analysis in which the only dissimilarity was the date of sale. Both sites were within the typical site size for the subject neighborhood. The two site sales are similar except for the date of sale. The adjustment for market conditions was determined by comparing the two site sales. The firs site sold January 2000 and the second site sold March 2001.

Address	Site Size	Front Feet	Location	Sale Date	Sale Price
5640 Holiday Rd	18,250	105	Quiet Street	January 2000	$65,000
5831 Picha Rd	17,750	100	Quiet Street	March 2001	$76,000

The difference of $11,000 reflects a percent change of:

$11,000 ÷ $65,000 = 16.92%

The time difference is two months, so the market condition adjustment per month is: 16.92 ÷ 13 = 1.30% per month or:

1.30% x 12 months = 15.60% annual market condition adjustment

The market conditions adjustment as of August 2002 was applied to the comparables as follows:

Sales Comp	Sale Date	Sale Price	# of Months	% Change	Adjustment	Adjusted Sale Price
1	January 2001	$72,500	18	23.4%	$16,965	$89,465
2	April 2001	$66,500	16	20.8%	$13,832	$80,332
3	March 2001	$76,000	17	22.1%	$16,796	$92,796
4	April 2000	$56,500	16	20.8%	$11,572	$68,252

Site Size Adjustment

As previously stated the typical site size in the subject neighborhood is between 12,000-22,000 square feet. Site Sale Comparable No. 3 and No. 4 are outside of that range. An adjustment was estimated by paired sales analysis of Site Sale Comparable No. 1 and No. 3. Site Sale Comparable No. 3 is outside of the typical site size range.

	Site Comparable # 1	Land Comparable # 3
Sale Date	January 2001	March 2001
Sale Price	$72,500	$76,500
plus Market Condition Adjustment:	$16,965	$16,296
Adjusted Sale Price:	$89,465	$92,796
Site Size	14,028 square feet	31,805 square feet

Property on quiet street	$92,796
Property with proximity to highway	$89,465
Difference attributed to proximity to highway	**$3,331**

31,805 – 14,028 = 17,777 square feet

$3,331 / 17,777 square feet = $.1873 / square foot

Site Sales Comparables No. 3 and No. 4 are outside of the typical site size range and will be adjusted downward to reflect their superior size. The adjustment will be made from the outside range of the typical site size of 22,000 square feet.

Location Adjustment

Unlike the subject property which is located on a quiet street, Site Sale Comparables No. 2 is in close proximity to State Highway #7. Site Sale

Comparable No. 4 is in close proximity to Interstate Highway #494. The noise and pollution from the highway traffic is a negative influence.

Site Comparables No. 1 is similar except for the date of sale and location influence. The adjustment for proximity to a highway was developed by comparing Site Comparable No. 1, which like the subject is on a quiet street, with Site Comparable No. 4, which is in proximity to a highway. The market condition adjustment was made first.

	Site Comparable # 1	Site Comparable # 4
Sale Date	Jan-01	Apr-00
Sale Price	$72,500	$56,500
plus Market Condition Adjustment:	$16,965	$11,572
less Site Size Adjustment		$900
Adjusted Sale Price:	$89,465	$67,352
Location	Quiet Street	Proximity to Hwy

Property on quiet street	$89,465
Property with proximity to highway	$67,352
Difference attributed to proximity to highway	**$22,113**

Site Sale Comparables No. 2 and No. 4 received upward adjustments of $22,100 to reflect their proximity to a highway.

RECONCILIATION OF SITE VALUE

After adjustments for market conditions and location, the analysis of the four vacant site sales indicates the following:

- an adjusted sale price range of $89,300 to $102,400,
- mean sale price of $93,000.
- a median sale price of $90,200

Site Sale Comparables No. 2and required both market conditions and location adjustments. Site Sale Comparables No. 1 and 3 required only market conditions adjustments. The most emphasis is placed on Site Sale Comparable No. 1 which is located in the subject neighborhood and has an adjusted sale price which is supported by Site Sale Comparable No. 4.

It is the appraiser's opinion that the estimated site value of the subject property, as of August 1, 2002, is:

Ninety Thousand Two Hundred Dollars

($90,200)

ESTIMATE OF COST NEW

The next step in the cost approach is to determine the contribution of the improvements to the total value of the property. This is accomplished by estimating the reproduction cost new or replacement cost new of the improvement.

Reproduction cost is defined as:

> **"The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, super adequacies, and obsolescence of the subject building."[18]**

Replacement cost is defined as:

> **"The estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout."[19]**

Reproduction cost new will be utilized in valuing the improvements of the subject property in this appraisal. The subject property improvements exhibit incurable functional obsolescence, due to a lack of formal dining area, with only a small dining area in the kitchen. The reproduction cost is the most appropriate method to use since the deficiency must be duplicated and it can then properly be the subject of the depreciation.

The reproduction cost is obtained from the *Residential Cost Handbook*, published by Marshall and Swift Publishing Company, Los Angeles, California. The costs indicated from this service are for replacement rather than reproduction cost. However, because materials, construction standards, and workmanship have not significantly changed since the subject was constructed, the replacement cost estimate from Marshall & Swift will also be applicable to the subject's reproduction cost. Additional cost verification was provided by a local contractor, Lecy Construction located in Minnetonka.

The four methods for estimating the reproduction cost new of the subject property include:

1. **Quantity Survey Method** This method involves a complete cost itemization of all direct and indirect costs to construct a building. Although it is accurate and reliable, this method is complex, time consuming, and expensive.

2. **Unit in Place Method** This combines direct and indirect costs into a single unit-in-place, which is multiplied by the area of the appropriate building parts. This method is frequently used by appraisers due to its considerable degree of accuracy and because it is less costly and time consuming than the quantity survey method. This method is also known as the "Segregated Cost Method."

3. **Comparative Unit (Square Foot) Method** This method combines all construction costs into a single unit according to the quality and type of construction, and on the basis of comparison with known costs. This method is easy to understand and quickly computed. However, it is less accurate than the two previously described methods.

4. **Trended Original Cost (Factored Historical Cost) Method** This method uses costs schedule from previous years and applied trending factors to bring original costs to current cost. This method is used primarily for special use or unusual building and must be used with care. It is generally used only when the other methods cannot be applied, or to verify another method.

The Unit-In-Place method has been employed in estimated the reproduction cost new of the subject improvements. The component estimates that are derived in this method allow a detailed analysis of the effects of depreciation. This method develops a reliable cost estimate for use in a demonstration appraisal report.

It should be stated that the cost approach to value is most applicable when a structure is relatively new, because of the difficulty in estimating the accrued depreciation that exists in older buildings.

Elements of Cost

There are two types of cost that are involved in the improvement process and that need to be reflected on the cost estimate. They are:

- Direct costs (also referred to as hard costs)
- Indirect costs (also referred to as soft costs)

Direct costs are expenditures for the labor and materials used in the construction of improvements.

Indirect costs are expenditures for items other than labor and material that are necessary for construction and are not typically part of the construction contract. These soft costs include: architecture and engineering fees; building permits; title and legal expenses; insurance; real estate taxes during construction; construction loan fees; advertising and sales expense and overhead and profit.

Unit-in-Place costs include direct and indirect costs and General Contractor's overhead and profit.

Multipliers

Current Cost and Local Multipliers are used to trend the costs in the Residential Cost Handbook to the appraisal date of August 2002 and also to reflect local cost conditions. In this case Minneapolis, Minnesota. These multipliers are published quarterly by Marshall and Swift and are as of September 2002.

REPRODUCTION COST NEW
Unit-In-Place Method
4932 Clear Springs Road

COMPONENT	QUANTITY	UNIT COST	TOTAL COST
Foundation	1,646 Sq. Ft.	$10.08	$16,592
Basement (includes excavation)	1,646 Sq. Ft.	$20.95	$34,484
Stairway	1 flight	$992.00	$992
Walkout	Below Grade (2)	$1391.00	$2,782
Floor Structure	1,140 Sq. Ft.	$6.08	$6,931
Floor Coverings	1,140 Sq. Ft.	$5.93	$6,760
Exterior Walls	136	$142.74	$19,413
Ceilings	1,140 Sq. Ft.	$4.78	$5,449
Interior Construction (includes paint)	1,140 Sq. Ft.	$16.89	$19,255
Fireplace	2 openings	$17,055.00	$17,055
Heating/Cooling System	1,140 Sq. Ft.	$6.77	$7,718
Electrical (excludes fixtures)	1,140 Sq. Ft.	$3.40	$3,876
Electrical Fixtures	15	$99.00	$1,485
Plumbing (excludes fixtures)	1,140 Sq. Ft.	$5.27	$6,008
Plumbing Fixtures	10	$810.00	$8,100
Roof Structures	1,646 Sq. Ft.	$4.22	$6,946
Roof Coverings	1,646 Sq. Ft.	$3.56	$5,860
Garage (excludes roof)	506 Sq. Ft.	$15.48	$7,833
Deck (wood)	234 Sq. Ft.	$13.00	$3,042
Driveway (asphalt)	880 Sq. Ft.	$1.79	$1,572
Reproduction Cost New Total			**$182,153**

Unit Costs reflect "Residences of Average Quality" and Current Cost Multiplier as of Sept. 2002 of 1.08 and Regional Multiplier for Minneapolis, MN of 1.12

The total reproduction cost as new is further broken down into long and short-lived components as follows:

Long-Lived Components	Percent of Total Cost	Cost
Foundation	11.5%	$16,592
Basement	23.9	34,484
Stairway	0.7	992
Walkout	1.9	2,782
Floor Structure	4.8	6,931
Exterior Walls	13.5	19,413
Ceilings	3.8	5,449
Interior Construction	11.0	15,797
Fireplace	11.8	17,055
Electrical	2.7	3,876
Plumbing	4.2	6,008
Roof Structures	4.8	6,946
Garage	5.4	7,833
Total Long-Lived Components	**79.2%**	**$144,158**

Short-Lived Components	Percent of Total Cost	Cost
Floor Coverings	3.7%	$6,760
Paint (Interior)	1.2	2,260
Paint (Exterior)	0.7	1,198
Heating/Cooling System	4.2	7,718
Electrical Fixtures	0.8	1,485
Plumbing Fixtures	4.4	8,100
Roof Covering	3.2	5,860
Deck	1.7	3,042
Driveway	0.9	1,572
Total Short-Lived Components	**20.8%**	**$37,995**
Total Reproduction Cost New as of August 1, 2002	**100%**	**$182,153**

DEPRECIATION ANALYSIS

Depreciation is

> **"the difference between the reproduction or replacement cost of an improvement on the effective date f the appraisal and the market value of the improvement on the same date. In regards to improvements, depreciation encompasses both deterioration and obsolescence."**[20]

Accrued depreciation is

> **" the difference between reproduction or replacement cost of the improvements on the effective date of the appraisal and the market value of the improvements on the same date."**[21]

There are three types of accrued depreciation:

1. physical deterioration,
2. functional obsolescence, and
3. external obsolescence.

Physical deterioration and functional obsolescence are loss in value due to factors inherent with the property itself, while external obsolescence is due to factors outside the property.

There are several methods of estimating accrued depreciation. The observed condition or breakdown method will be used in this appraisal. This is the only method that measures separately each major category of depreciation. The five basic elements of accrued depreciation measured in this method are:

1. Curable physical deterioration,
2. Incurable physical deterioration,
3. Curable functional obsolescence,
4. Incurable functional obsolescence, and
5. External obsolescence.

PHYSICAL DETERIORATION

Physical deterioration is the loss in value due to the wearing out or deterioration of physical components of the property. Physical deterioration is further divided into curable and incurable components.

Curable Physical Deterioration

Curable physical deterioration, or deferred maintenance, includes those items which need immediate repair or replacement to attain maximum market appeal as of the date of the appraisal. An item is considered curable when the cost to cure is equal to or less than the components contributory value. Curable physical deterioration is measured by the cost to cure the items requiring current repair.

Item	Reproduction Cost	Cost to Cure
Vinyl Flooring	$300.00	$400.00
Exterior Trim Paint	$100.00	$200.00
Total Cost:	$400.00	$600.00
Total Curable Physical Deterioration:		$600.00

The subject property is in generally good condition for its age, with the exception of the flooring in the kitchen and some exterior trim paint that is flaking and peeling that should be repainted. These are items of deferred maintenance that would be wise to cure at this time to attain the maximum market appeal. The vinyl flooring needs to be replaced at a cost of $400.00, according to an estimate by Home Depot. It is estimated that the trim could be repainted at a cost of $200.00, according to Eclipse Paint. The flooring in this poor condition and the trim is in need of repainting. Each of these would inhibit the maximum marketability of the property, and have a negative impact on the value of the subject in excess of the cost to cure.

Incurable Physical Deterioration

Incurable physical deterioration is the loss in value due to the physical wearing out of the different component parts of the structure. This includes those items which are normally replaced during the life of the structure (short-lived components) and those items which are not normally replaced during the normal life expectancy of the structure (long-lived components).

Short-lived components are those components, which are normally replaced and in some cases replaced many times during the normal life of the structure. These components have economic lives that are shorter than the remaining life of the structure and are considered to be economically practical to replace. The depreciation for those items is measured by the ratio of the observed effective age and the normal life expectancy to the cost new of those items.

The following components within the subject property were identified as requiring replacement at some future time. The cost of these items has been obtained through the cost approach analysis portion of this report. The effective age and normal life expectancy of these components have been determined by observation and estimates of typical component lives reported in Marshall and Swift. The allocation of depreciation for each item is based on the straight-line method.

INCURABLE PHYSICAL DETERIORATION SHORT-LIVED ITEMS

Item	Reproduction Cost New	Effective Age	Total Economic Life	Percent Depreciated	Amount of Depreciation
Floor Coverings*	$6,460	10 years	20 years	50%	$3,230
Paint					
Interior	$2,260	2 years	7 years	29%	$655
Exterior**	$1,098	4 years	7 years	57%	$626
Heating/ Cooling System	$7,718	14 years	25 years	56%	$4,322
Electrical Fixtures	$1,485	20 years	40 years	50%	$743
Plumbing Fixtures	$8,100	20 years	40 years	50%	$4,050
Roof Cover	$5,860	8 years	20 years	40%	$2,344
Deck	$3,042	5 years	9 years	56%	$1,704
Driveway	$1,572	8 years	25 years	32%	$503
TOTAL	**$37,995**				**$18,177**

Physical Incurable Deterioration Short-Lived Descriptions

The roof cover was replaced in 1993 and the effective age is eight years, the same as the actual age.

The furnace was replaced with a new unit in 1987. The air conditioner was added at this time. The effective age is estimated to be the same as the actual age.

Based on the observed condition and because of good maintenance of the plumbing and electrical fixtures, they appear to have an effective age equal to one half of their life expectancy.

*The amount of the reproduction cost new for the floor coverings has been reduced by $300, since this amount was included as an item of curable physical deterioration.

**The amount of the reproduction cost new of the paint has been reduced by $100, since the amount was included as an item of curable physical deterioration.

The interior walls are painted, as well as the ceilings. Both appear to be in good condition with no maintenance or repainting needed for a few years. The wood deck is in good condition. The effective age is estimated at five years.

The driveway is asphalt and is in good condition. The effective age was estimated based on the observation at approximately eight years.

Long-Lived Items

Long-lived items are those that should last as long as the building's remaining economic life. The long-lived components are those structural components remaining after deducting short-lived components from the total reproduction cost new. Loss in value for items of physical incurable deterioration can be based on a percentage reflecting the ratio of effective age to the number of years of total physical life when new.

The actual or chronological age of the structure is 44 years. The effective age is estimated to be 35 years, because of better than average maintenance and desirability of homes in this neighborhood. The total economic life is estimated to be 100 years. Further explanation and support of these estimates of age are located on pages 37 to 43.

INCURABLE PHYSICAL DETERIORATION LONG-LIVED ITEMS

Reproduction cost new (RCN)		$182,153
Less: RCN of curable physical and		($400)
incurable physical (short-lived items)		($37,995)
RCN of long-lived items		$143,758
Effective Age	35 years	
Total Economic Life	100 years	
Percent depreciation	35÷100 =	x .35
Total incurable physical deterioration long-lived items		**$50,315**

FUNCTIONAL OBSOLESCENCE

Functional Obsolescence is the loss in value due to inability of the structure to perform adequately the function for which it is used, as of the appraisal date. Buyers perceive a loss in utility; therefore, the price offered is lowered due to reduced demand. Functional Obsolescence may be caused by deficiency, modernization, or super adequacy and can be categorized as either curable or incurable.

Each of the above forms of obsolescence is measured as follows:

Deficiency: Excess of cost to cure over the cost if installed new during construction. This type of obsolescence recognizes that an item is absent and that an extra expenditure is necessary s a penalty to value.

Lack of Modernization: Cost of the modern feature or item installed, less the depreciated value of the existing feature or item. This type of obsolescence recognizes that and item should be replaced, yet it still has value, therefore, the difference is a penalty to value.

Super Adequacy: Reproduction cost new of the item minus the physical deterioration already charged, plus the installation costs of a usually sufficient or normal item. This type of obsolescence recognizes that an item is more than sufficient, thus the sum of the equation is the penalty for having an item that is deemed super adequate.

Curable Functional Obsolescence

Curable functional obsolescence is items or conditions that are economically and physically practical to correct and may be caused by a deficiency, lack of modernization, or super adequacies. In each case, in order for the item to be curable, the increase market value of the property after curing the obsolescence must be at least equal to the cost of the item if it were originally installed during construction.

The subject suffers from curable functional obsolescence.
During the inspection it was noticed that the kitchen did not have a dishwasher and that this deficiency causes the subject to be less desirable to comparable properties with a dishwasher. A dishwasher is considered a necessity in such a property.

The cost to install a built-in dishwasher in new construction today would be $500.00 for the unit and $100.00 for labor for a total of $600.00. The cost to purchase a dishwasher today is $500.00 plus $800.00 for labor and materials to retro fit into the existing construction for a total of $1,300.00. The work involved would include retrofitting the plumbing to install the dishwasher, remodeling the cabinetry to make space for the dishwasher and some electrical work. The amount of functional obsolescence is $600.00.

Cost as of date of appraisal to install a built-in dishwasher in the subject	$ 1,300.00
Less cost (as of date of appraisal) of dishwasher in new construction today	- $ 600.00
Amount of curable functional obsolescence	$ 700.00

The amount for retrofitting an existing house with a built-in dishwasher must be less than the amount of contributory value it would bring in the market for this obsolescence to be curable. To verify this we go to both Income approach Sales Comparison Approach to establish contributory value for the built-in dishwasher (see page 126 for value). The amount of value for a built-in dishwasher is $2,390 and the amount to retrofit an existing structure is $1,300.00 indicating that the functional obsolescence for lack of a built-in dishwasher is curable. The income approach as well indicates the value of a built-in dishwasher of $1,340, indicating that the functional obsolescence for a lack of built-in dishwasher is curable.

Incurable Functional Obsolescence

Incurable functional obsolescence is a condition that is not economically or physically practical to correct and may be caused by deficiencies or super adequacies. Loss in value for deficiency is measured by capitalization of the actual rent loss and through sales comparison. Loss in value for super adequacies is through the capitalization of the loss in rent.

The subject property does not suffer from incurable functional. Therefore, the following is a **hypothetical** example of estimated incurable functional obsolescence in the form of a deficiency. In your inspection of the property you found that the subject lacked a second one-half bath on the main level. It is apparent after discussions with buyers, renters, and local real estate agents, after comparing the subject property with other similar properties that buyers prefer to have an additional one-half bath in addition to the full bath on the main level. Through these discussions, the lack of an additional bathroom provides a functional inconvenience and causes the subject to be less desirable because of diminished utility. The cost to remodel the interior of the subject property to allow room for an additional bathroom or the cost to construct an addition solely for the additional bathroom is not economically feasible. These costs to remodel or construct an addition far exceed the return that an additional bathroom received in the form of rent or the increase in sales price attributed to the properties with an additional one-half bath than those without.

This incurable functional obsolescence will be supported by capitalizing the rent loss as described in the income. An estimate was obtained from contractor Jim Nelson. Remodeling of the existing area of the residence would be the most cost effective in his opinion. The area to be remodeled is approximately 100 square feet at a cost of approximately $75.00 per square foot s obtained from the contractor.

Cost to remodel per square foot	$ 75.00
Square feet to be remodeled	X 100
Cost to remodel existing area	$7,500.00

A market analysis indicates that renters are willing to pay $40.00 per month for the increased utility of having a half bath. Capitalization of the rent loss would be done by multiplying the loss of income by the Gross Monthly Rent Multiplier (GMRM) as estimated in the Income approach section of this report. The indicated GMRM is 134 for the subject property.

Estimated Monthly Rent Loss	$ 40.00
GMRM	X 134
Value attributed to half bathroom	$5,360.00

The loss in value due to a home without an additional bathroom in comparison to those with is $5,360.00

The loss in value is also supported through the sales comparison approach to value. Using the sales approach to value, two comparable properties located within the neighborhood were analyzed with the only difference being the sales date and difference of having an additional bathroom. The property was adjusted for market conditions as was estimated from the time adjustment analysis established in the sales approach to value in this report.

Address	14311 Seymour Dr	14560 Norwood Dr
Sale Date	May 2001	February 2001
Formal Dining Room	Yes	No
Sale Price	$213,400	$202,750
Market Conditions Adjustment	$6,402	$12,165
Adjusted Sale Price	$219,805	$214,915

Residence with an additional bathroom	$219,805
Residence without an additional bathroom	$214,915
Difference attributed to formal dining room	$ 4,890

The cost to remodel to add an additional bathroom of $7,500.00 is greater than the $4,890.00 indicated from the sales comparison as illustrated above. Therefore this indicates that this is a form of incurable functional obsolescence because the cost to cure is greater than the value attributed to an additional bathroom.

EXTERNAL OBSOLESCENCE

External obsolescence is described as loss of property value due to factors outside the property itself and it is almost always economically incurable; however, the obsolescence may be temporary. External obsolescence can be measured by the capitalization of income loss or by paired sales analysis.

The subject property does not suffer from any observed external obsolescence. Therefore, the following is a **hypothetical** example of estimating the loss in value due to obsolescence outside the property.

For example, if the subject property were located on Excelsior Boulevard, an east-west thoroughfare connecting County Road No. 101 with State Highway 169, this location would make it less desirable due to traffic, noise, pollution, and site access problems. A loss in rent would be appropriate due to these negative factors.

Comparing rental properties located on busy streets such as in the example, rent for $50 less per month than comparable properties not affected by busy streets. The loss in value by the capitalization of rent loss method is determined by multiplying the monthly rent loss of $50 by the gross monthly rent multiplier of 134 as determined in the Income Approach section of this report. This loss in value due to the location is attributed to both site and improvements.

($50 monthly rent loss X 134 = $6,700)

Because the site value estimated in the Site Valuation section of the Cost Approach would already include any adjustment due to the location, only the loss in value attributed to the improvements needs to be calculated. Assuming the site and building percentages comprise of 30% site and 70% building, or a site to building ratio of 1 to 2.33, the loss in value due to economic obsolescence attributed to the improvements is:

($6,700 total value loss X 70% (% attributed to the improvements) = $4,690)

Depreciated Value of the Site Improvement

Once cost and depreciation figures for the improvement are calculated, the value of the site improvements may be examined. Site improvements for the subject property include below average to average landscaping and sidewalk. The site improvements are estimated by the amount they contribute to the property rather than the depreciated cost of these items. It was calculated that the depreciated value of the site improvements for the subject property to be $11,017.

SUMMARY OF THE COST APPROACH

Total Reproduction Cost New of the Improvement:			$182,153
Less: Accrued Deterioration:			
Physical Curable Items:	$600		
Physical Incurable Items - Short Lived:	$18,177		
Physical Incurable Items - Long Lived:	$50,315		
Total Physical Deterioration		$69,092	
Functional Obsolescence			
Curable:	$700		
Incurable:	$0		
Total Functional Obsolescence		$700	
Total Economic Obsolescence		$0	
Less: Total Accrued Depreciation		$69,792	$69,792
Depreciated Value of the Improvements			$112,361
Depreciated Value of the Site Improvement			$ 4,150
Plus: Total Site Value			$90,200
Indicated Value by the Cost Approach			$206,711
Rounded to the nearest $100			$206,700

The estimated market value of the subject property utilizing the cost approach, as of August 1, 2002, is:

Two Hundred Six Thousand Seven Hundred Dollars

($206,700)

APPLICATION OF THE INCOME APPROACH

The income approach is one of the three traditional approaches used in the valuation process.

> **"A set of procedures through which an appraiser derives a value indication for an income-producing property by converting it s anticipated benefits into property value."[22]**

The Principle of Anticipation is the valuation principle that most directly affects the income approach the Principle of anticipation states that,

> **"value is created by the expectation of benefits to be derived in the future."[23]**

It assumes that an informed buyer would pay no more for a property than the cost of obtaining an income stream of the same size and involving the same risk as that embodied in the subject property. Most buyers of single-family homes purchase them in order to enjoy these benefits the property will afford them in the future. These benefits are amenities it will produce to its owner rather than its potential income. High maintenance costs and the non-homestead tax burden in Minnesota discourage the ownership of single-family homes for income purposes. Since single-family residential properties are not normally purchased for income purposes, the income approach to value for this class of property is generally the least reliable of the three approaches, and is used primarily as a check on the value indications in the other two approaches.

The proper application of the income approach for a single-family property is through the analysis and application of a gross monthly rent multiplier (GMRM). For single-family residential properties, a gross monthly rent multiplier is developed rather than an annual gross rent multiplier, which would be more applicable to typical income producing properties.

The gross monthly rent multiplier for residential property expresses the relationship between the sale price and monthly rental. The formula for the derivation of a gross rent multiplier of a property is expressed as:

$$\frac{\text{Sale Price}}{\text{Monthly Rent}} = \text{Gross Monthly Rent Multiplier}$$

To estimate the value of the subject property through the gross monthly rent multiplier analysis, you must identify similar properties, which have sold and were rented at the time of sale. From these sales, a gross monthly rent multiplier is derived from each sale. It is then necessary to estimate the market rent of the subject property through comparison with similar properties, which were rented as of the date of appraisal. The final step is to multiply the monthly rent by the estimated gross monthly rent multiplier to indicate the value of the subject property.

The majority of the homes in the subject neighborhood are owner occupied, limiting the rental data. Of the four sales used to estimate the gross monthly rent multiplier, only one of the sales is from the subject neighborhood, while the other three are from similar neighborhoods.

The pages following contain photographs and descriptive information of the comparable rental sales properties. Exhibit O of the Addenda is a map showing the location of the subject and the comparable rental sales.

RENTAL SALE
#1

Date: July 2002

Sale Price: $189,900 **Sale Date:** October 2001

Address: 5120 Forest Rd

Legal Description: Lot 22 Bloc 6, Woodland Hills 3rd Addition

Terms: Conventional Financing

Buyer: Ranelle Manaois **Seller:** Donna Hall

Instrument: Warranty Deed **Sale Verified by:** Ranelle Manaois

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3471025

Monthly Rent as of Sale Date: $1,415.00 **Gross Monthly Rent Multiplier:** 134

Proximity to Subject: 1.25 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 14,429 Square Feet **Year Built:** 1958

Building Style: Rambler **Building Size:** 1,308 Square Feet

Basement: Full, 49% Finished Area , 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached **Features:** 3 Bedrooms, 1 Full Bath,

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

RENTAL SALE
#2

Date: July 2002

Sale Price: **$197,500** **Sale Date:** **May 2001**

Address: 16824 Scenic Lane North

Legal Description: Lot 4, Block 1, Hladky First Addition

Terms: Conventional Financing

Buyer: Gregory Nelson and Liza Clark **Seller:** Dean and Lisa Brown

Instrument: Warranty Deed **Sale Verified by:** Liza Clark

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3514745

Monthly Rent as of Sale Date: $1,485.00 **Gross Rent Multiplier:** 133

Proximity to Subject: .68 miles south **Zoning:** R-1, Low Density Residential

Site Size: 13,790 Square Feet **Year Built:** 1956

Building Style: Rambler **Building Size:** 1,057 Square Feet

Basement: Full, 57% Finished Area,1- ¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached **Features:** 3 Bedrooms, 1 Full Bath

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

RENTAL SALE
#3

Date: July 2002

Sale Price: **$177,350** **Sale Date:** **July 2002**

Address: 5452 Kimberly Rd

Legal Description: Lot 16, Block 3, Woodland Hills Addition

Terms: Conventional Financing

Buyer: Phillip and Audrey Dorholt **Seller:** Emma Griffiths

Instrument: Warranty Deed **Sale Verified by:** Emma Griffiths

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3930138

Monthly Rent as of Sale Date: $1,325.00 **Gross Rent Multiplier:** 134

Proximity to Subject: .45 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 15,731 Square Feet **Year Built**: 1958

Building Style: Rambler **Building Size:** 986 Square Feet

Basement: Full, 46% Finished Area, 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached **Features:** 3 Bedrooms, 1 Full Bath

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

RENTAL SALE
#4

Date: July 2002

Sale Price: $209,900 **Sale Date:** July 2001

Address: 5115 St. Mary's Place

Legal Description: Lot 8, Block1, Glen View Park Second Addition

Terms: Conventional Financing

Buyer: John Hoffman **Seller:** Mark and Ann Jensen

Instrument: Warranty Deed **Sale Verified by:** John Hoffman

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3421537

Monthly Rent as of Sale Date: $1,550.00 **Gross Rent Multiplier:** 135

Proximity to Subject: 1.80 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 17,241 Square Feet **Year Built:** 1959

Building Style: Rambler **Building Size:** 1,050 Square Feet

Basement: Full, 55% Finished Area, 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached **Features:** 3 Bedrooms, 1 Full Bath

Functional Obsolescence: None **Economic Obsolescence:** None

Comments: The property is located in a neighborhood similar to the subject.

RENTAL SALES COMPARABLE DATA GRID

	SUBJECT	COMP #1	COMP #2	COMP #3	COMP #4
Property ID	29-117-22-24-0030	29-117-22-42-0060	32-117-22-21-0009	32-117-22-11-0016	27-117-22-32-0066
Address	4932 Clear Spring Rd	5120 Forest Rd	16824 Scenic Lane N	5452 Kimberly Rd	5115 St. Mary's Pl
Monthly Rent as of Sale Date	---	$1,415	$1,485	$1,325	$1,550
Sale Price	---	$189,900	$197,500	$177,350	$209,900
Sale Date	---	Oct-01	May-01	Jul-02	Jul-01
GMRM	---	134	133	134	135
PHYSICAL CHARACTERISTICS:					
-Site Size	12,621 sf.	14,249 sf.	13,790 sf.	15,731 sf.	17,241 sf.
-Building Style	Rambler	Rambler	Rambler	Rambler	Rambler
-Effective Age	Similar	Similar	Similar	Similar	Similar
-Building Size	1,140 sf.	1,308 sf.	1,057 sf.	986 sf.	1,050 sf.
-Garage	2 stall attached	2 stall attached	2 stall attached	2 stall attached	2 stall attached
-Features	3 bedrooms 1 full bath ¾ bath No b/in dw	3 bedrooms 1 full bath ¾ bath No b/in dw	3 bedrooms 1 full bath ¾ bath No b/in dw	3 bedrooms 1 full bath ¾ bath No b/in dw	3 bedrooms 1 full bath ¾ bath b/in dw
-Central Air Conditioning	Yes	Yes	Yes	Yes	Yes
-Condition	Average	Average	Average	Average	Average
-Functional Obsolescence	Yes	Yes	Yes	Yes	No
-Location	Quiet Street	Quiet Street	Quiet Street	Quiet Street	Quiet Street

ESTIMATION OF THE GROSS MONTHLY RENT MULTIPLIER

The proper use of the gross monthly rent multiplier assumes the following:

1. The highest and best use of the property will not change over the remaining economic life of the property.

2. The property will remain rented at a constant rate with no unusual vacancy factors.

3. The subject property and comparables are truly comparable and are subject to the same market influences and are in competition with one another. They have similar operating expenses, and have similar utility and amenities.

4. The property will be rented at a constant rate, with no unusual vacancy factors.

These assumptions apply to the comparable rental sales as well as the subject property. Four sales of properties that were rented at the time of sale were analyzed to estimate the appropriate gross monthly rent multiplier for the subject property.

Of the four sales used in this analysis only one, Comparable Rental Sale No. 3, was located in the subject neighborhood. The remaining Comparable Sales were located in neighborhoods that are similar and would be in direct competition with the subject property. The rental sales are all of the same building style built between 1956 and 1959. The operating expenses, utility, and amenities are similar. The properties are all single-family residences located on and surrounded by single-family properties and the present and highest and best use is for single-family properties.

The sales produced a close range of gross monthly rent multipliers from 133 to 135, with a median of 134 and a mean of 134.

Comparable Rental Sale No. 3 is located in the subject neighborhood and is the most recent sale with an indicated gross monthly rent multiplier of 134. Comparable Rental Sale No. 1 also supports a gross monthly rent indicator of 134.

After considering all of the Comparable Rental Sales, the most emphasis is placed on Comparable Rental Sales No. 1 and 3. A gross monthly rent multiplier of 134 is estimated for the subject property.

DEVELOPMENT OF MARKET RENT

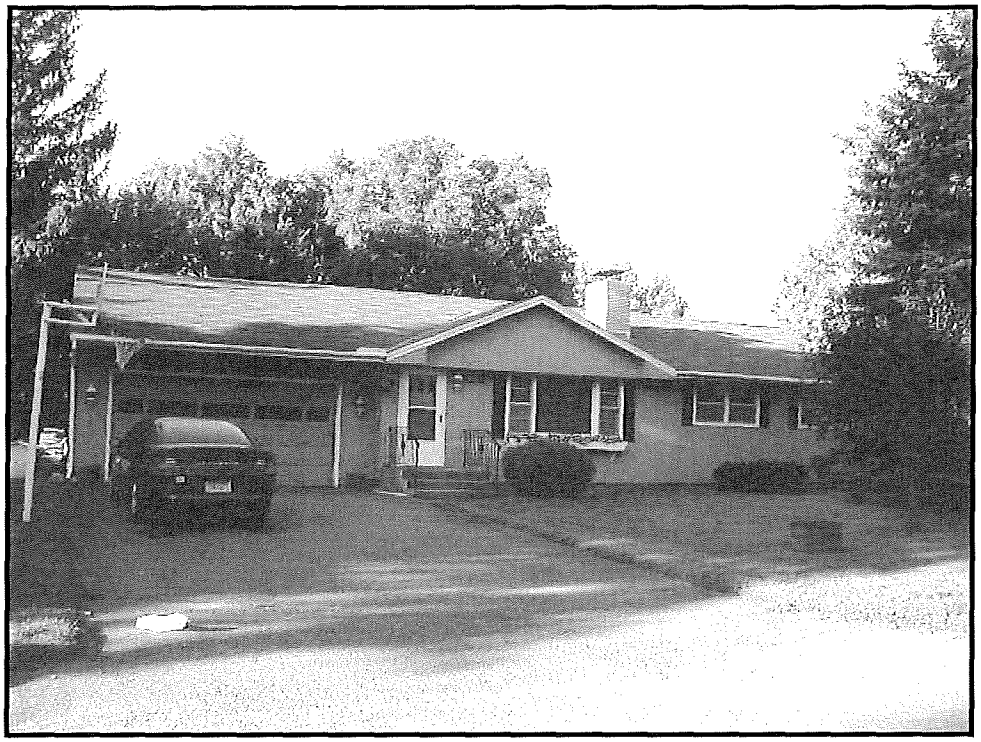
Market Rent is defined as:

> **"The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of appraisal."**[24]

The market rent was established by using five rental comparables that are all located in the subject neighborhood. All of the rental comparables are similar to the subject in style, age, size, amenities, and location. All of the comparables are in direct competition to the subject property and each other. All rents are per month, for unfurnished homes, the tenant is responsible for paying all utilities, and are as of August 1, 2002, the date of the appraisal.

The pages following contain photographs and a description of the five comparable rental properties. Exhibit P of the addenda is a location map for the subject and the five comparable rentals.

MARKET RENT
COMPARABLE #1



Date: July 2002

Address: 16823 Scenic Lane North

Legal Description: Lot 4, Block1, Hladky First Addition

Monthly Rent as of August 1, 2002: $1,470.00

Verified with Tenant

Proximity to Subject: .70 miles south

Site Size: 14,099 Square Feet

Zoning: R-1, Low Density Residential

Year Built: 1957

Effective Age: 1967

Building Style: Rambler

Building Size: 1,144 Square Feet

Basement: Full, 59% Finished Area, 1-¾ bath

Central Air: Yes

Construction Quality: Average

Condition: Fair

Garage: Two-Stall Attached

Features: 3 Bedrooms, 1 Full Bath

Walkout: Yes

Fireplaces: 2

Functional Obsolescence: No built-in dishwasher

Economic Obsolescence: None

Comments: Utilities are not included in the rent of $1,470.00 per month. The property is located in a neighborhood similar to the subject.

MARKET RENT
COMPARABLE #2

Date: July 2002

Address: 13612 Bellevue Drive

Legal Description: Lot 2, Block1, Bellevue First Addition

Monthly Rent as of August 1, 2002: $1,560.00

Verified with Tenant

Proximity to Subject: 2.10 miles west

Site Size: 13,001 Square Feet

Zoning: R-1, Low Density Residential

Year Built: 1955

Effective Age: 1967

Building Style: Rambler

Building Size: 1,182 Square Feet

Basement: Full, 56% Finished Area, 1-¾ bath

Central Air: Yes

Construction Quality: Average

Condition: Average

Garage: Two-Stall Attached

Features: 3 Bedrooms, 1 Full Bath

Walkout: Yes

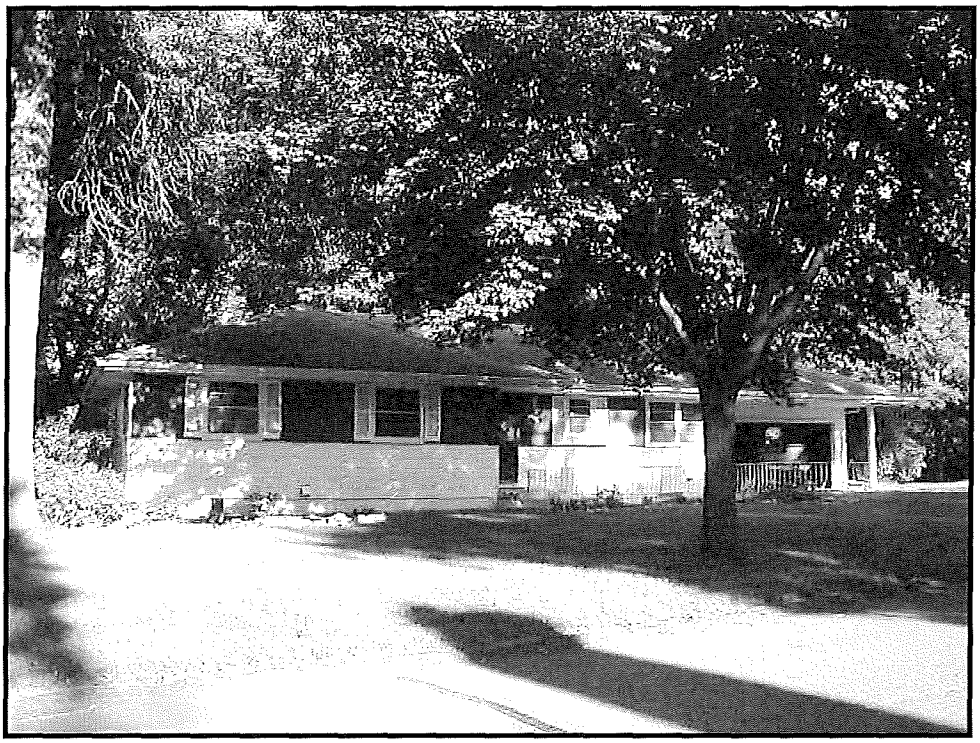
Fireplaces: 1

Functional Obsolescence: None

Economic Obsolescence: None

Comments: Utilities are not included in the $1,560.00 rent per month. The property is located in a neighborhood similar to the subject.

MARKET RENT
COMPARABLE #3



Date: July 2002

Address: 5536 Holiday Road

Legal Description: Lot 7, Block1, Woodland Hills Fourth Addition

Monthly Rent as of August 1, 2002: $1,655.00

Verified with Tenant

Proximity to Subject: .90 miles southeast

Zoning: R-1, Low Density Residential

Site Size: 16,385 Square Feet

Year Built: 1960

Effective Age: 1967

Building Style: Rambler

Building Size: 1,304 Square Feet

Basement: Full, 60% Finished Area, 1-¾ bath

Central Air: Yes

Construction Quality: Average

Condition: Average

Garage: Two-Stall Attached

Features: 3 Bedrooms, 1 Full Bath

Walkout: Yes

Fireplaces: 2

Functional Obsolescence: None

Economic Obsolescence: None

Comments: Utilities are not included in the $1,655.00 monthly rent. The property is located in a neighborhood similar to the subject.

MARKET RENT
COMPARABLE #4

Date: July 2002

Address: 5050 Holiday Circle

Legal Description: Lot 9, Block1, Woodland Hills Second Addition

Monthly Rent as of August 1, 2002: $1,450.00

Verified with Tenant

Proximity to Subject: .45 miles southeast

Zoning: R-1, Low Density Residential

Site Size: 17,951 Square Feet

Year Built: 1957

Effective Age: 1967

Building Style: Rambler

Building Size: 1,128 Square Feet

Basement: Full, 60% Finished Area, 1-¾ bath

Central Air: Yes

Construction Quality: Average

Condition: Fair

Garage: Two-Stall Attached

Features: 3 Bedrooms, 1 Full Bath

Walkout: Yes

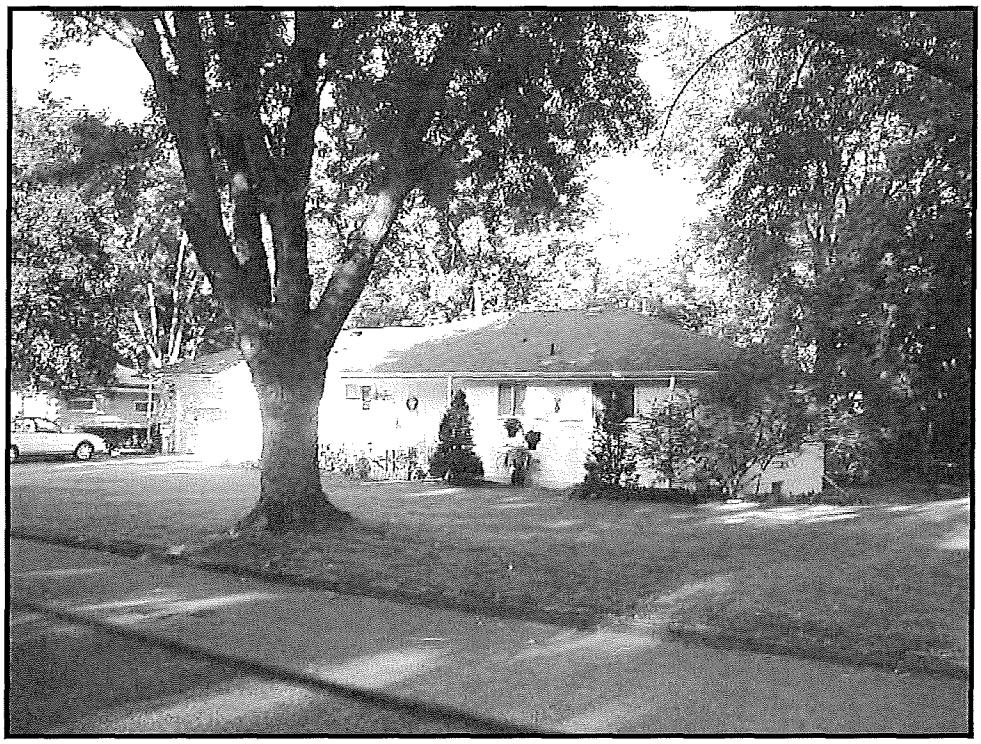
Fireplaces: 1

Functional Obsolescence: No built-in dishwasher

Economic Obsolescence: None

Comments: Utilities are not included in the $1,450.00 monthly rent. The property is located in a neighborhood similar to the subject.

MARKET RENT
COMPARABLE #5



Date: July 2002

Address: 16209 Birch Lane

Legal Description: Lot 4, Block3, Woodland Hills Fourth Addition

Monthly Rent as of August 1, 2002: $1,480.00

Verified with Tenant

Proximity to Subject: .90 miles southeast

Zoning: R-1, Low Density Residential

Site Size: 14,901 Square Feet

Year Built: 1959

Effective Age: 1967

Building Style: Rambler

Building Size: 1,142 Square Feet

Basement: Full, 58% Finished Area, 1-¾ bath

Central Air: Yes

Construction Quality: Average

Condition: Fair

Garage: Two-Stall Attached

Features: 3 Bedrooms, 1 Full Bath

Walkout: Yes

Fireplaces: 2

Functional Obsolescence: None

Economic Obsolescence: None

Comments: Utilities are not included in the $1,480.00 monthly rent. The property is located in a neighborhood similar to the subject.

MARKET RENT DATA GRID						
	SUBJECT	**COMP #1**	**COMP #2**	**COMP #3**	**COMP #4**	**COMP #5**
Monthly Rent	---	$1,470	$1,560	$1,655	$1,450	$1,480
ELEMENTS OF COMPARISON						
-Market Conditions	as of 8/1/02	Same	Same	Same	Same	Same
-Lease Provisions: Unfurnished Tenant Paid Utilities	---	Yes Yes	Yes Yes	Yes Yes	Yes Yes	Yes Yes
PHYSICAL CHARACTERISTICS:						
- Condition	Average	Inferior	Similar	Similar	Inferior	Inferior
-Building Size	1,140 sf.	1,144 sf.	1,182 sf.	1,304 sf.	1,128 sf.	1,142 sf.
-Finished Basement	54%	59%	56%	60%	60%	58%
-Fireplace (s)	2	2	1	2	1	2
-Functional Obsolescence	Yes	Yes	No	No	Yes	No
-Features	3 BR A/C	3 BR A/C	3 BR A/C	3 BR A/C	3 BR A/C	3 BR A/C
-Number of Rooms	6	6	6	6	6	6

UNITS OF COMPARISON ANALYSIS

Units of comparison are the components into which a property may be divided for purposes of comparison. The appropriate unit is the one that renters and landlords use to decide on the rent they are willing to pay or accept for a particular property. The unit of comparison may be the property as a whole or some smaller measurement. The most commonly used and analyzed for residential property include:

- Rent per square foot
- Rent per dwelling unit
- Rent per room
- Rent per bedroom

Comp #	Monthly Rent	Sq. Ft.	Rent/SF	Rooms	Rent/Room	BR	Rent/BR
1	$1,470	1,144	$1.28	6	$245	3	$490
2	$1,560	1,182	$1.32	6	$260	3	$520
3	$1,655	1,304	$1.27	6	$276	3	$552
4	$1,450	1,128	$1.29	6	$242	3	$483
5	$1,480	1,142	$1.30	6	$247	3	$493

	Low	**High**	**% Difference**
Monthly Rent:	$1,50	$1,655	14.14%
Rent/Sq. Ft.:	$1.27	$1.32	3.94%
Rent/Room:	$242	$276	14.05%
Rent/Bedroom:	$483	$552	14.29%

All five comparables have the same number of rooms and bedrooms with no apparent pattern in either the rent per room or rent per bedroom. An analysis of the rent per square foot yields a stable indication of unit value. Therefore, the most appropriate unit of comparison is deemed to be the rent per square foot, per month, and all rental comparables have been analyzed on this basis.

MARKET RENT DATA ADJUSTMENT GRID						
	SUBJECT	COMP #1	COMP #2	COMP #3	COMP #4	COMP #5
Monthly Rent	---	$1,470	$1,560	$1,655	$1,450	$1,480
ELEMENTS OF COMPARISON						
PHYSICAL CHARACTERISTICS:						
-Building Size	1,140 sf.	1,144 sf.	1,182 sf.	1,304 sf.	1,128 sf.	1,142 sf.
-Size Adjustment		---	---	($75.00)	---	---
-Fireplace (s)	2	2	1	2	1	2
-Fireplace Adjustment		---	$20.00	---	$20.00	---
-Condition	Average	Inferior	Similar	Similar	Inferior	Inferior
-Condition Adjustment		$100.00	---	---	$100.00	$100.00
-Functional Obsolescence	Yes	Yes	No	No	Yes	No
-Functional Obsolescence Adjustment		---	($10.00)	($10.00)	---	($10.00)
-Net Adjustment		$100.00	$10.00	($85.00)	$120.00	$90.00
ADJUSTED UNITS OF COMPARISON						
-Adjusted Rent per Square Foot		$1.37	$1.33	$1.20	$1.39	$1.37
-Number of Rooms	6	6	6	6	6	6

ANALYSIS OF COMPARABLES: ELEMENTS OF COMPARISON

Elements of comparison are property characteristics that cause rents to vary. While units of comparison analysis identifies units of value that are important to renters and landlords of a particular property, elements of comparison analysis attempts to isolate the differences in components between the subject property and the rental comparables so that proper adjustments can be made.

Elements of comparison include:

- Lease provisions
- Market conditions
- Location
- Physical characteristics

In analyzing the five comparable rentals, the following characteristics were either the same or similar for the subject and all five of the comparable rentals, thus no adjustments are necessary:

- All comparables are in the subject neighborhood and have similar location amenities
- The subject and comparables are zoned R-1, Low Density Residential District
- The highest and best use for the subject and comparables is single-family residential
- The dwelling style and construction quality for the subject and comparables are similar
- The effective age for the subject property and comparables are similar
- The number of bedrooms, bathrooms and garage stalls for the subject property and comparables are the same
- The subject property and all comparables have central air-conditioning
- The subject property and all comparables have similar percentages of finished basements
- All comparables rents are as of August 1, 2002; are per month; are unfurnished; and the tenant is responsible for paying all utilities

The differences include:

- Functional obsolescence
- Number of fireplaces
- Condition
- Size adjustment

Functional Obsolescence Adjustment

Rental Comparables No. 1 and No. 5 are similar except for functional obsolescence. The adjustment for lack of area built-in dishwasher was determined by comparing Rental Comparable No. 1, which like the subject does not have a built-in dishwasher in the kitchen, with Rental Comparable No. 5, which does have a built-in dishwasher in the kitchen.

	Comparable #5 Has No Functional Obsolescence	**Comparable #1 Has Functional Obsolescence**
Monthly Rent	$1,480	$1,470
Building Size	1,144 sf.	1,142 sf.
Walkout	None	None
Fireplace(s)	Two	Two

Property without Functional Obsolescence	$1,480
Property with Functional Obsolescence	$1,470
Difference attributed to Functional Obsolescence	**$10**

The subject property and Rental Comparables Nos. 1 and 4 do not have a dishwasher. Rental Comparables Nos. 2, 3, and 5 have a built-in dishwasher in the kitchen, which based on the above analysis, commands additional rental income. The monthly rent of Rentals No. 2, 3, and 5 will be adjusted downward $10 for having a built-in dishwasher.

Fireplace Adjustment

The adjustment for a fireplace was estimated by comparing Rental Comparable No. 5 and Rental Comparable No. 4, which are similar except that No. 5 has two fireplaces and No. 4 has just one fireplace. An adjustment for functional obsolescence was made first.

	Comparable #5 Has Two Fireplaces		Comparable #4 Has One Fireplace
Monthly Rent		$1,480	$1,450
Building Size	1,142 sf.		1,128 sf.
Walkout	None		None
Functional Obsolescence	No		Yes
Adjustment for Functional Obsolescence		($10)	
Property with Two Fireplaces			$1,470
Property with One Fireplace			$1,450
Difference attributed to Two Fireplaces			**$20**

The subject and Rental Comparables No. 1, 3 and 5 have two fireplaces. Rental Comparables No. 2 and 4 have one fireplace and are adjusted upward $20.

Condition Adjustment

The subject property is in average condition. The adjustment for a condition was estimated by comparing Rental Comparables No. 2 and No. 5. Rental Comparable No. 2 is similar to the subject in average condition, while No. 5 is of worse or inferior condition . These two comparables were similar with the exception of the number of fireplaces, which was adjusted for first.

	Comparable #2 Average Condition		Comparable #5 Inferior Condition
Monthly Rent		$1,560	$1,480
Building Size	1,182 sf.		1,142 sf.
Functional Obsolescence	None		None
Fireplace(s)	One		Two
Adjustment for Fireplace		$20	
Property in average condition			$1,580
Property in inferior condition			$1,480
Difference attributed to Condition			**$100**

The subject property and Rental Comparable No. 2 and 3 are in average condition. Rental Comparables No. 1, 4, and 5 are in inferior condition and were adjusted upward $100.

Size Adjustment

The differences in square footage between the subject property and four of the rental comparables were quite small. The differences ranged from two to forty-two square feet, or 0.2 to 3.7 percent. These small differences in size would not be recognized in the rental market by either renters or landlords and is not supported by an analysis of the rental comparables. Rental comparable No. 3 is fourteen percent or 164 square feet larger than the subject property. An analysis of the size adjustment was made comparing Rental Comparable No. 1 with Rental Comparable No. 3. They are similar except for size, condition, and functional obsolescence, which were adjusted for first.

		Comparable #1		**Comparable #3**
		Building Size		**Building Size**
		1,144 sf.		**1,304 sf.**
Monthly Rent		$1,470		$1,655
Fireplace(s)	Two		Two	
Walkout	None		Yes	
Adjustment for Walkout		$100	No	
Functional Obsolescence	Yes		No	
Adjustment for Functional Obsolescence				($10)
Property with 1,304 sf.				$1,645
Property with 1,144 sf.				$1,570
Difference attributed to 160 square feet				**$75**

The subject property and Rental Comparables No. 1, 2, 4 and 5 are similar in building size. Rental Comparable No. 3 is adjusted downwards $75, for its larger square footage.

Conclusion – Estimate of Market Rent

Rental Comparable No. 1 received the least number of adjustments, receiving only one adjustment Rental Comparable No. 2 had the smallest net adjustment of $10.

It was determined that the price per square foot was the appropriate unit of comparison to be used. The adjusted median price per square foot is $1.37.

$1.37 X 1,140 square feet = $1,562

The adjusted monthly (unfurnished) market rent for the subject property as of August 1, 2002, is estimated to be:

One Thousand Five Hundred Sixty Two Dollars

($ 1,562)

INDICATED VALUE BY THE INCOME APPROACH

Two separate analyses were completed; first, the development of a gross monthly rent multiplier, and second, the estimation of the monthly market rent of the subject property.

Four comparable rental sales indicated a gross monthly rent multiplier of 134. Five separate properties that had been rented on August 1, 2002, were analyzed to estimate the monthly market rent. It was estimated that the monthly, unfurnished market rent for the subject property as of the date of the appraisal is $1,562.

The final procedure of the income approach is to multiply the estimated market rent for the subject property by the estimated gross monthly rent multiplier, to arrive at the estimated market value.

Monthly Rent	X	Gross Monthly Rent Multiplier	=	Indicated Value
$1,562	X	134	=	$209,300

Therefore, based on the analysis of five comparable rental properties, it is the appraisers' opinion that the estimated value of the subject property, as indicated by the income approach as of August 1, 2002, is:

Two Hundred Nine Thousand Three Hundred Dollars

($209,300)

APPLICATION OF THE SALES COMPARISON APPROACH

In the sales comparison approach to value, the subject property is compared with similar properties that have recently sold. This approach to value is based on the Principle of Substitution, which states that the value of a property in the market is limited by the cost of acquiring an equally desirable substitute property. The sales comparison approach also has foundations in the concept of "value in exchange." This concept measures what informed buyers would offer for property given the comparisons they make and the alternatives available for consideration, and done under market conditions. This approach gives a direct indication of the actions of buyers and sellers in the real estate market.

There are four basic steps to consider in valuing the subject property by the sales comparison approach.

1. Discovery and analysis of sales.
2. Determination of appropriate units of comparison.
3. Application of adjustments based on dissimilarities.
4. Correlation of sales to the subject property.

The sales comparison approach is the most reliable of the three approaches to value in regard to estimating the value of a single-family property. The basis of reliability is directly related to the adequacy and verification of market sales information and the degree of similarity of the sales to the subject property. Once the comparable sale properties have been located, adjustments must be made for major differences between the comparable sale and the subject property. Typical adjustments would include:

- time of sale
- location,
- terms and/or conditions of sale,
- physical characteristics,
- age and condition of improvements.

The total adjustment for each comparable is the sum of several individual items adjusted for in each particular sale. Adjustments are always made to the comparable sale, never to the subject property. Properly adjusted, the sales comparison approach offers a indication of buyers and sellers.

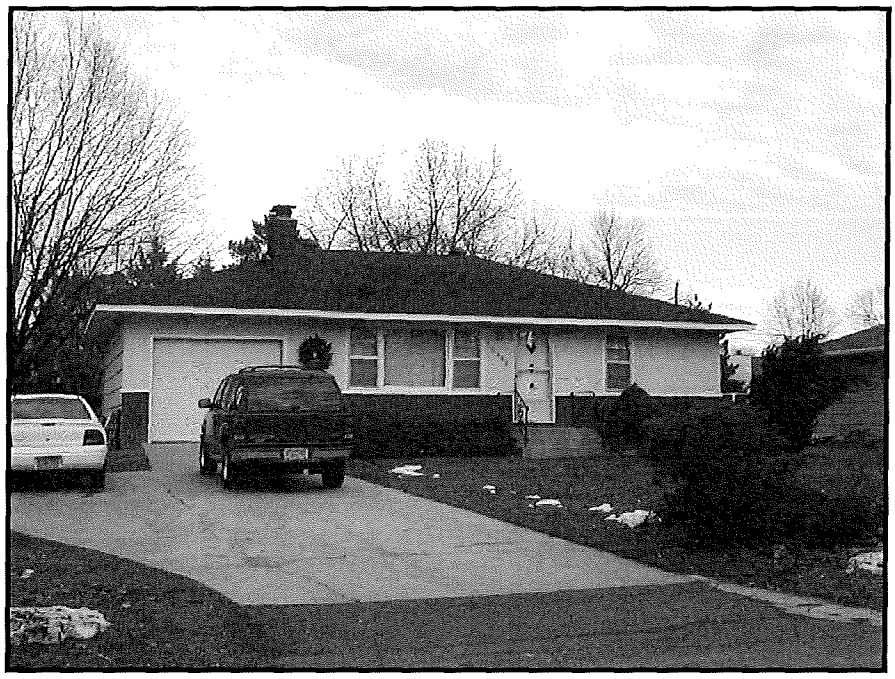
In the sales comparison approach, appraisers estimate a price per unit of appropriate property characteristics that contribute to value. The unit of comparison may be the property as a whole or some smaller measurement. The units of comparison most commonly used and analyzed are:

- per dwelling unit,
- per room,
- per square foot of ground floor, and
- per bedroom.

A search of the subject neighborhood revealed five sales of residential properties, which would be considered similar to the subject property. The subject property is typical of many of the homes in the neighborhood, and the supply and demand appears to be in balance. Highest and best use for all the comparable properties is the present use being, single-family dwellings.

The following pages contain photographs and descriptive information of the comparable properties. Exhibit Q of the Addenda is a map showing the location of the sales.

SALES COMPARABLE
#1



Date: April 2002

Sale Price: **$215,000** **Sale Date:** **August 2002**

Address: 16421 Norwood Lane

Legal Description: Lot 5, Block 1, Woodland Hills Third Addition

Terms: Conventional Financing

Buyer: Patrick and Beth St. John Kehoe **Seller:** Helen V Madson

Instrument: Warranty Deed **Sale Verified by:** Helen V Madsen

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3738484

Proximity to Subject: .53 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 16,254 Square Feet **Year Built:** 1959

Effective Age: 1967

Building Style: Rambler **Building Size:** 1,350 Square Feet

Basement: Full, 900 Square Feet Finished, 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

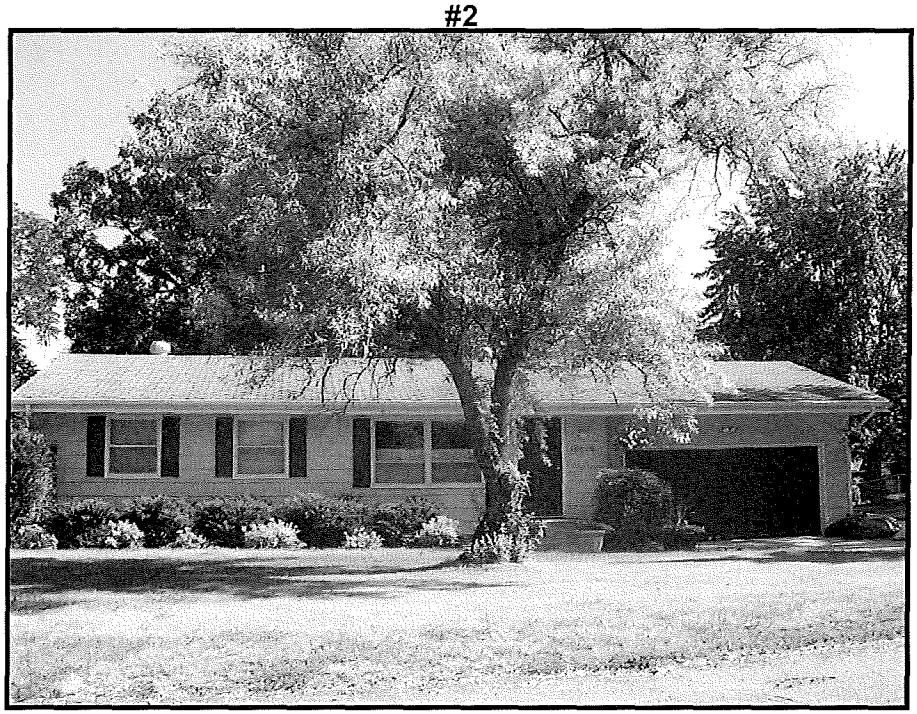
Garage: One-Stall Attached, 300 Square Feet **Fireplaces:** One

Walkout: Yes **Features:** 3 Bedrooms, 1 Full Bath, Deck

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

Comments: This property has had average maintenance similar to the subject. It has received a new roof and has had a new driveway installed. The floor plan of this property is similar to the subject. The site is similar to the subject and typical to the neighborhood. All utilities that are available to the subject are available to this property.

SALES COMPARABLE #2



Date: July 2002

Sale Price: $174,900 **Sale Date:** November 2001

Address: 5434 Woodland Rd

Legal Description: Lot 6, Block 1, Woodland Hills Addition

Terms: Conventional Financing

Buyer: Raymond Weidner and Carolyn Lancaster **Seller:** Alan and Susan Burton

Instrument: Warranty Deed **Sale Verified by**: Susan Burton

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3487448

Proximity to Subject: .60 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 16,263 Square Feet **Year Built:** 1956

Effective Age: 1967

Building Style: Rambler **Building Size:** 992 Square Feet

Basement: Full, 608 Square Feet Finished, 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached, 550 Square Feet **Fireplaces:** Two

Walkout: Yes **Features:** 3 Bedrooms, 1 Full Bath, Deck

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

Comments: This property has had average maintenance similar to the subject. It has received a new roof, had several items replaced, and has received some exterior paint. The floor plan of this property is similar to the subject. The site is similar to the subject and typical to the neighborhood. All utilities that are available to the subject are available to this property.

SALES COMPARABLE
#3

Date: July 2002

Sale Price: $189,900 **Sale Date:** December 2001

Address: 5518 Woodland Rd

Legal Description: Lot 9, Block 2, Woodland Hills Fourth Addition

Terms: Conventional Financing

Buyer: LaDonna Haaland **Seller:** John and Jean Chamberlain

Instrument: Warranty Deed **Sale Verified by:** LaDonna Haaland

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3499960

Proximity to Subject: .80 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 17,208 Square Feet **Year Built:** 1957

Effective age: 1967

Building Style: Rambler **Building Size:** 1,244 Square Feet

Basement: Full, 250 Square Feet Finished, 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached, 506 Square Feet **Fireplaces:** Two

Walkout: Yes **Features:** 3 Bedrooms, 1 Full Bath, Deck

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

Comments: This property has had average maintenance similar to the subject. It has received a new roof , had a new driveway installed, and has received some exterior paint. The floor plan of this property is similar to the subject. The site is similar to the subject and typical to the neighborhood. All utilities that are available to the subject are available to this property.

SALES COMPARABLE
#4

Date: April 2002

Sale Price: $209,000 **Sale Date:** August 2001

Address: 5304 Forest Rd

Legal Description: Lot 11, Block 8, Woodland Hills Third Addition

Terms: Conventional Financing

Buyer: Nuria Brooks **Seller:** A and A Brusseau

Instrument: Warranty Deed **Sale Verified by:** Nuria Brooks

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3449085

Proximity to Subject: .80 miles southeast **Zoning:** R-1, Low Density Residential

Site Size: 16,764 Square Feet **Year Built:** 1958

Effective Age: 1967

Building Style: Rambler **Building Size:** 1,383 Square Feet

Basement: Full, 1,250 Square Feet Finished , 1-¾ Bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached, 572 Square Feet **Fireplaces:** Two

Walkout: Yes **Features:** 3 Bedrooms, 1 Full Bath, Deck

Functional Obsolescence: No built-in dishwasher **Economic Obsolescence:** None

Comments: This property has had average maintenance similar to the subject. It has received a new roof , had new carpet installed, and has received some exterior paint. The floor plan of this property is similar to the subject. The site is similar to the subject and typical to the neighborhood. All utilities that are available to the subject are available to this property.

SALES COMPARABLE
#5

Date: July 2002

Sale Price: **$199,900** **Sale Date:** **March 2002**

Address: 5239 Holiday Rd

Legal Description: Lot 39, Block 3, Woodland Hills Addition

Terms: Conventional Financing

Buyer: Edgar Mallea and Mary Dodge-Mallea **Seller:** Lyle Davidson and Karen Shrupp

Instrument: Warranty Deed **Sale Verified by:** Lyle Davidson

Recorded: In the office of the Registrar of Titles of Hennepin County Document # 3577580

Proximity to Subject: .25 miles southeast **Zoning**: R-1, Low Density Residential

Site Size: 15,950 Square Feet **Year Built:** 1958

Effective Age: 1967

Building Style: Rambler **Building Size:** 1,100 Square Feet

Basement: Full, 400 Square Feet Finished, 1-¾ bath **Central Air:** Yes

Construction Quality: Average **Condition:** Average

Garage: Two-Stall Attached, 420 Square Feet **Fireplaces:** Two

Walkout: Yes **Features:** 3 Bedrooms, 1 Full Bath, Deck, Glazed Porch

Functional Obsolescence: None **Economic Obsolescence:** None

Comments: This property has had average maintenance similar to the subject. It has received a new roof , had some interior items replaced, has received some exterior paint, and has replaced a few windows. The floor plan of this property is similar to the subject. The site is similar to the subject and typical to the neighborhood. All utilities that are available to the subject are available to this property.

SALES COMPARISON DATA GRID

	SUBJECT	COMP #1	COMP #2	COMP #3	COMP #4	COMP #5
Property ID	29-117-22-24-0030	29-117-22-41-0085	32-117-22-11-0003	32-117-22-11-0053	29-117-22-43-0041	29-117-22-44-0060
Address	4932 Clear Spring Rd	16421 Norwood La	5434 Woodland Rd	5518 Woodland Rd	5304 Forest Rd	5239 Holiday Rd
Sale Date	---	Aug-02	Nov-01	Dec-01	Aug-01	Mar-02
Sale Price	---	$215,000	$174,900	$189,900	$209,000	$199,900
Site Size	12,621 sf.	16,254 sf.	16,263 sf.	17,208 sf.	16,764 sf.	15,950 sf.
Building Style	Rambler	Rambler	Rambler	Rambler	Rambler	Rambler
Year Built	1958	1959	1956	1957	1958	1958
Effective Age	35	Similar	Similar	Similar	Similar	Similar
Building Size	1,140 sf.	1,350 sf.	992 sf.	1,244 sf.	1,383 sf.	1,100 sf.
Basement Area	100%	100%	100%	100%	100%	100%
Basement Finish	620 sf.	900 sf.	608 sf.	250 sf.	1,250 sf.	400 sf.
Walkout	Yes	Yes	Yes	Yes	Yes	Yes
Fireplace (s)	2	1	2	2	2	2
Functional Obsolescence	Yes	Yes	Yes	Yes	Yes	No
Condition	Average	Average	Average	Average	Average	Average
Garage	2 stall	1 stall	2 stall	2 stall	2 stall	2 stall
Features	3 bedrooms 1 full bath ¾ bsmt bath deck	3 bedrooms 1 full bath ¾ bsmt bath deck	3 bedrooms 1 full bath ¾ bsmt bath deck	3 bedrooms 1 full bath ¾ bsmt bath deck	3 bedrooms 1 full bath ¾ bsmt bath deck	3 bedrooms 1 full bath ¾ bsmt bath deck glazed porch

UNITS OF COMPARISON ANALYSIS

Units of comparison are the components into which a property may be divided for purposes of comparison. The appropriate unit is the one that buyers and sellers use to decide on the price they are willing to pay or accept for a particular property. The unit of comparison may be the property as a whole or some smaller measurement. The units of comparison most commonly used and analyzed for residential property are:

- dwelling unit
- room
- square foot of building area

Sale No.	Sale Price	# of Rooms	Sq. Ft.	Price/Room	Price/Sq. Ft.
1	$215,000	6	1,350	$35,833	$159.26
2	$174,900	6	992	$29,150	$176.31
3	$189,900	6	1,244	$31,650	$152.65
4	$209,000	6	1,383	$34,833	$151.12
5	$199,900	6	1,100	$33,317	$181.73

	Low	High	% Difference
Sale Price Per Dwelling:	$174,900	$215,000	22.93%
Sale Price/Room:	$29,150	$35,833	22.93%
Sale Price/Sq. Ft.:	$151.12	$181.73	20.26%

The comparison analysis indicates that the sale price per square foot is the best unit of comparison to use.

ANALYSIS OF COMPARABLES: ELEMENTS OF COMPARISON

Elements of comparison are property characteristics that cause prices to vary. While units of comparison analysis identifies units of value that are important to buyers and sellers of a particular property, elements of comparison analysis attempts to isolate the differences in components between the subject property and the comparable sales so that proper adjustments can be made.

Elements of comparison include:

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

In analyzing the five comparable sales, the following characteristics were either the same or similar for the subject property and all five of the comparable sales, thus no adjustments are necessary:

- All comparables are in the subject neighborhood, within three-quarters of a mile from the subject and have similar location amenities
- The subject and comparables are zoned R-1, Low Density Residential District
- The highest and best use for the subject and comparables is single-family residential
- The dwelling style and construction quality for the subject and comparables are similar
- The effective age and condition for the subject and comparables are similar
- The financing terms for the comparable sales are similar
- The floor plans are similar for the subject and the comparable sales
- The number of bedrooms and bathrooms are the same for the subject and comparable sales
- The subject property and all comparable sales have central air conditioning, and an attached deck

The differences include:

- Market conditions
- Site size
- Building size
- Garage stalls
- Glazed Porch
- Finished lower level
- Number of fireplaces
- Functional obsolescence (lack of a built-in dishwasher in kitchen)

Market Conditions Adjustment

The market conditions adjustment reflects changes in the market over time. These market changes include inflation or deflation and changes in supply and demand. The best indication of these changes is provided by properties that were sold and then re-sold at a later date. The five properties used in this analysis were unchanged between the first and second sales. It is important to only include sales that have not changed by remodeling, redecorating, additions or extensive repair or deferred maintenance.

Fifty-three sales were examined that occurred from October 2000 to August 2002. Although all of the properties examined are not located within the subject neighborhood, care was taken to select the paired sales that most closely matched the subject in comparability of style, neighborhood and features.

The market conditions adjustment grid reveals a relatively close range of 10.4 percent to 13.2 percent in indicated annual appreciation rates. The mean is 12.1 and the median is 12.3 percent. The median estimated market value for the City of Minnetonka in 2001 was $202,200 and for 2002 it was $227,200 which indicates an annual change of 12.4 percent (see addenda – Exhibit R for chart). Based on this information, an annual market conditions adjustment of 12 percent or 1 percent per month is selected.

MARKET CONDITIONS ADJUSTMENT GRID						
Property ID	29-117-22-43-0041	32-117-22-11-0028	27-117-22-32-0067	26-117-22-22-0034	31-117-22-32-0021	32-117-22-14-0003
Address	5304 Forest Rd	5411 Holiday Rd	5123 St. Marys Pl	4737 Merilee Dr	5117 Vine Hill Rd	5748 Cedar Ln
Building Style	Rambler	Rambler	Rambler	Rambler	Rambler	Split Level
Building Size	982 sf.	1,383 sf.	1,018	925	888 sf.	1,275 sf.
Effective	35	35	35	35	35	35
Site Size	18,910 sf.	19,614 sf.	15,857 sf.	15,192 sf.	17,501 sf.	28,230 sf.
Garage	1 stall detached	2 stall detached	1 stall attached	3 stall attached	1 stall attached	2 stall attached
First Sale Date	April-97	August-00	Sept-98	Jun-98	April-99	July-99
First Sale Price	$133,900	$215,000	$137,500	$121,000	$125,000	$150,000
Second Sale Date	August-01	Dec-01	May-02	Mar-01	Aug-02	Aug-02
Second Sale Price	$209,000	$250,800	$190,000	$159,000	$179,000	$206,000
% Change	56.09%	16.65%	38.18%	31.40%	43.92%	37.33%
Time Difference (in months)	52	16	44	33	40	37
Appreciation (per month)	1.08%	1.04%	0.87%	0.95%	1.10%	1.01%
Annual Appreciation	12.94%	12.49%	10.44%	11.42%	13.20%	12.12%

	Range	Mean	Median
Annual Market Conditions	10.44%-13.20%	12.10%	12.31%

Selected % Adjustment = 12%

The market conditions adjustment as of August 2002 was applied to the comparables as follows:

Sales Comparable	Sale Date	Sale Price	#Months	% Mkt Condition	Adjusted Sale Price
1	Aug-02	$215,000	0	0	$215,000
2	Nov-01	$174,900	9	9	$190,641
3	Dec-01	$189,900	8	8	$205,092
4	Aug-01	$209,000	12	12	$234,080
5	Mar-02	$199,900	5	5	$209,895

Site Size Adjustment

The site sizes of the comparable sales range from 15,950 square feet to 17,208 square feet. Based on the analysis provided in the land valuation section of the Cost Approach and also supported by the analysis of the sales used in the Sales Comparison Approach, an adjustment for size is not warranted. Buyers of both vacant sites and improved properties are purchasing a site and the market does not recognize small variances in square footage.

Size Adjustment

The subject property has 1,140 square feet of living area on the main level (GBA). The sales comparables range from 992 to 1,383 square feet, the subject property is bracketed within this range.

To estimate the appropriate amount of adjustment, a search was done for a paired sales analysis in which the only dissimilarity was the gross building area and market conditions. The following sales were found:

Sale	Address	Building Style	Building Size (GBA)	Effective Age	Sale Date	Sale Price
1	16513 Temple Ter	Rambler	1342 Sq. Ft.	35	Dec-01	$ 204,500
2	5444 Elm Dr	Rambler	1144 Sq. Ft.	35	Oct-01	$ 212,250

Sale 1 adjustment for market conditions $204,500 X 1.07 = $218,815
Sale 2 adjustment for market conditions $212,250 X 1.09 = $231,353

$231,353 - $218,815 = $12,538

The application of the size adjustment is as follows:

Sale Price Difference ÷ Square footage difference = $ per square foot

$12,538 ÷ 198 = $63.32

The size adjustment was applied as follows:

Comparable	Sq. Ft.	Subject Sq. Ft.	Difference	x	$63.32
1	1,350	1,140	210	x	63.32 = $13,297
2	992	1,140	148	x	63.32 = $ 9,371
3	1,244	1,140	104	x	63.32 = $ 6,585
4	1,383	1,140	243	x	63.32 = $15,387
5	1,100	1,140	40	x	63.32 = $ 2,533

Sales Comparable No. 2 and 5 were adjusted upward and No. 1, 3 and 4 were adjusted downward.

GARAGE STALL ADJUSTMENT

The subject and all sales comparables with the exception of Sales Comparable No. 1 have a two-stall attached garage.

To estimate the appropriate amount of adjustment, a search was done for a paired sales analysis in which the only dissimilarity was the number of garage stalls. The following sales were found:

# of Garage Stalls	Address	Building Style	Building Size (GBA)	Effective Age	Sale Date		Sale Price
2	5203 Kimberly Rd	Rambler	1370 Sq. Ft.	35	Jun-02	$	236,450
1	5406 Forest Rd	Rambler	1383 Sq. Ft.	35	Aug-01	$	209,000

Using an annual appreciation adjustment of 12 percent, the properties were adjusted to for market conditions.

$236,450 X 1.02 = $241,179 $209,000 X 1.12 = $234,080

$241,179 - $234,080 = $7,099

Sale Comparable No. 1 was adjusted upward $7,099 for lack of a second garage stall.

PORCH ADJUSTMENT

Sale Comparable No. 5 has a glazed porch. The subject as well as Sales Comparables No. 1, 2, 3, and 4, do not have a glazed porch.

To determine the appropriate amount of adjustment, a search was done for a paired sales analysis in which the only dissimilarity was the market conditions and the glazed porch. The following sales were found:

Glazed Porch	Address	Building Style	Building Size (GBA)	Effective Age	Sale Date		Sale Price
Yes	5124 Forest Rd	Rambler	1078	35	May-02	$	209,900
No	5536 Holiday Rd	Rambler	1080	35	Mar-02	$	214,000

Using an annual appreciation adjustment of 12 percent, the properties were adjusted to for market conditions.

$209,900 X 1.03 = $216,197 $214,000 X 1.05 = $224,700

$224,700 - $216,197 = $8,503

Sale Comparable No. 5 was adjusted downward $8,503 for the glazed porch.

BASEMENT FINISH ADJUSTMENT

Sale Comparables No. 3 and 4 are similar with the exception of date of sale and size of main level building size.

	Comparable #4 1,250 Finished Sq. Ft.	Comparable #3 250 Finished Sq. Ft.
Sale Price	$ 209,000	$ 189,900
plus: Market adjustment	$ 25,080	$ 15,192
minus: GBA adjustment	$ (15,387)	$ (6,585)
Adjusted Sale Price	$ 218,693	$ 198,507

Property with 1250 Finished Sq. Ft.	$ 218,693
Property with 250 Finished Sq. Ft.	$ 198,507
Difference attributed Basement Finished Sq. Ft.	**$ 20,186**

Difference in Basement Finished Sq. Ft.

1250 Sq. Ft.
250 Sq. Ft.
1000 Sq. Ft.

Sale Price Difference in Basement Finished Sq. Ft. / Difference in Basement Finished Sq. Ft. = Adjustment Per Square Foot

$20,186 ÷ 1000 Sq. Ft. = $20.19 per Sq. Ft.

The amount of adjustment for basement finish is calculated by taking the difference in square foot multiplied by the dollars per square foot found in the paired sales analysis described above.

Comparable	Sq. Ft.	Subject Sq. Ft.	Difference	x	$20.19
1	900	620	280	x	20.19 = $5,653
2	608	620	12	x	20.19 = $242
3	250	620	370	x	20.19 = $7,470
4	1,250	620	630	x	20.19 = $12,720
5	400	620	220	x	20.19 = $4,442

Sale Comparable Nos. 2, 3 and 5 were adjusted upward, while Sale Comparable Nos. 1 and 4 were adjusted downward to reflect the differences in finished basement areas.

FIREPLACE ADJUSTMENT

The subject as well as Sale Comparable Nos. 2, 3, 4, and 5 all have two fireplaces. Sale Comparable No. 1 has only one fireplace.

Sale Comparable Nos. 1 and 3 were used to determine the adjustment amount. These two sales are similar with the exceptions of date of sale, main level building size (GBA), amount of finished basement, and number of garage stalls.

	Comparable #3 # of Fireplaces 2	Comparable #1 # of Fireplaces 1
Sale Price	$ 189,900	$ 215,000
plus: Market adjustment	$ 15,192	
plus: GBA adjustment		
minus: GBA adjustment	$ (6,585)	$ (13,297)
plus: Basement Adjustment	$ 7,470	
minus: Basement Adjustment		$ (5,653)
plus: Garage Stall Adjustment		$ 7,099
Adjusted Sale Price	$ 205,977	$ 203,149

Property with 2 Fireplaces	$ 205,977
Property with 1 Fireplace	$ 203,149
Difference attributed to 1 Fireplace	**$ 2,828**

Sale Comparable No. 1 was adjusted upward $2,828.

FUNCTIONAL OBSOLESCENCE ADJUSTMENT

The subject as well as Sale Comparable Nos. 1, 2, 3, and 4 all suffer from the same functional obsolescence, with a lack of a dishwasher. Sale Comparable No. 5 has a dishwasher.

Sale Comparable Nos. 3 and 5 were used to determine the adjustment amount for the dishwasher deficiency. These two sales are similar with the exceptions of date of sale, main level building size (GBA), porch, and amount of finished basement.

	Comparable #5 Has No Functional Obsolescence	**Comparable #3 Has Functional Obsolescence**
Sale Price	$199,900	$189,900
plus: Market adjustment	$9,995	$15,192
plus: GBA adjustment	$2,533	
minus: GBA adjustment		($6,585)
minus: Porch Adjustment	($8,503)	
plus: Basement Adjustment	$4,442	$7,470
	$208,367	$205,977

Property without Functional Obsolescence	$208,367
Property with Functional Obsolescence	$205,977
Difference attributed to Functional Obsolescence	**$2,390**

Sales Comparable No. 5 was adjusted downward by $2,390 .

SALES COMPARISON ADJUSTMENT GRID						
	SUBJECT	COMP #1	COMP #2	COMP #3	COMP #4	COMP #5
Sale Date	---	Aug-02	Nov-01	Dec-01	Aug-01	Mar-02
Sale Price	---	$215,000	$174,900	$189,900	$209,000	$199,000
Market Conditions Adjustment	---	$0	$15,741	$15,192	$25,080	$9,995
Adjusted Sale Price	---	$215,000	$190,641	$205,092	$234,080	$208,950
ELEMENTS OF COMPARISON						
PHYSICAL CHARACTERISTICS:						
-Building Size	1,140 sf.	1,350 sf.	992 sf.	1,244 sf.	1,383 sf.	1,100 sf.
-Size Adjustment		($13,297)	$9,371	($6,585)	($15,387)	$2,533
-Garage Stall	2	1	2	2	2	2
-Garage Adjustment		$7, 099	---	---	---	---
-Porch	No	No	No	No	No	Yes
-Porch Adjustment		---	---	---	---	($8,503)
-Basement Finish	620 sf.	900 sf.	608 sf.	250 sf.	1,250 sf.	400 sf.
-Basement Finish Adjustment		($5,653)	$242	$7,470	($12,720)	$4,442
-Fireplace (s)	2	1	2	2	2	2
-Fireplace Adjustment		$2,828	---	---	---	---
-Functional Obsolescence	Yes	Yes	Yes	Yes	Yes	No
-Functional Obsolescence Adjustment		---	---	---	---	($2,390)
Net Adjustment		($9,023)	$25,354	$16,077	($3,027)	$6,077
Adjusted Sale Price		$205,977	$200,254	$205,977	$205,973	$205,977
ADJUSTED UNITS OF COMPARISON						
Rounded Adjusted Sale Price		$206,000	$200,300	$206,000	$206,000	$206,000
-Adjusted Price Per Square Foot		$181	$176	$181	$181	$181
-Adjusted Price Per Room		$34,333	$33,383	$34,333	$34,333	$34,333
-Number of Rooms	6	6	6	6	6	6

INDICATED VALUE BY THE SALES COMPARISON APPROACH

The comparable sales were first adjusted for market conditions, thus reaching a sale price adjusted for this factor. The remaining adjustments were applied to the adjusted sale price resulting in an adjusted sale price for each of the five comparables. The results revealed the following statistical analysis.

- Adjusted sale price per dwelling range from $200,300 to $206,000 with a median of $206,000 and a mean adjusted sale price of $204,860.

- Adjusted sale price per square foot range from $176 to $181, with a median of $181. $181 X 1,140 Sq. Ft. =$206,340.

- Adjusted sale price per room ranged from $33,383 to $34,333, with a median of $34,333. $34,333 X 6 = $206,000.

As stated earlier in this section, the most appropriate unit of comparison is as a property as a whole or per dwelling unit.

Comparable sale No. 1 was used as a paired sale for the fireplace adjustment. Adjusting this sale to the subject property required four adjustments, including upward adjustments for number of garage stalls and number of fireplaces. Adjustments downward were made for building size and basement finish. The net adjustment was -$9,023.

Comparable Sale No. 2 required three adjustments, including upward adjustments for market conditions, building size, and amount of basement finish. The net adjustment was $25,354.

Comparable Sale No. 3 was used as a paired sale for the amount of basement finish, number of fireplaces, and functional obsolescence. Adjusting this sale to the subject property required three adjustments including an upward adjustment for market conditions and basement finish. A downward adjustment was made for building size. The net adjustment was $16,077.

Comparable Sale No. 4 was used as a paired sale for the amount of basement finish. Adjusting this sale to the subject property required three adjustments including an upward adjustment for market conditions. Downward adjustments were made for building size and amount of basement finish. The net adjustment was -$3,027.

Comparable Sale No. 5 was used as a paired sale for functional obsolescence. Adjusting this sale to the subject property required five adjustments including an upward adjustment for market conditions, building

size, and amount of basement finish. It required a downward adjustment for porch and lack of functional obsolescence. The net adjustment was $6,077.

Comparables No. 2, 3, and 4 appear to be the most similar to the subject property, due to the fewest number of required adjustments (three). Comparables No. 1 received four adjustments. Comparable No. 5 required five adjustments and had the net adjustment amount at $6,077. Comparable No. 4 received the least net adjustments of -$3,027 Comparable No. 3 had the three adjustments, with a net adjustment amount of $16,077. Comparable No. 2 had net adjustments at $25,354. Comparable No. 1 had a net adjustment of -$9,023. Most weight was placed on Comparable Sales No. 1 and 4.

Therefore, after taking all of the comparables into account and putting the greatest emphasis on Comparable Sales No. 1and 4, the estimated market value by the sales comparison approach for the subject property as of August 1, 2002, is:

Two Hundred Six Thousand Three Hundred Dollars

($206,300)

CORRELATION AND FINAL ESTIMATE OF VALUE

The purpose of this appraisal is to estimate the market value of the fee simple interest for the subject property as of August 1, 2002. The subject property is located at 4932 Clear Spring Road, Minnetonka, Minnesota and is legally described as lot Lot 6, "Green Valley Second Unit." Market value has been defined and the source has been identified. All relevant forces that influence the final estimate of value have been examined throughout this report. A summary of the significant forces is as follows:

- The demand for real estate throughout Minnesota and in the subject neighborhood has remained strong. The growing population and diverse economic base contribute positively to the market value of the subject property.

- An analysis of the subject neighborhood revealed a stable homogeneous neighborhood with well-maintained homes that are increasing in market value.

- The 1,140 square foot subject property is in average condition, and suffers from a loss of value due to reduced utility or desirability due to a deficiency of a dishwasher. The subject property is not affected by any economic obsolescence.

- The subject site and the improvements on and to the site are functional and conform to other competing residential properties in the neighborhood.

- The subject property is equitably assessed and the corresponding real estate tax burden appears to be consistent with comparable properties.

- The highest and best use resulted in the appraisers' opinion that the highest and best use of this subject property as both vacant and improved it its present use as single-family residential.

The cost approach, income approach, and sales comparison approach were used in estimating an indicated value for the subject property. The market value indicated by each of these approaches is as follows:

Cost Approach:	$206,700
Income Approach:	$209,300
Sales Comparison Approach:	$206,300

Each approach is independent of the others, and each is based on a different set of data. Each approach lends credibility to the others in supporting the final estimate of value. In analyzing the values indicated by the three approaches the

quantity and quality of data available, the strengths and weaknesses, and relevancy of each approach to the subject property has been considered.

These three methods of valuation rely upon market information available in the local area. The value estimates produced by these methods are independent of each other; some information is shared by one or more of the approaches, lending credibility to each approach in supporting the final estimate of value. A review of each of the valuation methods follows:

COST APPROACH

In the cost approach, the value is based upon the Principle of Substitution, which states that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility.

The first step in the cost approach is to estimate the value of the subject site, as if vacant and available to be put to its highest and best use.

This was accomplished through direct sales comparison analysis. Although the majority of the lots in the subject and adjacent neighborhoods are improved, two comparable vacant land sales in the subject neighborhood were available, and the remaining two comparable vacant land sales were in adjacent similar neighborhoods. Adjustments were made for date of sale, based on the same time adjustment assumptions as the improved sales, to arrive at an indicated value for the subject site. Adjustments for location were made as they related to the subject property at the date of sale. The indicated land value of the subject property is believed to be adequately supported and representative of land values in the area.

The second step was to value the improvements, be estimating the total reproduction cost new (RCN) of all improvements. Building costs were obtained from Marshall Valuation Services and verified with a local contractor to arrive at an estimated reproduction cost new (RCN).

The third step is to deduct several causes of depreciation from the estimated reproduction cost. The subject property suffers from curable and incurable physical depreciation and due to lacking a dishwasher, curable functional obsolescence. These estimates for loss in value were determined from market extraction and the observation and judgment of this appraiser.

The cost approach is considered a reliable indicator of value when applied to new improvements that are developed to their highest and best use. When considerable amounts of depreciation are present, as in the case of the subject property, the cost approach is not considered completely reliable. This is due to the fact that the estimates of depreciation are the result of observation and judgment, which may not accurately reflect market reactions. The estimates of depreciation, both physical and functional, are measured from the market and cannot accurately measure the buyer-seller reaction and thus are based partly on

observation and judgment. Therefore, less importance has been placed on the cost approach. The cost approach does support the other approaches in the final estimate of value.

INCOME APPROACH

The income approach is based on the Principle of Anticipation, which states that value is the present value of all rights to the future benefits accrued from ownership. It assumes that the informed purchaser would pay no more for a property than the cost of obtaining an income stream of the same size and involving the same risk as that embodied in the subject property.

The income approach, when applied to single-family residences, relies on the gross rent multiplier methodology. It compares market rentals and sale prices to arrive at an indication of value. This approach is applicable when there are a sufficient number of comparable properties rented on the current market, and when an adequate volume of reliable verified data exists for comparable rental sales in the local market. As previously stated, there are few single-family rental properties located in the subject neighborhood or the City of Minnetonka. Therefore, rental data is scarce and may not reflect the amenities of the property.

The gross monthly rent multiplier (GMRM) was calculated for four comparable rental sales by dividing the sales price by the amount of monthly rent (unfurnished). Due to the limited number of rental sales, only one of the rental sales was located in the subject neighborhood and the remaining three were located in comparable neighborhoods. The four comparable rental sales were analyzed and reconciled into an indicated gross rent multiplier for the subject property.

There are only fourteen known rental properties located within the subject neighborhood. Because of the homogenous neighborhood, most of the homes are comparable to the subject property. One of the comparable rentals was located in the subject neighborhood and four were located in a comparable neighborhood. Market extraction was used to adjust the five comparable rental properties to arrive at an indicated monthly rental (unfurnished) of the subject property. Adjustments were made for building size, fireplace, walkout, basement finish, and functional obsolescence.

The gross monthly rent multiplier was multiplied by the monthly (unfurnished) rent to obtain an indicted value for the subject property.

Since both sales data and rental data must be analyzed and adjusted for differences, a large margin of error exists. Even the smallest oversight or error in estimating the gross rent multiplier or market rent can have a devastating effect on the estimate of value when they are multiplied.

The income approach is not completely reliable because of the limited amount of rental data for single-family homes. Therefore, the least amount of emphasis is

placed on the income approach, and it is used as a check for the other approaches in the final estimate of value.

SALES COMPARISON APPROACH

The sales comparison approach is accomplished by comparing the subject property to other similar properties, which have recently sold. This approach is based on the Principle of Substitution, which states that an informed buyer would pay no more for a property than the cost of acquiring an existing property with the same utility. When there is an active market with sufficient quantities of reliable data, this approach is applicable and reliable, after the data has been verified from authoritative sources. This approach gives a direct indication of the actions of the buyers and sellers in the market.

The first step is to identify and compare similar properties that have recently sold. Five comparable sales were selected. All five of the comparable sales were located in the subject neighborhood. Each of the property sales, prices, terms, and conditions were verified.

Adjustments for date of sale were performed on each sale comparable, which was derived from the market and believed to be reliable. The comparable sales and the subject property were analyzed in terms of relevant property characteristics. Adjustments were made to the comparables for differences in physical characteristics to the subject property. These adjustments were market based on the wants and desires of the buyers and sellers. Adjustments were made for gross building area, garage stall, fireplace, basement finish, glazed porch and functional obsolescence in the way of lack of dishwasher In the kitchen.

The adjusted sale price for each comparable was then estimated. This is the price at which the comparable property would have sold, had it possessed the identical characteristics of the subject property at the time of sale.

The strengths of this approach outweigh the weaknesses. Possible weaknesses occur whenever an adjustment must be made and when and if the appraiser misinterprets market data by not sufficiently investigating to the fullest all comparable properties.

The sales comparison approach is the best understood ad deemed most reliable by the average informed buyer in the marketplace. If used correctly, this approach provides the strongest indication of value. Therefore, the most emphasis was placed on the sales comparison approach.

FINAL VALUE CONCLUSION

A valuation estimate was derived for the subject property through the three methods or approaches to value and each of these estimated of value were considered. An average of the three approaches was not performed, but rather greater or lesser amount of emphasis or reliance were placed on each of the approaches and the availability and validity of the data used was evaluated in order to formulate a final opinion of market value.

The least weight was placed on the income approach due to the limitations and assumptions of the gross rent multiplier methodology, as well as limited availability of rental comparables. The cost approach, while supportive of the final value estimate, was considered less reliable due to the difficulty in estimating accrued depreciation. The most emphasis and reliance was placed on the sales comparison approach. The best indicator of market value is considered to be from the sales comparison approach, as there is definitely an acceptable level of highly reliable market data and adjustments were made with full market justification.

Therefore, after thorough consideration of all information contained within this appraisal report, inspection of the property, the judgment and experience of the appraiser, it is the appraiser's opinion that the estimated market value of the subject property, 4932 Clear Spring Road, Minnetonka, Minnesota, as of August 1, 2002, is:

Two Hundred Six Thousand Dollars

($206,300)

CERTIFICATION

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

I have made a personal inspection of the property that is the subject of this report.

I have no present or prospective interest in the property that is the subject of this report, and no personal interest with the respect to the parties involved.

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

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

My compensation for completing this analysis is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

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

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

No one provided significant professional assistance to the person signing this report.

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

I certify that the use of this report is subject to the requirements of the International Association of Assessing Officers relating to review by its duly authorized representatives.

I certify that, to the best of my knowledge and belief, the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Ethics and Standards of Professional Conduct of the International Association of Assessing Officers.

_____ _____

_____

Date

QUALIFICATIONS OF THE APPRAISER

Business experience
Senior Appraiser --
(06/03 – present)

Principal Appraiser --
(01/02 – 06/03)

Property Appraiser –
(6/98 – 01/02)

Intern (part time) – County of
(6/97 – 5/98)

Licenses
Senior Accredited Minnesota Assessor (SAMA)

Memberships
Minnesota Association of Assessing Officers
International Association of Assessing Officers

Appraisal Education
MAAO Courses

Course A	Assessment Laws, History, and Procedures
Course B	Residential Appraisal
Course H	Techniques of Mass Appraisal
Course J	Income Approach to Valuation (tested out)
Course K	Minnesota Assessment Administration

IAAO Courses

IAAO 101	Fundamentals of Real Property Appraisal (tested out)
IAAO 102	Income Approach to Valuation
IAAO 112	Income Approach to Valuation (tested out)
IAAO 151	Standards of Practice and Professional Ethics
IAAO 311	Residential Modeling
IAAO 400	Assessment Administration (tested out)
IAAO 402	Tax Policy

Numerous seminars and workshops

Degrees
University of Minnesota – Duluth; Duluth, Minnesota. Bachelor of Arts – 1998. Majors: Geography; Urban and Regional Studies.

Appraisal Experience
Ten years of appraisal experience of residential, commercial and multi family properties

Teaching Experience
Authored and presented "GIS in the Assessor's Office" at MAAO Summer Seminar 2002 and at Fall Conference 2003.

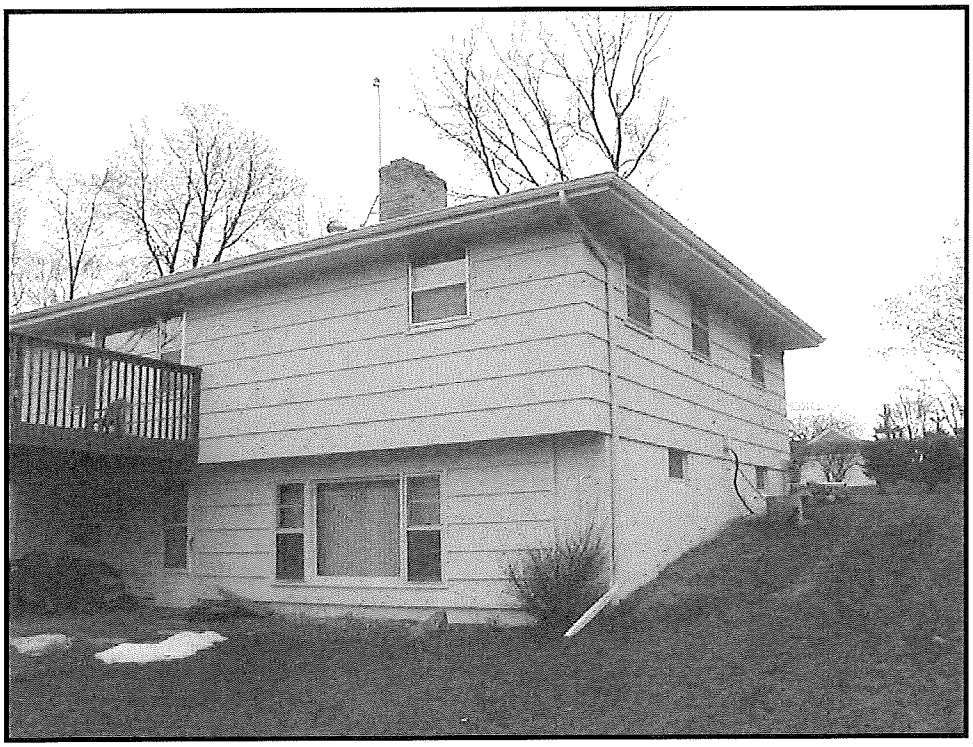
ADDENDA - **EXHIBITS**

EXHIBIT A
SUBJECT PHOTOGRAPHS

Looking West (Front) (April 2002)

Looking East (Rear) (April 2002)

Looking Southwest (Side) (April 2002)



Looking Northeast (Side) (April 2002)

Looking Northerly up Clear Spring Drive at Neighboring Properties (April 2002)

Report No. T99SS01

Hennepin County Property Types, Classes & Class Rates
2001 Assessment - Taxes Payable 2002

FINAL (revised)
October 10, 2001

****** Class ******		Qualify for Limited Value	(1) Subject To State General Tax	EXCLUDED From Referendum Market Value Tax	Description	Property Type	HOMESTEAD			NON-HOMESTEAD			*********LIMITS**********	
Hmstd	N/Hmstd						B/D/P Base	Base 1	Over Base	Rate	Over Base	Mach	B/D/P Base	Base 1
1A	4A				Apartment	A		1.00	1.25	1.80				500,000
1A	4A				Apartment Condominium	AX		1.00	1.25	1.80				500,000
1B		Y		55% of 1st 32,000	Blind	B	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1B		Y		55% of 1st 32,000	Blind/Farm-Homestead	BF	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1B		Y		55% of 1st 16,000	Blind Joint Tenancy	BJ	0.45	1.00	1.25	1.00	1.25		16,000	234,000
	3A		Y		Commercial	(4) C				1.50	2.00			150,000
	3A		Y		Railroad	CR				2.00				
	3A		Y		Commercial Telephone	(4) CT				1.50	2.00			150,000
1B		Y		55% of 1st 32,000	Disabled	D	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1A	4B	Y			Double Bungalow	DB		1.00	1.25	1.50				500,000
1B		Y		55% of 1st 32,000	Disabled/Farm-Homestead	DF	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1B		Y		55% of 1st 16,000	Disabled Joint Tenancy	DJ	0.45	1.00	1.25	1.00	1.25		16,000	234,000
2A	2B	Y		Y	Farm	F		0.55	1.00	1.00				600,000
2A		Y			Farm-Hmstd (House & 1 Acre)	FF		1.00	1.25	1.00	1.25			500,000
2A		Y		Y	Agricultural Preserve	FP		0.55	1.00	1.00				600,000
	4C				Golf Course - Reduced Rate	GC				1.25				
	4C			Y	Sorority/Fraternity Housing	HF				1.00				
	4D			10%	Housing - Low Income > 3 Units	HL				0.90				
	4D	Y		10%	Housing - Low Income < 4 Units	HR				0.90				
	3A		Y		Industrial	(4) I				1.50	2.00			150,000
	4B				Common Area (No Value)	K				----				
	4A				Vacant Land - Apartment	LA				1.80				
	3A		Y		Vacant Land - Commercial	(4) LC				1.50	2.00			150,000
	3A		Y		Vacant Land - Industrial	(4) LI				1.50	2.00			150,000
	4B	Y			Vacant Land - Lakeshore	LL		1.00	1.25	1.50				500,000
	4B	Y			Vacant Land - Residential	LR		1.00	1.25	1.50				500,000
	4C				Mobile Home Park	MH		1.00	1.25	1.50				500,000
	4A				Nursing Home	NH		1.00	1.25	1.80				500,000
	4C				Non Profit Community Assoc.	NP				1.50				
1B		Y		55% of 1st 32,000	Paraplegic	P	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1B		Y		55% of 1st 32,000	Paraplegic/Farm-Homestead	PF	0.45	1.00	1.25	1.00	1.25		32,000	468,000
1A	4BB	Y			Residential	R		1.00	1.25	1.00	1.25			500,000
1A	4BB	Y			Residential Lake Shore	RL		1.00	1.25	1.00	1.25			500,000
1A	4B	Y			Residential - Miscellaneous	RM		1.00	1.25	1.50				500,000
1A	4BB	Y			Residential-Zero Lot Line-DB	RZ		1.00	1.25	1.00	1.25			500,000
	4C	Y	Y (2)	Y	Seasonal-Residential Rec.	S				1.00	1.25			500,000
	4B				Non 4BB Compliant (Real Estate)	SR				1.50				
	4C				Airport Hangar (Personal Property)	SR				1.50				
1A	4B	Y			Triplex	TP		1.00	1.25	1.50				500,000
	3A		Y (3)		Utility	(4) U				1.50	2.00	2.00		150,000
1A	4BB	Y			Condominium	X		1.00	1.25	1.00	1.25			500,000
1A	4B	Y			Cooperative	XC		1.00	1.25	1.50				500,000
1A	4B	Y			Condo - Garage/Miscellaneous	XM		1.00	1.25	1.50				500,000
1A	4BB	Y			Townhouse	Y		1.00	1.25	1.00	1.25			500,000
1A	4BB	Y			Bldg. on Perma Lease Land	Z		1.00	1.25	1.00	1.25			500,000

STATE GENERAL TAX

(1) State General Tax not applicable on Met Airport (Munic 43) real estate PIDS or personal property accounts

(2) Property Type "S" - State General Tax Tax Capacity is calculated on .40% of 1st 76,000 taxable market value instead of net Tax Capacity rate 1.00%

(3) Property Type "U" - State General Tax not applicable on public utility electric generating machinery.
REAL ESTATE public utility electric generating machinery can be identified as those subrecords that have MACHINERY VALUE ONLY (no land or building value)
PERSONAL PROPERTY public utility electric generating machinery can be identified as those records with ITEM NO coded as "56"

COMMERCIAL/INDUSTRIAL/UTILITIES

(4) If CONTIGUOUS INDICATOR on, Tax Capacity is calculated using Overbase 2.00% rate

EXHIBIT B - PROPERTY TYPE, CLASSES, AND CLASS RATES

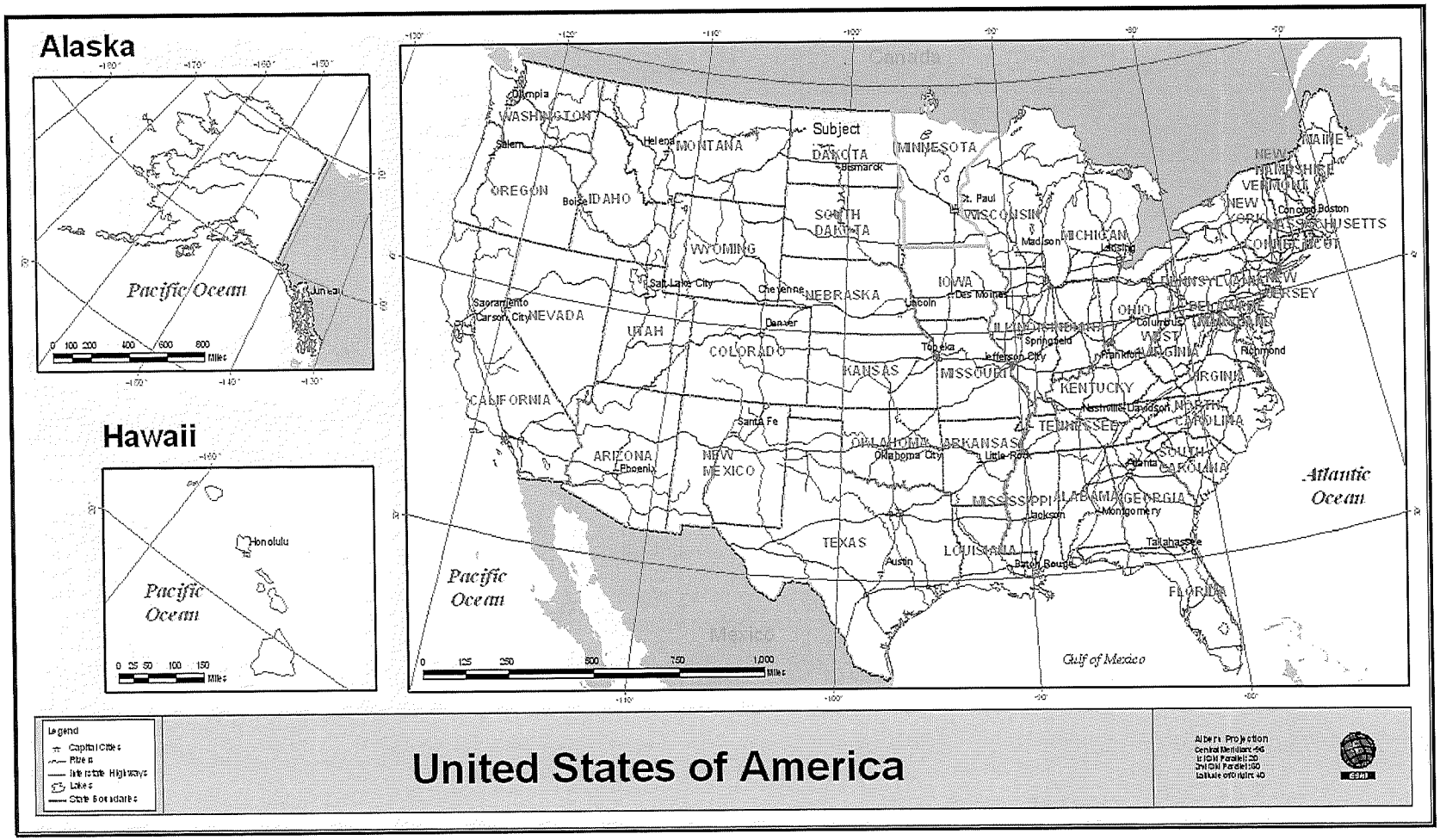


EXHIBIT C - UNITED STATES MAP

EXHIBIT D - STATE MAP

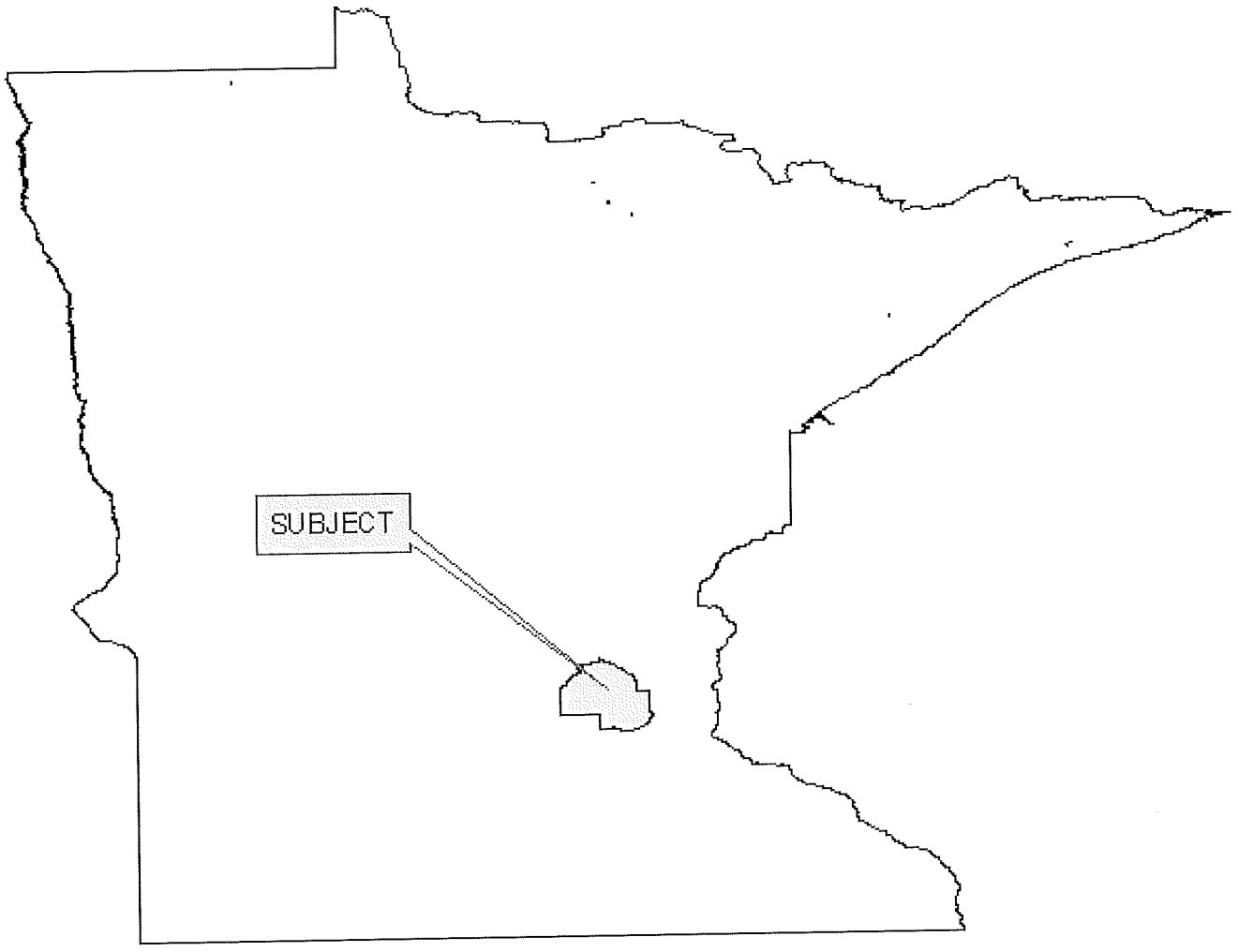
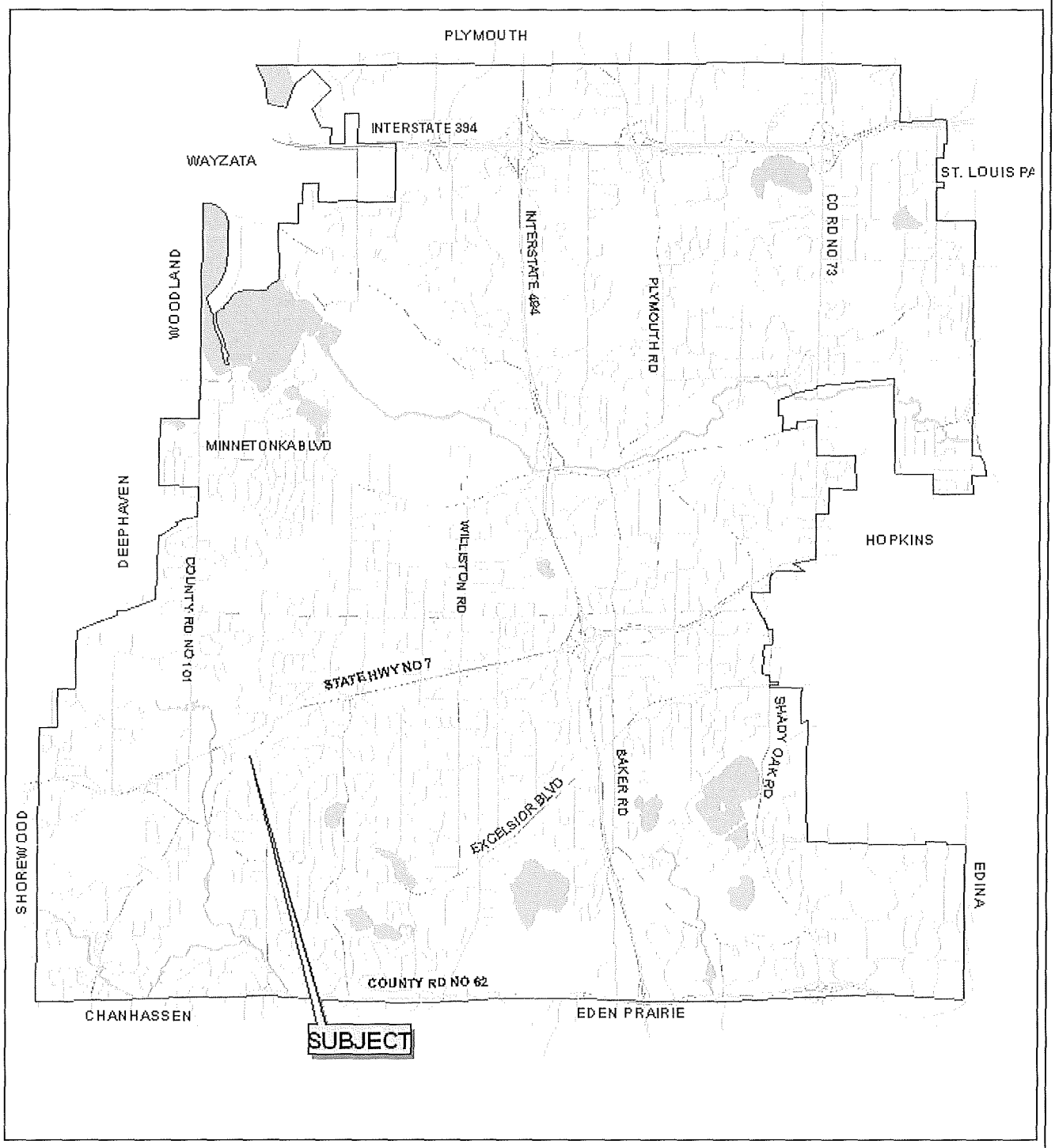


EXHIBIT E - HENNEPIN COUNTY MAP

HENNEPIN COUNTY - CITY OF MINNETONKA

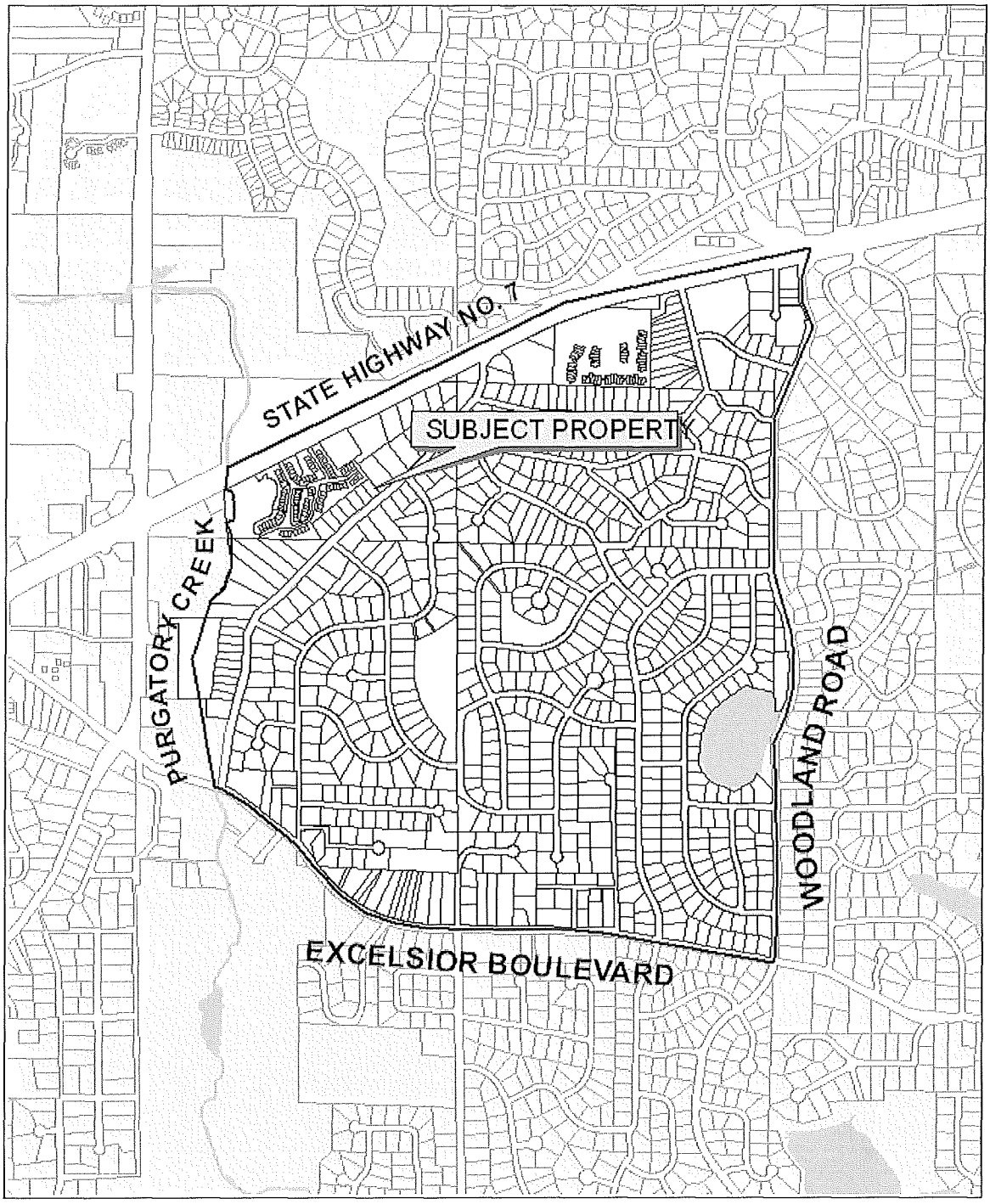
EXHIBIT F- CITY OF MINNETONKA



CITY OF MINNETONKA MAP

SUBJECT PROPERTY LOCATION

EXHIBIT G - NEIGHBORHOOD MAP

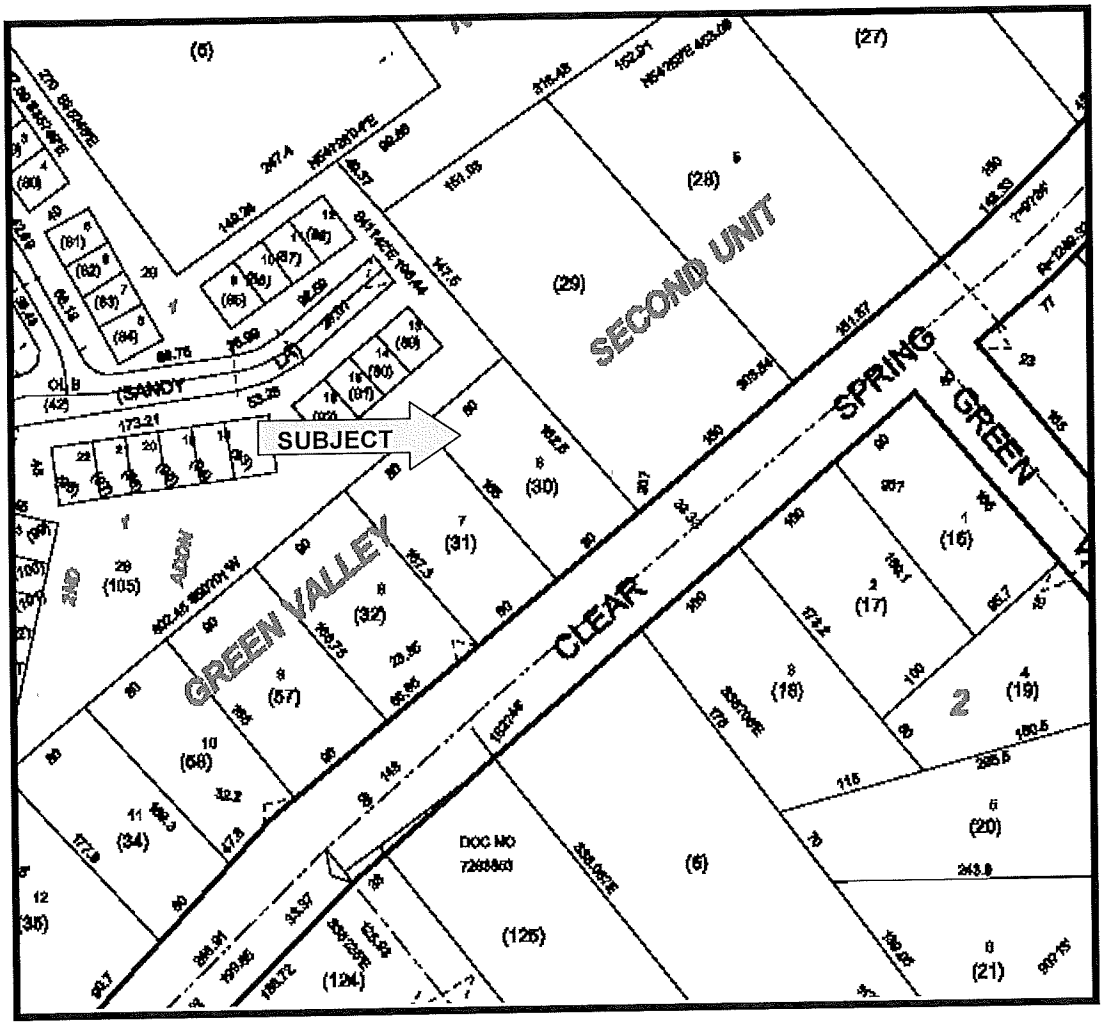


NEIGHBORHOOD MAP

SUBJECT PROPERTY NEIGHBORHOOD

SUBJECT PROPERTY BORDER

EXHIBIT H – SUBJECT SITE MAP



SECTION 300.07. VARIANCES.

1. Limitations.

a) A variance may be granted from the literal provisions of this ordinance in instances where strict enforcement would cause undue hardship because of circumstances unique to the individual property under consideration and when it is demonstrated that such actions would be consistent with the spirit and intent of this ordinance. Undue hardship means the property in question cannot be put to a reasonable use if used under conditions allowed by this ordinance, the plight of the landowner is due to circumstances unique to the property not created by the landowner, and the variance, if granted, would not alter the essential character of the neighborhood. Economic consideration alone shall not constitute an undue hardship if reasonable use of the property exists under the terms of this ordinance. Undue hardship also includes, but is not limited to, inadequate access to direct sunlight for solar energy systems.

b) No variance shall be granted to declare a substandard lot buildable unless, in addition to meeting the criteria enumerated in paragraph (a) of this subdivision, the applicant has exhausted all reasonable possibility of combining the lot with an adjacent vacant lot. Notwithstanding the above, no variance shall be needed to declare buildable any lot which was a lot of record zoned for single family residential use on February 12, 1966 and which meets all of the following minimum standards:

   1) 15,000 square feet;

   2) 90 feet in width at building setback line; and

   3) 110 feet in depth.

c) No variance shall be granted to permit a use which is not allowed as a permitted use, accessory use or conditional use under this ordinance for property in the district in which the land is located.

d) No variance shall be granted in the wetlands, floodplain or shoreland districts which allows for a lesser degree of flood protection than is required by sections 300.23, 300.24 or 300.25 of this ordinance.

e) A variance from the standards applicable to another land use approval, such as a site plan, conditional use permit, and subdivision, does not require a separate application,

but the applicant for the underlying land use approval must provide a written narrative explaining the justification for any requested variance. The planning commission and city council may act separately on such a variance at their discretion, but if no separate action is taken, the variance will be considered approved or denied as part of the underlying application.

2. Application. Application for a variance shall be made to the zoning administrator. The application shall be on forms provided by the city and shall be accompanied by the following:

a) a plat or map of the property which shows, at a minimum, all lot lines, existing and proposed structures, driveways and parking areas, significant topographical features and mature trees;

b) a list of the names and addresses of the owners of all properties located wholly or partially within 400 feet of the property as such appear on the certified records of the Hennepin county auditor;

c) evidence of ownership or an interest in the property;

d) the fee required by section 710 of the code of city ordinances; and

e) such other information as may be required by the city.

3. Public Hearing. Upon receipt of a completed application, a date shall be set for a public hearing before the planning commission. The public hearing shall be held only after notice has been sent by mail to the owners of all properties situated wholly or partially within 400 feet, as reflected in the certified records of the Hennepin county auditor.

4. Decisions. Following the public hearing or any continuance which is not appealed by the applicant, the planning commission shall decide the matter before it. Appeals from orders, requirements, decisions or determinations of an administrative officer shall be decided by the planning commission by vote of a simple majority of those present. The planning commission may grant a variance only upon an affirmative vote of two-thirds of its full membership. The planning commission may impose conditions in granting variances to effect the intent of this ordinance and to protect adjacent properties. The planning commission shall accompany its decision to deny a variance with a statement of its findings and shall serve a copy of its decision upon the applicant by mail. The planning commission action will be final action subject to the right of appeal, except:

a) if the application is for a variance from the provisions of section 300.29, subd. 3(g) and (h) with respect to the time limit for amortizing non-conforming land uses; or

b) if the variance is an integral part of another land use application which requires city council action.

In those circumstances, the planning commission action will be a recommendation to the city council, and action by the planning commission will require only approval of a majority of its full membership. Approval of the variance by the city council will require an affirmative vote of two-thirds of its full membership.

5. Term of Variance. Any variance granted by the city shall run with the land and shall be perpetual unless prior to December 31 of the year following the year of approval and no building permit has been issued or substantial work performed on the project, in which case the variance shall be null and void. The planning commission may extend the period for construction upon finding that the interest of the owners of neighboring properties will not be adversely affected by such extension. If the variance is part of an approved site and building plan, extension of the time period for construction shall be contingent upon a similar extension of the time period for the site and building plan by the planning commission as required by section 300.27 of this ordinance. Once the project is completed as approved, the variance becomes perpetual.

6. Specific Project. A variance shall be valid only for the project for which it was granted. Construction of any project shall be in substantial compliance with the building plans and specifications reviewed and approved by the planning commission or city council.

7. Appeals. Any person aggrieved by a decision of the planning commission regarding a variance or an order, requirement, decision or determination first made by an administrative officer may have such decision reviewed by the city council if a request for review is submitted to the zoning administrator within 10 days of the date of the decision. The appeal shall be in writing and shall include a statement of the alleged errors or omissions of the planning commission. The city council may reverse a decision of the planning commission by an affirmative vote of at least two-thirds of its full membership. The city council shall make a decision within 120 days of submission of a completed application or such longer period not objected to by the applicant. If the city council fails to make a timely decision, the appeal shall be deemed to have been approved.

8. Recording. A certified copy of the variance shall be filed by the applicant with the Hennepin county recorder if the variance applies to abstract property. The variance shall contain a legal description of the property affected.

9. Violations. Any person who violates, fails to comply with or assists, directs or permits the violation of the terms or conditions of a variance shall be guilty of a misdemeanor. Such violation shall be a violation of the variance and shall render the variance null and void.

SECTION 300.10. R-1 LOW DENSITY RESIDENTIAL DISTRICT.

1. **Purpose.** The purpose of the R-1 district is to provide a district for single family detached dwellings in those areas where such development is consistent with the low density residential designation of the comprehensive plan and compatible with surrounding land use characteristics. Development within this district shall occur at densities not exceeding four dwelling units per acre. The allowed density for a piece of property will be determined by the city at the time of the development application. The determination will be based upon the site specific characteristics of the property and the requested development. Factors to be considered in increasing or decreasing the allowed density include the existing environmental conditions such as wetlands, floodplains, steep slopes, and significant trees; the specific site plan; the type of housing units proposed, including whether greater density is desirable because the development contains affordable housing that is consistent with the city's affordable housing goals but that avoids unacceptable concentrations of such housing; the requested zoning; the minimum standards of this ordinance; the potential impact from traffic generated by the development; and the surrounding area. The burden of establishing the appropriateness of the high end of the density range will be on the applicant.

2. **Permitted Uses.** Within the R-1 district no structure or land shall be used except for one or more of the following uses:

a) single family detached dwelling units, but not more than one dwelling unit per lot;

b) manufactured homes built in conformance with Minn. Stat. §§ 327.31 et seq.;

c) public park and recreational areas owned and operated by a governmental unit, including recreational facilities and structures consistent with the area, except as provided for in subdivision 4;

d) licensed residential care facilities or community based residential care facilities for six or fewer persons, provided they are not located within ¼ mile of another similar facility and except as provided for in subdivision 4; and

e) agriculture, farming, and truck gardening.

3. **Accessory Uses.** Within the R-1 district the following uses shall be permitted provided they are subordinate to, associated with and located on the same lot as a permitted use:

a) private swimming pools, except as provided for in subdivision 4;

b) detached garages, one storage shed of any size or other accessory structures, except swimming pools, unless covered with an accessory structure, not exceeding 12 feet in height or an aggregate of 1,000 square feet of gross floor area or occupying more than 30 percent of the area of the side or rear yard in which they are located and except as provided for in subdivision 4;

c) overhead utility poles and lines for a distribution line, receive only satellite dish antennas and other antenna devices up to a maximum height of 60 feet as measured from the ground upon which it is located subject to the requirements provided in section 300.15, subd. 12; except that utility poles and lines for a distribution line may be taller than 60 feet, but not taller than 80 feet, when needed to cross a major roadway such as a freeway;

d) solar equipment;

e) greenhouses not exceeding 12 feet in height or 1,000 square feet in gross floor area or occupying more than 30 percent of the side or rear yard in which they are located and provided they are not used for commercial purposes;

f) private tennis courts, except as provided for in subdivision 4;

g) living facilities for no more than two boarders or roomers within a single family dwelling unit, provided that such facilities do not constitute an accessory apartment and that adequate off-street parking is provided;

h) home occupations which are clearly secondary to the principal use and do not change the nature of the principal use, provided there is only limited retail sales activity, no exterior evidence of the occupation, no significant increase in traffic or demand for parking, no significant increase in levels of noise, air or other pollution, no exterior signs, no persons employed in the business who do not reside in the dwelling and except as provided for in subdivision 4;

i) minor mass transit facilities including benches, which benches may include advertising signs consistent with the provisions of section 300.30 et seq. of the code of city ordinances, except as provided for in subdivision 4;

j) recreational facilities and structures, provided they contain less than 1,000 square feet of gross floor area, and except as provided for in subdivision 4;

k) evergreen material sales if in compliance with the standards specified in section 300.15, subd. 13, and the director of planning has given approval;

l) public or private schools having a course of instruction meeting the compulsory education requirements of the Minnesota board of education for students enrolled in grades K-12, or any portion thereof, provided that each school:

1) serves no more than 12 students, unless each and every one of the students is living in the structure and is the child, grandchild, parent, grandparent, spouse, or ward of a family member living in the structure;

2) has no residential facilities for students who are not the child, grandchild, parent, grandparent, spouse, or ward of a family member living in the structure;

3) has no more than one employee or independent teaching contractor who lives outside the structure, unless the total number of traffic trips generated by these people does not exceed the total of one trip to and from the structure for each day of instruction;

4) complies with the sign regulations for permitted residential uses, not conditionally permitted uses, in the applicable zoning district; and

5) complies with all other applicable city ordinances regarding parking.

m) licensed day care facilities serving 12 or fewer persons, and licensed group family day care facilities serving 14 or fewer children, provided that there is not more than one outside employee in any such facility; and

n) other uses customarily associated with but subordinate to a permitted use, as determined by the city.

4. Conditional Uses. Within the R-1 district no structure or land shall be used for the following except by conditional use permit and in conformance with the standards specified in section 300.16 of this ordinance:

a) educational institutions and facilities, except as provided for in subdivision 3;

b) religious institutions and facilities;

c) the creation of up to two single family residential lots, each containing a minimum area of 15,000 square feet in areas in which smaller lots will serve as a transition between low density residential areas and more intense uses or in areas where the prevailing lot size is less than 22,000 square feet, and provided the parcel to be subdivided shall be a maximum of 40,000 square feet in area. Parcels in excess of 40,000 square feet which are proposed for 15,000 square foot lot size subdivisions shall be reviewed as a planned unit development under section 300.22 of this ordinance;

d) mass transit facilities, except as provided for in subdivision 3;

e) accessory apartments;

f) licensed day care facilities for more than 12 persons, provided they are located within suitably designed structures which are not also used for residential purposes or within religious or educational buildings, and except as provided for in subdivision 2;

g) detached garages, storage sheds or other accessory structures, except as provided for in subdivision 3;

h) home occupations which are clearly secondary to the principal use and do not change the nature of the principal use, provided there is only limited retail sales activity, there are no exterior signs, there is a maximum of one outside employee, there is adequate off-street parking for the number of employees or customers per day, the parking area is screened on all sides, there is no outside storage and business hours do not exceed 8:00 a.m. to 9:00 p.m. This includes any home occupation with an exterior indication of the business use, including the exterior parking of a commercial vehicle or vehicle identified as being used as part of a business;

i) licensed residential care facilities or community based residential care facilities for six or fewer persons located within ¼ mile of another similar facility or for more than six persons, or other charitable, religious, counseling or therapeutic service entity involving regularly scheduled meetings;

j) private, non-profit recreational facilities as a principal use;

k) wind energy conservation systems or windmills;

l) cemeteries;

m) marinas;

n) public buildings or facilities;

o) public or private nursing or convalescent homes;

p) leasing, sales or management offices for the development exceeding 1,000 square feet of floor area;

q) transmission towers and other antenna devices and related facilities over 60 feet in height above the ground which are not freestanding and located on existing or proposed structures allowed as a principal or conditional use in this district and/or upon public structures;

r) golf courses;

s) utility poles and appurtenances (such as wires) that are over 60 feet in height and freestanding upon the ground, and all transmission lines which are not subject to state review under the Minnesota power plant siting act;

t) commercial nurseries;

u) commercial dog and/or cat kennels; or

v) other uses similar to those permitted by this section, as determined by the city.

5. District Standards. No building or land in the R-1 district shall be used except in conformance with the following:

a) building height: maximum of 35 feet;

b) front yard setback: minimum of 35 feet from the right-of-way of local streets and railroad lines or 50 feet from the right-of-way of collector or arterial roadways as identified in the comprehensive plan. In the case of a corner lot, one front yard setback may be reduced by 10 feet. On double frontage lots, the setback may be reduced by 10 feet towards the direction perceived by the director of planning to be the rear yard. (Figure 13) For a neck lot or one which is serviced by a driveway easement, see section 300.10, subd. 5(e);

c) side yard setback: the sum of the side yard setbacks shall not be less than 30 feet, with a minimum setback of 10 feet; (Figure 14)

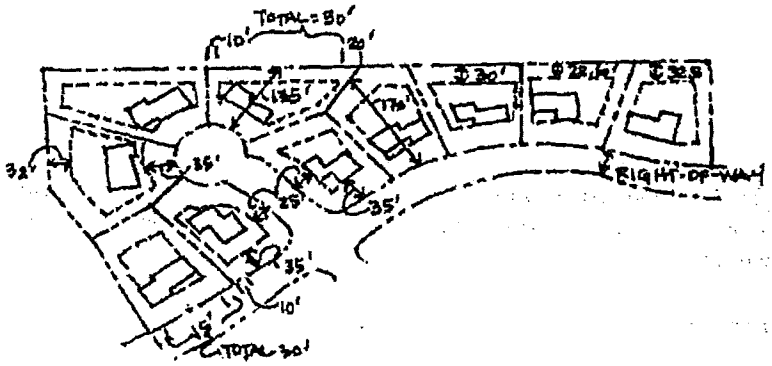


Figure 14

d) rear yard setback: minimum of 40 feet or 20 percent of the depth of the lot, whichever is less;

e) setbacks for flag/neck lots and lots with no frontage on a public street: 25 feet from all lot lines;

f) driveway setback for flag/neck lots and lots served by a driveway easement: minimum of 7 feet from side and rear lot lines, except to the extent reasonably necessary to share a street access point with an adjacent lot. For a lot encumbered by a driveway easement serving another lot, the driveway across that easement must also be set back a minimum of 17 feet from the easement line which is adjacent to the buildable area of the encumbered lot, except as reasonably necessary for the driveway to also serve the residence on that lot;

g) lot area: minimum of 22,000 square feet;

h) lot width:

1) Minimum lot width at the front yard setback line shall be 110 feet, except for approved 15,000 square foot lots where the minimum width shall be 90 feet;

2) Minimum lot width at right-of-way: (Figure 15)

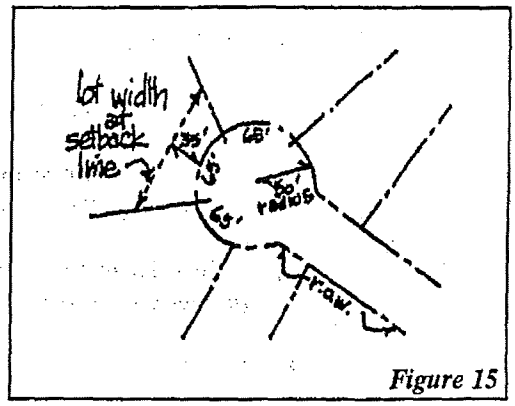


Figure 15

a. 80 feet except for lots located on the turning circle of a cul-de-sac where 65 feet is required;

b. variances to permit lots with reduced frontage on public right-of-way, neck lots or lots with no frontage on public right-of-way which access by permanently recorded easements will be considered, but not necessarily granted, only upon evidence that the following standards are met:

1. an extension of roadway is not physically feasible as determined by the city. If the city determines that there is the need for a roadway extension, this section shall not apply, and the right-of-way shall be provided by easement or dedication whichever is appropriate;

2. severe grades make it infeasible according to the city to construct a public street to minimum city standards;

3. the city determines that a right-of-way extension would adversely impact natural amenities including wetlands or stands of significant trees;

4. there is no feasible present or future means of extending right-of-way from other directions;

5. the number of lots to share a common private access drive does not exceed three;

6. covenants which assign driveway installation and future maintenance responsibility are submitted and recorded with the titles of the parcels which are benefitted;

7. the neck portion of a neck or flag lot must have a minimum width of 14 feet plus the actual driveway width required by the fire marshal pursuant

to the uniform fire code. If an easement is used to provide access, the easement must have a minimum width equal to the width required for a neck, plus an additional ten feet;

8. when a lot has no access to a public street and receives access across a private driveway, the private driveway must meet the following standards:

   a) If the driveway provides access to more than one lot, a private driveway maintenance agreement must be recorded for the lots.

   b) The driveway must meet minimum requirements established by the engineering department and fire marshal.

i) lot depth: minimum of 125 feet. (Figure 16)

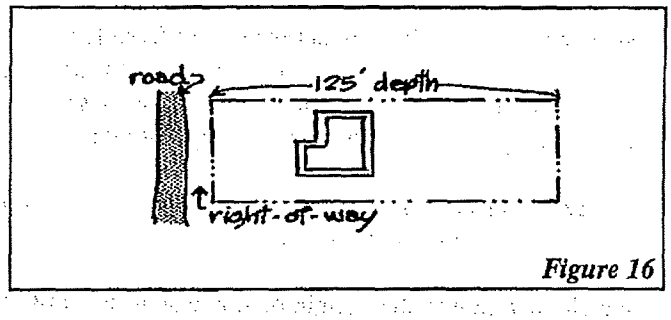


Figure 16

6. Additional Requirements.

a) All dwellings, including manufactured homes, shall have a depth of at least 20 feet for at least 50 percent of their width. All dwellings, including manufactured homes, shall have a width of at least 20 feet for at least 50 percent of their depth.

b) All dwellings shall have a permanent foundation in conformance with the Minnesota state building code.

c) Accessory structures shall conform to the setbacks established for principal structures, except for the following:

   1) all accessory structures located more than 10 feet from a principal structure may be located a minimum of 10 feet from a rear or side lot line;

2) all accessory structures except detached garages which are located between the principal structure and the front lot line shall maintain a minimum setback of 50 feet;

3) sheds or storage buildings less than 120 square feet in size shall be located behind the rear building line of the house; and

4) swimming pools shall be located behind the front building line of the house, and 15 feet side and rear setbacks as measured to the water line are required. On corner lots, swimming pools shall be subject to front yard setbacks established for principal structures.

d) Off-street parking shall be provided for at least two vehicles for all single family dwellings. A suitable location for a garage measuring at least 20 feet by 24 feet which does not require a variance shall be provided and indicated as such on a survey or site plan to be submitted when applying for a building permit to construct a new dwelling or alter an existing garage.

e) Each lot must have a buildable area as defined by this ordinance. The purpose for a buildable area is to ensure that each lot has a reasonable area for the location of a house, attached garage, and associated decks or patios and that there is sufficient room for the location of the house to be positioned to minimize the physical impacts on the lot and to be consistent with the surrounding neighborhood. This does not require that a house pad occupy the entire buildable area. Each lot must have a buildable area that complies with the following:

1) The buildable area must meet the following minimums:

a. minimum size: 3,500 square feet;

b. minimum number of sides: 4; and

c. minimum dimension of each of at least four sides: 40 feet.

2) The buildable area must be designated by the applicant and approved by the city council at the time of the subdivision creating the lot. For pre-existing lots, the buildable area will be designated by the director of planning based on the standards contained in this ordinance.

3) The city may require that construction within the buildable area be located where the city determines it would reasonably:

   a. minimize the amount of adverse impacts to the physical environment on the lot, including such things as significant trees, grading, erosion, and surface water drainage, and

   b. be consistent with the location of the structures in the surrounding neighborhood.

4) No principal structure, or any portion of it, may be located outside the buildable area, except when intrusions into setbacks are allowed by this code.

5) If a home exists on a lot with less than the minimum buildable area, the home may be enlarged or rebuilt within the applicable setbacks without a variance from the buildable area standard.

7. Exceptions for Qualifying Small Lots.

a) The buildable status of R-1 lots is determined in accordance with section 300.07, subd. 1(b). If a substandard lot has been declared buildable, the provisions of this subdivision (section 300.10, subd. 7) may be applied.

b) In recognition of the exceptional circumstances of nonconforming small lots located in neighborhoods of similarly sized lots, the R-1 district setback standards shall be reduced for lots meeting the following criteria:

   1) less than 15,000 square feet;

   2) lot of record as of February 12, 1966, or lots approved by the city subsequent to this date; and

   3) located in an area in which the average size of all residential lots within 400 feet is less than 15,000 square feet.

c) The following standards shall apply to principal structures located on qualifying small lots:

1) front yard setback: average front setback of principal structures located on adjoining parcels, but in no case less than 20 feet from the right-of-way (Figure 17);

2) side yard setback: 10 percent of lot width measured at the building setback line on each side of the structure, but in no case less than seven feet (Figure 17); and

3) rear yard setback: 20 percent of lot depth, but in no case less than seven feet (Figure 17).

d) The following standards shall apply to accessory structures located on qualifying small lots: (Figure 17)

1) front yard setback: same as for principal structure;

2) side yard setback: seven feet; and

3) rear yard setback: seven feet.

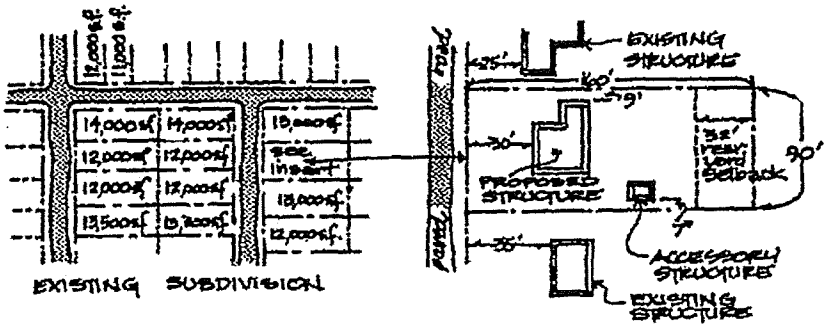


Figure 17

e) The buildable area for a qualifying small lot must meet the following minimums:

1) minimum size: 2,400 square feet;

2) minimum number of sides: 4; and

3) minimum dimension of each of at least four sides: 30 feet.

EXHIBIT J – ZONING MAP

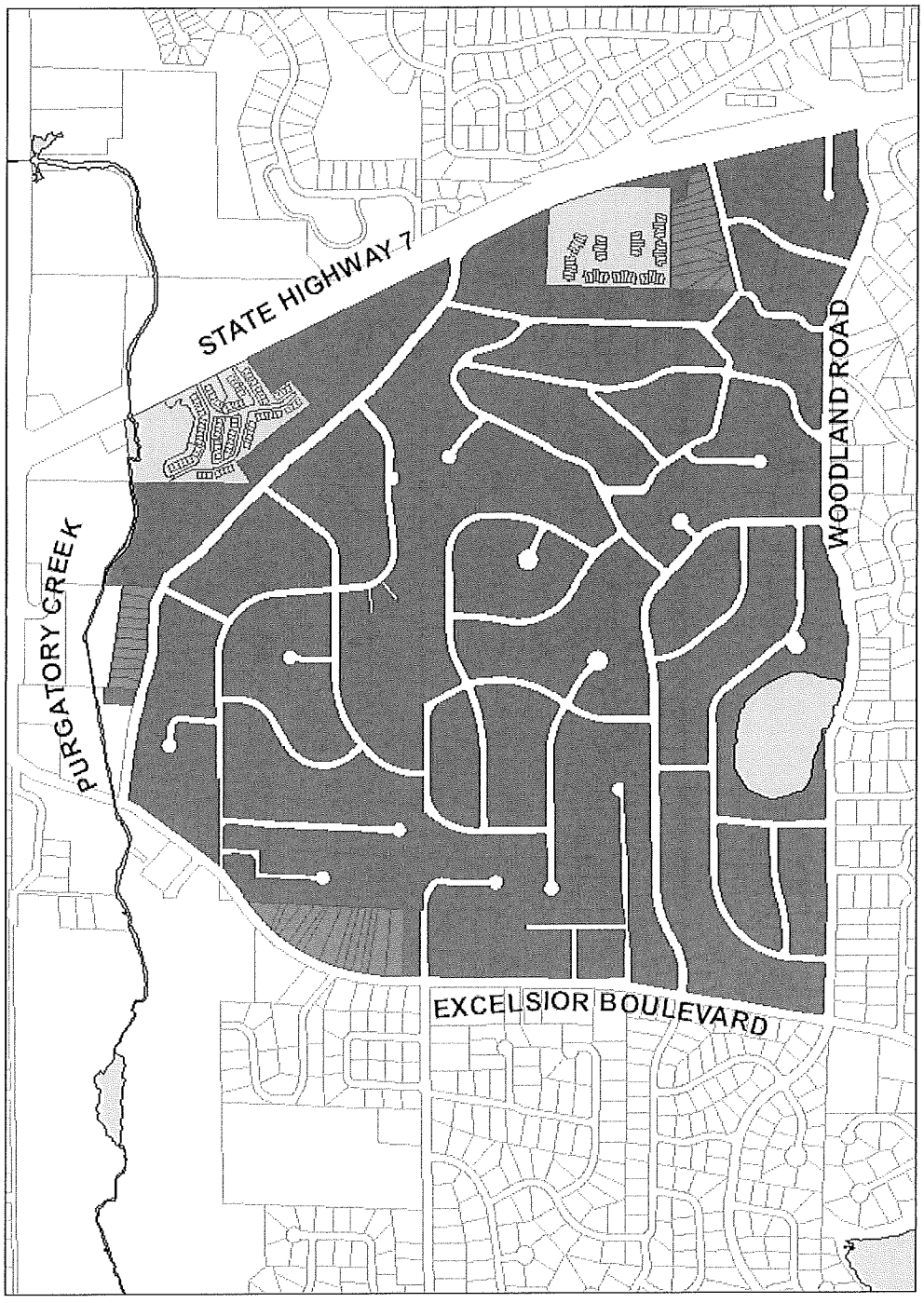
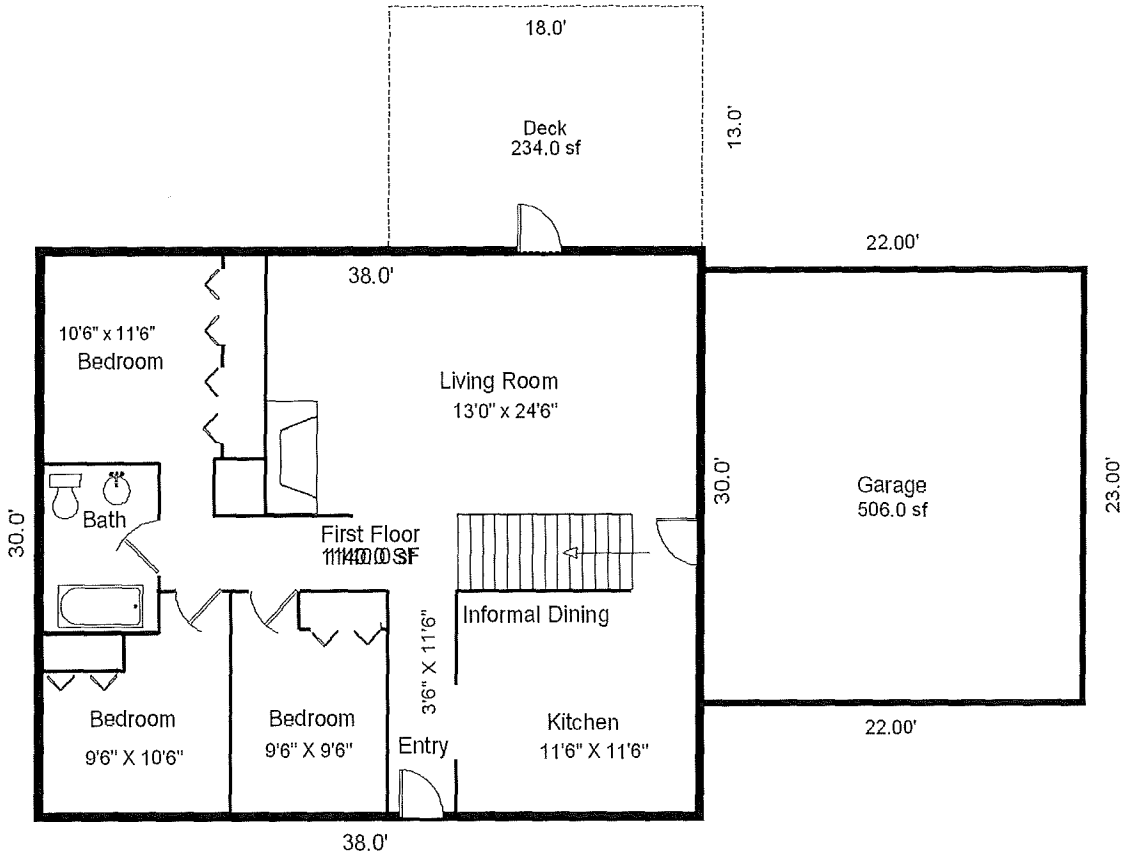


EXHIBIT K – AERIAL PHOTO

EXHIBIT L – FLOOR PLAN



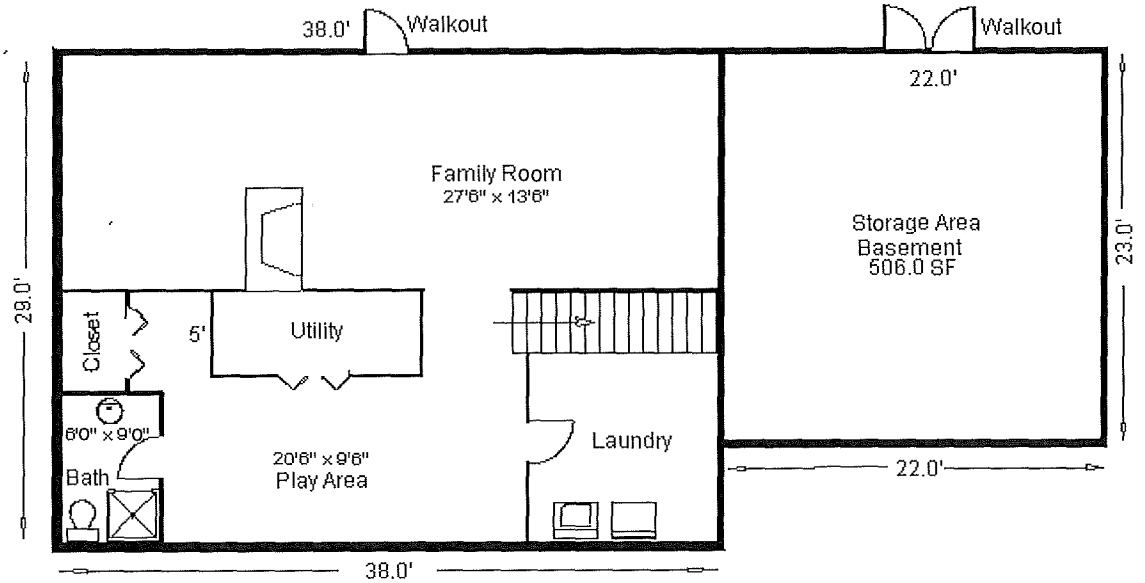


EXHIBIT M – SITE PLAN

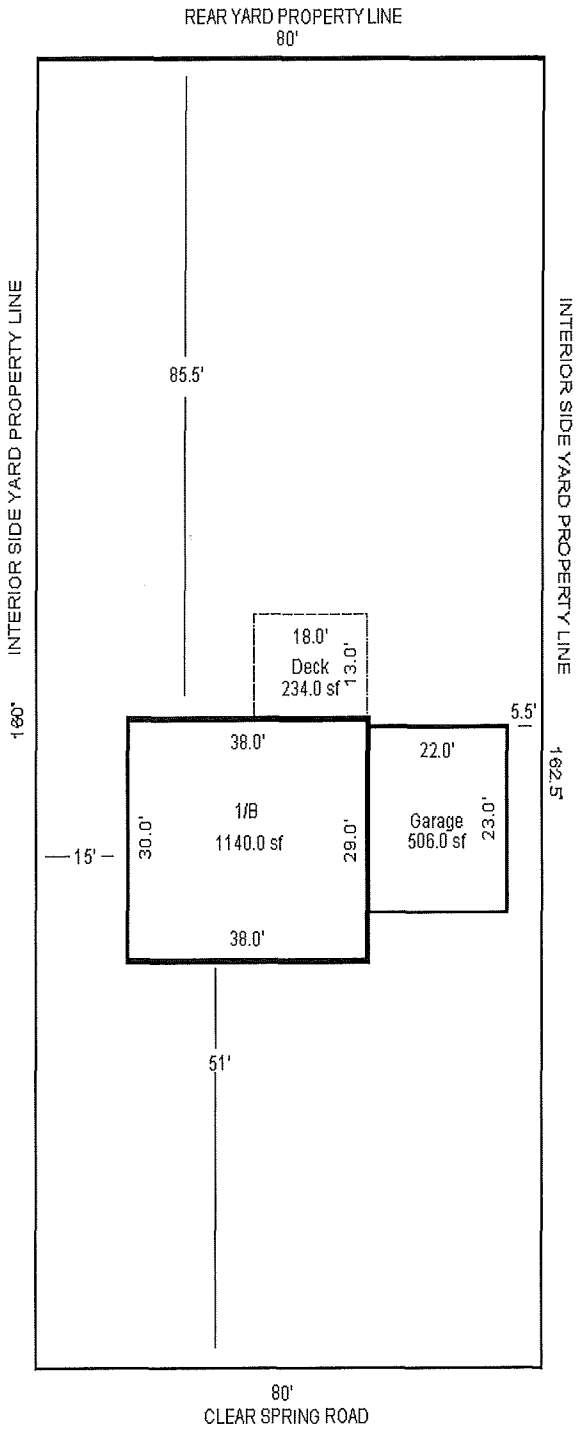


EXHIBIT N - COMPARABLE LAND SALES MAP

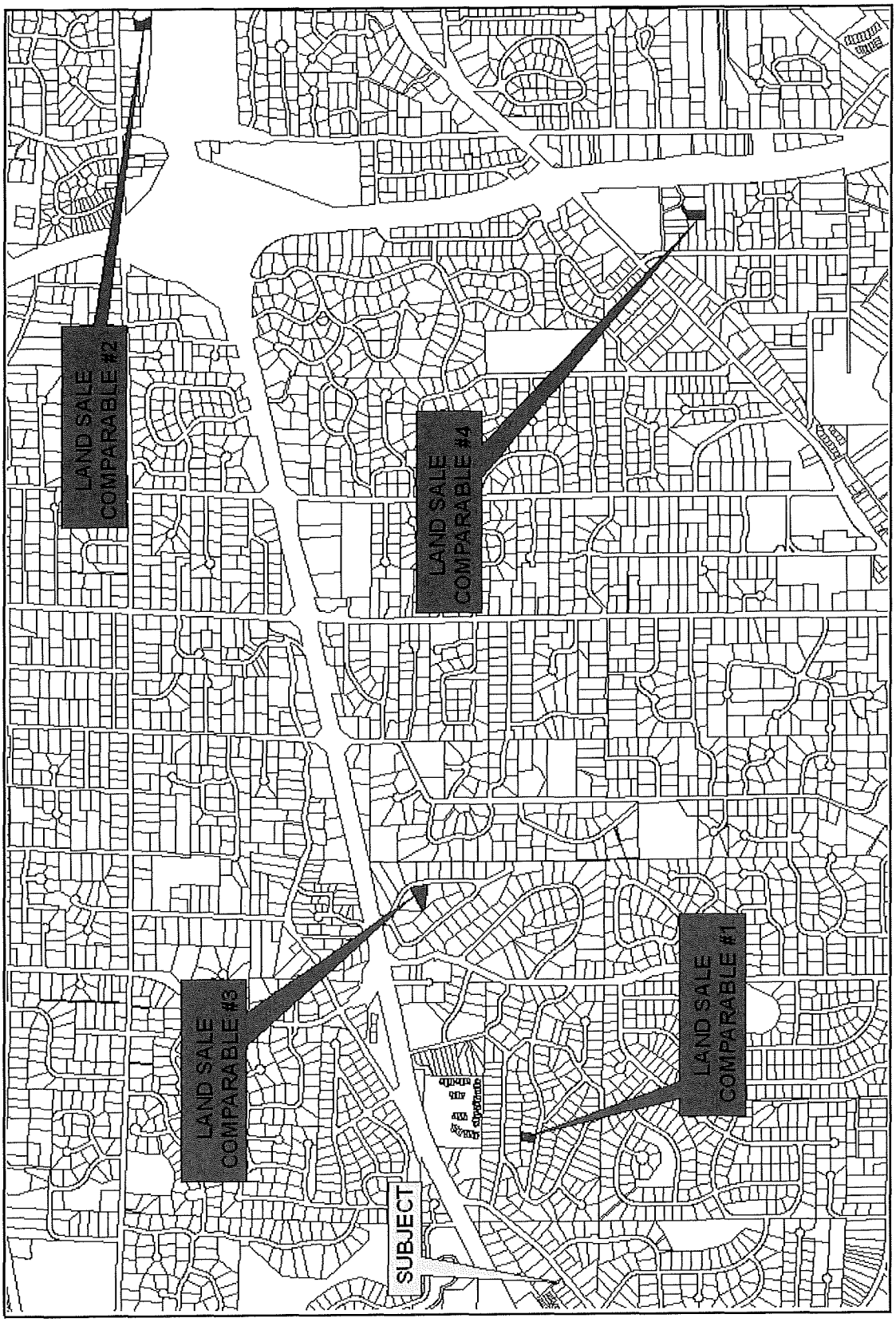


EXHIBIT O - RENTAL SALES COMPARABLE MAP

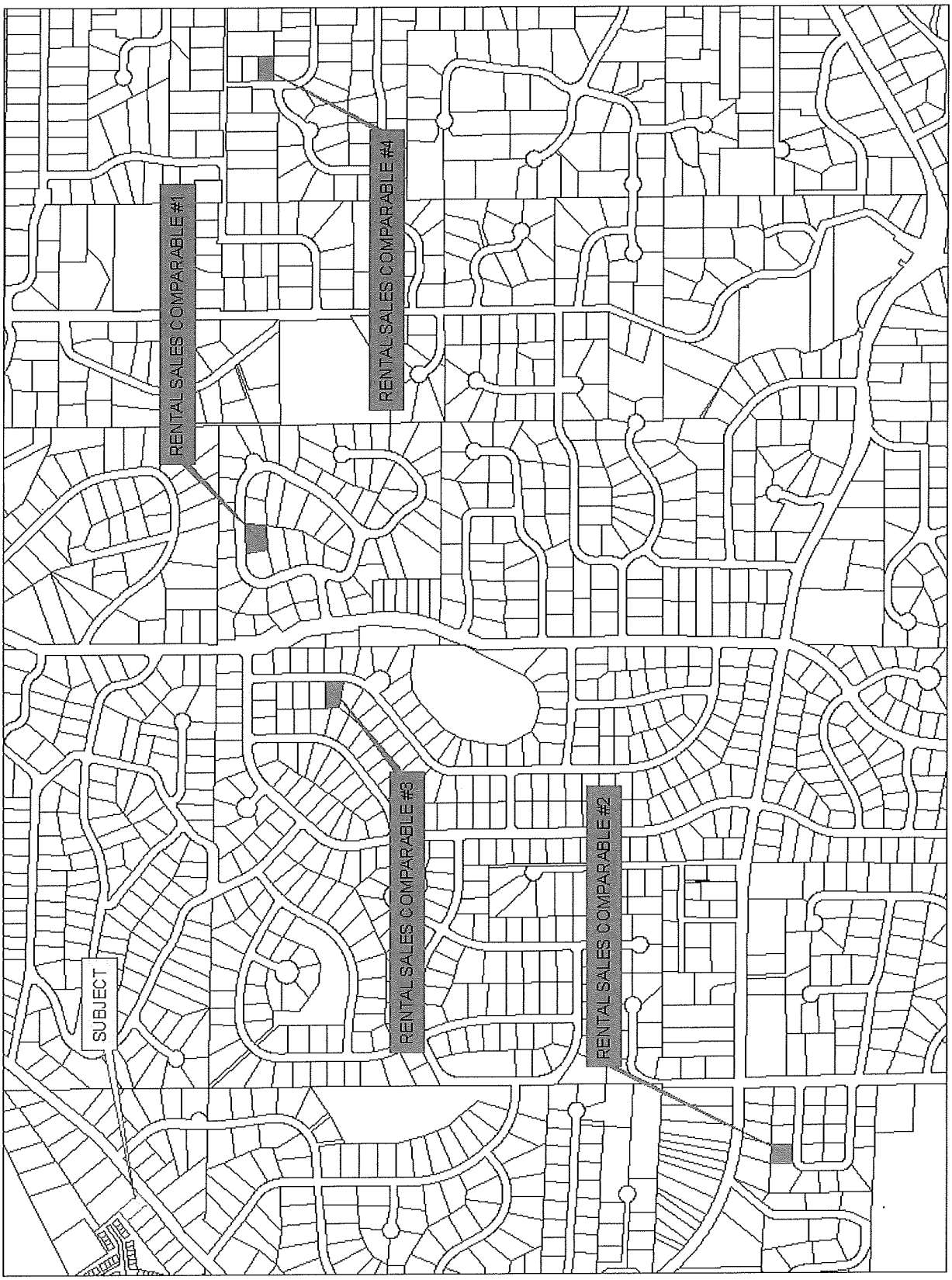


EXHIBIT P - COMPARABLE RENTAL PROPERTIES MAP

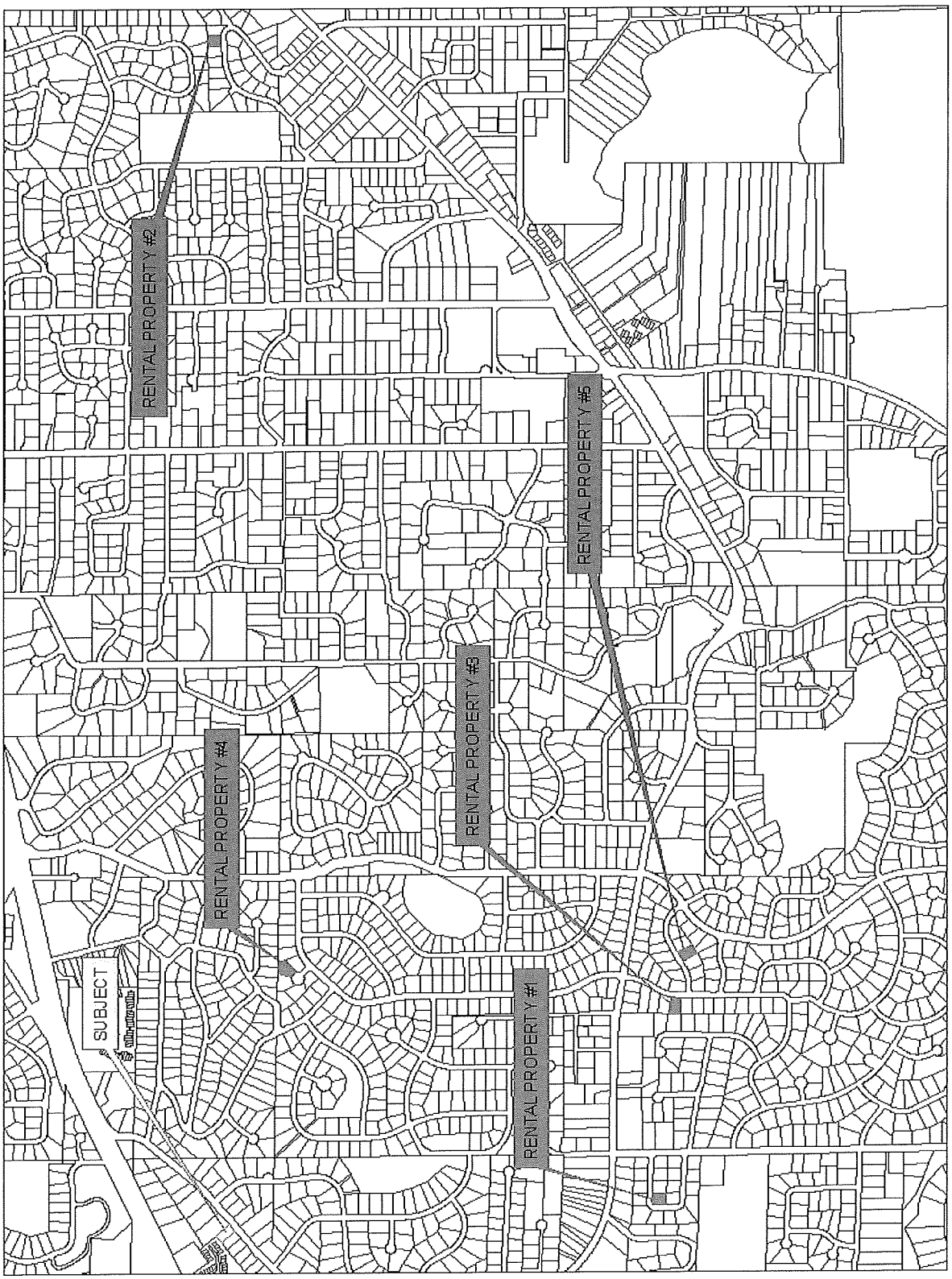


EXHIBIT Q - COMPARABLE SALES MAP

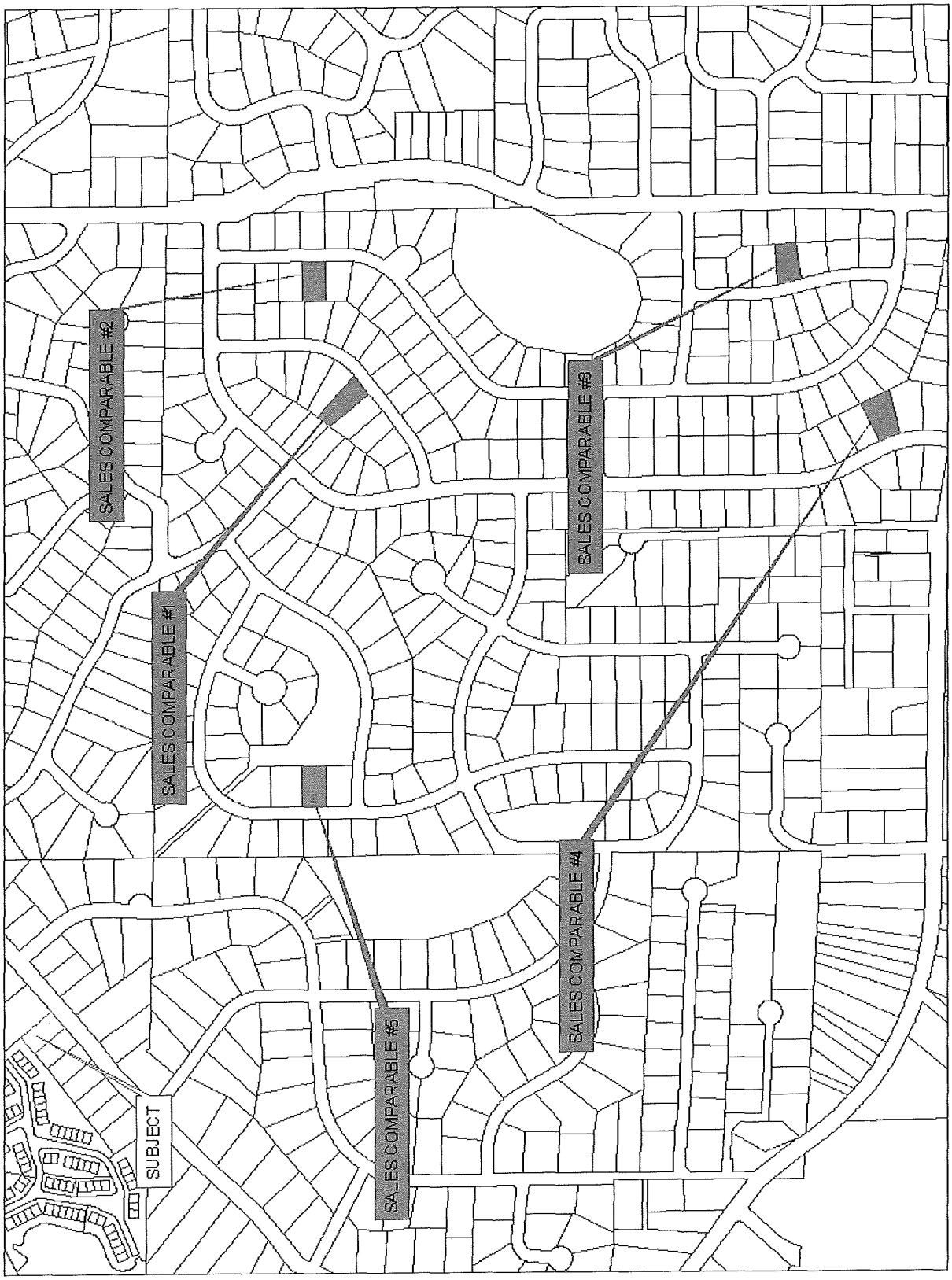


EXHIBIT R – SUPPORT FOR ADJUSTMENT

HENNEPIN COUNTY RESIDENTIAL SINGLE FAMILY HOUSES (PROPERTY TYPES R,RL)

ESTIMATED MARKET VALUE MEDIANS

CITY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2005-2006 % CHANGE
MINNETONKA BEACH	317,000	332,000	355,000	408,000	547,000	639,000	670,000	764,500	844,000	982,000	16.35%
WOODLAND	355,000	379,000	397,000	454,000	560,000	686,000	722,000	785,500	854,000	915,000	7.14%
GREENWOOD	247,000	279,500	297,000	356,150	431,000	497,500	546,000	577,000	731,000	802,000	9.71%
ORONO	212,000	227,000	259,000	297,000	371,000	419,000	485,000	545,000	606,500	666,000	9.81%
MEDICINE LAKE	210,000	246,000	254,500	311,500	352,000	392,050	434,000	545,000	579,000	643,000	11.05%
TONKA BAY	192,500	207,500	217,000	260,000	313,000	392,000	442,000	452,000	532,000	619,000	16.35%
MEDINA	171,000	180,000	203,000	225,000	274,700	311,800	358,000	407,500	467,500	505,500	8.13%
DEEPHAVEN	189,000	197,000	218,000	240,750	285,500	320,000	360,800	390,000	436,000	470,500	7.91%
MINNETRISTA	199,000	211,000	236,500	268,000	310,800	358,500	382,000	404,000	450,000	468,000	4.00%
INDEPENDENCE	160,000	166,000	176,000	207,350	233,600	272,300	324,100	351,000	383,500	444,000	15.78%
EDINA	180,000	184,000	205,500	229,000	263,500	304,100	315,300	355,900	385,100	433,300	12.52%
WAYZATA	151,000	166,000	180,000	198,000	241,000	268,000	302,800	329,000	395,000	433,000	9.62%
SHOREWOOD	181,000	190,000	206,000	218,000	249,000	295,000	326,000	357,000	384,000	419,000	9.11%
SPRING PARK	110,500	122,000	130,500	166,500	188,000	221,000	259,000	297,000	357,000	385,000	7.84%
GREENFIELD	126,000	138,000	158,000	181,000	200,500	233,050	272,000	305,000	338,000	374,000	10.65%
HANOVER	135,000	138,000	146,000	170,000	197,000	235,000	257,000	293,000	342,500	374,000	9.20%
EDEN PRAIRIE	168,000	177,000	186,000	204,700	230,600	258,700	287,500	310,100	339,200	362,200	6.78%
PLYMOUTH	160,000	165,000	174,000	193,000	219,700	245,000	263,300	291,200	308,800	333,600	8.03%
HASSAN TOWNSHIP	134,000	149,000	156,000	179,000	196,000	223,000	240,000	258,000	293,500	327,000	11.41%
MINNETONKA	150,000	156,000	163,500	180,800	202,200	227,200	254,750	276,800	295,550	317,300	7.36%
EXCELSIOR	121,000	128,000	138,000	160,000	192,000	208,000	241,000	272,000	296,000	309,400	4.53%
CORCORAN	135,000	144,000	153,000	168,000	192,500	210,000	232,000	255,000	272,500	301,500	10.64%
ROGERS	125,000	135,000	144,500	164,400	185,000	203,700	221,200	249,000	270,000	288,000	6.67%
MAPLE GROVE	124,000	130,000	140,000	156,500	175,000	199,700	217,200	241,200	261,300	280,900	7.50%
GOLDEN VALLEY	123,000	126,000	137,000	152,000	172,000	194,000	214,000	235,000	258,000	274,000	6.20%
DAYTON	116,000	121,000	133,000	145,000	159,000	181,000	204,000	225,000	243,000	260,000	7.00%
ST. ANTHONY	111,000	116,000	126,000	137,000	160,000	184,000	201,000	221,000	247,000	259,000	4.86%
LONG LAKE	115,000	118,000	128,000	141,000	159,000	183,000	191,000	215,000	234,000	255,000	8.97%
BLOOMINGTON	114,000	118,000	125,600	139,100	157,000	178,900	195,700	214,700	231,400	244,900	5.83%
LORETTO	112,500	114,000	123,000	139,500	163,000	183,000	207,000	216,000	222,500	242,000	8.76%
ST. BONIFACIUS	108,000	120,000	122,000	138,500	163,000	176,000	199,000	208,500	230,000	239,500	4.13%
ST. LOUIS PARK	99,000	105,000	114,000	126,400	146,900	169,300	185,000	205,800	223,100	238,600	6.95%
MAPLE PLAIN	109,000	111,000	126,000	135,500	153,000	169,400	191,000	210,000	220,000	235,000	6.82%
MOUND	100,000	105,000	112,000	128,100	147,000	166,000	183,250	199,000	217,000	233,000	7.37%
HOPKINS	101,000	106,000	114,000	126,000	144,000	164,000	183,000	200,250	218,000	227,000	4.13%
CHAMPLIN	101,000	105,000	114,000	124,900	145,900	163,700	181,300	194,000	212,500	226,400	6.54%
NEW HOPE	104,500	110,000	117,000	130,000	146,000	167,000	183,000	196,000	216,000	224,000	3.70%
BROOKLYN PARK	96,000	101,000	109,000	122,300	140,100	160,800	173,700	189,600	206,100	222,200	7.81%
RICHFIELD	95,000	98,000	105,500	119,000	135,000	153,000	174,000	187,500	201,000	217,000	7.96%
MINNEAPOLIS	75,000	80,000	89,000	104,000	128,500	146,000	165,500	184,500	206,000	212,500	3.16%
ROCKFORD	101,000	104,000	107,500	118,000	135,000	159,100	173,000	187,000	199,000	209,000	5.03%
OSSEO	84,000	92,000	99,000	110,000	127,500	148,000	160,000	173,000	192,000	202,000	5.21%
ROBBINSDALE	80,000	84,000	91,000	103,900	124,000	141,500	155,000	169,000	184,000	199,250	8.29%
CRYSTAL	84,000	88,000	95,000	107,600	123,000	142,000	157,000	169,000	184,000	193,000	4.89%
BROOKLYN CENTER	74,000	82,000	89,500	103,400	119,300	140,200	152,000	166,200	176,500	190,400	7.88%
SUBURBAN HENNEPIN	116,000	121,000	130,000	145,300	165,500	187,900	206,100	227,000	246,000	263,000	6.91%
ALL HENNEPIN	105,000	110,000	120,000	134,500	155,400	176,200	194,500	214,000	234,000	248,000	5.98%

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