

**Estimate of Current Market Value
Appraisal Report**

**Aztec Business Incubator
119 S. Church Avenue / 119 E. Chuska Street
Aztec, NM**

Effective Date of Appraisal

August 12, 2019

Date of Inspection

August 12, 2019

Date of Report

August 16, 2019

Prepared For:

**Kathy Lamb
Finance Director
City of Aztec
Aztec, NM**

Prepared By:

James Q. Gipson

Gipson Investments, Inc.

Appraisal and Consulting

3005 Northridge Drive, Suite I

P.O. Box 2458

Farmington, NM 87499

Phone 505-327-5470

August 16, 2019

Ms. Kathy Lamb, Finance Director

City of Aztec

201 West Chaco Street

Aztec, NM 87410

RE: Estimate of Market Value – Aztec Business Incubator, located at 119 S. Church Ave. /
119 E. Chuska St., Aztec, NM.

As requested, I have estimated the current market value of the fee simple interest in the subject property, as of August 12, 2019, which is the date of inspection of the subject property.

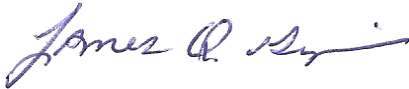
Attached is my Appraisal Report that outlines my analysis and conclusions. Please note the contingent and limiting conditions that are a part of this report. This report is prepared in accordance with the current version of the Uniform Standards of Professional Appraisal Practice (USPAP).

The current market value, of the fee simple interest, in the subject property, as of August 12, 2019, is:

\$150,000

(One Hundred Fifty Thousand Dollars)

Respectfully submitted,



James Q. Gipson

NM 642-G (April 30, 2021)

QUALIFICATIONS

James Q. Gipson - Certified General Appraiser

EDUCATION

Bachelor of Business Administration, Accounting, New Mexico State University
Master of Business Administration, Management, Angelo State University

APPRAISAL EDUCATION

Real Estate Appraisal Principles, Appraisal Institute, Boulder
Residential Valuation, Appraisal Institute, Boulder
Basic Valuation Procedures, Appraisal Institute, Boulder
Basic Income Capitalization, Appraisal Institute, Tempe
Advanced Income Capitalization, Appraisal Institute, Boulder
Real Estate Finance, Statistics and Valuation Modeling, Appraisal Institute, Denver
National Uniform Standards of Professional Appraisal Practice, Appraisal Institute, Denver (03/15)
National USPAP Update, Appraisal Institute, Albuquerque (10/18)
Uniform Appraisal Standards for Federal Land Acquisition, Appraisal Institute, Albuquerque (08/17)
Business Valuation Parts 1 & 2, Appraisal Institute, Austin
Valuation of Leased Fee Interests, Appraisal Institute, Albuquerque
Real Estate Fraud, Appraisal Institute, Albuquerque
Valuing Conservation Easements, Appraisal Institute, Albuquerque
Appraising Natural Resources, Am Society of Farm Managers and Rural Appraisers, Albuquerque
Rates and Ratios: Making Sense of GIMs, OARs and DCF, Appraisal Institute, Albuquerque
Small Hotel/Motel Valuation, Limited Service Lodging, Appraisal Institute, Chicago (online)
Subdivision Valuation, Appraisal Institute, Albuquerque
Evaluating Commercial Construction, Appraisal Institute, El Paso
Real Estate Finance, Value and Investment Performance, Appraisal Institute, Albuquerque
Practical Regression Using Microsoft Excel, Appraisal Institute, Albuquerque
Comparative Analysis, Appraisal Institute, Chicago (online)
The Discounted Cash Flow Model: Concepts, Issues and Applications, Appraisal Institute, Chicago (online)
Advanced Spreadsheet Modeling for Valuation Applications, Appraisal Institute, Albuquerque
Eminent Domain and Condemnation, Appraisal Institute, Chicago (online)
Stats, Graphs and Data Science 1, George Dell's Valumetrics, Albuquerque
Economic Forecasting, ASU, San Angelo
Real Estate Finance and Investment, NMSU, Las Cruces
Real Estate Principles, NMSU, Las Cruces
Business Law, NMSU, Las Cruces

CLIENTELE

Citizens Bank, Farmington	Charter Bank
Wells Fargo Bank, N.A.	M&I Thunderbird Bank, Phoenix
Washington Federal Savings	Los Alamos National Bank
Bank of the Southwest, Farmington	Texas Commerce Bank, El Paso
Vectra Bank Colorado, N.A.	Associated Financial Services
Four Corners Community Bank	United Bank of Colorado
Animas Credit Union	Transamerica
California Bank & Trust	The Bank of Durango
City of Farmington, NM	United Missouri Bank, Kansas City
ConocoPhillips Company	Questar Regulated Services
U.S. Government, Dept of the Interior -BOR	National Bank of Arizona
U.S. Government, Dept of the Interior - BIA	NM State Highway and Trans Dept
City of Aztec, NM	

APPRAISAL REPORT

Prepared for
CITY OF AZTEC

DATE OF REPORT: August 16, 2019

FROM: James Q. Gipson - NM 642-G

RE: Commercial Property

Legal Description: Lots 9, 10, 11 and 12 in Block 31 of the Original Townsite of Aztec, recorded in Book 1179 / Page 921

Purpose of the Appraisal: Provide an estimate of market value as defined by the Office of Comptroller of the Currency under 12 CFR, Part 34, Sub-part C

Client: City of Aztec

Intended User(s): The intended users are City of Aztec, New Mexico State Board of Finance and Taxation and Revenue Department, Property Tax Division.

Intended Use: Discussion concerning for possible disposition

Real Estate: The subject is a 3,670 square foot commercial property that is situated on a 14,000 square foot site

Personal Property: There is no personal property included in the appraisal.

Property location: 119 N. Church Ave. / 119 E. Chuska St.
Aztec, NM 87410

Tax ID: R0000349

Property Rights Appraised: Fee Simple

Appraisal Premise: Current

Date of Value: August 12, 2019

Date of Inspection: August 12, 2019

Estimate of Market Value:	As Is	As Proposed
Real Estate	\$ 150,000	\$ N/A

Contingencies: I was not able to inspect the upper level office at the rear of the improvement and assume that it is in a condition similar to what I observed during my previous inspection .

COMPETENCY

James Q. Gipson has a wide variety of real estate and real property appraisal experience throughout New Mexico and Southwest Colorado. Experience includes a number of assignments similar to the one at hand. General Certifications are currently held in New Mexico, Colorado and Arizona.

SUMMARY

Net Operating Income:	\$ 8,419	Remaining Economic Life:	20 years
Exposure Period Estimate:	12 to 18 months	Marketing Time Estimate:	18 months

PURPOSE OF ANALYSIS

The purpose of this memorandum is to convey an estimate of market value of the identified interest in the above-referenced property. Market Value is defined by the federal financial institutions regulatory agencies as follows:

"Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently knowledgeable, and assuming the price is not affected by undue stimulus. Implicit in this definition is 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 each acting in what he considers 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 US dollars or in terms of financial arrangements comparable thereto;
- (5) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

(Source: Office of the Comptroller of Currency under 12 CFR, Part 34, subpart C-appraisals, 34.42 Definitions (h).)

SCOPE, APPRAISAL DEVELOPMENT AND REPORTING PROCESS

This is an Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. It presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion to value. Supporting documentation concerning data, reasoning, and analyses is retained in the appraiser's files. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated above. The appraiser is not responsible for unauthorized use of this report.

The scope of this analysis includes: discussing the request for appraisal services with a representative of the client; a physical inspection of the subject property, including the neighborhood and submarket, with an analysis of various regional, community, and

neighborhood data in respect to their impact on the subject property. The subject has been clearly identified and described, with potential uses of being identified to develop a highest and best use, as defined. Research of public records and other sources deemed reliable relative to the sales of comparable improved properties is performed. The comparables utilized are confirmed and personally inspected by the principal appraiser (James Q. Gipson). The approaches used are reconciled to develop a final estimate that is reported in this appraisal assignment. The value reported is "as of" the date of value specified and subject to the definition of value and other definitions included in the report. The analysis and conclusions within this appraisal are subject to the contingent and limiting conditions included.

Due to the age of the improvements and a lack of sales to support the depreciation amount, the cost approach is not applicable and it is not applied. An income approach will be completed; however, rents in the Aztec market have been low for the past few years and typically do not support property values. At this time, the typical purchaser of this property type is an owner / occupant and not an investor. I was not able to inspect the upper level office at the rear of the improvement and assume that it is in a condition similar to what I observed during my previous inspection. It has not been occupied since that inspection.

AREA / NEIGHBORHOOD DESCRIPTION

Northwest New Mexico was the home of prehistoric Indians for thousands of years. The Pueblo Indians and the nomadic tribes that became the Navajos and Apaches inhabited the area for years before the Spanish invaded the area in 1540. Northwestern New Mexico was opened to settlement in the late 1870's and farmers and ranchers began homesteading the land. The farmers prospered, but the major growth occurred after the development of the area's oil, gas and coal reserves in the 1950's. The most recent Census (2010) reported the population of San Juan County at 130,044, and that of Aztec at 6,763. That represented an annual increase of 0.59% over the previous ten years (2000 Census), with New Mexico experiencing a 1.32% annual increase during the same time period. Average income in San Juan County was \$20,029, which is one of the highest in the state; however, unemployment remains above the state average.

Today, the communities of Farmington, Aztec and Bloomfield thrive amidst spectacular scenery, ancient history and modern technology. Popular attractions include Indian ruins, outdoor theater, cultural and special events and outdoor recreation including fishing, golfing, hiking and mountain biking. In the past, much of the economy has relied upon the energy industries, however much emphasis has been applied to retail trade and this segment of the economy continues to grow, increasing the economic base of the community.

The subject's neighborhood is an area of mixed use that lies adjacent (east) to South Main Street, which is the original "downtown" area of Aztec. Throughout the neighborhood the residential improvements range from 30 to 100 years in age. A few non-residential activities are found within the neighborhood but this is typical of one or maybe two blocks from the original primary artery. Many of these buildings that would be the exception were constructed when zoning districts were less restrictive and similar uses less of a concern. San Juan County administrative offices were located in the neighborhood but a new complex was constructed and the buildings razed and that parcel is currently vacant. Aztec High School is located along the southeast boundary; other schools are located outside of the neighborhood. The neighborhood will continue in its current uses into the foreseeable future.

MARKET CONDITIONS

San Juan County continues to show signs of a correction. The petroleum industry was very active until 2008, but has slowed significantly over the past few years due to reduced natural gas prices and an abundant supply of natural gas. Historically, the San Juan Basin has produced little oil, although there has been activity in developing the Mancos Shale, which is an oil formation; however, a fairly abrupt correction in oil prices of up to 50% has slowed much of the exploration at this time. Retail sales corrected, with lower gross receipts tax affecting both local and state revenue, and appear to be correcting again, with the lower oil prices. The effects of a sustained slowdown in exploration and a continued sluggish national economy will have a negative impact on local market conditions and real estate values, as has occurred over the past few years.

Throughout San Juan County over the past twelve months compared to the previous twelve months, the number of residential sales decreased moderately, with the local MLS reporting 962 sales (site built single family, townhome/condo and mfg. housing) from August 1, 2017 thru July 31, 2018; and 915 sales from August 1, 2018 thru July 31, 2019, indicating a 4.89% change over the period. The average price of the residential sales has held fairly steady for a number of years but increased over the two years examined with 2017/18 reporting an average sales price of \$191,598 and 2018/19 reporting \$194,014. The median price of these sales has also increased with 2017/18 reporting a median sales price of \$172,000 and 2018/19 reporting a median sales price of \$175,960. Although the average and median sales prices increased slightly, the numbers are not a sign of a stable market, but rather the reflection of sales of upper end homes selling at a reduced price after an extended period on the market which raises both indications.

The following table outlines the last five years of gross receipts tax for the City of Aztec. Gross receipts revenue continued a steady decline for four years – with a 26.5% drop over that the four year period - but appears to have leveled off during the most recent year with a slight increase over the previous year.

FY 2014	\$3,966,395
FY 2015	\$3,871,189
FY 2016	\$3,237,448
FY 2017	\$2,913,773
FY 2018	\$3,164,724

PROPERTY HISTORY

The subject property has been owned by the City of Aztec since December 29, 2017, when it was purchased from Aztec Presbyterian Church for \$135,000. Aztec Presbyterian Church had owned the property since August 29, 2013, when it was transferred from Lois G. Crum, Trustee, to Aztec Presbyterian Church. Before the purchase, the subject had been offered for sale through the local MLS for 810 days, with an asking price of \$189,000 (445 days) at the time of sale. The original listing was \$213,900 (365 days).

TAXES & ASSESSMENTS

The subjects' tax bill number is R0000349. The Office of the Assessor, San Juan County, New Mexico, revealed that the 2018 taxes for the property are assessed at \$210,409, with a taxable value of \$70,137 (1/3 assessed value). Due to the subject being owned by the City of Aztec, the property is exempt from property taxes. The taxes in 2017, before the change in the tax rolls, were \$2,512.40.

SITE DESCRIPTION

The subject site consists of four 3,500 square foot lots (Lots 9 – 12) totaling 14,000 square feet, being situated at the northwest corner of South Church Avenue and East Chuska Street. The site is gently sloped, following the grade of Church Avenue, and enjoys good topography. The site provides good exposure, however traffic is not extensive as it is situated on the fringe of non-residential uses. Being situated within the city limits of Aztec, the zoning is O-1, office and institutional, which is a transitional area that allows both single family residential uses and offices, as well as other uses that are compatible with high-density residential. The site is not located in a flood hazard zone and is served by all public services. Nothing was noted that would affect marketability of the site. There is an alley situated off of Chuska Avenue – parallel to Church Street - that allows additional access to the site.

IMPROVEMENT DESCRIPTION

Size: 3,670 SF

General Construction: Concrete block and on slab

Condition: Average

Year: 1965 (estimated), with addition

Comments: The subject improvement was originally 2,070 SF in size, situated on one level. A 1,600 SF two story (800 SF per level) addition was built at the rear of the initial portion subsequent to the original construction. The building is configured for office uses and includes a number of offices, conference room and kitchenette. The original area currently includes a reception area, four offices, conference and two restrooms. The addition includes a reception area, five offices and a single restroom. The construction of the improvement is concrete block on concrete slab with stucco exterior and built-up roof. The interior includes painted concrete block on the perimeter walls, framed partition walls that are textured and painted drywall, with tile, carpet and sealed concrete floors. The ceiling in the original portion is suspended with acoustic tile and recessed fluorescent lighting and in the addition is fixed ceiling with surface mounted fluorescent lighting. The building was designed to accommodate at least two tenants and includes four points of ingress/egress. Another door is situated in the addition that does not include stairs for access and is unusable. Due to the topography of the site, the addition is situated approximately three feet above grade and is accessed via stairs from the south side of the improvement. Overall, the condition of the subject is average/fair. The roof has been replaced in the past three years and any asbestos that was present has been removed (per client). Stucco is in need of repair on the improvement and the front door is not ADA compliant. Heating and cooling is gas fired forced air with refrigerated cooling.

OCCUPANCY AND USE OF THE SUBJECT

A portion of the subject is occupied by a start-up business, with most of the building vacant at the time of inspection.

HIGHEST AND BEST USE

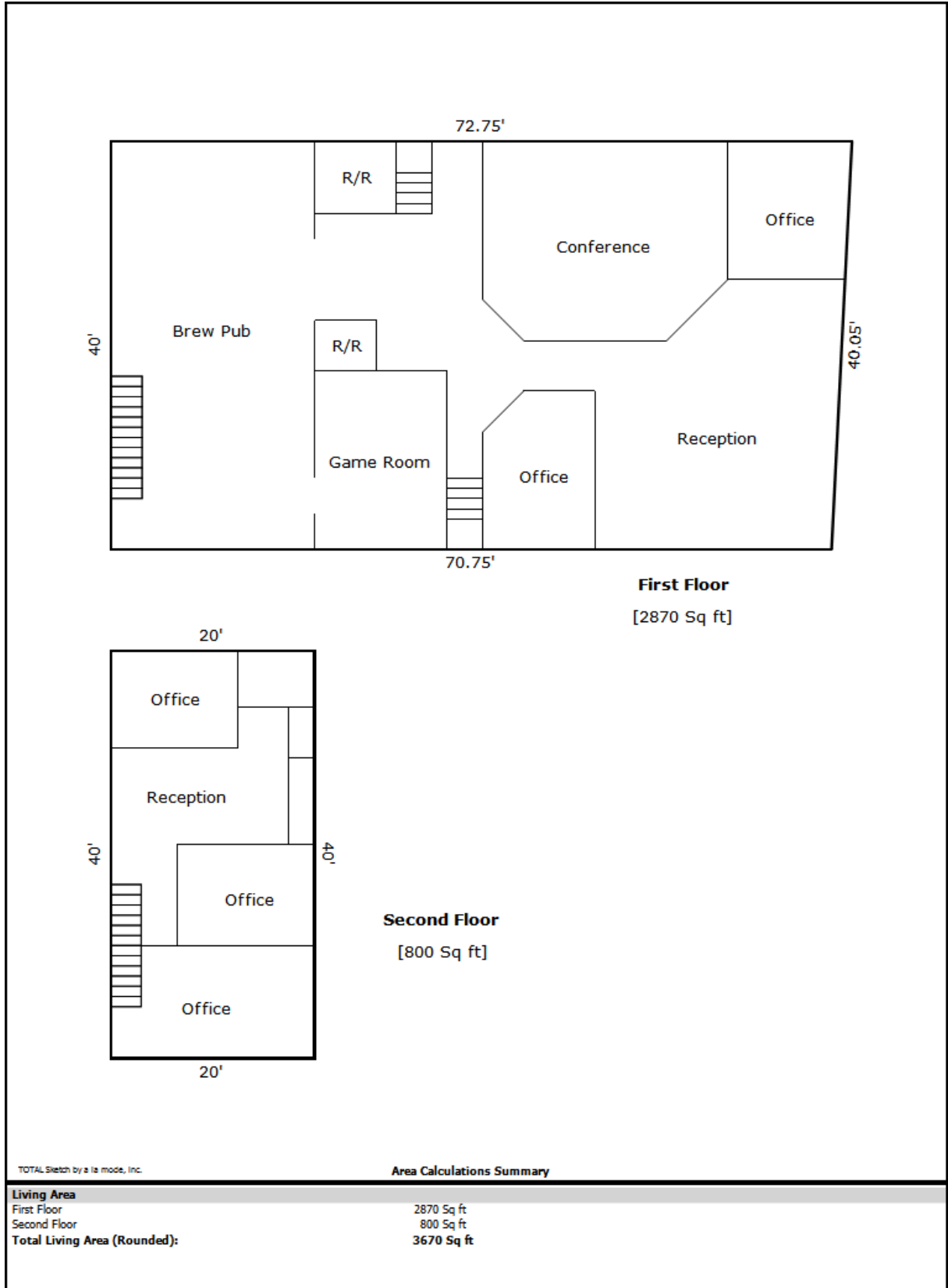
As Though Vacant

The site enjoys favorable topography and other than the size, nothing was noted that would limit physically possible uses. Legally, the site is zoned that allows office and/or residential. Being on the fringe of Aztec's "downtown," the site enjoys both of those uses as this is a transitional area. Sales of residential and non-residential parcels in Aztec have been slow over the past couple of years, but the non-residential office use would typically provide a higher value than would the residential use. The highest and best use of the subject property, as though vacant, would be office.

As Currently Improved

The subject is improved with an office building. Without modification, alternate uses are not available. The subject is not configured where it could be a multi-occupant residence without significant remodel – there are no bathrooms, only restrooms - and there are too many walls and small rooms for the typical retail entity. Office uses are allowed in this zoning district and the immediate area is a mix of residential and non-residential uses. The highest and best use of the subject, as currently improved, is office.

Floor Sketch



Photographs of the Subject Property



Front of Subject



Rear of Subject facing East

Photographs of the Subject Property



Reception



Conference

Photographs of the Subject Property



Brew Pub



Brew Pub

Photographs of the Subject Property



Upper Level Office – File Photo - taken 06/27/2018



Upper Level Reception – File Photo - taken 06/27/2018

VALUATION

I have utilized four closed sales, one of which is the most recent sale of the subject, all of which are located in Aztec. I searched for sales in the previous five years and identified eight closed commercial sales; two of which are restaurants and one that is a remodeled service station that retains bays and overhead doors. The following four sales were considered to be the most applicable for this analysis.

Comparable Sale 1

Location:	103 S. Main Avenue, Aztec
Current Utility:	Office
Proximity to Subject:	350 feet West Southwest
Grantor:	Tucker Investments, LLC
Grantee:	Berean Investments, LLC
Recording Reference:	Book 1565 / Page 751
Property Rights Transferred:	Fee Simple
Date of Sale:	November 8, 2013
Conditions of Sale:	Arms Length
Financing:	Cash to Seller
Construction:	Concrete Block on Concrete Slab
Age / Effective Age:	Est. 1930's / 10 Years
Condition:	Good
Sales Price:	\$150,000
Size of Improvement:	2,075 SF
Size of Site:	3,498 SF
Land / Building:	1.69
Indicated Value PSF:	\$72.29
Confirmed by:	Jan Tucker (Grantor) to James Gipson
Comments:	This is a remodeled office / retail building located on Main Avenue in Aztec. It was listed for 809 days.



Comparable Sale 2

Location:	603 NE Aztec Boulevard
Current Utility:	Office
Proximity to Subject:	500 feet Northwest
Grantor:	River Next, LLC
Grantee:	Scott Johnson and Heidi Kraft
Recording Reference:	Book 1610 / Page 665
Property Rights Transferred:	Fee Simple
Date of Sale:	December 28, 2016
Conditions of Sale:	Arms Length
Financing:	Cash to Seller
Construction:	Frame on Concrete Slab
Age / Effective Age:	Est. 1960's / 30 Years
Condition:	Very Good
Sales Price:	\$139,500
Size of Improvement:	1,600 SF
Size of Site:	6,210 SF
Land / Building:	3.88
Indicated Value PSF:	\$87.19
Confirmed by:	Matthew Purkiss (Realtor) to James Gipson
Comments:	This building was originally a restaurant that has been remodeled and is now an office. It is located at the intersection of NE Aztec Blvd and Rio Grande. The most recent listing was for 77 days before the sale. Before that, it had been periodically offered for sale since 2009 with an asking price as high as \$350,000. Interest increased as the price got closer to market.



Comparable Sale 3

Location:	112 North Main Street
Current Utility:	Office
Proximity to Subject:	525 feet north
Grantor:	Frederick G. Kidston, Jr., and Melanie R Kidston
Grantee:	Reliable Escrow Services, Inc.
Recording Reference:	Book 1611 / Page 497
Property Rights Transferred:	Fee Simple
Date of Sale:	January 19, 2017
Conditions of Sale:	Arm's Length
Financing:	REC, considered market
Construction:	Frame on Concrete Slab
Age / Effective Age:	1890 Reported / 20 Years
Condition:	Good
Sales Price:	\$205,000
Size of Improvement:	3,563 SF
Size of Site:	10,500 SF
Land / Building:	2.95
Indicated Value PSF:	\$57.54
Confirmed by:	Michelle Anthony (grantee) to James Gipson
Comments:	This is an office/retail building that is located on Main Street. Although it is reported to be over 100 years old, it has been remodeled and is in good condition. There is an upper level that is finished with units that could be used for office or possible residential. It was listed for 243 days. Owner finance - \$15,000 down, 5% interest, 20 year amortization, with additional \$5,000 annual balloon.



Comparable Sale 4

Location:	119 S. Church / 119 E. Chuska
Current Utility:	Office
Proximity to Subject:	Previous sale of subject
Grantor:	Aztec Presbyterian Church
Grantee:	City of Aztec
Recording Reference:	Book 1625 / Page 523
Property Rights Transferred:	Fee Simple
Date of Sale:	December 29, 2017
Conditions of Sale:	Arm's Length
Financing:	Cash to Seller
Construction:	Concrete Block on Concrete Slab
Age / Effective Age:	1965 Est. / 20 Years
Condition:	Average
Sales Price:	\$135,000
Size of Improvement:	3,670 SF
Size of Site:	14,000 SF
Land / Building:	3.81
Indicated Value PSF:	\$36.78
Confirmed by:	Kathy Lamb – City of Aztec
Comments:	This is an office building that is located one block off of Main Street. It was originally a lumber yard, but was subsequently remodeled and housed the NM Motor Vehicle Division for a number of years and later, general office space. It includes various entry points and had been rented to multiple tenants. The City of Aztec now occupies this building, using it for their Business Incubator. It was listed for 445 days before it was leased.

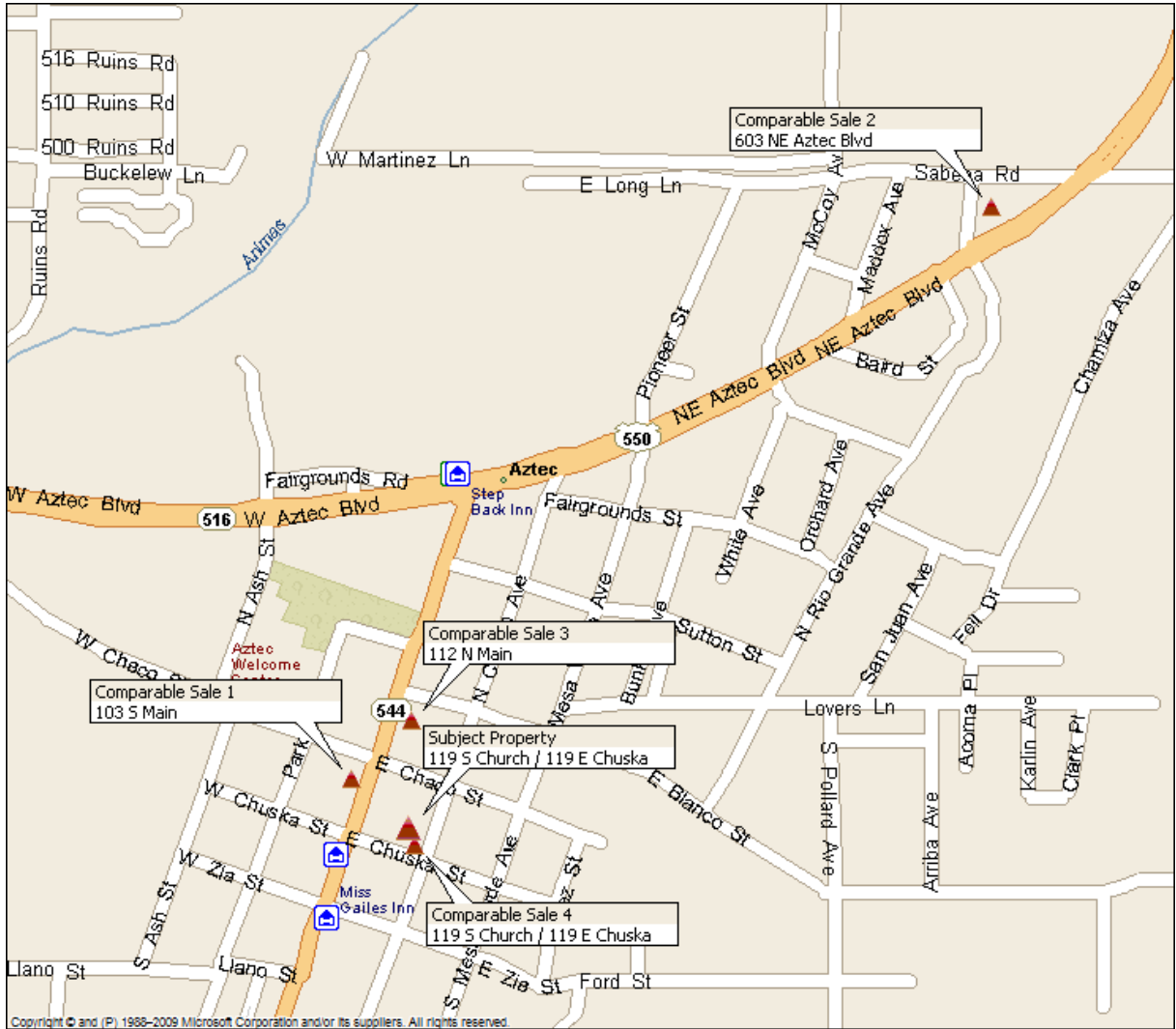


Comparable Sale 5

Location:	204 N. Main
Current Utility:	Vacant
Proximity to Subject:	750 feet North
Grantor:	Aztec Presbyterian Church
Grantee:	Currently under binder
Recording Reference:	
Property Rights Transferred:	Fee Simple
Date of Sale:	Current under binder to close 08/20/2019
Conditions of Sale:	Arm's Length
Financing:	Cash to Seller
Construction:	Concrete Block on Concrete Slab
Age / Effective Age:	1950 Est. / 25 Years
Condition:	Average
Sales Price:	\$265,000
Size of Improvement:	6,916 SF
Size of Site:	10,498 SF
Land / Building:	1.52
Indicated Value PSF:	\$38.32
Confirmed by:	Confidential
Comments:	This is an commercial building that originally served as the Masonic Hall. It was subsequently purchased and used as a daycare for many years. It is two story with the upper level being two large open spaces and two restrooms; the lower level is two large spaces, an office and three restrooms. Prospective purchaser intends to remodel the upper level into three efficiency apartments and have commercial space on the ground level.



Location Map of Comparable Sales



Analysis

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
Address	119 S Church	103 S. Main	603 NE Aztec	112 N. Main	119 S. Church	204 N. Main
Date of Sale		Nov-13	Dec-16	Jan-17	Dec-17	Aug-19
Sales Price		\$150,000	\$139,500	\$205,000	\$135,000	\$265,000
Improvement - SF	3,670	2,075	1,600	3,563	3,670	6,916
Site - SF	14,000	3,498	6,210	10,500	14,000	10,498
Finished Area	100%	100%	100%	100%	100%	100%
Land to Bldg Ratio	3.81	1.69	3.88	2.95	3.81	1.52
Price Per SF		\$72.29	\$87.19	\$57.54	\$36.78	\$38.32
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Market Conditions	Current	(5.42)	0.00	0.00	0.00	0.00
Conditions of Sale	Arm's Len	Arm's Len	Arm's Len	Arm's Len	Arm's Len	Arm's Len
Adjusted PSF		\$66.87	\$87.19	\$57.54	\$36.78	\$38.32
Location		(10.00)	(10.00)	(10.00)		(5.00)
Quality						
Condition		(10.00)	(20.00)	(10.00)	5.00	
Size		(7.50)	(10.00)			7.50
Finished Area						
Site		5.00				5.00
Utility				5.00		
Total Adjustments		(\$22.50)	(\$40.00)	(\$15.00)	\$5.00	7.50
Indicated PSF		\$44.37	\$47.19	\$42.54	\$41.78	\$45.82

Comments

Before the differences were considered, the sales formed a range that extended from \$37 to \$87 per square foot, ranging in size from 1,600 to 6,916 square feet. Three of the closed sales are fairly recent, occurring in the previous two and one-half years and one is older, with comparable sale 5 set to close in the next few days. All of the sales are properties that would compete with the subject and all are located in Aztec.

Property Rights Conveyed

All of the sales included transfer of fee simple property rights.

Market Conditions

The three most recent closed sales and the property that is to close in the next few days are recent enough that an adjustment for market conditions was not supported. The oldest sale occurred when the market was superior to what is presently taking place and an adjustment was appropriate for this sale. That adjustment was applied at 7.5%.

Conditions of Sale

All of the sales were reported to be “arm’s length” between willing market participants.

Financing

Three of the sales were cash to seller and one was sold with owner financing (Real Estate Contract). The terms of the REC were considered to be “at market” and an adjustment could not be supported for this variable. Sale 5 was reported to be cash to seller, with no owner financing.

Location

Four of the sales received an adjustment for differences in location. Sales 1, 2 and 3 are all situated on primary arteries and are superior to the subject’s off Main Street location. Sale 4, which is the most recent sale of the subject property, is similar in this variable. Sale 5, although located on Main Street, is north of Chaco Street and the area north of Chaco is enjoys less exposure than does the area south of Chaco.

Quality

An adjustment for differences in quality was not appropriate. All of the sales are 50 or more years old and any differences in quality, if it existed in the past, have been negated through the years.

Condition

This adjustment is based on general condition of the improvement, with comparable 2 being completely remodeled and in very good condition and sales 1 and 3 being in good condition, all being superior to the subject, but inferior to sale 2. Sale 4 – the subject property - has had some work done after the purchase and the overall condition is now superior to what it was at the time of purchase, but remains inferior to the other sales. Sale 5 is similar to the subject’s current condition.

Size

The size of the subject was bracketed with three sales being smaller, one similar – previous sale of subject – and one larger. Two of the sales were close enough in size that an adjustment was not appropriate; two were much smaller and sale 5, which is much larger, received an adjustment that corresponds to the difference in size. Typically the size and price per square foot varies inversely with the larger properties commanding less per square foot than the smaller ones.

Finished Area

All of the sales are essentially fully finished and an adjustment was not appropriate for this variable.

Site

Based on land to building ratios, three of the sales are considered similar. Sales 1 and 5 are both central business district property and both enjoy relatively small sites and an adjustment was applied for this variable.

Utility

Due to upper level space in sale 3, which is more akin to residential than commercial, an adjustment was applied for this inferior variable. Although few in number, residential units in downtown Aztec have historically experienced high vacancy levels. The remaining sales were considered similar to the subject in utility.

Reconciliation of Comparable Sales

After adjustments, the four sales formed a fairly tight range of indicated value, extending from \$42 to \$47 per square foot, with none of the sales being considered more indicative of the subject than another. As a result I choose to allow equal weight to each and estimate the market value of the subject to be \$44 per square foot, or \$161,480, rounded to \$160,000.

INCOME APPROACH

Three rents are included in the analysis, one of which is located in Farmington.

Rental Comparable 1

Tenant:	Aztec Finance
Location:	222 N. Main Avenue
Proximity to Subject:	0.21 Mile North
GBA:	5,250 SF
Tenant Size:	1,750 SF
Site Size:	17,500 SF
Lease Term:	Month to Month
Monthly Rent:	\$900
Rent / SF:	\$6.17
Land to Building Ratio:	3.33
Office Area:	100%
Vacancy:	33%
Condition:	Average
Lease Arrangement:	Gross
Tenant Responsibility:	Utilities
Confirmation:	Manager at Aztec Finance to Gipson
Comments:	This is a space in a three unit strip (218, 220 and 222 N. Main) that includes one vacancy (33%) at the time of inspection. The vacant space has been listed with a realtor (Gordon Crane Century 21) for \$875 per month but has expired.



Rental Comparable 2

Tenant:	Various
Location:	1409, 1415 and 1427 W. Aztec Blvd
Proximity to Subject:	0.95 Miles Northwest
GBA:	32,500 SF
Tenant Size:	Various - 1,250 to 4,000 SF
Site Size:	216,184 SF
Lease Term:	Month to Month
Monthly Rent:	\$842
Rent / SF:	\$8.08
Land to Building Ratio:	6.65
Office Area:	100%
Vacancy:	15%
Condition:	Very Good
Lease Arrangement:	Gross
Tenant Responsibility:	Utilities
Confirmation:	Mark Frazer to James Gipson
Comments:	This rent is for various spaces in a twenty-two unit strip that includes four vacancies (15%) at the time of inspection. Smaller spaces in this complex are more indicative of the subject as some of the larger spaces are modestly finished and one of the larger spaces is leased to the government (USDA) and includes a higher level of finish.

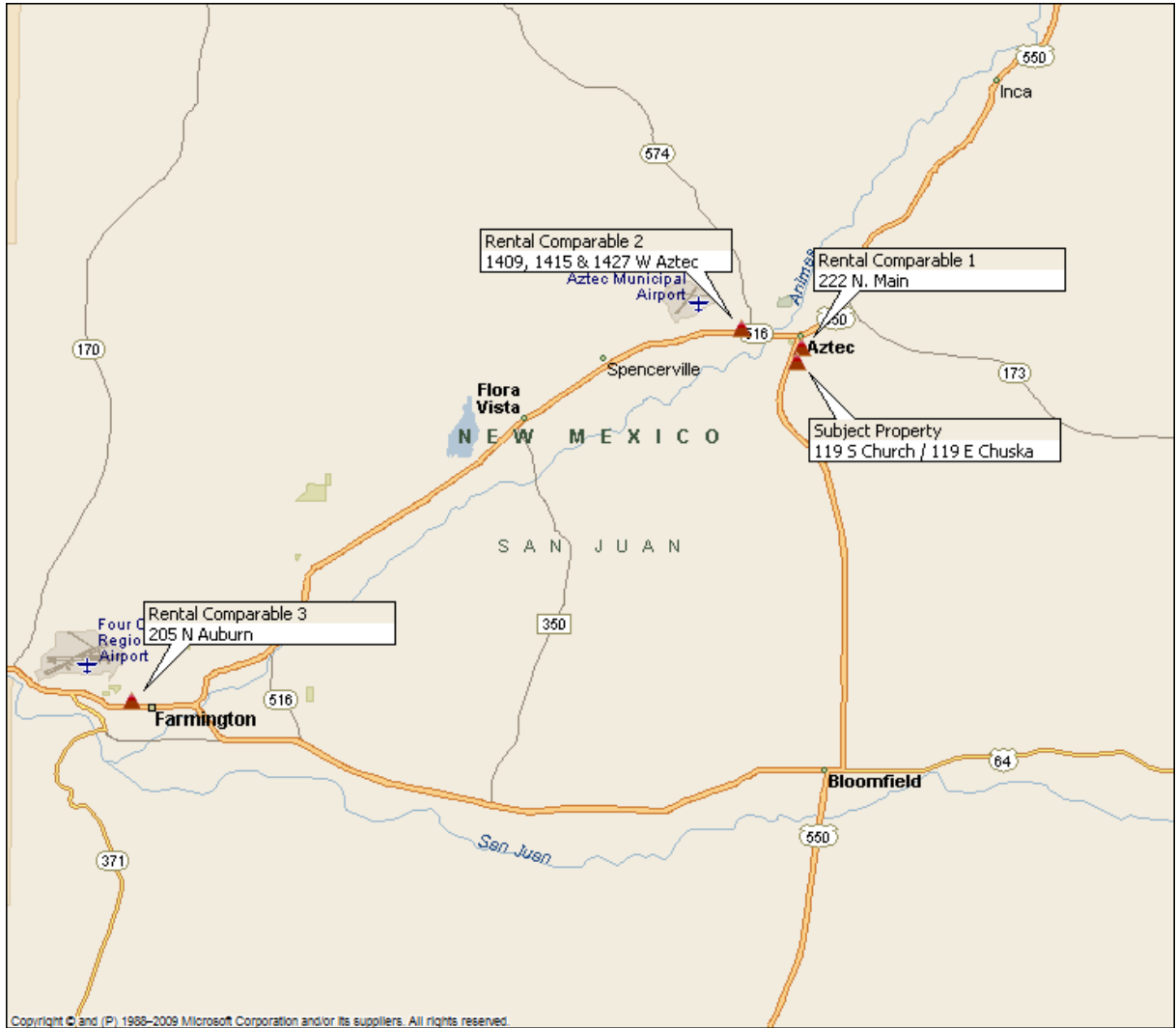


Rental Comparable 3

Tenant:	Bonham
Location:	205 N. Auburn Avenue, Farmington
Proximity to Subject:	13.5 Miles Southwest
GBA:	2,980 SF
Tenant Size:	2,980 SF
Site Size:	5,310 SF
Lease Term:	2 years
Monthly Rent:	\$2,000
Rent / SF:	\$8.05
Land to Building Ratio:	1.78
Office Area:	100%
Vacancy:	0%
Condition:	Good
Lease Arrangement:	Gross
Tenant Responsibility:	Utilities
Confirmation:	David Harris (Realtor) to James Gipson
Comments:	This is an office property that has a large open space on the ground level and upper level. It was previously a real estate office with multiple desks in the open area. Gross lease with tenant only responsible for utilities. Small lot, with small land to building ratio; however, the adjacent parcel belongs to a church and can be utilized on weekdays for no charge. This space was previously leased for \$3,400 per month, but included all utilities.



Location Map of Rental Comparables



Analysis

	Subject	Comp 1	Comp 2	Comp 3
Tenant Name		Aztec Finance	Various	Bonham & Assoc
Improvement - SF	3,670	1,750	1,250	2,980
Rent Per SF		\$6.17	\$8.08	\$8.05
Finished Area	100%	100%	100%	100%
Land to Bldg Ratio	3.81	3.33	6.65	1.78
Condition	Avg/Fair	Average	Very Good	Good
Lease Terms		Gross	Gross	Gross
Market Conditions				
Adjusted Rent PSF		\$6.17	\$8.08	\$8.05
Location		(0.50)	(0.50)	(2.00)
Quality				
Condition		(0.25)	(0.75)	(0.50)
Size		(0.50)	(0.75)	
Finished Area		0.00	0.00	0.00
Site				0.25
Lease Terms				
Total Adjustments		(\$1.25)	(\$2.00)	(\$2.25)
Indicated Rent PSF		\$4.92	\$6.08	\$5.80

Comments

Comparable rentals in the Aztec market were limited and I included one rental from the Farmington market. Before the differences were considered, the comparables formed a range that extended from \$6.17 to \$8.08 per square foot.

Market Conditions

There is not enough evidence in the marketplace to adjust the rent comparables for this variable. All have been negotiated recently enough that they are considered current market.

Location

Comparables 1 and 2 are located in Aztec, both being situated on primary arteries and both being superior due to this variable. Comparable 3 is located in Farmington, which is a superior market to the Aztec market and an adjustment was applied for this superior variable.

Condition

All of the comparable rentals were superior to the subject, with adjustments applied that correspond to the difference.

Size

I was unable to identify competing rentals that were larger than the subject and all of the comparables are smaller. The two multi-tenant rentals in Aztec could combine adjacent spaces, if they were available and a larger unit size is desired. Comparable 3 is close in size and an adjustment was not supported. Rentals 1 and 2 were enough smaller that adjustments were applied with comparable 2 being superior to comparable 1. Typically, the size and unit price vary inversely with the larger properties commanding less per unit than smaller ones.

Finished Area

The subject and all of the comparables are completely finished with no difference in this variable.

Site

Only one of the rentals, comparable 3, enjoyed a small enough site that parking could be an issue. Although comparable 2's land to building ratio was much larger, this is a strip center and does not warrant an adjustment for this variable.

Lease Terms

All of the comparables enjoyed gross leases and the subject will be analyzed in this manner.

After the adjustments were applied, the rent comparables failed to form a tight range of market rent. Comparable rental 1 is primarily a large open space and I choose to allow most weight to comparables 2 and 3 in arriving at the market rent for the subject. Considering the variables, it is my opinion that the comparables indicate the market rent for the subject to be \$6.00 per square foot, with a gross lease.

Based on current market conditions in the Aztec market area, I project a 25% vacancy for the subject.

Income Forecast

Potential Gross Income 3,670 SF @ \$6.00 PSF		\$ 22,020
Vacancy and Collection Loss – 25%		5,505
Effective Gross Income		\$ 16,515
Expenses		
Taxes	\$ 2,500	
Insurance	1,100	
Maintenance - \$1.00/ SF	3,670	
Management – 5%	826	(8,096)
NOI		\$ 8,419

Capitalization Rate

Deriving capitalization rates from comparable sales is preferred when sufficient data on sales of similar properties are available. In the local market, an adequate number of sales of leased properties cannot be identified and overall rates cannot be extracted from the marketplace. In the absence of market extracted rates, appraiser is forced to acquire capitalization rates from an alternate method, the Band of Investment, which considers both the mortgage and equity components. A summary of that calculation follows:

Interest Rate:	6.00% to 6.50%
Amortization Period:	15 Years
Loan to Value Ratio:	75%
Equity Dividend Rate:	7%

Overall Rate by Band of Investment

@6.00%

Mortgage component	.75 x .1013	.0760
Equity component	.25 x .0700	<u>.0175</u>
Overall Rate		.0935

@6.50%

Mortgage component	.75 x .1045	.0784
Equity component	.25 x .0700	<u>.0175</u>
Overall Rate		.0959

The Band of Investment results in capitalization rates that form a fairly tight range. Given the level of demand in the Aztec market, I have a tendency toward the upper end of the range. I choose an OAR of 9.50%.

Applying a 9.50% OAR, the indicated value of the subject is \$88,621 ($\$8,419 / 0.0950$), rounded to \$90,000.

CONCLUSIONS / RECONCILIATION

Sales Comparison Approach	\$160,000
Income Approach	\$ 90,000

In the current market, sales are more generally found where an owner-occupant is purchasing the property and not an investor. Due to the fact that vacancies have increased, rents have fallen and that a level of uncertainty exists with retaining tenants, investors have been exceedingly cautious in this market for the past few years. As a result, I allow most weight to the sales comparison approach in arriving at a value for the subject property.

It is my opinion that the market value of the fee simple interest in the subject property is:

Current, as of August 12, 2019	\$ 150,000 (One Hundred Fifty Thousand Dollars)
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The extraordinary assumption is made that the upper level office area is in a condition that was similar to what I observed in June 2018, during the inspection for a previous appraisal. I was not able to inspect this area and was told that it had not been occupied since the previous inspection. Use of this assumption could affect the value conclusion if found to be false.

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

The extraordinary assumption is made that the upper level office area is in a condition that was similar to what I observed in June 2018, during an inspection for a previous appraisal. I was not able to inspect this area and was told that it had not been occupied since the previous inspection. Use of this assumption could affect the value conclusion if found to be false.

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal has been prepared subject to the following general assumptions and limiting conditions. They are critical to the analyses and conclusions contained in this report.

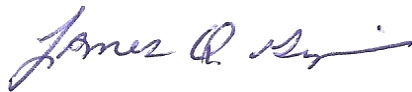
1. The valuation herein is the fee simple interest, and the subject property is appraised free and clear of all liens and encumbrances unless otherwise stated. Encumbrances considered in the valuation include, where applicable: real estate taxes, recorded easements and/or covenants, CC&R's, purchase options or sales agreements, signed leases, and unpaid bond debt.
2. It is assumed that any easements noted on the title report without specific locations will have no material effect on the normal use of any of the subject parcels
3. Responsible ownership and competent property management are assumed.
4. Information furnished by others is believed to be reliable if it cannot be independently verified by the appraiser. However, no warranty is given for its accuracy.
5. No responsibility is assumed for the legal description or other matters involving legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
6. All engineering surveys are assumed to be correct. The plot plans and other illustrative material in this report are included only to assist the reader in visualizing the property.
7. It is assumed that there are no hidden or unapparent conditions of the subject property, subsoil, or structures which would render it most or less valuable than other comparable properties. No responsibility is assumed for any such conditions or for professional engineering services, which might be required to discover such facts. No soils or geological reports were made available to provide further input in this area.
8. It is assumed that all customary public utilities for this property type and market are reasonably available to the subject property, unless otherwise stated.
9. It is assumed that the subject is in compliance with all applicable zoning use regulations and restrictions, unless otherwise stated. It is further assumed that any required governmental entitlements, licenses, certificates of occupancy, consents, etc., have been or can be obtained or renewed for any use upon which the value estimate in this report is based.

10. Any forecasts or projections contained in this report are the product of analysis of current, historical, and anticipated market conditions and assume continuation of prevailing political, social, economic, and environmental conditions. Such factors are contingent forecasts and/or projections are subject to change.
11. It is assumed that any utilization of land and improvements is within the described legal boundaries of the subject property, and that there is no encroachment or trespass, unless otherwise noted.
12. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.
13. The Americans with Disabilities Act (ADA) become effective in January 1992. The appraiser has not made a specific compliance survey or analysis of this property to determine whether it is in conformance with the various, detailed requirements of the ADA. The value estimate is predicated on the assumption that, except as identified by the appraiser, the subject improvements comply with ADA. It is possible that a comprehensive compliance survey could reveal additional areas in which the property does not conform with one or more of the Acts' requirements. If so, this could have a negative effect upon the market value or marketability of the property.

CERTIFICATION

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

1. The statements of fact and data reported and utilized in the appraisal process are true and correct.
2. The analyses, opinions and conclusions are limited only by the special and general assumptions and limiting conditions stated in this report, and are the appraiser's personal, unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this appraisal report, and I have no personal interest or bias with respect to the parties involved.
4. My compensation and/or continued employment are not contingent upon an action or event resulting in from the analyses, opinions, or conclusions in, or the use of, this appraisal report.
5. The conclusions of the appraisal were not based on a requested minimum valuation, a specific valuation, or approval of a loan.
6. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. I have performed this report in accordance with the Competency Provision of the Uniform Standards of Professional Appraisal Practice (USPAP).
8. The principal appraiser who completed this appraisal report did personally inspect the subject property as noted.
9. No one provided significant professional assistance to the appraiser signing this appraisal report.
10. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute, as well as all applicable state and federal appraisal and banking regulations in force as of the date of this appraisal report.
11. I have completed an appraisal of the subject of this assignment in the previous three years. The previous report included an inspection date of June 27, 2018, with a report date of July 11, 2018. The client and intended user for that assignment was City of Aztec.
12. As of the date of this report, I have completed the continuing education program for Practicing Affiliates of the Appraisal Institute
13. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly sworn authorized representatives.



SIGNED: _____
 APPRAISER: James Q. Gipson
 STATE CERTIFIED
 GENERAL APPRAISER NUMBER: NM642-G
 EXPIRATION DATE: April 30, 2021

August 16, 2019
 Date
 Inspected Property
 Exterior Interior
 Yes X No ___ Yes X No ___