State Board of Equalization

August 14, 2018

File No.: 2018- WILLISTON-NOKOTA
County or City: City Of Williston
Issue: Protests the assessment of parcel number 01-458-00-27-26-700 – Nokota Ridge Apartments

County Tax Director: Darcy Anderson
City Assessor: Darcy Anderson

Summary: Wiley Barker of Crowley Fleck, PLLP, agent for G.A. Haan Development, protests the assessment on Nokota Ridge Apartments located within the City of Williston.

Notes:
August 13, 2018

North Dakota State Board of Equalization
c/o North Dakota Office of State Tax Commissioner
600 E. Boulevard Ave., Dept. 127
Bismarck, ND 58505

Re: Appeal of 2018 Property Tax Assessment
Parcel No. 01-458-00-27-26-700

Members of the North Dakota State Board of Equalization (“Board”):

Please consider this letter the written appeal of the 2018 property tax assessment of the Nokota Ridge Apartments (“Nokota Ridge”), Parcel No. 01-458-00-27-26-700. We respectfully request the Board set the Full and True Value of the property, including the land and improvements, at $681,089, pursuant to the valuation analysis attached as Exhibit 1.

This year, the assessment of this property more than doubled, increasing from $1,436,100 in 2017 to $3,079,000 in 2018, despite no material change to the property. The Notice of Increase in Real Estate Assessment is attached as Exhibit 2.

Legal and Assessment Standards

Under North Dakota law, “[a]ll assessors and boards of equalization shall place the values of all items of taxable property at the true and full value of the property,” unless otherwise provided by law. N.D.C.C. § 57-02-27.1. As the North Dakota Tax Commissioner has directed,

For property classified as residential or commercial, true and full value means its market value. Market value is the price a property would bring if it were offered for sale in the open market for a reasonable length of time and purchased by a willing buyer from a willing seller, both parties being prudent and having reasonable knowledge of the property and neither being under undue pressure to complete the transaction.

Valuation Concepts – Residential & Commercial Property Guideline, North Dakota Tax Commissioner (July 2011). “True and full value is the value determined by considering all things that could affect the value of property. [N.D.C.C. § 57-02-01(15)].” Assessment Terms & Concepts Guidline, North Dakota Tax Commissioner (July 2005). These are the laws and appraisal principles with which the Board must determine the value of the property.
Basis for Reduction in Value

The Board must reject the assessment because it does not reflect Full and True Value, as required by North Dakota law. The Assessor’s calculation of value ignores a land use restriction that negatively impacts value, improperly double counts the value of the land, overstates the property’s income and understates its necessary expenses in the income approach to valuation. As a result of these errors, the assessment significantly overvalues the property. Instead, the Board should adopt the valuation analysis that considers all of the legal and actual circumstances of the property and yields a value of $681,089. Under no circumstances should the value of the property exceed $1,300,000.

I. The Board should not accept the current assessment because it violates legal standards and assessment standards that govern property tax assessment in North Dakota.

First, the current assessment does not sufficiently account for the fact that Nokota Ridge is encumbered by a Land Use Restriction Agreement, which is attached as Exhibit 3. North Dakota law requires that the assessment consider this issue, as it affects value. N.D.C.C. § 57-02-01(15); 2012 N.D. Op. Atty. Gen. No. L-04. This property is bound by the Low Income Housing Tax Credit program which limits the earning capacity of the property by placing restrictions on the amount Nokota Ridge Apartments may charge for rent. This restriction runs with the land and will be in effect for many years. It negatively affects the value of the real property. No willing buyer would purchase Nokota Ridge for the same price as property that was not rent restricted. The value of the property must be reduced accordingly.

The value of the Low Income Housing Tax Credits must not be included in the valuation because they are intangible personal property, which is tax exempt in North Dakota. While the assessor may consider the effect of these tax credits in the valuation (2012 N.D. Op. Atty. Gen. No. L-04), they do not qualify as real property, and cannot be included in the value or taxed. Under North Dakota law, only real property is taxable. Personal property is tax exempt. N.D.C.C. § 57-02-08(25). Real property is defined as “[t]he land itself, . . . improvements to the land,” “structures and buildings.”  Id. § 57-02-04(1)-(2). “Personal property, for the purpose of taxation, includes all property that is not included within the definition of real property.”  Id. § 57-02-05.1 (emphasis added). Federal tax credits are not land, improvements, buildings, or structures. Therefore, they are intangible personal property, not subject to taxation.

Second, the current assessment improperly double counts the value of the land. The assessor’s valuation model is attached as Exhibit 4. The assessor uses a direct capitalization of net operating income, which values the property based on its income. This methodology provides the value that a willing and informed buyer will pay for all of the property, including land and improvements. In other words, it values all of the assets that contribute to the income of the property. However, after valuing all of the assets (including land and improvements) at $2,305,000 as shown on Exhibit 4, page 2, the assessor again added the value of the land on top of that value to arrive at the current assessment of $3,079,000.
This is improper appraisal procedure, as shown in the North Dakota Tax Commissioner’s Guidelines and The Appraisal of Real Estate, one of the most widely respected authorities on real property valuation. See Valuation Concepts – Residential and Commercial Property Guideline (July 2011); The Appraisal of Real Estate, at 492-508, 562-63. As these publications demonstrate, it is proper to add a land value only when using the cost approach to valuation. This is because the cost approach values only the improvements. Land is not added after using the income approach to valuation because the income approach provides a value for both land and improvements. This error further overvalues the property.

The assessment is also flawed because the assessor’s office used rent rates that are too high and expenses that are too low. The assessment uses “reconstructed rates” to value the property. See Ex. 4. Nokota Ridge is legally prohibited from charging rent rates this high because it was constructed through the Low Income Housing Tax Credit Program. This results in an assessment far above True and Full Value. Similarly, the “Reconstructed Total Expense” used to value the Nokota Ridge, as shown in Exhibit 4 are substantially lower than our actual expenses and industry standards.

Nokota Ridge has provided its audited income statements for 2016 and 2017 in Exhibit 5 to demonstrate what the proper income and expenses should be. As shown in Exhibit 5, the rents collected were much lower and the expenses at Nokota Ridge were far higher than those used in the assessment. Other properties experience much higher expenses as well. Normal and customary operating expenses such as leasing, marketing, and salaries are omitted from the Reconstructed Total Expense which makes the Assessor’s estimate of expenses unreasonably low, again resulting in an improperly inflated valuation.

For all these reasons, the Board should reject the assessed value of the Nokota Ridge property. It overvalues the property and violates North Dakota law as well as widely accepted appraisal procedure.

II. The Board should set the value of Nokota Ridge (including land and improvements) at $681,089. Under no circumstances should the value exceed $1,300,000.

If the necessary corrections are made to the assessment, the value of Nokota Ridge should be set at $681,089, as set out in Exhibit 1. This is accomplished by using the actual rents and expenses of the property. This adjustment corrects all of the errors in the current assessment. It reflects the negative impact of the land use restriction associated with the Low Income Housing Tax Credits, does not double count the land value, and recognizes the proper rent restrictions and expense ratios associated with the property. The methodology, capitalization rate, and approach to value are otherwise the same as those used by the Williams County assessor.

Under no circumstances should the Board adopt a value higher than $1,300,000. To assist the Board in its decision, Nokota Ridge obtained an independent appraisal from Dakota Appraisal &
Consulting, Ltd., which is attached as Exhibit 6. This appraisal entirely disregards the Low Income Housing Tax Credit negative impact on the property and values the property as though these restrictions did not exist. Under this appraisal, the contributory value of the real property is $1,300,000. This value should be considered the absolute ceiling for the assessment. As the appraisal states, "[i]f the land use restriction was considered in the analysis, it would have a significant negative effect on the property’s value." See pages 1 and 20 (emphasis added).

We look forward to working with the Board and its staff regarding the proper valuation of this property. If you have any questions, please contact me at (231) 526-7380 or ben@phoenixholding.us. Thank you.

Sincerely,

[Signature]

Ben Ide
Director of Development
G.A. Haan Development

Enclosures
Exhibit 1:

Direct Capitalization Value Estimate
INCOME APPROACH TO VALUE WORKSHEET  
NOKOTA RIDGE, LLC.  
FOR 2018 TAX YEAR  

<table>
<thead>
<tr>
<th></th>
<th>ACTUAL</th>
<th>ADJUSTED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental Income</td>
<td>339,760</td>
<td>339,760</td>
</tr>
<tr>
<td>Less vacancy and concessions</td>
<td>(97,164)</td>
<td>(97,164)</td>
</tr>
<tr>
<td>Net Rental Income</td>
<td>242,596</td>
<td>242,596</td>
</tr>
<tr>
<td>Plus Miscellaneous Income</td>
<td>13,580</td>
<td>13,580</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUE</strong></td>
<td><strong>256,176</strong></td>
<td><strong>256,176</strong></td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>75,985</td>
<td>75,985</td>
</tr>
<tr>
<td>Utilities</td>
<td>23,635</td>
<td>23,635</td>
</tr>
<tr>
<td>Operating and Maintenance</td>
<td>76,970</td>
<td>76,970</td>
</tr>
<tr>
<td>Property Insurance</td>
<td>13,663</td>
<td>13,663</td>
</tr>
<tr>
<td>Real Estate Taxes (Not allowable)</td>
<td>15,961</td>
<td>0</td>
</tr>
<tr>
<td>Other Taxes and Insurance</td>
<td>3,059</td>
<td>3,059</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td><strong>209,273</strong></td>
<td><strong>193,312</strong></td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td><strong>46,903</strong></td>
<td><strong>62,864</strong></td>
</tr>
<tr>
<td><strong>NON-OPERATING INCOME (EXPENSE)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>138</td>
<td>138</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(78,925)</td>
<td>(78,925)</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(223,387)</td>
<td>(223,387)</td>
</tr>
<tr>
<td>Amortization Expense</td>
<td>(4,050)</td>
<td>(4,050)</td>
</tr>
<tr>
<td>Incentive Management Fee</td>
<td>(10,494)</td>
<td>(10,494)</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING INCOME (EXPENSE)</strong></td>
<td><strong>(316,718)</strong></td>
<td><strong>(316,718)</strong></td>
</tr>
<tr>
<td><strong>NET INCOME (LOSS)</strong></td>
<td><strong>(269,815)</strong></td>
<td><strong>(253,854)</strong></td>
</tr>
</tbody>
</table>

**CALCULATION OF LOADED CAP RATE**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>2017 Assessment</td>
<td>1,436,100</td>
<td>1,436,100</td>
</tr>
<tr>
<td>/ 2017 Property Taxes</td>
<td>14,360</td>
<td>14,360</td>
</tr>
<tr>
<td>= EFFECTIVE TAX RATE</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>REALTY RATES CAP RATE Q4 2017</td>
<td>8.23%</td>
<td>8.23%</td>
</tr>
<tr>
<td>+ EFFECTIVE TAX RATE</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>= TOTAL LOADED CAP RATE</td>
<td><strong>9.23%</strong></td>
<td><strong>9.23%</strong></td>
</tr>
</tbody>
</table>

**CALCULATION OF VALUE**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NET OPERATING INCOME</td>
<td>46,903</td>
<td>62,864</td>
</tr>
<tr>
<td>/ LOADED CAP RATE</td>
<td>9.23%</td>
<td>9.23%</td>
</tr>
<tr>
<td>= INDICATED VALUE</td>
<td><strong>508,164</strong></td>
<td><strong>681,089</strong></td>
</tr>
</tbody>
</table>
Exhibit 2:

Notice of Increase in Real Estate Assessment
Parcel 01-458-00-27-26-700
Notice Of Increase In Real Estate Assessment

You are hereby notified, in accordance with North Dakota Century Code, that the assessor has made a change in the real estate assessment. The true & full valuation has been increased by three thousand dollars or more and ten percent or more from the previous assessment.

Real Estate Description:

- **County**: Williams
- **Parcel**: 01-458-00-27-26-700
- **Lot**: L 18 1B
- **Block**: H 1
- **Additional**: #715298

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Year Assessment (2018)</td>
<td>$3,079,000</td>
</tr>
<tr>
<td>Last Previous Assessment (2017)</td>
<td>$1,436,100</td>
</tr>
<tr>
<td>Change in Assessment</td>
<td>$1,642,900</td>
</tr>
</tbody>
</table>

Reason for Notice: Market Adjustment

An increase in assessment does not mean property taxes on the parcel will increase. The taxing district must base its tax rate on the number of dollars raised from property taxes in the previous taxable year by the taxing district. Notice of public hearing will be mailed to the property owner if a greater property tax levy is being proposed by the taxing district.

Hearing Schedule:

A property owner may appeal the current year's assessment by contacting the assessor or the boards of equalization which scheduled hearings as follows:

<table>
<thead>
<tr>
<th>Board of Equalization for</th>
<th>Hearing Location</th>
<th>Date</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY OF WILLISTON</td>
<td>Williston City Hall</td>
<td>May 2, 2018</td>
<td>5:30 PM</td>
</tr>
<tr>
<td>Williams County</td>
<td>Williams CO Administrative Building (206 E Broadway)</td>
<td>Jun 5, 2018</td>
<td>1:00 PM</td>
</tr>
<tr>
<td></td>
<td>Commission Room</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>State Capitol Building, Bismarck</td>
<td>Aug 14, 2018</td>
<td>9:30 AM</td>
</tr>
</tbody>
</table>

Darcy Anderson, Shawna Page, Kristi Gutierrez

**Assessor**

701-577-4555

Apr 13, 2018

**Address**

PO BOX 2047

Williston, ND 58802-2047

**Phone No**

**Date**

* As provided for in N.D.C.C. 57-02-27.1 and 57-02-27.2
Assessment increase notice to property owner

1. a. When any assessor has increased the true and full valuation of any lot or tract of land including any improvements to an amount that is an increase of three thousand dollars or more and ten percent or more from the amount of the previous year's assessment, the assessor shall deliver written notice of the amount of increase and the amount of the previous year's assessment to the property owner at the expense of the assessment district for which the assessor is employed. Delivery of written notice to a property owner under this subdivision must be completed at least fifteen days before the meeting of the local board of equalization.

b. If written notice by the assessor was not required under subdivision a and action by the township, city, or county board of equalization or order of the state board of equalization has increased the true and full valuation of any lot or tract of land and improvements to an amount that results in a cumulative increase of three thousand dollars or more and ten percent or more from the amount of the previous year's assessment, written notice of the amount of increase and the amount of the previous year's assessment must be delivered to the property owner. The written notice under this subdivision must be mailed or delivered at the expense of the township, city, or county that made the assessment increase or at the expense of the township, city, or county that was ordered to make the increase by the state board of equalization. Delivery of written notice to a property owner under this subdivision must be completed within fifteen days after the meeting of the township, city, or county board of equalization that made or ordered the assessment increase and within thirty days after the meeting of the state board of equalization, if the state board of equalization ordered the assessment increase.

c. The tax commissioner shall prescribe suitable forms for written notices under this subsection. The written notice under a subdivision must show the true and full value of the property, including improvements, that the assessor determined for the current year and for the previous year and must also show the date prescribed by law for the meeting of the local board of equalization of the assessment district in which the property is located and the meeting date of the county board of equalization.

d. Delivery of written notice under this section must be by personal delivery to the property owner, mail addressed to the property owner at the property owner's last-known address, or electronic mail to the property owner directed with verification of receipt to an electronic mail address at which the property owner has consented to receive notice. See N.D.C.C. § 57-02-53.

Limitation on increase

The board of a township, city, or county may not increase the valuation returned by the assessor to an amount that results in a cumulative increase of more than fifteen percent from the amount of the previous year's assessment without giving the owner or the owner's agent reasonable notice and opportunity to be heard regarding the intention of the board to increase it.

Township Board of Equalization

The township board of equalization consists of the members of the township board of supervisors. The board meets annually at its usual meeting place on the second Monday in April. However, if a person is the assessor for two or more townships or cities, the township clerk, after consulting with the assessor, sets an alternate date in April for the equalization meeting. At least ten days before the alternate meeting, the township clerk posts a notice at the usual meeting place and publishes a notice in the official newspaper of the township. The notice must state the meeting time and day in April. See N.D.C.C. § 57-09-01.

City Board of Equalization

The city board of equalization consists of the members of the city governing body. The board meets annually at its usual meeting place on the second Tuesday in April. However, if a person is the assessor for two or more cities or townships, the city auditor, after consulting with the assessor, sets an alternate date in April for the equalization meeting. At least ten days before the alternate meeting, the city auditor posts a notice at the usual meeting place and publishes a notice in the official newspaper of the city. The notice must state the meeting time and day in April. See N.D.C.C. § 57-11-01.

County Board of Equalization

The county board of equalization consists of the members of the county commission and meets within the first ten days of June of each year at its usual meeting place to review and equalize assessments. See N.D.C.C. §§ 57-12-01 and 57-14-08(3).

State Board of Equalization

The state board of equalization meets annually on the second Tuesday in August on the grounds of the state capitol to examine and compare the assessments of taxable property as returned by the counties in the state. The board proceeds to equalize the values so that all assessments of similar taxable property are uniform and equal throughout the state at the true and full value as required by law.

In equalizing individual assessments, the board may reduce the assessment on any separate piece or parcel of real estate if the taxpayer appealed the assessment to the board either by appearing personally or by a representative before the board or by mail or other communication to the board to explain the reasons for requesting the reduction. The board does not have the authority to reduce an assessment unless the taxpayer has first appealed the assessment to the township or city board of equalization and county board of equalization where the property was assessed. See N.D.C.C. §§ 57-13-03 and 57-13-04 and, in the case of a new assessment, § 57-14-08(6). North Dakota Century Code § 57-14-08(6) provides that the State Board of Equalization may reduce a "new" assessment if the owner first appealed to the county board of equalization (does not require going before local equalization board.)

A property owner may appeal the assessment, classification, and exempt status of the owner's property to the state board of equalization if the property owner was foreclosed from attending assessment proceedings because of the failure to substantially comply with the notice requirements in N.D.C.C. chs. 57-02 or 57-12, or because of an irregularity in the township, city, or county assessment proceedings.

New reassessment of property - Allowance See N.D.C.C. § 57-14-08

1. Upon the filing of a petition signed by not less than ten holders in a political subdivision, or by the governing body of that subdivision, requesting a new assessment of property in the subdivision or upon investigation by the board of county commissioners, the board of county commissioners, before October first, may order a new assessment of any class of property, or of all property, located within the subdivision or within any subdivision. The state board of equalization or the tax commissioner may order a new assessment of any class of property or all property located in any political subdivision. The new assessment and equalization must be conducted under the terms and conditions as set forth in the state board of equalization or tax commissioner’s order. The local governing body responsible for performing the new assessment may petition the state board of equalization or tax commissioner for a modification of any or all of the order’s terms and conditions. The state board of equalization or tax commissioner may for good cause shown grant all or part of the modification request.
Exhibit 3:

Land Use Restriction Agreement
DECLARATION OF LAND USE RESTRICTIVE COVENANTS
FOR LOW-INCOME HOUSING TAX CREDITS

THIS DECLARATION OF LAND USE RESTRICTIVE COVENANTS (this "AGREEMENT"), dated as of
April 30, 2012, by Nokota Ridge, LLC, and its successors and assigns (the "Owner") is given as a condition
precedent to the allocation of low-income housing credits by the North Dakota Housing Finance Agency
(NDHFA), an instrumentality of the State of North Dakota (together with any successor to its rights, duties, and
obligations, the "Agency").

WITNESSETH:

WHEREAS, the Owner is or shall be the owner of a low income rental housing development located on
lands in the City of Williston, County of Williams, State of North Dakota, more particularly described in section 9,
known as or to be known as Nokota Ridge (the "Project"); and

WHEREAS, the Agency has been designated by the Governor of the State of North Dakota as the
housing credit agency for the State of North Dakota for the allocation of low-income housing credit dollars (the
"Credit"); and

WHEREAS, Owner has applied to the Agency for an allocation of Credit to the Project in an amount not
to exceed six hundred two thousand four hundred fifty nine and no/100 low-income housing credit dollars
($602,459); and

WHEREAS, the Owner has represented to the Agency in Owner's Low-Income Housing Credit
Application (the "Application") that Owner shall lease 100% of the units in the Project to individuals or families
whose income is 60% or less of the area median gross income (including adjustments for family size) ("Low­
Income Tenants") as determined in accordance with Section 42 of the Internal Revenue Code of 1986, as
amended (the "Code"); and

WHEREAS, the applicable fraction (the smaller of the unit fraction or the floor space fraction) is
represented to the Agency to be 100% for BIN # ND-11-00001; 100% for BIN # ND-11-00002; 100% for BIN # ND-
11-00003; 100% for BIN # ND-11-00004; 100% for BIN # ND-11-00005; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; __ for BIN # ND-__ ; \ and

WHEREAS, the Agency has determined the Project would support a Credit allocation in the amount of
$602,459; and

WHEREAS, the Owner has represented to the Agency in Owner's application that it will covenant to
maintain the Code rent and income restrictions for an additional period of time (Optional, check if applicable)
☐ 5 years, ☐ 10 years, ☒ 15 years; and

WHEREAS, the Code has required as a condition precedent to the allocation of the Credit that the
Owner execute, deliver, and record in the Office of the County Recorder of the county in which the Project is
located this Agreement in order to create certain covenants running with the land for the purpose of enforcing
the requirements of the Code and the NDHFA Occupancy Restrictions found in Section 5 hereof by regulating
and restricting the use and occupancy and transfer of the Project as set forth herein; and

WHEREAS, the Owner, under this Agreement, intends, declares, and covenants that the regulatory and
restrictive covenants set forth herein governing the use, occupancy, and transfer of the Project shall be and are
considered to run with the Project real property (the "Project Land") for the term stated herein and binding upon
all subsequent owners of the Project Land for such term, and are not merely personal covenants of the Owner.

NOW THEREFORE, in consideration of the promises and covenants hereinafter set forth, and of other
valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Owner agrees as
follows:

SECTION 1 - DEFINITIONS

(a) All words and phrases defined in the Code and by the U.S. Department of the Treasury or the U.S.
Department of Housing and Urban Development (HUD) regulations pertaining thereto shall have the
same meanings in this Agreement.

(b) Compliance period is defined, with respect to any building, as the period of 15 taxable years beginning
with the first taxable year of the credit period.
Placed in Service is defined according to IRS Notice 88-116 for a new or existing building, as that date when the first unit of the building or project is certified as available for occupancy in accordance with state or local law, or for rehabilitation expenditures treated as a separate new building are placed-in-service at the close of any 24 month period, over which such expenditures are aggregated. Placed In Service date will be as indicated on the issued IRS Form 8609.

SECTION 2 - RECORDING AND FILING; COVENANTS TO RUN WITH THE LAND

(a) Upon execution and delivery by the Owner, the Owner shall cause this Agreement and all amendments hereto to be recorded and filed in the Office of the County Recorder of the county in which the Project is located, and shall pay all fees and charges incurred in connection therewith. Upon recording, the Owner shall immediately transmit to the Agency an executed original of the recorded Agreement showing the recording information. The Owner agrees that the Agency will not issue the Internal Revenue Service Form 8609 constituting final allocation of the Credit unless and until the Agency has received the recorded executed original of the Agreement.

(b) The Owner intends, declares and covenants, on behalf of itself and all future Owners and Operators of the Project during the term of this Agreement, that this Agreement and the covenants and restrictions set forth in this Agreement regulating and restricting the use, occupancy and transfer of the Project Land and the Project (i) shall be and are covenants running with the Project Land, encumbering the Project Land for the term of this Agreement, binding upon the Owner’s successors in title and all subsequent Owners and Operators of the Project Land, (ii) are not merely personal covenants of the Owner, and (iii) shall bind the Owner (and the benefits shall inure to the Agency and any past, present or prospective tenant of the Project) and its respective successors and assigns during the term of this Agreement. The Owner hereby agrees that any and all requirements of the laws of the State of North Dakota to be satisfied in order for the provisions of this Agreement to constitute deed restrictions and covenants running with the land shall be deemed to be satisfied in full, and that any requirements or privileges of estate are intended to be satisfied, or in the alternate, that an equitable servitude has been created to insure that these restrictions run with the land. For the longer of the period this Credit is claimed or the term of this instrument hereafter executed conveying the Project or portion thereof, that conveyance is subject to this Agreement, provided, however, the covenants contained herein shall survive and be effective regardless of whether such contract, deed or other instrument hereafter executed conveying the Project or portion thereof provides that such conveyance is subject to this Agreement.

(c) The Owner covenants to obtain the consent of any present or prior recorded lienholder on the Project, still in effect, to this Agreement and such consent shall be a condition precedent to the issuance of Internal Revenue Service Form 8609 constituting final allocation of the Credit.

SECTION 3 - REPRESENTATIONS, COVENANTS AND WARRANTIES OF THE OWNER

The Owner hereby represents covenants and warrants as follows:

(a) The Owner (i) is a Michigan limited liability company duly organized under the laws of the State of Michigan, and is qualified to transact business under the laws of North Dakota, (ii) has the power and authority to own its properties and assets and to carry on its business as now being conducted, and (iii) has the full legal right, power and authority to execute and deliver this Agreement.

(b) The execution and performance of this Agreement by the Owner (i) will not violate or, as applicable, have not violated any provision of law, rule or regulation, or any order of any court or other agency or governmental body, and (ii) will not violate or, as applicable, have not violated any provision of any indenture, agreement, mortgage, mortgage note, or other instrument to which the Owner is a party or by which it or the Project is bound, and (iii) will not result in the creation or imposition of any prohibited encumbrance of any nature.

(c) The Owner will, at the time of execution and delivery of this Agreement, have good and marketable title to the premises constituting the Project free and clear of any lien or encumbrance (subject to encumbrances created pursuant to this Agreement, loan documents relating to the Project or other permitted encumbrances).

(d) There is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency now pending, or, to the knowledge of the Owner, threatened against or affecting it, or any of its properties or rights, which, if adversely determined, would materially impair its right to carry on
business substantially as now conducted (and as now contemplated by this Agreement) or would materially adversely affect its financial condition.

(e) The Project constitutes or will constitute a qualified low-income building or qualified low-income project, as applicable, as defined in the Code and applicable regulations.

(f) The Owner agrees that the applicable fraction for the buildings for each taxable year in the extended use period will not be less than the applicable fraction specified in this agreement.

(g) The Owner will not refuse to lease to a holder of a voucher or certificate of eligibility under section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder.

(h) Each unit in the Project contains complete facilities for living, sleeping, eating, cooking and sanitation (unless the Project qualifies as a single-room occupancy project or transitional housing for the homeless) which are to be used on other than a transient basis.

(i) During the term of this Agreement, all units subject to the Credit shall be leased and rented or made available to members of the general public who qualify as Low-Income Tenants (or otherwise qualify for occupancy of the low-income units) under the applicable election specified in the Code.

(j) The Owner agrees to comply fully with the requirements of the Fair Housing Act as it may from time to time be amended.

(k) During the term of this Agreement, the Owner covenants, agrees and warrants that each low-income unit is and will remain suitable for occupancy.

(l) Subject to the requirements of the Code and this Agreement, the Owner may sell, transfer or exchange the entire Project at any time, but the Owner shall notify in writing and obtain the agreement of any buyer or successor or other person acquiring the Project or any interest therein prior to any sale, transfer or exchange of the Project or any part of the Project that such acquisition is subject to the requirements of this Agreement and to the requirements of the Code and applicable requirements and furnish the Agency with copies of such notice and agreements prior to any sale, transfer or exchange of the Project or any part of the Project. This provision shall not act to waive any other restrictions on sale, transfer or exchange of the Project or any low-income portion of the Project. The Owner agrees that the Agency may void any sale, transfer or exchange of the Project if the buyer or successor or other person fails to assume in writing the requirements of this Agreement and the requirements of the Code.

(m) The Owner agrees to notify the Agency within 30 days in writing of any sale, transfer or exchange of the entire Project or any low-income portion of the Project.

(n) The Owner agrees to provide the Agency with copies of all correspondence from and to the Internal Revenue Service related to this Project during the term of this Agreement.

(o) The Owner shall not demolish any part of the Project or substantially subtract from any real or personal property of the Project or permit the use of any residential rental unit for any purpose other than rental housing during the term of this Agreement unless required by law.

(p) The Owner represents, warrants and agrees that if the Project, or any part thereof, shall be damaged or destroyed or shall be condemned or acquired for public use, the Owner will use its best efforts to repair and restore the Project to substantially the same condition as existed prior to the event causing such damage or destruction, or to relieve the condemnation, and thereafter to operate the Project in accordance with the terms of this Agreement.

(q) The Owner warrants that it has not and will not execute any other agreement with provisions contradictory to, or in opposition to, the provisions hereof, and that in any event, the requirements of this Agreement are paramount and controlling as to the rights and obligations herein set forth and supersede any other requirements in conflict herewith.

SECTION 4 - INCOME RESTRICTIONS; RENTAL RESTRICTIONS

The Owner represents, warrants and covenants throughout the term of this Agreement and in order to satisfy the requirements of the Code ("Occupancy Restrictions") that:

(Check applicable percentage election)
(a) (1) ___ At least 20% or more of the residential units in the Project are both rent-restricted and occupied by individuals whose income is 50% or less of area median income.

(2) X At least 40% or more of the residential units in the Project are both rent-restricted and occupied by individuals whose income is 60% or less of area median income.

(b) The determination of whether a tenant meets the low-income requirement shall be made by the Owner at least annually on the basis of the then current income of such Low-Income Tenant.

SECTION 5 - NDHFA RESTRICTIONS

This section is intended to make enforceable those extended use covenants which the Owner represented to the Agency in its Application.

The Owner represents, warrants and covenants throughout the term of this Agreement that:

(If applicable)

(a) X The Owner has irrevocably chosen to extend the income and rental restrictions of the Code for 15 years beyond the close of the initial 15 year compliance period. (If checked, Section 6 (b)(2) will not apply.)

(b) X The Owner has chosen to exceed the Occupancy Restrictions under the Code and irrevocably agrees to rent at least:

8 (specify number of units) to households at or below 30% of area median income (rent restrictions apply),

(specify number of units) to households at or below 40% of area median income (rent restrictions apply),

(specify number of units) to households at or below 50% of area median income (rent restrictions apply),

32 (specify number of units) to households at or below 60% of area median income (rent restrictions apply),

(c) ___ Project was selected under the non-profit set-aside and ownership interest of the non-profit will be maintained and material participation by the non-profit will be maintained throughout the compliance period.

(d) ___ The Owner has agreed to establish a rent rebate plan in accordance with the conditions set forth in the applicable ____ Qualified Allocation Plan.

(e) ___ The Owner received points for providing no less than ____ units special needs housing and no less than ____ units were constructed to meet the physically accessible design standards as outlined in the ____ Qualified Allocation Plan.

(f) ___ The Owner has proposed a lease-purchase project and will follow the guidelines prescribed in Section 42(i)(7) of the Code. The Agency will approve such proposal, and unless extended use commitments are made under Section 5(a), the Owner's extended use commitment, under Section 6(a), shall terminate upon sale to an eligible tenant. The Owner must continue to rent the unit(s), however, according to their extended use commitment, if the Owner cannot sell the unit(s) to eligible tenant(s) for any reason at the end of the fifteen (15) year compliance period.

(g) ___ The Owner received points for providing housing designed for and marketed to people 55 and older and will operate the property as such, unless waived by the Agency.

(h) ___ The Owner received points for providing or causing to be provided long term supportive services to residents and makes a commitment to provide such services throughout the compliance period, unless waived by the Agency.

SECTION 6 - TERM OF AGREEMENT

(a) Except as hereinafter provided, this Agreement and the Occupancy Restrictions specified herein shall commence with the first day in the Project compliance period on which any building which is part of the Project is Placed-In-Service (see Section 1 for definition) and shall end on the date which is 15 years after the close of the initial compliance period (30 years total).
(b) Notwithstanding subsection (a) above, this Agreement, with respect to any building or unit in any building pursuant to (4) below which is part of this Project, shall terminate:

(1) On the date the building is acquired by foreclosure or instrument in lieu of foreclosure; or

(2) On the last day of the initial 15 year compliance period if the Owner has properly requested (by the last day of the 14th year) that the Agency assist in procuring a qualified contract for the acquisition of the low-income portion of any building which is a part of a Project and the Agency is unable to present a qualified contract; or

(3) On the last day of the 30 year if the initial 15 year compliance period has been extended as set forth in Section 5 above, and the Owner has properly requested (by the last day of the 29 year) that the Agency assist in procuring a qualified contract for the acquisition of the low-income portion of any building which is a part of a Project and the Agency is unable to present a qualified contract; or

(4) On the date of closing of the sale of any unit in a building which is sold pursuant to a lease-purchase arrangement discussed in section 5(f) above, provided that, except as otherwise provided in Section 6(b), this Agreement shall not terminate with respect to any other unit in the building which is not sold pursuant to the lease-purchase arrangement discussed in Section 5(f) above.

(c) Notwithstanding subsection (b) above, the rent requirements of the Code shall continue for a period of three years following the termination of the extended use requirement pursuant to the procedures specified in subsection (b) above. During such three year period as well as during the initial and extended compliance period, the Owner shall not evict or terminate the tenancy of an existing tenant of any low-income unit other than for good cause and shall not increase the gross rent above the maximum allowed under the Code with respect to such low-income unit.

SECTION 7 - ENFORCEMENT OF NDHFA OCCUPANCY RESTRICTIONS

(a) The Owner shall permit, during normal business hours and upon reasonable notice, any duly authorized representative of the Agency, to inspect any books and records of the Owner regarding the Project with respect to the incomes of Low-Income Tenants which pertain to compliance with the NDHFA occupancy restrictions specified in this Agreement.

(b) The Owner shall submit any other information, documents or certifications requested by the Agency which the Agency shall deem reasonably necessary to substantiate the Owner's continuing compliance with the provisions of the NDHFA occupancy restrictions specified in this Agreement.

SECTION 8 - ENFORCEMENT OF CODE OCCUPANCY RESTRICTIONS

(a) The Owner covenants that it will not knowingly take or permit any action that would result in a violation of the requirements of the Code and applicable regulations of this Agreement. Moreover, Owner covenants to take any lawful action (including amendment of this Agreement as may be necessary, in the opinion of the Agency) to comply fully with the Code and with all applicable rules, rulings, policies, procedures, regulations, or published proposed regulations, or other official statements promulgated by the United States Department of the Treasury, or the Internal Revenue Service, or the Department of Housing and Urban Development from time to time pertaining to Owner's obligations under the Code and affecting the Project.

(b) The Owner acknowledges that the primary purpose for requiring compliance by the Owner with the restrictions provided in this Agreement is to assure compliance of the Project and the Owner with the Code and the applicable regulations, and by reason thereof, the Owner in consideration for receiving Low-Income Housing Credits for this Project hereby agrees and consents that the Agency and any individual who meets the income limitation applicable under the Code (whether prospective, present or former occupant) shall be entitled, for any breach of the provisions hereof, and in addition to all other remedies provided by law or in equity, to enforce specific performance by the Owner of its obligations under this Agreement in a state court of competent jurisdiction. The Owner hereby further specifically acknowledges that the beneficiaries of the Owner's obligations hereunder cannot be adequately compensated by monetary damages in the event of any default hereunder.
(c) The Owner hereby agrees that the representations and covenants set forth herein may be relied upon by the Agency and all persons interested in Project compliance under the Code and the applicable regulations.

(d) The Owner agrees that if at any point following execution of this Agreement, the Code or regulations implementing said Section require the Agency to monitor the Occupancy Restrictions, or, alternatively, the Agency chooses to monitor Occupancy Restrictions, the Owner will take any and all actions reasonably necessary and required by the Agency to substantiate the Owner's compliance with the Occupancy Restrictions or NDHFA occupancy restrictions and will pay a reasonable fee to the Agency for such monitoring activities performed by the Agency.

SECTION 9 - MISCELLANEOUS

(a) **Severability.** The invalidity of any clause, part or provision of this Agreement shall not affect the validity of the remaining provisions thereof.

(b) **Notices.** All notices to be given pursuant to this Agreement shall be in writing and shall be deemed given when mailed by certified or registered mail, return receipt requested, to the parties hereto at the addresses set forth below, or to such other place as a party may from time to time designate in writing.

To the Agency:  
North Dakota Housing Finance Agency  
Attn: Low Income Housing Tax Credit Program  
PO Box 1535  
Bismarck, ND 58502

To the Owner:  
Nokota Ridge, LLC  
PO Box 556  
Harbor Springs, MI 49740

The Agency, and the Owner, may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

(c) **Amendment.** The Owner agrees that it will take all actions necessary to effect amendment of this Agreement as may be necessary to comply with the Code, any and all applicable rules, regulations, policies, procedures, rulings or other official statements pertaining to the Credit.

(d) **Governing Law.** This Agreement shall be governed by the laws of the State of North Dakota and, where applicable, the laws of the United States of America.

(e) **Survival of Obligations.** The obligations of the Owner as set forth herein and in the Application shall survive the allocation of the Credit and shall not be deemed to terminate or merge with the awarding of the allocation.

DESCRIPTION OF PROJECT SITE (including exact legal description)

Lot 1R of the Nokota Ridge Addition Rearrangement, a Rearrangement of Lot One (1), Block Once (1), Nokota Ridge Addition, City of Williston, Williams County, North Dakota.
IN WITNESS WHEREOF, the Owner has caused this Agreement to be signed by its duly authorized representatives, as of the day and year first written above.

OWNER: Nokota Ridge, LLC

Name: Gerald A. Haan

By: [Signature]

Title: Member

Michigan
STATE OF NORTH DAKOTA
COUNTY OF Emmet

The foregoing instrument was acknowledged before me this 9th day of May, 2012, by Gerald A. Haan (authorized representative), on behalf of Nokota Ridge, LLC (name of partnership or corporation).

WITNESS my hand and official seal.

LACY A. TIPPETT
Notary Public, Emmet County
My Commission Expires: 6/18/2017

LACY A. TIPPETT
NOTARY PUBLIC - STATE OF MICHIGAN
COUNTY OF EMMET
My Commission Expires June 18, 2017
Acting in the County of Emmet
LIENHOLDER CONSENT

The undersigned lien holder does hereby consent to be bound by the provisions of the DECLARATION OF LAND USE RESTRICTIVE COVENANTS FOR LOW-INCOME HOUSING CREDITS (the "Agreement") to which this consent is attached and that lien holder's lien or liens be subordinate and subject to the restrictive covenants set out in the Agreement, except in the event of foreclosure.

Lien holder: Stearns Bank NA

By:

Title: Vice President

Date: 05/14/12

STATE OF NORTH DAKOTA  
COUNTY OF

The foregoing instrument was acknowledged before me this day of May, 2012, by David Fencinich (authorized representative), on behalf of Stearns Bank NA (name of financial institution).

WITNESS my hand and official seal.

Kimberly J. Wenning
Notary Public, Stearns County
My Commission Expires: 1-31-15

735572
Page: 8 of 8 5/31/2012 2:19 PM
DCC $31.00

COUNTY RECORDER, WILLIAMS COUNTY, ND
5/31/2012 2:19 PM
I certify that this instrument was filed and recorded
Kari Johnson, County Recorder
735572
Exhibit 4:

Williams County Assessment Model
Hi Ben,

Here are the numbers that I have used for valuing Nokota Ridge. Keep in mind there is also a land value of $774,000 on this parcel that is not run through the income method.

Let me know if you have any questions,

Thanks,

Kristi Gutierrez
Commercial Assessor

Assessors Office
206 E Broadway
Williston, ND 58801
701.577.4555
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<th>SF/Unit</th>
<th>Rate</th>
<th>Annual Total</th>
<th># Units</th>
<th>SF/Unit</th>
<th>Rate</th>
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<td>1,271.00</td>
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<td>5 Bedroom</td>
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<td>$1,243.00</td>
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<td>Gross Potential Income (GPI)</td>
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<td>Less Vacancy &amp; Collection Loss</td>
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<td>Other Income</td>
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<td>$11,178</td>
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<td>Effective Gross Income (EGI)</td>
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<td>Leasing/Marketing</td>
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<td>Salaries</td>
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<td>Utilities</td>
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<td>0.00%</td>
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<td>4.55%</td>
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<td>Lawn Care/Parking Lot</td>
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<td>Elevator</td>
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<td>Insurance</td>
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<td>Advertising</td>
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<td>0.24%</td>
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<td>Reserv. For Replac. - Per Unit</td>
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<td>Total Expense</td>
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<td>$152,644</td>
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Expense Ratio (total expenses/EGI) | 30.15% | 41.77% |
Net Operating Income (NOI) | $265,072 | $212,755 |
Capitalization Rate | | User Observed | 8.23% |
Eff Tax Rate | | Williston-1 | 1.00% |
Total Capitalization Rate | | | 9.23% |
Market Value | $2,305,038 | $2,305,000 |
Exhibit 5:

2016-2017 Audited Net Operating Income Statements for Nokota Ridge Apartments
Nokota Ridge, LLC

Statements of Income

For the Years Ended December 31, 2017 and 2016

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<tr>
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<th>2017</th>
<th>2016</th>
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<tr>
<td><strong>Operating Revenue</strong></td>
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<td>Gross Rental Income</td>
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<td>Less: Vacancy Loss</td>
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<td>Less: Rental Concessions</td>
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<td><strong>Total Operating Revenue</strong></td>
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<td><strong>Operating Expenses</strong></td>
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<td>Administrative Expenses</td>
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<td>Operating and Maintenance Expenses</td>
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<td><strong>Total Operating Expenses</strong></td>
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<td>213,677</td>
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<td><strong>Net Operating Income</strong></td>
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<td><strong>Non-Operating Income (Expenses)</strong></td>
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<tr>
<td>Interest Income</td>
<td>138</td>
<td>146</td>
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<tr>
<td>Interest Expense</td>
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<td>Depreciation Expense</td>
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<td>Amortization Expense</td>
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<td>Incentive Management Fee</td>
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<td><strong>Total Non-Operating Income (Expenses)</strong></td>
<td>(316,718)</td>
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<tr>
<td><strong>Net Loss</strong></td>
<td>$(269,815)</td>
<td>$(259,602)</td>
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The accompanying notes are an integral part of these financial statements.
Exhibit 6:

Dakota Appraisal & Consulting, Ltd.
Appraisal of Nokota Ridge Apartments
as of February 1, 2018
MR. BENJAMIN W. IDE
Director of Development
G.A. Haan Development

Appraisal Report

Retrospective Fee Simple Market Value Analysis
40-Unit Apartment Complex
"Nokota Ridge Apartments"
2205 28th St. W, Williston, ND 58801
Owner: Nokota Ridge, LLC

Appraisal Inspection Date: July 11, 2018
Retrospective Effective Date: February 1, 2018

Prepared by
COREY J. KOST, MAI
CG-21378

JOSEPH J. IBACH, MAI
CG-1009

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DAKOTA APPRAISAL & CONSULTING, LTD.
304 East Rosser Avenue
P.O. Box 1235
Bismarck, North Dakota 58502-1235
(701) 255-3181
joe@dakotaappraisal.net
August 8, 2018

Mr. Benjamin W. Ide
Director of Development
G.A. Haan Development
ben@phoenixholdings.us

Re: Appraisal Report
Retrospective Fee Simple Market Value Analysis
40-unit apartment complex known as "Nokota Ridge Apartments"
2205 28th St. W, Williston, ND 58801
Owner: Nokota Ridge, LLC

Dear Mr. Ide:

This Appraisal Report was prepared in accordance with your request to develop an opinion of the above referenced property's fee simple market value as of the appraisal's retrospective effective date of February 1, 2018, subject to an extraordinary assumption and hypothetical condition, as detailed on the next page. The appraisal's intended use is to assist the owner in the real estate tax assessment process. The appraisal is not intended for any other uses or users.

Typically, the market value of real estate reflects fee simple estate, often referred to as absolute ownership. It implies that a property is free of encumbrances or restrictions that affect ownership (title). This property is subject to occupancy restrictions resulting from land use restrictive covenants for low-income housing tax credits (LIHTC) imposed by the North Dakota Housing Finance Agency (NDHFA) as a condition precedent to the allocation of LIHTC. Again, the intended use of this appraisal is to assist the owner in the real estate tax assessment process. The law is unclear as to how a property subject to this restriction is to be assessed. For the purposes to this appraisal, fee simple ownership, disregarding any impact of the LIHTC land use restrictive covenants, is addressed throughout the appraisal process. If the land use restriction was considered in the analysis, it would have a significant negative effect on the property's value.

The subject property's description, the data and detailed analyses of all factors pertinent to the appraisal request, and all definitions, assumptions, and limiting conditions are detailed in the enclosed report. In particular, your attention is directed to the following important limiting conditions:

1. This letter of transmittal does not represent the fully documented appraisal of the subject real estate. Sole reliance by the reader on the contents of this letter without considering the entire contents of the appraisal report (starts with this letter of transmittal and concludes with page 100) could lead the reader to erroneous conclusions. Therefore, this letter must not be used in place of nor represented as the complete appraisal report.
2. The appraisal was prepared to conform to the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice and the most recent edition of the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. Compliance to the reporting requirements set forth under Standards Rule 2-2(a) of USPAP was intended in completing this Appraisal Report. As such, supporting documentation concerning the data, reasoning, and analyses that were used in the appraisal process to develop the opinion of market value is an integral part of the appraisal and is incorporated into the analysis through reference. The appraisal report's depth of discussion is specific to your needs and to your intended use of the appraisal.

3. The concluded retrospective market value is based on a significant *extraordinary assumption*, by USPAP's "Definitions": "an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions." The significant extraordinary assumption applicable in this assignment's retrospective analysis is that, as of the retrospective effective date, the improvements were in similar physical condition as observed as of the appraisal inspection date of July 11, 2018. This extraordinary assumption is clearly required for purposes of reasonable analysis in the appraisal's objective(s) and intended use. Use of the extraordinary assumption might have affected the assignment results but still produced a credible analysis.

This extraordinary assumption is clearly required for purposes of reasonable analysis within the appraisal's objective(s) and intended use. Use of the extraordinary assumption might have affected the assignment results but still produced a credible analysis with respect to the intended use.

4. The concluded "retrospective" market value is based on a significant *hypothetical conditions*, by USPAP "Definitions", "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis." The significant hypothetical condition applicable in this assignment is that as of the appraisal's retrospective effective date, the subject property's real estate taxes were based on assessed values that have been concluded to exceed the concluded market value. Again, the intended use of the retrospective analysis is to assist the owner in the real estate tax assessment process. Therefore, the hypothetical condition applicable to this assignment's retrospective analysis is that the property's real estate taxes are based on an assessed value consistent with the concluded market value. The valuation analysis is then completed under this premise.

This hypothetical condition is clearly required for purposes of reasonable analysis within the appraisal's objective(s) and intended use. Use of the hypothetical condition might have affected the assignment results but still produced a credible analysis with respect to the intended use.

5. The appraisal assignment is based on an impartial or unbiased perspective; it is not made for the purpose of favoring a specific cause or any particular party. The undersigned has no present or contemplated future interest in the real estate that is the subject of this analysis and all opinions were developed through the course of accepted analytical procedures. Therefore, neither the employment to make the analysis nor the compensation is contingent on the outcome of the analysis directly related to the appraisal's intended use.
6. The subject property's concluded market value is based on a reasonable exposure time (time needed to market the subject property preceding the appraisal's effective date) of about 6-12 months. The concluded market value is a nominal or gross value; no adjustment has been made for carrying costs or the time value of money that may be incurred over time if the property is marketed.

Careful consideration has been given to the valuation methods employed and to an accurate analysis of the subject property. Based on the results of the appraisal investigation and analysis, the subject property's retrospective fee simple market value, subject to the previously detailed extraordinary assumption and hypothetical condition, is concluded at:

"ONE MILLION THREE HUNDRED FIFTY THOUSAND DOLLARS"
($1,350,000)

The concluded fee simple market value of this apartment complex includes (a) real property (site and improvements) and (b) personal property (appliances, equipment, etc.). The Uniform Standards of Professional Appraisal Practice (USPAP) requires analysis of the effect on value of any tangible (personal property and trade fixtures) and intangible items assets are not real property but included in the appraisal. The personal property used in the operation of this apartment complex relates to the kitchen and laundry appliances and fitness equipment. For this reason, the following allocations of the market value are made but only within the context of the appraisal objective and intended use:

1. Real Property:
   (Site & Improvements) $1,300,000 - 96.3%
2. Non-Real Property:
   (Tangible Assets – Personal Property) + 50,000 - 3.7%
   Total: $1,350,000 -100.0%

These value allocations do not represent individual values for each component but, rather, it is their estimated contributory value as it relates to the total.

If you have any questions or comments after reading the appraisal report, please inquire. It has been a privilege to be of service.

Respectfully submitted,

Corey J. Kost, MAI
CG-21378

This appraisal was prepared by Corey J. Kost, MAI, with the assistance of Mr. Justin Beyer, employees of Dakota Appraisal & Consulting, Ltd. Mr. Beyer was not present during the inspection but assisted in assembling the information about the subject property and area market, and assembled and confirmed portions of the sale data information. Mr. Beyer's assistance is estimated at 25% of the report. Mr. Kost completed the remainder of the report, including the valuation process. Joseph J. Ibach, MAI, certifies that he has reviewed the appraisal report and agrees with the statements and conclusions of the appraiser subject to all assumptions and limiting conditions as contained within.

Joseph J. Ibach, MAI
CG-1009
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SALIENT FACTS AND IMPORTANT CONCLUSIONS

I. Property Description

A. Property Type: 40-unit apartment complex known as "Nokota Ridge Apartments"

B. Address: 2205 28th St. W, Williston, ND 58801

C. MSA/MD Code: None

D. Census Tract: State 38, County 105, Tract 9537.00

E. Legal Description: Lot 1R of the Nokota Ridge Rearrangement, a Rearrangement of Lot 1, Block 1, Nokota Ridge Addition, City of Williston, Williams County, ND

F. Parcel Number: 01-458-00-27-26-700

G. Site Data
1. Size: 2.58 acres
2. Zoning: "R-3; Lowrise Multi-family and Townhouse Residential District"
3. Flood Plain: Zone X – not in a flood hazard area

H. Improvement Data
1. Gross Building Area (GBA)
   - Apartment Building
     - Main Floor: 4,806 sq.ft. x 5 buildings = 25,233 sq.ft.
     - Second Floor: 4,693 sq.ft. x 5 buildings = 23,465 sq.ft.
     - Subtotal: 9,499 sq.ft. x 5 buildings = 47,495 sq.ft.
   - Community Building: 1,203 sq.ft.
   - Total Complex GBA: 48,698 sq.ft.

2. Apartment Building Composition

<table>
<thead>
<tr>
<th>Apt. Type</th>
<th>No. of Units</th>
<th>Rooms</th>
<th>Beds</th>
<th>Full Baths</th>
<th>Apt. Size/NRA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-bed/1-bath</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1,025 sq.ft.</td>
</tr>
<tr>
<td>2-bed/1-bath</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1,070 sq.ft.</td>
</tr>
<tr>
<td>3-bed/1-bath</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1,227 sq.ft.</td>
</tr>
<tr>
<td>3-bed/1-bath</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1,271 sq.ft.</td>
</tr>
<tr>
<td>Totals</td>
<td>40</td>
<td>180</td>
<td>100</td>
<td>80</td>
<td>45,930 sq.ft.</td>
</tr>
</tbody>
</table>

*Apt Rentable Area

3. Average Size/Apt.: 48,698 sq.ft. ÷ 40 apts. = 1,217 sq.ft.

4. Ratio of Net Rentable Area (NRA) to GBA: 45,930 sq.ft. NRA ÷ 48,698 sq.ft. AGA = 94.3%
5. Parking
   • Open Parking Stalls: 53 spaces
   • Carport Stalls: 32 spaces
   Total: 85 spaces

6. Site Coverage Ratio: 25,233-sq.ft. apt. building footprint ÷ 2.58-acre site = 22.5%

7. Building Ages
   • Historical: 7 years (2011)
   • Est. Effective Age: 6-7 years
   • Est. Remaining Economic Life: 45-50 years

II. Other Relevant Items

A. Client: G.A. Haan Development

B. Owner: Nokota Ridge, LLC

C. Valuation Premise(s): Retrospective Fee Simple Market Value

D. Appraisal's Dates
   1. Inspection Date: July 11, 2018
   2. Retrospective Effective Date: February 1, 2018
   3. Report's Completion Date: August 8, 2018

III. Property's As Improved Highest & Best Use Conclusion: 40-unit apartment complex
IV. Retrospective Fee Simple Market Value Analysis

A. Market Value Indications
   1. Income Capitalization Approach: $1,300,000
   2. Sales Comparison Approach: $1,400,000

B. Reconciled Market Value: $1,350,000
      $1,350,000 ÷ 47,495 sq.ft. = $28.42
      $1,350,000 ÷ 40 apts. = $33,750
   3. Gross Income Multiplier (GIM)
      $1,350,000 ÷ $330,000 = 4.1
   4. Effective Gross Income Multiplier (EGIM)
      $1,350,000 ÷ $255,750 = 5.3

C. Implied Income Analysis
   1. Estimated Net Operating Income
      a. Potential Gross Income (PGI): $330,000
      b. Less Vacancy & Collection Loss – 22.5%: $74,250
      c. Effective Gross Income (EGI): $255,750 - 100.0%
      d. Less Stabilized Operating Expenses: $176,227 - 65.0% *
      e. Stabilized Net Operating Income (NOI): $89,580 - 35.0%
         Rounded to: $89,600
         *Includes a replacement allowance
   2. Implied Overall Rate (R)
      $89,600 (I) ÷ $1,350,000 (V) = 6.6%
   3. Est. Annual Debt Service (I_m)
      70% LTV, 4.5% mtg. interest (mo. pymts.)
      25-year amort. (estimated stabilized terms): $71,028
   4. Debt Coverage Ratio (DCR)
      $89,600 (I_o) ÷ $71,028 (I_m) = 1.26
   5. Equity Capitalization Rate (R_E)
      [($89,600 (I_o) less $71,028 (I_m)]
      ÷ $337,500 (V_E, 25% equity) = 5.5%

V. Estimated Exposure Time: 6-12 months
APPRAISAL’S CERTIFICATION & STATEMENT OF ASSUMPTIONS & LIMITATIONS

A. Certification (8-29-18)

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

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

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

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

4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding the acceptance of this assignment.

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

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

7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of 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.

8. The reported analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

9. Corey J. Kost, MAI, made a personal appraisal inspection of the property that is the subject of this report. Joseph J. Ibach, MAI, did not inspect the property.

10. Other than Justin Beyer (see below), no one provided significant real property appraisal assistance to the person(s) signing this certification.

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

12. As of the date of this report, Corey J. Kost, MAI, and Joseph J. Ibach, MAI, have completed the continuing education program for Designated Members of the Appraisal Institute.

13. This appraisal was prepared by Corey J. Kost, MAI, with the assistance of Mr. Justin Beyer, employees of Dakota Appraisal & Consulting, Ltd. Mr. Beyer was not present during the inspection but assisted in assembling the information about the subject property and area market, and assembled and confirmed portions of the sale data information. Mr. Beyer’s assistance is estimated at 25% of the report. Mr. Kost completed the remainder of the report, including the valuation process. Joseph J. Ibach, MAI, certifies that he has reviewed the appraisal report and agrees with the statements and conclusions of the appraiser subject to all assumptions and limiting conditions as contained within.

Signed: Corey J. Kost, MAI  
CG-21378

Date: August 8, 2018

Signed: Joseph J. Ibach, MAI  
CG-1009

Date: August 8, 2018
B. Assumptions & Limitations of the Appraisal (6-29-18)

This appraisal report is subject to the following limiting conditions:

1. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property, if applicable, is assumed to be intact and marketable and free and clear of any or all liens or encumbrances unless otherwise noted. Special assessments are addressed in the appraisal report.

2. Responsible ownership and competent property management are assumed.

3. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.

4. All engineering is assumed to be correct. The report’s plat maps, plans, and all other illustrative material are included only to assist the reader in visualizing the property. The appraiser has made no survey of the property.

5. Except as addressed in the appraisal, it is assumed that no hidden or unapparent conditions exist in the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required.

6. It is assumed that full compliance with all applicable federal, state, and local environmental regulations and laws exists unless noncompliance is stated, defined, and considered in the appraisal report.

7. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless non-conformity has been stated, defined, and considered in the appraisal report.

8. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

9. It is assumed that the utilization of the site and improvements is within the described property’s boundaries and that no encroachment or trespass exists unless noted in the report.

10. While the appraiser has inspected the subject property and has considered the information developed in the course of such inspection together with the information provided by the ownership and client, the appraiser is not qualified to verify or detect the presence of hazardous substances or environmental liabilities by visual inspection or otherwise, nor qualified to determine the effect, if any, of known or unknown substances or liabilities present. Unless otherwise stated in the report, the final conclusion of value is based on the assumption that the subject property is free of hazardous substances, hazardous waste contamination, and all other environmental liabilities, and it is specifically assumed that present and subsequent ownerships will exercise due diligence to ensure that the property does not become otherwise contaminated.

11. The concluded market value is based on cash, its equivalent, or on financing terms available for the property type in its locale as of the effective appraisal date. No consideration has been given to the assumption of favorable existing financing (if any) or favorable seller-financing.

12. The distribution, if any, of the total valuation between site and improvements applies only under the stated program of utilization. The separate allocations for site and improvements and any other value components must not be used in conjunction with any other appraisal and are invalid if so used.

13. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser and, in any event, only with proper written authorization and only in its entirety. Lastly, no responsibility is accepted for unauthorized use of the appraisal report.

14. The appraiser herein by reason of this appraisal is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements were previously made.

15. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.

16. Unless specifically cited in the appraisal report, no value has been allocated to mineral rights or deposits.

17. Unless otherwise addressed within the appraisal report, no consideration has been afforded to any potential natural, cultural, recreational, or scientific value that may or may not be inherent to the subject property.
II. VALUATION PROCESS

A. INTRODUCTION (1-4:18)

The client, G.A. Haan Development, as represented by Mr. Benjamin W. Ide, requested that an appraisal be prepared of the 40-unit apartment complex known as "Nokota Ridge Apartments" located at 2205 28th Street W, Williston, North Dakota. An appraisal is defined as:

"The act or process of developing an opinion of value…"
(Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition: 10)

An appraisal involves the application of knowledge, experience, and professional judgment to develop an appropriate solution to an appraisal problem. The appraisal provides the client with the appraiser's opinion of real property value that reflects the available pertinent market evidence. It is essential that the appraisal report communicate accurate analyses and opinions in such a manner that it is meaningful to the client and not be misleading in the marketplace.

The valuation process is accomplished through specific steps. The number of steps followed depends on the intended use of the assignment results, nature of the property, the scope of work determined to be appropriate for the assignment, and the availability of data. The valuation process starts with proper identification of the subject property and the appraisal problem, scope of work determination, description of the subject property, data collection and analysis, application of the appropriate approaches to value, and reconciliation of the value indications to a final opinion of the property's value(s). For ease of use, an outline format is used in the following appraisal.

(The Appraisal of Real Estate, 14th Edition as published by the Appraisal Institute is paraphrased in significant portions of the valuation process description.)
B. SUBJECT PROPERTY IDENTIFICATION

1. Property Type

The real property that is the subject of this appraisal consists of a 2.58-acre site improved as a 40-unit apartment complex built in 2011 known as "Nokota Ridge Apartments".

2. Address/Location

Its address of "2205 28th Street W, Williston, North Dakota" places it in the city's northwest part. The enclosed exhibits accurately depict its location.

3. MSA/MD Code: None

4. Census Tract No.: State 38, County 105, Tract 9635.00

5. Legal Description

The following legal description was taken from the warranty deed transferring ownership to the current owner on July 14, 2011, recorded as Doc. No. 715298.

LOT 1R OF NOKOTA RIDGE ADDITION REARRANGEMENT, A REARRANGEMENT OF LOT 1, BLOCK 1 OF NOKOTA RIDGE ADDITION, IN THE SOUTHWEST QUARTER OF THE SOUTHEAST QUARTER (SW ¼ SE ¼) OF SECTION 10, TOWNSHIP 154 NORTH, RANGE 101 WEST OF THE FIFTH PRINCIPAL MERIDIAN, IN THE CITY OF WILLISTON, WILLIAMS COUNTY, NORTH DAKOTA,

This legal description is assumed to be correct but should not be relied upon for legal matters such as title transfers, mortgage, etc. Additionally, the site was not surveyed for purposes of this appraisal.

6. Ownership History

Detailing the subject property's ownership history is a mandatory element of a fully documented appraisal that conforms to the Uniform Standards of Professional Appraisal Practice (USPAP). Standards Rule 1-5 of USPAP requires that "the appraisal must, if such information is available to the appraiser in the normal course of business:

(a) analyze all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal; and

(b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal."

The intent of this requirement is to encourage the research and analysis of agreements of sale, options, listings, or prior sales of the subject; the time frame cited is a minimum. A complete title search of the subject property has not been made nor is an opinion of title intended to be rendered in the following discussion. The North Dakota Recorders Information Network (NDRIN) and the owner's/borrower's representative, Mr. Benjamin W. Ide, were consulted to reasonably formulate the subject property's recent ownership history but only for the appraisal's purposes.
The current owner, Nokota Ridge LLC purchased the then vacant subject site from G.A. Hann Development LLC, on July 14, 2011, as detailed in a warranty deed filed as Doc. No. 715298. A price of $395,000 ($3.52/sq.ft.) is listed on the deed but the ownership transfer appears to be a related-party transaction. The subject property has not been marketed for sale since the current owner's/borrower's acquisition.

7. 2017 Real Estate Taxes and Special Assessments Data

a. Parcel Number: 01-458-00-27-56-700
b. Assessor’s True & Full Value
   • Site: $774,000 ($6.89/sq.ft.)
   • Improvements: 662,100
   Total: $1,436,100 ($28.58/sq.ft. GBA² & $35,903/apt.)
c. Real Estate Taxes: $14,359.57³
d. Special Assessments: None

³Based on assessor's site size of 112,385 sq.ft.
²Based on assessor's GBA of 50,246 sq.ft.
³Taxes before 5% discount given if paid by February 15th of each year.

A prudent owner would pay the real estate taxes prior to February 15 so as to realize the 5% discount. The retrospective valuation premise is based on the assumption that the property's real estate taxes are derived from assessed values consistent with the concluded market value. The real estate taxes could then be excluded from the stabilized expenses but accounted by using a "loaded" capitalization rate, meaning the applicable effective tax rate would be added to the "base" capitalization rate when converting the net income to value. Rather, for simplicity and ease of comparison, the subject's real estate tax expense is estimated at: $1,350,000 (concluded market value) x 0.00950% (0.95% 2017 effective tax rate after 5% deduction) = $12,825.

8. Representative Photographs

The following photographs, taken on July 11, 2018, attempt to depict the subject property's overall characteristics but are not to be regarded as necessarily all-inclusive.
Street Scene
27th St. W
west view

27th St. W
east view

28th St. W
east view

28th St. W
west view

Street Scene
28th St. W
west view

Property Overview
southwest view
Typical 2-bed/2-bath
bathroom

Typical 2-bed/2-bath
mechanical closet

Typical 3-bed/2-bath
kitchen

Typical 3-bed/2-bath
living room

Typical 3-bed/2-bath
master bedroom

Typical 3-bed/2-bath
master bathroom
Community Building
fitness room

Community Building
laundry room

Community Building
bathroom

Community Building
maintenance garage
C. APPRAISAL PROBLEM IDENTIFICATION

1. Appraisal's Client and Intended User(s) and Use(s)

This appraisal was made at the request of Mr. Benjamin W. Ide, representing the client, G.A. Haan Development. The appraisal's intended use is to assist the owner in the real estate tax assessment process. The appraisal is not intended for any other uses or users.

2. Appraisal Objective(s)

Again, the appraisal's intended use is to assist the owner in the real estate tax assessment process. The assessor is required to determine the property's true and full value for real estate tax purposes. A July 2005 "Guideline – Property Tax Assessment Terms and Concepts" paper, released by the Tax Commissioner's office, details that "Market value is the same as true and full value for residential and commercial property." The guideline also details that "Market value, as defined by the International Association of Assessing Officers, is

"the most probable price expressed in terms of money that a property would bring if exposed for sale in the open market in an arms-length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all the uses to which it is adapted and for which it is capable of being used."

This definition is consistent with that typically used for real estate tax assessment and is used in the appraisal objective, the retrospective subject property's market value.

3. Property Rights Appraised

As of the appraisal's effective date, the subject's apartments were encumbered with short-term leases of one year or less. The leases' relatively short terms preclude the market perception of having leased fee interest. This complex is also subject to a land use restriction as set forth by the Declaration of Land Use Restrictive Covenants for Low-Income Housing Tax Credits. Typically, the market value of real estate reflects fee simple estate, often referred to as absolute ownership. It implies that a property is free of encumbrances or restrictions that affect ownership (title). Again, this property is subject to occupancy restrictions resulting from land use restrictive covenants for low-income housing tax credits (LIHTC) imposed by the North Dakota Housing Finance Agency (NDHFA) as a condition precedent to the allocation of LIHTC. Again, the intended use of this appraisal is to assist the owner in the real estate tax assessment process. The law is unclear as to how a property subject to this restriction is to be assessed. For the purposes to this appraisal, fee simple ownership, disregarding any impact of the LIHTC land use restrictive covenants, is addressed throughout the appraisal process. Fee simple interest is defined as:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

(Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition: 90)

If the land use restriction was considered in the analysis, it would have a significant negative effect on the property's value.
4. Relevant Dates
   a. Inspection Date: July 11, 2018
   b. Retrospective Effective Dates: February 1, 2018
   c. Report's Completion Date: August 8, 2018

5. Extraordinary Assumptions

The concluded "retrospective" market value is based on a significant "extraordinary assumption", by USPAP's "Definitions": "an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions." The significant extraordinary assumption applicable in this assignment's retrospective analysis is that, as of the retrospective effective date, the improvements were in similar physical condition as observed as of the appraisal inspection date of July 11, 2018. This extraordinary assumption is clearly required for purposes of reasonable analysis in the appraisal's objective(s) and intended use. Use of the extraordinary assumption might have affected the assignment results but still produced a credible analysis.

6. Hypothetical Conditions

The concluded "retrospective" market value is based on a significant "hypothetical condition", by USPAP "Definitions", "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis." As of the appraisal's retrospective effective date, the subject property's real estate taxes were based on assessed values that have been concluded to exceed the concluded market value. Again, the intended use of the retrospective analysis is to assist the owner in the real estate tax assessment process. Therefore, the hypothetical condition applicable to this assignment's retrospective analysis is that the property's real estate taxes are based on an assessed value consistent with the concluded market value. The valuation analysis is then completed under this premise. This hypothetical condition is clearly required for purposes of reasonable analysis within the appraisal's objective(s) and intended use. Use of the hypothetical conditions might have affected the assignment results but still produced a credible analysis with respect to the intended use.

7. Special Instructions and Other Conditions

The appraisal was prepared to conform to the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice and the most recent edition of the Uniform Standards of Professional Appraisal Practice (USPAP), adopted by the Appraisal Standards Board of the Appraisal Foundation. Compliance to the reporting requirements set forth under Standards Rule 2-2(a) of USPAP was intended in completing this Appraisal Report.
8. Competency Rule (4-16-18)

The "competency rule" of the Uniform Standards of Professional Appraisal Practice (USPAP) recognizes that the background and experience of appraisers can vary widely, and that a lack of knowledge or experience can lead to inaccurate or inappropriate appraisal practice. It details that:

"An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment. In all cases, the appraiser must perform competently when completing the assignment."

This assignment was accepted by Dakota Appraisal & Consulting, Ltd. from the client, G.A. Haan Development, as represented by Mr. Benjamin W. Ide. The signatory(s) of this appraisal have completed prior appraisals on numerous similar projects and the knowledge and experience in the valuation of similar properties has been gained through prior experience, is confirmed through completion of numerous educational courses offered by the Appraisal Institute and other providers, and are appropriately credentialed through the North Dakota Real Estate Appraiser Qualification and Ethics Board (see enclosed "Qualifications"). It is the opinion of the undersigned that all necessary steps have been taken to ensure proper appraisal development.

9. Summation of Appraisal Problem

Develop an opinion of the subject property's fee simple market value, as of the retrospective effective date of February 1, 2018, subject to the previously detailed extraordinary assumption and hypothetical condition.
D. **SCOPE OF WORK** (6-18)

A concerted effort is made to complete this appraisal so as to conform to the applicable edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP). USPAP was developed in 1986/87 for the purpose of promoting and preserving public trust in the appraisal profession. Appraisal standards for the profession were created which specify the procedures to be followed in performing an appraisal; they are referenced throughout the following report.

USPAP details the process of "developing" a real property appraisal (Standard Rule 1) and "reporting" the appraisal (Standard Rule 2). Standard 1 details that "In developing a real property appraisal, an appraiser must identify the problem to be solved, determine the scope of work necessary to solve a problem, and correctly complete research and analyses necessary to produce a credible appraisal." The "Scope of Work Rule" in the current edition of USPAP states:

"For each appraisal and appraisal review assignment, an appraiser must:
1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and
3. disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.

Scope of work includes, but is not limited to:
- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions."

"It is acceptable when it meets or exceeds:
- The scope of work must include the research and analyses that are necessary to develop creditable assignment results.
- leads to creditable assignment results,
- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser's peers' actions would be in the same or similar assignment."

An acceptable scope of work for this assignment then requires that the undersigned:

1. "Inspect" the subject property to note its relevant valuation characteristics. The "appraisal inspection or property viewing" is conducted only within the context of the appraisal process to uncover valuation issues. It involves a visual inspection of the site/land and, if applicable, the improvement's interior and exterior to the extent that is physically possible, measuring the major improvements, and taking appropriate photographs. Particular attention should be noted in that:
a. Attic, crawl space areas, and other "unique" spaces are accessed only where easily accessible without disruption of the occupant(s) and/or requiring physical removal of obstructions.

b. No special expertise is implied as it relates to but not limited to sanitary sewer or water systems, drainage, soil conditions, site or mechanical systems, structural integrity (foundation settlement, moisture problems, wood destroying insects, etc.), roofing, siding, or any other property component.

c. No special expertise is implied relating to the existence of hazardous materials and other detrimental environmental conditions including but not limited to radon gas, lead based paint, mold, sexual predators, etc.

d. Unless otherwise noted, it is only assumed that the various elements constituting the improvements are functionally sound and in working order. Statements regarding condition are based on surface observations only.

Based on the preceding, the appraisal inspection, as it relates to the subject property (site/land and/or improvements), addresses only the observed conditions that likely impact its overall appeal and marketability. Any and all references to the property's inspection infers only to an "appraisal inspection". Qualified experts should be employed to inspect and address any area of concern. If negative conditions are discovered, the appraiser should be notified as the value conclusion may require modification.

2. Investigate the real estate market(s) for both general and detailed information using the applicable sources to include:

- office files,
- federal, state, and local agencies relating to general data and trade associations and private business enterprises relating to the specific property type,
- market participants including brokers/real estate agents, buyers, sellers, lenders, property managers, landlords, and/or tenants,
- North Dakota Recorders' Information Network (NDRIN) or, if applicable, the respective county recorders/register of deed records,
- county and/or city assessor records,
- multiple listing service records,
- city and/or county planning and/or engineering offices,
- building inspector's office, and/or
- information provided by the property owner, manager, and/or any other individual(s) involved in the property.

Market data search parameters (sale dates, leases, locations, sizes, property types, distances from the subject, etc.) start with relatively narrow constraints and, if necessary, are expanded until sufficient data has been retrieved (in the appraiser's opinion) to develop an opinion of the appropriate value or until the available pool of data has been reasonably exhausted. Researched market data is viewed when physically possible and, if possible, a photograph provided by a reputable source and if found to be appropriate, efforts are made to confirm the data with persons directly involved in the transactions, i.e. buyers, sellers, brokers, and/or agents. At the appraiser's discretion, some data is used without personal confirmation if, in the appraiser's opinion, the data appears to be correct. In addition, any appropriate listings or properties found through observations during the data collection process are considered. Only the data pertinent to the valuation process is reported and, when conflicting information is provided, the source determined to be the most reliable is used. Data believed to be unreliable is not included nor used as a basis for the value conclusion(s). All supporting documentation is included in the appraisal report and/or retained in-file.
3. Investigate and analyze any pertinent easements or restrictions on the fee simple ownership of the subject property. If a title report is not available, a visual inspection and identification of readily apparent easements and/or restrictions is relied upon.

4. Analyze the assembled data and reach conclusions regarding the subject property's market value, as defined in the report as of the valuation date, using one or more of the applicable valuation technique(s): cost, sales comparison, and/or income capitalization approaches.

Further expansion of the scope of work, when applicable, is detailed in the following report.

Standard 2 of USPAP states that each written real property appraisal must be reported using one of the following options: (1) Appraisal Report or (2) Restricted Appraisal Report. USPAP then details that "When the intended users include parties other than the client, an Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Appraisal Report may be provided." In this particular assignment, an Appraisal Report is needed. It presents sufficient information to enable the client and other identified intended users to properly understand the appraisal.
E. MARKET AREA ANALYSIS

1. Introduction

The client's/intended use's familiarity with the regional North Dakota market and the local Williston market are unknown. A property's value is dependent on recognition and understanding of the area market economic trends. For this reason, a brief overview of these markets is presented.

2. State Economics (7-16-18)

The subject property is located in Williston, North Dakota. Comparatively, North Dakota is faring much better than the nation as:

- The State had, prior to 2016, consistently operated with a significant budget surplus. The 2013-15 State budget totaled $13.74 billion, nearly $10 billion more than only a decade earlier. However, a projected $1.1 billion budget shortfall through the first half of 2016 required that the governor call a special session of the North Dakota Legislature. This shortfall resulted from a significant decrease in tax collections due to depressed oil and farm commodity prices.

- A large part of the State's budget and much of the state's significant growth since about 2007 was driven primarily by the energy industry in western North Dakota. The exploration of oil and gas in what is commonly known as the "Bakken Region" elevated North Dakota to being the second-largest oil producing state in the country. Since mid-2014, the expansion of the energy industry has been limited by the significant decrease in the price of crude oil. It traded at more than $100/barrel in June 2014 but rapidly decreased to about $50/barrel by the end of 2014 and $30/barrel by the end of 2015. The price has since rebounded to about $65-$70/barrel. The comparatively lesser prices resulted in far fewer wells drilled in 2015-2017 and most expectations are that the trend will continue through 2018. Specifically, by the end of 2015, the number of active drilling rigs in the state decreased to less than 60 for the first time since 2009, as compared to 169 active drilling wells just one year earlier. The number of active rigs fell to a low of 27 in May 2015 but has since rebounded to 59 as of March 2018. Rather than drilling new wells, producers are focusing on improving high-producing wells. The downturn in oil pricing generated significant speculation as to its potential effect on the state's economy. It is impossible to predict the precise impact that the reduced oil prices will have but most indications are that instability will continue through 2018, especially in western North Dakota. One industry expert was quoted as stating that "There will be a slowdown in the Bakken, but the Bakken is not going away." However, the slowdown definitely impacted the state, especially based on the prior detailed budget shortfall and some of the statistics detailed in the following discussion.

- The state's gross domestic product (GDP) growth rate was 6.3% in 2014. North Dakota led the nation in economic growth in four of the last five years ending December 31, 2014. Since 2014, the state's economy averaged a 6.5% growth rate, as compared to a national growth rate of only 1.4% annually. The state's GDP growth rate decreased 2.1% in 2015, the first decrease in decades but grew 4.6% in 2016 and 7.4% in 2017.

- North Dakota's $5.5 billion in exports in 2014 represents an increase of $4.5 billion since 2004 when it was $1 billion. Exports decreased significantly in 2015 to $3.877 billion, a 42.2% decrease from 2014.

- The number of new jobs peaked in 2014 but has since decreased nearly 7% through the end of 2016 but stabilized through 2018.
North Dakota's unemployment rate averaged less than 3% in 2014, the country's lowest. It has not exceeded 5% since 1987. The June 16, 2016, monthly unemployment rate was 3.4%, a slight increase but still comparatively low. More recent monthly statistics confirm that unemployment has moderated at about 2.6%.

North Dakota's per capita personal income was $54,951 in 2014, an average annual increase of 8.1% since 2004 ($29,842) increased to $55,950 in 2015, only to decrease slightly in 2017 to $54,643, a 2.3% decrease.

Despite the slowdown in oil production, North Dakota's population reached an all-time high of 757,952 in 2016, a growth rate of 12.74% since 2011, the country's largest percentage increase among all states. The North Dakota census office released a series of population forecasts in January 2016 detailing a conservative estimate of 800,000 by 2020 and an aggressive projection of 1,000,000 by 2040.

North Dakota's median age of about 36 years is one of the youngest in the nation.

North Dakota was ranked the best-run state from 2011-2016 in the U.S. per Wall Street's 24/7 Report. The 2018 report has North Dakota now listed at number seven, primarily due to the decreased oil prices and the GDP decrease.

North Dakota's taxable sales and purchases increased from $11.7 billion in 2009 to $28.2 billion in 2014, an annual average growth rate of about 28%. A large part of this growth was attributable to western North Dakota's mining and oil extraction sector. The reliance on the oil commodity was the primary factor leading to an 18.9% decrease in 2015's taxable sales. This sector had the largest decrease statewide in 2015, decreasing nearly 40%. However, 2016 generated about 17.35 billion in sales, offsetting most of the previous year's decrease. The growth continued in 2017 with a 3% increase over 2016.

North Dakota's airport boardings increased every year from 2008 through 2014 with strong increases of 8.9%-17.9% from 2010-2014. They increased from just over 650,000 in 2007 to over 1,240,000 in 2014, an average of 9.6% annually over this span. Increased airport boardings are normally a sign of a vibrant market. However, the 4.9% decrease in 2015 from 2014's record and another decrease of 11% in 2016 are indicators of, at a minimum, market stabilization. The historic fluctuations in airport boardings are largely the result of dramatic swings in western North Dakota's "Bakken" communities of Dickinson, Minot, and Williston. They reported annual increases of 66%-83% in 2011 and decreases of 17%-60% in 2016. Some definite modernization is also apparent in this economic indicator as the decrease was only 1.8% in 2017 versus 2016.

Its foreclosure rate is miniscule but signs of "troubled assets" now exist in western North Dakota.

Before the significant expansion of the energy industry, North Dakota had fewer cyclical economic swings than experienced throughout the nation. Short-term volatility and a degree of market uncertainty, especially in western North Dakota, now exist due to the depressed oil prices. However, long-term strength is still anticipated as, in addition to the energy industry, the state is a major producer of agriculture products and specialized manufactured goods for a still-growing worldwide market.
3. **Subject Market Area Delineation** *(4-25-18)*

The subject property is located in and competes within the Williston, North Dakota market. The city is located in the state's northwest corner, about 20 miles east of the state's west boundary and 65 miles south of its north boundary with Canada. It is the county seat of Williams County and the state's 9th largest city. Its 2010 population of 14,716 represented a 17.6% increase from its 2000 population of 12,512. Similarly, the population of Williams County increased 13.6% from 2000 to 2010 from 19,716 to 22,398. Williston has been cited as the fastest-growing micro area in the country, increasing 79.6% from 2010 to 2016. It is considered the retail center for the northwest corner of North Dakota and the northeast corner of Montana; it serves a regional trade center approximating 75 miles and encompassing some 90,000 people. The state's, county's, and city's populations are detailed as:

**POPULATION STATISTICS**

<table>
<thead>
<tr>
<th>Year</th>
<th>North Dakota Total</th>
<th>% Change</th>
<th>Williams Co Total</th>
<th>% Change</th>
<th>Williston Total</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>577,056</td>
<td>-</td>
<td>14,234</td>
<td>-</td>
<td>3,124</td>
<td>-</td>
</tr>
<tr>
<td>1920</td>
<td>646,872</td>
<td>12.1%</td>
<td>17,980</td>
<td>26.3%</td>
<td>4,178</td>
<td>33.7%</td>
</tr>
<tr>
<td>1930</td>
<td>680,845</td>
<td>5.3%</td>
<td>19,553</td>
<td>8.7%</td>
<td>5,106</td>
<td>22.2%</td>
</tr>
<tr>
<td>1940</td>
<td>641,935</td>
<td>-5.7%</td>
<td>16,315</td>
<td>-16.6%</td>
<td>5,790</td>
<td>13.4%</td>
</tr>
<tr>
<td>1950</td>
<td>619,636</td>
<td>-3.5%</td>
<td>16,442</td>
<td>0.8%</td>
<td>7,398</td>
<td>27.8%</td>
</tr>
<tr>
<td>1960</td>
<td>632,446</td>
<td>2.1%</td>
<td>22,051</td>
<td>34.1%</td>
<td>11,866</td>
<td>60.4%</td>
</tr>
<tr>
<td>1970</td>
<td>617,761</td>
<td>-2.3%</td>
<td>19,301</td>
<td>-12.5%</td>
<td>11,230</td>
<td>-5.4%</td>
</tr>
<tr>
<td>1980</td>
<td>652,717</td>
<td>5.7%</td>
<td>22,237</td>
<td>15.2%</td>
<td>13,336</td>
<td>18.8%</td>
</tr>
<tr>
<td>1990</td>
<td>638,800</td>
<td>-2.1%</td>
<td>21,129</td>
<td>-5.0%</td>
<td>13,131</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2000</td>
<td>642,200</td>
<td>0.5%</td>
<td>19,761</td>
<td>-6.5%</td>
<td>12,512</td>
<td>-4.7%</td>
</tr>
<tr>
<td>2010</td>
<td>672,591</td>
<td>4.7%</td>
<td>22,398</td>
<td>13.3%</td>
<td>14,716</td>
<td>17.6%</td>
</tr>
<tr>
<td>2016 Est.</td>
<td>757,952</td>
<td>12.7%</td>
<td>34,337</td>
<td>53.3%</td>
<td>26,426</td>
<td>79.6%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, factfinder.census.gov
The population statistics are somewhat misleading in that there have been significantly more people living in Williston and Williams County than reflected by the census data. Census figures under-estimate the population for two primary reasons: (a) the rapid pace of change due to the region's oil boom and (b) the census does not include the service population living in temporary housing. A North Dakota State University (NDSU) Department of Agribusiness and Applied Economics study presented to the Williston City Council in March 2015 estimated that, including both permanent residents and workers with homes in other locales (service population), Williston had about 31,000 people (50% greater than the latest census figures), not including about 11,000 people living in the six townships surrounding Williston, and Williams County had 53,000 people (80% greater than the latest census figures). The recent downturn in the price of oil has undoubtedly reduced the service population but no known estimates exist.

4. Transportation

The city's location at the intersection of north-south U.S. Highway 85 and east-west U.S. Highway 2 is beneficial due to the amount of traffic created by these two highway systems. Both are major traffic arterials for northwest North Dakota and northeast Montana. Other area modes of transportation include a regional airport (Sloulin Field) served by two international airlines (Delta Airlines and United Airlines), freight and passenger railroad service provided by Burlington Northern Santa Fe, and numerous freight hauling companies, bus line, etc.

Williston's airport boardings have increased every year from 2007-2014 with dramatic increases in recent years, increasing from 11,230 in 2009 to over 116,000 in 2014, an average of 60% annually. Increased airport boardings are normally a sign of a vibrant market. The increases would likely have been even more dramatic if not restricted by the airport's physical capacity. A relocation project to increase the airport's capacity is underway with completion planned for 2018. However, decreased oil prices have resulted in a dramatic decrease in airport boardings in the last two years. Specifically, 2016 and 2017's boardings of about 68,000-69,000 represent a decrease of more than 40% from 2014's record of 116,000. Even so, 2016 and 2017's total boardings are nearly double every year prior to 2013. Continued stabilization is expected in 2018. The state's and city's airline boardings are detailed on the following page.
5. Economic Base

Agricultural trade was the primary economic base of the city and the state's entire northwest quadrant until April 4, 1951, when Amerada Petroleum Corporation first discovered oil in the Williston basin. Williston quickly evolved as one of the principal oil operations. During the 1950s, three major refineries, several gas processing plants, and other oil related complexes were built in the community. This oil industry grew steadily from the 1950s through the early 1980s. In turn, Williston's population grew from 11,280 in 1970 to 13,336 in 1980, an increase of 18.2%. A 1982 special census revealed a population of 16,963, an increase of 30.8% in just two years (1980-1982). The growth from 1970 through 1982 was primarily due to the rapid expansion of the area's natural resource industry, again most notably oil exploration. During this time, all facets of the area's economy experienced considerable growth. More specifically, the area real estate market experienced significant increases in virtually all areas.
In 1981, the natural resource industry slowed considerably and, at about this same time, interest rates increased to an all-time high. Combining these two economic factors with the agricultural market's difficulties, especially during the late 1980s (drought years), created an obvious negative impact on the area's overall real estate market. Real estate sales, new construction, rentals, and other real estate related industries declined dramatically. A large part of the local real estate market during the 1980s consisted of properties foreclosed by lenders and placed on the market for resale. Again, the 1982 special census verified Williston's population at 16,963 but, from 1982-1990, the population decreased to 13,076, a decrease of 22.9%. The 2000 U.S. Census reported Williston's population at 12,512, a 4.3% decrease since 1990.

The Williston market struggled through the economic difficulties experienced during the late 1980s but some renewed optimism started to occur in about 1990-91. Wal-Mart and K-Mart built and opened new large retail stores in the north end of Williston in 1990-91. Friendly True Value Hardware leased the vacated K-Mart store and renovated the property. These retail outlets became major employers and enhanced Williston's retail sales. However, these new large retail buildings, located in Williston's north end, have placed a burden on existing smaller retail businesses, especially in the central downtown business district. Even so, growth in the retail sector is a significant economic indicator for the community.
6. **Energy Industry Base (5-8-18)**

As previously noted, North Dakota is now the nation's second-largest oil producing state. The resurgence of the oil industry, originating from the oil-rich Bakken formation that spans about 200,000 square miles under North Dakota, Montana, and Saskatchewan, started in about 2007. A North Dakota State University (NDSU) study detailed the Williston planning region has become the most energy-dependent region in the state with 57% of jobs considered "energy-related". A degree of risk is then evident throughout the region. The study's author, Mr. Dick Gardner, identified the four primary factors creating this risk as "changes in hydraulic fracturing laws that would lengthen the well permitting process, tax reforms that would strip away incentives, a continued sluggishness in the U.S. and world economies, or a major drop in oil prices".

The energy industry has been quite cyclical. The price of oil is generally quoted as West Texas Intermediate (WTI) Cushing Crude Oil. North Dakota's sweet crude is then discounted from this benchmark price as a result of transportation constraints. WTI experienced a dramatic fall from its peak of $136/barrel in July 2008 to $39/barrel in February 2009. Within a matter of months, the price had recovered to $70/barrel in June 2009. Between October 2010 and November 2014, the price remained relatively stable, fluctuating between $80-$110/barrel. Since the most recent peak of about $106 in June 2014, oil prices decreased sharply to $45/barrel in January 2015 and fluctuated between $30-$60/barrel through 2017. However, prices have steadily climbed from near $50/barrel in September 2017 to $67/barrel as of April 2017 (Source: www.eia.gov). The U.S. Energy Information Administration predicts oil prices to remain near this level through 2019. The state observed consistent, substantial increases in daily oil production from 2007-2015 despite the price fluctuations but the production pattern has started to mirror oil prices in recent years as detailed in the following chart (Source: www.dmr.nd.gov).
The Petroleum Council estimates that every new drilling rig creates and/or supports 40 ancillary jobs in the oil industry and 120 direct and indirect jobs. From 2009 to 2012, the rig count increased from 53 rigs to a record of 200 rigs with a peak of 218 in May of that year. Despite modest decreases in the number of oil rigs observed in 2013 and 2014, production continued to increase through 2015. The continued weakness in oil prices then significantly impacted the number of active rigs in the state. In 2016, only 35 rigs, 17.5% of the 2012 peak, were active. To put this number into perspective, this is the lowest rig count in the last ten years. The decline in oil prices resulted in fewer drilling rigs, and, therefore, fewer regional jobs. Smaller energy companies and “fringe” production zones, especially areas outside of the “Big Four” oil producing counties (Dunn, McKenzie, Mountrail, Williams), were the first to absorb the reduction in drilling activity. However, increased oil prices resulted in an increase from 27 rigs in May 2016 to 53 rigs in December 2017, a 96% increase. This trend of increased oil activity is continuing into 2018 as 59 rigs were active as of March 2018. The state’s drilling statistics and the state’s and “Big Four” counties’ historical oil production rates over the last ten years are detailed on the following charts:

**NORTH DAKOTA DRILLING STATISTICS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Avg. Rig Count</th>
<th>New Wells</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>43</td>
<td>359</td>
</tr>
<tr>
<td>2008</td>
<td>75</td>
<td>581</td>
</tr>
<tr>
<td>2009</td>
<td>53</td>
<td>522</td>
</tr>
<tr>
<td>2010</td>
<td>126</td>
<td>862</td>
</tr>
<tr>
<td>2011</td>
<td>182</td>
<td>1,300</td>
</tr>
<tr>
<td>2012</td>
<td>200</td>
<td>1,995</td>
</tr>
<tr>
<td>2013</td>
<td>185</td>
<td>2,176</td>
</tr>
<tr>
<td>2014</td>
<td>190</td>
<td>2,624</td>
</tr>
<tr>
<td>2015</td>
<td>91</td>
<td>1,363</td>
</tr>
<tr>
<td>2016</td>
<td>35</td>
<td>629</td>
</tr>
<tr>
<td>2017</td>
<td>51</td>
<td>1,071</td>
</tr>
<tr>
<td>March 2018</td>
<td>59</td>
<td></td>
</tr>
</tbody>
</table>

Source: Industrial Commission of North Dakota Oil & Gas Division, [www.dmr.nd.gov/oilgas](http://www.dmr.nd.gov/oilgas)
# Historical Barrels of Oil Produced

<table>
<thead>
<tr>
<th>Year</th>
<th>North Dakota</th>
<th>Dunn</th>
<th>McKenzie</th>
<th>Mountrail</th>
<th>Williams</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>62,702,445</td>
<td>5,600,938</td>
<td>7,584,535</td>
<td>16,045,007</td>
<td>5,123,092</td>
</tr>
<tr>
<td>2009</td>
<td>79,727,666</td>
<td>8,869,114</td>
<td>10,114,116</td>
<td>29,710,527</td>
<td>5,654,635</td>
</tr>
<tr>
<td>2010</td>
<td>113,063,563</td>
<td>15,163,766</td>
<td>16,224,362</td>
<td>46,192,753</td>
<td>9,863,701</td>
</tr>
<tr>
<td>2011</td>
<td>153,006,201</td>
<td>22,545,339</td>
<td>30,089,840</td>
<td>51,213,505</td>
<td>20,780,138</td>
</tr>
<tr>
<td>2012</td>
<td>243,213,748</td>
<td>37,536,586</td>
<td>56,885,719</td>
<td>68,758,700</td>
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<td>50,647,496</td>
<td>87,134,284</td>
<td>78,789,611</td>
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<td>130,360,645</td>
<td>94,814,068</td>
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<td>2015</td>
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<td>2016</td>
<td>376,116,814</td>
<td>66,032,733</td>
<td>138,975,383</td>
<td>74,928,273</td>
<td>60,695,971</td>
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<tr>
<td>2017</td>
<td>385,794,536</td>
<td>71,621,275</td>
<td>152,860,759</td>
<td>72,396,639</td>
<td>56,256,223</td>
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</table>

*Confidential wells are not included*

Source: North Dakota Dept. of Mineral Resources, [www.dmr.nd.gov](http://www.dmr.nd.gov)
The North Dakota Department of Mineral Resources estimated that about 60,000 wells over a 25-year period (starting in December 2014) are still needed to fully develop the Bakken and Three Forks formations, resulting in numerous large oil and gas companies to invest significantly in the area market. Over 13,000 wells are currently producing oil in North Dakota. This oil industry expansion significantly impacted the area communities, most notably in a shortage of housing. Non-oil businesses, but those supporting the energy industry, such as construction firms, retail, lodging facilities, restaurants, etc. also benefit from the oil industry. Considerable new residential and commercial development evolved throughout the region, corresponding with the increased rig count over the last few years. While a significant number of "production" jobs were added to the regional market, the recent decrease in drilling activity definitely tempered the need for new development and even resulted in an over-supply in certain segments.

7. Retail Base

Even before the expansion of the oil industry, Wal-Mart found Williston to be a viable location as it opened a new Supercenter in the summer of 2006. More specific to the retail market is the growth rate of Williston's taxable sales and purchases since 2000, as compared to the state. Williston's taxable sales and purchases increased 160% from 2000 through 2007, an annual average growth rate of 14.6% as compared to the state's 50% seven-year increase, 6.0% per year. The community's growth in taxable sales and purchases has continued to outpace the state. Williston generated a record $3.51 billion in taxable sales 2012, an increase of 73% over 2009. However, stabilization was observed in 2013/2014, represented by a 3.6% decrease from the historic 2012 levels in 2013 followed by a comparatively modest gain of 8.7% in 2014. Williston is still leading the entire state in taxable sales at $3.7 billion but, yet, little new retail development has taken place until recently. (Fargo was second at $2.8 billion in taxable sales although its MSA exceeds 100,000 people.) A large percentage of the retail sales are in the mining and oil extraction sector. This sector had the largest decrease statewide in 2015, falling nearly 40%. This reliance the oil commodity was the primary factor leading to 2015's and 2016's decreases of about 74% and 70% in the county's and city's taxable sales, respectively, from 2014-2016. Even so, it must be noted 2015/2016's decreases are from record highs few believed to have long-term sustainability. To put this into perspective, Williams County's 2016 total taxable sales were still 45% greater than 2009. It appears the "bottom" has been reached as taxable sales rebounded about 24% in 2017. Continued volatility is anticipated, but to far lesser extremes than that observed in recent history. The state's, county's, and city's taxable sales and purchase statistics are detailed on the following chart and graph.
## TAXABLE SALES & PURCHASES

<table>
<thead>
<tr>
<th>Year</th>
<th>North Dakota*</th>
<th>Williams County</th>
<th>Williston</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Total</td>
<td>% Change</td>
<td>Total</td>
</tr>
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<td>2009</td>
<td>11,758,963,539</td>
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<tr>
<td>2010</td>
<td>14,181,133,773</td>
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<tr>
<td>2011</td>
<td>19,651,350,876</td>
<td>38.6%</td>
<td>3,268,184,480</td>
</tr>
<tr>
<td>2012</td>
<td>25,326,322,403</td>
<td>28.9%</td>
<td>4,676,307,797</td>
</tr>
<tr>
<td>2013</td>
<td>25,472,587,433</td>
<td>0.6%</td>
<td>4,409,414,699</td>
</tr>
<tr>
<td>2014</td>
<td>28,236,456,966</td>
<td>10.9%</td>
<td>3,825,918,500</td>
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<tr>
<td>2015</td>
<td>22,898,280,111</td>
<td>-18.9%</td>
<td>2,369,853,753</td>
</tr>
<tr>
<td>2016</td>
<td>17,347,243,371</td>
<td>-24.2%</td>
<td>1,164,521,570</td>
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<tr>
<td>2017</td>
<td>17,900,699,259</td>
<td>3.2%</td>
<td>1,449,029,110</td>
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</tbody>
</table>

*Source: North Dakota Sales & Use Tax Statistical Report - Office of State Tax Commissioner

*Grand Total In- and Out-of-State*
8. Real Estate Observations

The resurgence of the area's energy industry has had a significant impact on the real estate market. Some specifics include:

- **Building permit activity**, both in terms of the number of permits and total valuation, increased nearly four-fold from 2009 through 2012. (See following building permit statistics placed at the end of this section.) The 2013 building permit activity receded somewhat, both in the number of permits issued and total valuation, before again setting historical records in 2014 in both "permits issued" and "total valuation". However, regression is evident in 2015-2017's statistics, which are less than half of 2014's records. Even so, 2017's "total valuation" still exceeds any year prior to 2010.

- The total number of housing units constructed within the city's one-mile jurisdiction totaled 166 in 2009, increased to 688 in 2010, peaked at 1,816 in 2012 with a range of 1,373-1,816 from 2011-2014, and decreased sharply to 691 in 2015 and only 28 units in 2016, confirming the housing segment has been overbuilt.

- From 2009-2014, most newer residential rental units were reflecting near 100% occupancy, few single-family residential properties were available for sale, single-family residential prices had been increasing, and new speculative construction was occurring in most markets. However, the strong demand for housing resulted in the development of a multitude of high-density residential complexes (apartments, condominiums, and townhouses) and something that had been absent in the marketplace, new speculative single-family development. Ample supply now exists due to significant vacancies in the local market. Specifically, nearly 5,800 apartments have been added to the city since between 2011-2015. Vacancies of about 50% are common in newer complexes. The apartment segment is obviously overbuilt.

- The commercial demand had expanded into speculative development in the light industrial market in the form of predominantly service shop type buildings. The city reports that Williston is now the home to more than 350 oil service companies to include the 10 largest oil field service companies in the world.

- Numerous new developments have evolved within and in proximity to Williston with some of the more significant being:
  - Granite Peaks' 280-acre residential/neighborhood business Harvest Hills Subdivision.
  - A multitude of new industrial parks including the 720-acre Bakken Industrial Park, 300-acre Missouri Ridge Commercial Park, and ±370-acre Bennett Industrial Parks.
  - The 200-acre Sand Creek Town Center retail lifestyle shopping center, located on Williston's west side, is significantly expanding the retail market. Major users include an 18,000-sq.ft. Menards with 80,000-sq.ft. warehouse and lumberyard with three drive-thru lanes on a 20-acre site and Sportsman's Warehouse. The only other developed use is a multi-tenant retail center. Plans were to develop hotels, furniture store, and other mixed-use retail.

The hotel market has expanded over 150% (relates to the number of rooms) since 2003 with a multitude of new hotels constructed from 2010-2014. Hotels are currently overbuilt as city-wide occupancy of only 43.5% was reported in 2017.

The phenomenal expansion of the local energy industry had favorably impacted virtually every local market segment through 2014. One of the largest challenges that faced the city was the availability of funding for continued installation of infrastructure. This challenge had been met when the state awarded a $1.1 billion "surge" funding package for the 2014-2015 biennium to help meet western North Dakota's infrastructure demands. The slowdown in the oil-related activity has allowed the City infrastructure to "catch up" to recent development.
9. Social Observations

Major area employers include Mercy Hospital, the public school system, Bethel Lutheran Home, government, several of the major retail outlets, and a still comparatively large agricultural economic base but now the energy industry leads all employers.

Williston provides virtually all the community amenities anticipated in a community of this size to include full-service medical center, adequate educational opportunities including a two-year post-secondary college known as Williston State College with an enrollment approximating 850, considerable recreational amenities including the $70 million 234,000-sq.ft. Williston Area Recreation Center (WARC) constructed in 2014. It is the largest facility of its kind in the state.

10. Conclusions - Relevance to Subject Property

The robust economy that the state experienced between 2008 and 2014 has now receded, a result of the decreasing oil and agricultural commodity prices. It required the governor to call for an emergency legislative session in the first week of August 2016 to address the budget shortfall. Even so, the state is still reflecting a comparatively low unemployment rate and wages are holding steady.

Williston had emerged from a dramatic downturn in its local economy during the 1980's and was reflecting a relatively stable market until the resurgence in the energy industry starting in 2007. The prior "boom-to-bust" markets created a more cautious outlook and virtually every market segment had been reflecting demand exceeding supply through mid-2014. However, uncertainty in the local market is now evident. Evidence of impacts created by low oil prices include trimmed work forces, a number of energy-related companies filing for bankruptcy, and reduced rents and prices and corresponding increased vacancies. The major national companies have not abandoned the market but they are attempting to operate at a more efficient level. Stabilization through 2018 in virtually all community-wide markets is anticipated.
## WILLISTON'S BUILDING PERMIT ACTIVITY SUMMARY

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<tr>
<th>Type of Permit</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<td>Valuation</td>
<td>Permits</td>
<td>Valuation</td>
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<td>Valuation</td>
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<td>1</td>
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<th>2015</th>
<th>2016</th>
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<td>Permits</td>
<td>Valuation</td>
<td>Permits</td>
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Source: www.cityofwilliston.com

G:\Statistics\Williams Co\Williston
Subject

truck route

U.S. Hwy 2/85
F. NEIGHBORHOOD ANALYSIS

1. Identified Boundaries (8-06-18)

The subject is located in an evolving predominantly residential-use neighborhood in the
city's northwest quadrant. The broader neighborhood starts just beyond the
commercial/retail "strip" located along W. Dakota Parkway/U.S. Highway 2 Bypass, the
neighborhood's southeast boundary. It extends south and west of the airport. The city
limits form the north and west boundaries. These neighborhood boundaries tend to
delineate areas with different land use. The subject property's more immediate area,
north of 26th Street W, consists of mixed-density residential uses with predominantly
single-family residential uses located south of 26th Street W. The maps at the end of this
section assist in visualizing this neighborhood and its related uses.

2. Access

The only major traffic arterial connecting to W. Dakota Parkway/U.S. Highway 2 is 26th
Street W, crossing east-west through the middle of the neighborhood. A multitude of
internal streets then provide good access within the defined neighborhood and to the
adjacent areas offering support services.

3. Development/Land Uses

Again, this defined neighborhood is predominantly residential in use but supporting
commercial uses (c-store, neighborhood retail, etc.) also exist. Beyond the strip
commercial development along W. Dakota Parkway, some areas are zoned for multi-
family development but the predominant zoning allows single- and two-family residential
development. Other select periphery areas are also zoned for higher-density residential
uses with apartments, condominiums, and townhouses apparent. A large part of the
neighborhood's south end is zoned for public use; it consists of a large recreation area.

The neighborhood is about 80% developed with most of the vacant land or sites located
in the west and northwest parts, including the most recent subdivisions: Harvest Hills,
The Ridge at Harvest Hills, and Fairhills. Some pertinent details relating to these
subdivisions include:

- **Harvest Hills**: 280-acre master-planned mixed-use project that, when complete, will
  consist of single-family, multi-family, office and retail use that incorporates schools, a
  public park, and pathway system. Its comparatively higher elevation provides
  favorable views of the river bottoms to the south. Ground was broken on the 120-
  acre Phase I in June of 2011. It was planned to include 165 single-family residences
  and 485 apartments. It was initially planned for additional phases but the land was
  sold to another developer for "The Ridge at Harvest Hills". The new $70 million
  Williston High School opened in 2016.

- **The Ridge at Harvest Hills**: Development of the initial phase of the 164-acres was
  completed in the summer of 2013. Including the planned Phase II, the project is
  planned to support development of 330 apartments and 500 single-family houses,
townhouses, and duplex units. The first phase includes development of the 330
  apartments, 48 duplexes lots, and 144 single-family house lots.

- **Fairhills**: This 150-acre mixed-use low-density residential and commercial use
  subdivision was developed in 2013/2014. It is located between Harvest Hills and
  existing development. About 30 acres was sold and replatted as Hagen Townhomes
  Subdivision in 2014.
Typical area residential prices approximate $200,000-$400,000. Development started in the late 1970's, some development took place in the 1980's, and new development has evolved since about 2007 with the resurgence of the energy industry. Good maintenance levels were apparent and owner-occupancy is predominant. Area property values increased significantly between 2007 and 2014 as the demand for residential housing increased significantly. Most area single-family residences sold within three months and considerable new speculative construction occurred. However, the combination of oil price decreases amidst ample new supply resulted in lesser prices and extended marketing periods since mid-2014. Similarly, most new apartment developments built in 2009-2014 were leased even before completion and most generated waiting lists. However, decreased rents and ample vacancies now exist.

4. Services

All public and municipal utilities and services and general amenities competitive with other areas of Williston exist.

5. Conclusion - Relevance to Subject Property

The broader defined neighborhood offers or has proximity to most amenities anticipated in a residential based neighborhood. The subject property is located in the more established residential area of the neighborhood. Combining these observations with ease of access favorably impacts the subject property in terms of the ability to attract residents.
AERIAL LOCATION MAP
Source: Google Earth

The Ridge
Harvest Hills
Hagen Townhomes
Fairhills
golf course
Subject
Airport
26th St. W.
W. Dakota Pkwy./U.S. Hwy 2
high school

Subject: W. Dakota Pkwy./U.S. Hwy 2 Bypass
26th St. W.
The Ridge
Airport
Fairhills
Subject
golf course
Harvest Hills
Hagen Townhomes
high school
W. Dakota Pkwy./U.S. Hwy 2
G. SITE DESCRIPTION

1. Introduction

Even though a site is described as though vacant, most land parcels have been improved to some extent so the term site is used in the following description. The enclosed exhibits facilitate the site’s description. This site description is based on the premise that the site is vacant though all site preparation and existing utilities remain. Likewise, all plats, surveys, zoning maps, etc. are assumed to be reliable; no warranty is implied as to their accuracy. Lastly, it is assumed that the site is environmentally clean and no adverse soil conditions exist.

2. Identification

The subject site, as previously identified, is graphically illustrated on the following exhibits:

**PLAT MAP EXCERPT**

Source: NDRIN

Denotes subject site
GIS EXCERPT
Source: Williams Co. GIS

Outlines subject site

- 10' utility and roadway easement
- 30' utility easement

24th Ave. W
22nd Ave. W
28th St. W
27th St. W
21st Ave. W

3. Locational Characteristics
   - Address: 2205 28th St. W, Williston, ND
   - Location: Located in the community's northwest part, north of 26th St. W between 16th Ave. W and 35th Ave. W
   - Adjacent Site Users: Multi-family residential to the west, across 28th St. W to the northeast, and across 21st Ave. W to the east, single-family residences to the northwest, and multi-family residential and Racers convenience store across 27th St. W to the south. Land use consistency is apparent.

4. Physical Characteristics
   - Shape: Irregular
   - Size: 2.58 acres, a comparatively large size but still reasonably consistent with those developed with multi-family residential development
   - Topography: Mostly level
   - Soils: Assumed sufficient for development
   - Other: No physical limiting site characteristics were apparent.

5. Access and Visibility
   - Access: The adjacent streets, 27th St. W, 28th St. W, and 21st Ave. W provide direct access to the site's north and south sides and east end.
   - Visibility: Average due to its "interior" block location, adequate for multi-family residential use

6. Site Limitations
   - Flood Plain: Zone X – not in a flood hazard area
   - Easements: Standard utility and street easement encumbers the site's north, south, and east 10' and a 30' utility easement bisects the site in a north-south direction near the site's middle. The perimeter easements do not significantly affect the site's utility but the bisecting 30' easement's size and location restricts building placement.
     - Environmental Concerns: None known
     - Other Encumbrances: None noted

7. Off-Site Improvements
   - Adjacent Street: 27th St. W and 28th St. W are asphalt-surfaced with concrete curb and gutter, street lights, and sidewalks. 21st Ave. W is asphalt surfaced.
   - City Services: All available
   - Public Utilities: All available
8. Zoning

The subject site is zoned "R-3; Lowrise Multi-family and Townhouse Residential District", zoning consistent for the defined neighborhood. Per the Williston zoning ordinance, "This district is intended primarily for lowrise multifamily and townhouse dwellings at moderately high population densities; but structures and uses required to serve governmental, educational, religious, recreational, and other needs of residential areas are allowed as permitted or special permitted uses subject to restrictions intended to preserve and protect the residential character of the district." Some of the more significant components of this zoning district include:

- Permitted Uses: Single-family, two-family, multi-family, townhouses, and those uses typically ancillary to residential development or parks, playgrounds, recreational facilities, etc.
- Minimum Lot Requirements: 6,000 sq.ft. for single- and two-family and 6,000 sq.ft. per structure for multi-family, and 2,300 sq.ft. for a townhouse. The minimum lot width is 18' for a two-story townhouse and 24' for a single-story townhouse.
- Minimum Yard Requirements: 20' front yard, 5' side yard on lots up to 50' in width and 6' on lots greater than 50', and 20' rear setback.
- Maximum Lot Coverage Ratio: 35% for single- and two-family and 40% for townhouse and multi-family.
- Minimum Floor Area: 800 sq.ft. excluding garage for single- and two-family and 450 sq.ft. per dwelling unit for most all other residential units.
- Maximum Building Height: 45'
- Off-Street Parking: Two spaces per dwelling

9. Conclusions

The subject site's characteristics are consistent within the defined neighborhood. Favorable attributes are its "R-3" zoning and ease of access. Its least desirable characteristics are its irregular shape and bisecting utility easement.
H. DESCRIPTION OF IMPROVEMENTS

1. Introduction

The following briefly describes the subject improvements based on:
- Client-provided plans developed by Economics Architects referenced as "0931" and dated May 5, 2011,
- City assessor's records,
- the July 11, 2018, appraisal inspection (consisted of interior and exterior observations and spot measurements) in the accompaniment of the property manager (Justine).

This description is intended only to familiarize the reader with the general construction, finish, and utility of the improvements in their "as is" condition. No attempt was made to detail all improvement characteristics. The enclosed exhibits are to be used for descriptive purposes only; no exact scale or accuracy is implied.

2. Compliance Requirements

- It is assumed that all appropriate building, health, environmental, etc. permits were secured and maintained in this building.
- As in the previous site description, it is assumed that no environmental hazards exist in the subject improvements that measurably impact the subject property's concluded market value. The appraisal is subject to revision by and at the discretion of the undersigned in the event that pertinent environment information is disclosed indicating that such a revision is warranted.
- The Americans with Disabilities Act (ADA), effective January 26, 1992, generally applies to improvements in which the general public normally accesses. The subject is a privately-owned apartment complex, a use that generally does not fall within the ADA requirements.

3. History

The subject's improvements were constructed in 2011 as a five-building, 40-unit apartment complex. The property manager confirmed that no significant updates have been completed since its construction.

4. Site Utilization

a. Site Plan: The following site plan exhibit and aerial photo facilitate this description.
SITE PLAN EXCERPT
Source: Owner-provided plans

- Red: Outlines subject site
- Blue: Outlines building footprints

- Carport
- Community building
- Playground
- Apartment building 1
- Apartment building 2
- Apartment building 3
- Apartment building 4
- Apartment building 5
- 22nd Ave. W
- 28th St. W
- 21st Ave. W
- 30' utility easement
- 10' utility and road easement

Outlines subject site
Outlines building footprints

NORTH
NORTH AERIAL PHOTO
Source: Google Earth
Detailed boundaries are not exact – not a survey
- Red: Outlines subject site
- Blue: Outlines building footprints

- **24th Ave. W**
- **27th St. W**
- **28th St. W**

- **Carport**
- **Apartment Building 1**
- **Apartment Building 2**
- **Apartment Building 3**
- **Apartment Building 4**
- **Apartment Building 5**
- **Community Building**
- **Playground**
- **Detached Garage 3**

Streets:
- **24th Ave. W**
- **28th St. W**
- **27th St. W**
- **21st Ave. W**
b. Site Access: Direct access is provided onto the site from 28th St. W by two driveways installed along the site's north side.

c. Building Placement: The five mostly rectangular apartment buildings and community building are situated around the site's perimeter, surrounding the central parking lot with carports. The apartment buildings', community building's, and carports' placements create good building access and site utilization with on-site parking in proximity to the apartment buildings.

d. Site Coverage Ratio: 25,233-sq.ft. apartment building footprint area ÷ 2.58-acre site = 22.5%, consistent with the "typical" market segment range of about 15%-25%.

e. Parking Lot and Parking Requirements: On-site "lined" parking spaces are provided between the apartment buildings and detached carports, along the asphalt parking lot. The owner-provided site plan details 53 estimated parking spaces, including 3 handicapped accessible spaces. The five detached carports provide 32 additional parking stalls. Total on-site parking then approximates 85 spaces. Current multi-family zoning requirements require 2 spaces/2-bedroom apartment, and 2 spaces/3-bedroom apartment. The parking space requirement computes to:

- 20 2-bed x 2 spaces/apt. = 40 spaces
- 20 3-bed x 2 spaces/apt. = 40 spaces

Total spaces: 80 spaces

It appears that the property complies with current parking requirements.

f. Site Improvements

- Concrete: Concrete patios at each main floor apartment and sidewalks connect the apartment building entries to the parking lot.
- Asphalt: Parking lot/access drive
- Landscaping: Irrigated grass, shrubs, trees, landscape rock, etc. installed around the community building and apartment buildings' perimeters.
- Site Lighting: None
- Community Building: 1,203-sq.ft. wood framed building with open community space, common laundry, exercise room, office, bathroom, and maintenance room.
- Playground: Play equipment surrounded by sand
5. Building Design & Use

This 40-unit apartment complex has five virtually identical two-story (over crawlspace) apartment buildings, five detached carports, and community building. Each apartment building has four 2-bedroom/2-bath apartments and four 3-bedroom/2-bath apartments with two of each type on each floor. Each apartment has separate exterior access. All apartments include an open living room/dining room/kitchen, master suite (includes private bathroom), and mechanical room accessed from the patio/balcony. The 3-bedroom apartments include walk-in closets in the master and a second bedroom.

Unit amenities include the kitchen appliances (refrigerator/freezer, range/oven, microwave/hood, dishwasher, and garbage disposals), washer and dryer hookups, central air, and concrete patio or wood balcony. The building composition, unit sizes, and total room count (does not include bathrooms or storage rooms) are tabulated as:

<table>
<thead>
<tr>
<th>Apt. Type</th>
<th>No. of Units</th>
<th>Rooms</th>
<th>Beds</th>
<th>Full Baths</th>
<th>Apt. Size/ NRA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-bed/1-bath</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1,025 sq.ft.</td>
</tr>
<tr>
<td>2-bed/1-bath</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1,070 sq.ft.</td>
</tr>
<tr>
<td>3-bed/1-bath</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1,227 sq.ft.</td>
</tr>
<tr>
<td>3-bed/1-bath</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1,271 sq.ft.</td>
</tr>
<tr>
<td>Totals</td>
<td>40</td>
<td>180</td>
<td>100</td>
<td>80</td>
<td>45,930 sq.ft.</td>
</tr>
</tbody>
</table>

*Net Rentable Area

The building plan exhibits on the following pages sufficiently detail the apartment and community buildings' design and each unit's layout. Brief details relating to most of the building components to include their perceived overall quality, physical condition, and functional utility are then addressed.
6. Structural Description
   a. Foundation: Concrete foundation walls set on poured concrete spread footings at a depth below the frost line.
   b. Floor Structure: Wood floor joist covered by wood decking over crawlspace on main floor. Concrete slab at community building's maintenance garage.
   c. Exterior Wall Construction/Finish: Apartment buildings are fully insulated (R-21) wood frame construction with vinyl siding.
   d. Roof Structure and Cover: Insulated (R-50) pitched wood trusses covered by wood sheathing and asphalt shingle roof cover in good condition.

7. Interior Construction and Finish
   a. Framing and Finish: Wood stud partition walls with painted drywall finish
   b. Floor Covering: The apartments have residential-grade carpet (living room, bedrooms, halls) and vinyl tile (kitchens, bathrooms, laundry closet). Commercial-grade carpet, tile, and bare concrete (maintenance garage) in the common building.
   c. Ceiling Finish: Painted and textured drywall
   d. Trim & Doors: Apartment entry doors are fiberglass. Interior apartment doors are hollow wood in wood frames. Patio doors are fiberglass with glass insert.
   e. Windows: Vinyl hung
   f. Kitchens/bathrooms: Pre-built oak cabinets, laminate countertops, and double-bay stainless steel sink with disposal in kitchen. Wood bathroom vanities with laminate tops in the bathrooms.

8. Mechanical Systems
   b. Electrical: Individual electrical meters for each unit and the common building. The wiring and electrical service is assumed to be sufficient to accommodate the entire complex.
   c. Lighting: Ceiling-mounted incandescent and fluorescent fixtures
   d. Plumbing: All apartments have fiberglass tub/shower, stool, and sink in the bathrooms and double-bay stainless steel sink and dishwasher in the kitchen. The community building has a single bay stainless steel sink in break area, two-fixure bathroom, two sets of washer/dryer hook-ups, and a janitor's sink.
   e. Fire Protection: Hard-wired smoke alarms
   f. Security System: None noted
   g. Gutters/Downspouts: Prefinished aluminum
   h. Other: Complete wiring for telephone, cable/satellite television, internet, etc.
9. Non-Real Property Items
   a. Kitchen Appliances: Each apartment has a refrigerator/freezer, combination range/oven, combination microwave, dishwasher, and disposal.
   b. Laundry Appliances: Two coin-operated washer and dryer sets in the community building (One set is non-functioning.)
   c. Fitness Equipment: Treadmill and recumbent bike

10. Sizes and Dimensions Recap
   a. Gross Building Area (GBA)
      • Apartment Buildings
        ▪ Main Floor: 4,806 sq.ft. x 5 buildings = 25,233 sq.ft.
        ▪ Second Floor: 4,693 sq.ft. x 5 buildings = 23,465 sq.ft.
        • Community Building: 9,499 sq.ft. x 5 buildings = 47,495 sq.ft.
        Total Complex GBA: 48,698 sq.ft.
   b. Composition
      
      | Apt. Type          | No. of | Rooms | Beds | Full Baths | Apt. Size/ NRA* |
      |--------------------|--------|-------|------|------------|----------------|
      | 2-bed/1-bath       | 10     | 4     | 2    | 2          | 1,025 sq.ft.   |
      | 2-bed/1-bath       | 10     | 4     | 2    | 2          | 1,070 sq.ft.   |
      | 3-bed/1-bath       | 10     | 5     | 3    | 2          | 1,227 sq.ft.   |
      | 3-bed/1-bath       | 10     | 5     | 3    | 2          | 1,271 sq.ft.   |
      | Totals             | 40     | 180   | 100  | 80         | 45,930 sq.ft.  |

   *Net Rentable Area
   b. Average Size/Unit
      • Based on complex GBA: 48,698 sq.ft. ÷ 40 units = 1,217 sq.ft.
      • Based on apt. buildings' NRA: 45,930 sq.ft. ÷ 40 units = 1,148 sq.ft.
   c. Parking Spaces
      • Open Parking Stalls: 53 spaces
      • Carport Stalls: 32 spaces
      Total: 85 spaces
   d. Site Coverage Ratio: 25,233-sq.ft. apt. building footprint ÷ 2.58-acre site = 22.5%

11. Physical Ratings
   • Quality of Construction: Average
   • Physical Condition: The building components are in a condition consistent with their age. One of the apartments viewed had excessive wear/deferred maintenance as the tenant just moved out and the apartment was in the process of being reconditioned for re-leasing. However, the property manager confirmed its condition was not typical of the apartments as of the appraisal's effective date. Therefore, the building's overall condition is "good".
   • Functional Utility: The apartments' floor plans are generally consistent with this particular market segment/age. The common laundry may be an over-improvement as each apartment has in-unit laundry hook-ups. Adequate building utilization exists. Collectively, the improvements have "average" functional utility.

12. Building Ages
   • Historical: 6-7 years (2011)
   • Est. Effective Age: 7 years
   • Est. Remaining Economic Life: 45-50 years
I. HIGHEST AND BEST USE ANALYSIS

1. Introduction  

The previous discussion detailed the area and neighborhood markets and the subject property. The highest and best use analysis is a market driven concept that attempts to identify the most probable and profitable, competitive use to which the market and property can support, key determinants in the concept of value. In essence, this analysis reconciles the previously assembled market information into the foundation on which the applicable value rests. Because of its importance, the definition of *highest and best use* is detailed as:

"The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity..."

Conclusions of highest and best use for real estate are normally made according to two premises. The first premise assumes that the site is *vacant* and *available* for development and the second premise addresses the highest and best use of the property *as improved*. Generally, the conclusion of a site's highest and best use "as though vacant" is required except in circumstances where the improved property has a structure(s) with a significant remaining economic life and/or little or no indication of market demand for a change in use is apparent.

The site's as though vacant highest and best use analysis was considered but not specifically analyzed as:

- The property's total value (includes site and improvements) far exceeds that of the site's value as though vacant. (The Williams County assessing office has the site valued at only 54% of the property's total true and full value.)
- Even though the site has some definite contributory value, the improved property's present use is not an interim use.
- No evidence of impending area land use transition was apparent.

Based on the preceding, this site, if vacant, would have market appeal but not to the extent that its market value would be remotely similar to the improved subject property's market value. For this reason, only the property's highest and best use *as improved* is addressed in this report.

2. As Improved Highest and Best Use Analysis

This concept applies the four tests to the improved property's current use as a 40-unit apartment complex.

a. Legally Permissible: The improved property's current apartment complex use is permitted by its "R-3; Lowrise Multi-family and Townhouse Residential District" zoning. The property is currently encumbered by a land use restrictive covenant for low-income housing tax credits. However, this land use restriction is not considered in this analysis as only the property's fee simple interest is addressed. No other legal restrictions are known that prohibit this use.
b. Physically Possible: The use is physically possible within the site's constraints as:
   - The improvements conform to zoning dimensional standards.
   - The site coverage ratio of 22.5% approximates the upper end of, but consistent with, the "typical" market segment range of about 15%-25%.
   - The improvements require no significant physical modifications.
   - Good functional utility for this particular use exists.

c. Financially Feasible: This 40-unit apartment complex use is financially feasible if it creates a positive return on invested equity. Several investment criteria should normally exist if the use is deemed to be financially feasible.
   - The current use must have the ability to generate sufficient income and/or value in excess of that needed to support the site's underlying market value. The following analysis concludes that the property, market value far exceeds that anticipated by the site, if vacant.
   - The property's apartment complex use conforms to the neighborhood's established land uses.
   - The property is located in reasonable proximity to many support facilities.
   - Despite definite vacancy concerns, adequate demand still exists. However, any new apartment development would further increase supply in excess of demand. Williston's total new apartment building permit statistics are detailed as they accurately detail the historic development rate.
The apartment market grew at a rate exceeding the overall housing market, increasing from 40 new units in 2008 to 1,501 in 2013, an average annual increase of over 106%. Market expansion was anticipated due to the area's resurgence of the energy industry. However, like the overall housing market, decreased activity was reported in the apartment market segment in 2014. Specifically, 2014's 1,290 unit building permits issued with a total valuation of $170.8 million was 14%-15% less than 2013's records. Like the overall housing market, permits for new apartment units significantly decreased since 2014. Specifically, only 612 new apartment units permits were issued in 2015, a 53% decrease from 2016, followed by no new permits in 2016 and 2017. The significant decrease in building activity since 2014 is an indication that the market was overbuilt. Significant vacancy existed in the Williston apartment market from mid-2014 through mid-2017. However, they are not to the level that the subject property's apartment use is unsustainable.

<table>
<thead>
<tr>
<th>Year</th>
<th>Permits Issued</th>
<th>% Change</th>
<th>Units</th>
<th>% Change</th>
<th>Valuation</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2</td>
<td>0.0%</td>
<td>40</td>
<td>-44.4%</td>
<td>$1,942,826</td>
<td>-75.4%</td>
</tr>
<tr>
<td>2009</td>
<td>4</td>
<td>100.0%</td>
<td>128</td>
<td>220.0%</td>
<td>$14,006,069</td>
<td>620.9%</td>
</tr>
<tr>
<td>2010</td>
<td>12</td>
<td>200.0%</td>
<td>246</td>
<td>92.2%</td>
<td>$20,765,601</td>
<td>48.3%</td>
</tr>
<tr>
<td>2011</td>
<td>25</td>
<td>108.3%</td>
<td>1,017</td>
<td>313.4%</td>
<td>$124,090,369</td>
<td>497.6%</td>
</tr>
<tr>
<td>2012</td>
<td>34</td>
<td>36.0%</td>
<td>1,377</td>
<td>35.4%</td>
<td>$177,712,090</td>
<td>43.2%</td>
</tr>
<tr>
<td>2013</td>
<td>49</td>
<td>44.1%</td>
<td>1,501</td>
<td>9.0%</td>
<td>$200,525,259</td>
<td>12.8%</td>
</tr>
<tr>
<td>2014</td>
<td>48</td>
<td>-2.0%</td>
<td>1,290</td>
<td>-14.1%</td>
<td>$170,824,657</td>
<td>-14.8%</td>
</tr>
<tr>
<td>2015</td>
<td>14</td>
<td>-70.8%</td>
<td>612</td>
<td>-52.6%</td>
<td>$71,412,064</td>
<td>-58.2%</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>-100.0%</td>
<td>0</td>
<td>-100.0%</td>
<td>0</td>
<td>-100.0%</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: www.cityofwilliston.com
Lastly, market justification is insufficient to support a complete change in use in the subject improvements but it is sufficient to support the conclusion that the existing 40-unit apartment complex use is a productive use of the property.

Based on the preceding, the current use cannot be disregarded as financial feasibility is demonstrated, resulting in a reasonable remaining economic life.

d. Maximally Productive: The property's use as 40-unit apartment complex is legally permissible, physically possible, and all indications are that it is financially feasible. The apartment complex use represents its maximally productive use as:

- It has an acceptable location relative to its use.
- The improvements feature most amenities typically anticipated in this particular property type.
- The underlying regional and community economic bases have definitely weakened from "peak" conditions since 2014. However, they have strengthened since late 2017 and are likely to continue this trend as oil prices are expected to continue to recover over time.
- Considerable competition now exists and will continue in the near future. Even so, this complex offers most characteristics required to adequately compete in this particular market segment.

These market observations support the property's use, 40-unit apartment complex, as substantially representing its maximally productive use. This conclusion provides the basis for the following valuation process.
J. VALUATION TECHNIQUES (1-16)

The previous discussion and analysis outlined the appraisal problem, detailed the area market, neighborhood, and subject property and concluded with a determination of the property's highest and best use. The next step, developing a reliable opinion of the property's applicable value, normally involves the three traditional valuation techniques, the (a) cost approach, (b) sales comparison approach, and (c) income capitalization approach. The reliability of these valuation techniques hinges on the proper assemblage and comparison of similar market data to include sufficient information to estimate the improvements' current reproduction or replacement cost, depreciation (if any), plus the land's or site's underlying contributory value (basis for the cost approach), sale and/or asking prices of similar improved properties (basis for the sales comparison approach), and data needed to estimate and convert future anticipated benefits (generally termed "net income") into a value indication (basis for the income capitalization approach). Lastly, the subject property's market value is concluded by reconciling the three valuation techniques' results.

Each valuation technique is not an independent analysis unrelated to the other technique(s) or method(s). The entire valuation process is comprised of integrated, interrelated, and inseparable techniques and procedures that have the common objective of providing a convincing and reliable value indication. Each valuation technique normally references conclusions from the other technique(s). For these reasons, there is no predetermined sequence in the application of the applicable valuation techniques.

The cost approach is not applicable in the subject property's valuation for two primary reasons:

- The subject property is undoubtedly impacted by depreciation from external obsolescence, an element of accrued depreciation normally caused by negative influences outside the site and generally incurable on the part of the owner. Definite external obsolescence exists in this market segment due to the economic slowdown in the region combined with an oversupply resulting from the addition of a significant number of apartments over the last few years. The oversupply is confirmed by the market-wide vacancy concerns and significant community-wide rent reductions and/or concessions since 2014. Further, the subject improvements were constructed in 2011, seven years ago, thereby, creating obvious physical deterioration and possible functional obsolescence. Accurate estimates of depreciation are difficult to measure which, therefore, lessens the cost approach's reliability.
- Simply, few, if any, market participants would base their purchasing decision relating to this property on an indication from the cost approach.

The two applicable valuation techniques, the income capitalization and sales comparison approaches, are presented in the following analysis. The results are then reconciled into a final opinion of the subject property's retrospective fee simple market value.
1. **Introduction**

The market value indication developed by the income capitalization approach is the estimated present worth of future benefits of property ownership. The primary steps used in this valuation technique are:

- **Estimate gross income**, defined as:

  "Total income from a property before deducting any expenses"

  *(Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition: 105)*

  Gross income generated by a property is normally in the form of:
  - contractual rent if leased,
  - estimated market rent if owner-occupied, and,
  - in some instances, in the form of income generated by the on-premise business operation(s) found in lodging properties, convenience stores, senior care centers, assisted-living facilities, etc.

- **Estimate and deduct all expenses to derive net operating income**, defined as:

  "The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income but before mortgage debt service and book depreciation are deducted..."

  *(Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition: 158)*

- **Select and apply an appropriate capitalization process to the net operating income resulting in a value estimate.**

Application of the income capitalization process in some property types involves only the use of a gross income multiplier. In those cases, estimating the net operating income is not required as the multiplier is applied directly to the gross income.

2. **Estimate Potential Gross Income**

This property has and will continue to generate its income from renting the individual apartments. The most reliable source in stabilizing its gross income and/or net operating income then stems from analyzing its historical operating statements, assuming the property was operating at or near market levels. These historical statements can then be compared to direct and indirect market evidence to test for reasonableness.

The owner-provided February 2018 rent roll is summarized as:

<table>
<thead>
<tr>
<th>Apartments</th>
<th>Apt. Size</th>
<th>Low</th>
<th>High</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-bed/2-bath</td>
<td>1,025</td>
<td>$394</td>
<td>$773</td>
<td>$537</td>
<td>$569</td>
</tr>
<tr>
<td>2-bed/2-bath</td>
<td>1,070</td>
<td>394</td>
<td>827</td>
<td>575</td>
<td>569</td>
</tr>
<tr>
<td>3-bed/2-bath</td>
<td>1,227</td>
<td>439</td>
<td>700</td>
<td>628</td>
<td>675</td>
</tr>
<tr>
<td>3-bed/2-bath</td>
<td>1,271</td>
<td>439</td>
<td>940</td>
<td>653</td>
<td>675</td>
</tr>
</tbody>
</table>
At the current rents, the tenants are responsible for paying their own electricity (including heat/air conditioning), cable TV, internet, and telephone. The landlord is responsible for the real estate taxes, property insurance, water/sewer/garbage, and repairs/maintenance, including the landscaping and snow removal.

The next step is to determine how the current apartment rent schedule relates to market rent. Ideally, comparable market rents should be located in the same general neighborhood, consist of apartments offering comparable composition as it relates to bedroom and bath count, amenities, etc. and consist of properties with the same schedule of expense payments. The local Williston market was researched for comparable market rents. Three similar properties were located and are tabulated on the following chart. The chart is followed by a location map and pictures of the comparable market rent properties.
### COMPARABLE RENTS TABULATION

<table>
<thead>
<tr>
<th>Survey Date</th>
<th>Rent 1</th>
<th>Rent 2</th>
<th>Rent 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Nakota Ridge</td>
<td>Waters Edge</td>
<td>Bakken Heights</td>
</tr>
<tr>
<td>Address</td>
<td>2205 28th St. NW</td>
<td>705 5th St. E</td>
<td>2015-2101 32nd St. W</td>
</tr>
<tr>
<td>City</td>
<td>Williston</td>
<td>Williston</td>
<td>Williston</td>
</tr>
<tr>
<td>Number of Units</td>
<td>40</td>
<td>50</td>
<td>360</td>
</tr>
<tr>
<td>Vacancy</td>
<td>1</td>
<td>12</td>
<td>86</td>
</tr>
<tr>
<td>Management</td>
<td>Owner</td>
<td>Syringa</td>
<td>Valley Rental</td>
</tr>
</tbody>
</table>

#### Rent/Month

<table>
<thead>
<tr>
<th></th>
<th>Rent 1</th>
<th>Rent 2</th>
<th>Rent 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Bed, 1-Bath</td>
<td>N/A</td>
<td>$574</td>
<td>N/A</td>
</tr>
<tr>
<td>2-Bed, 2-Bath</td>
<td>$590</td>
<td>N/A</td>
<td>$725-$750</td>
</tr>
<tr>
<td>3-Bed, 2-Bath</td>
<td>$715</td>
<td>$745</td>
<td>$950</td>
</tr>
</tbody>
</table>

#### Apt. Sq.Ft.

<table>
<thead>
<tr>
<th></th>
<th>Rent 1</th>
<th>Rent 2</th>
<th>Rent 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Bed, 1-Bath</td>
<td>N/A</td>
<td>886</td>
<td>N/A</td>
</tr>
<tr>
<td>2-Bed, 2-Bath</td>
<td>1,025-1,070</td>
<td>N/A</td>
<td>1,180</td>
</tr>
<tr>
<td>3-Bed, 2-Bath</td>
<td>1,227-1,271</td>
<td>1,050</td>
<td>1,300</td>
</tr>
</tbody>
</table>

#### Rent/Month/Sq.Ft.

<table>
<thead>
<tr>
<th></th>
<th>Rent 1</th>
<th>Rent 2</th>
<th>Rent 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Bed, 1-Bath</td>
<td>N/A</td>
<td>$0.65</td>
<td>N/A</td>
</tr>
<tr>
<td>2-Bed, 2-Bath</td>
<td>$0.54-$0.56</td>
<td>N/A</td>
<td>$0.61-$0.64</td>
</tr>
<tr>
<td>3-Bed, 2-Bath</td>
<td>$0.55-$0.57</td>
<td>$0.71</td>
<td>$0.73</td>
</tr>
</tbody>
</table>

#### Amenities

<table>
<thead>
<tr>
<th></th>
<th>Rent 1</th>
<th>Rent 2</th>
<th>Rent 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deck/Patio</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Dishwasher</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Controlled Entry</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Elect. Paid</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Cable Paid</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Heat Paid</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>W/S/G Paid</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Common Laundry</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Laundry Hook-Ups</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Washer/Dryer Incl.</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Fitness/Comm. Rm.</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Sports Court</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Playground</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Pool</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Elevator</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Garage (1)</td>
<td>carport</td>
<td>carport</td>
<td>Y</td>
</tr>
<tr>
<td>Garage (2)</td>
<td>N</td>
<td>N</td>
<td>3-bed units</td>
</tr>
<tr>
<td>Underground Parking</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Other</td>
<td>microwave</td>
<td>microwave</td>
<td>none</td>
</tr>
<tr>
<td>Year Built</td>
<td>2012</td>
<td>2010</td>
<td>2008-2013</td>
</tr>
</tbody>
</table>

*Denotes superior characteristic
*Denotes inferior characteristic
Rent 1
Waters Edge
705 5th St. E
Williston

Rent 2
Bakken Heights
2015-2101 32nd St. W
Williston

Rent 3
Westridge
3001 Harvest Hills Dr.
Williston
The three comparable rents indicate an overall market rent range of $574-$795 for 2-bed apartments and $745-$995/month for 3-bed/2-bath apartments. They are generally greater than the subject's most recent rents (as of February 1, 2018) of $590 for 2-bed/2-bath apartments and $715 for 3-bed/2-bath apartments (including 1 carport/apt.). The comparable market rent range is narrowed through further analysis, detailed as:

- The low rent indicator, Rent 1's rents of $574/2-bed and $745/3-bed, are the smallest apartments and the 2-bed apartment has only a single bathroom but they include washer/dryer appliances and sports court. The manager confirmed these are the maximum rent they are legally able to charge. Even so, at these "restricted" rents, 25% of the apartments were vacant, a vacancy rate at or even exceeding the overall market. Evidently, these rents are then reasonably consistent with market rents.
- The upper rent indicators, Rents 2's and 3's rents of $725-$795/2-bed and $950-$995/3-bed apartment, include the heat expense, washer/dryer appliances, and a single garage. Rent 2 does not include the electricity expense or a fitness/community room but includes cable and a second garage stall for 3-bed apartments. Rent 3's apartments have 9’ ceilings and are also generally larger.

The subject property is superior to Rent 1 but inferior to Rents 2 and 3, confirming a market rent at the middle to lower end of the range is appropriate. Rent 1's smaller apartment size is partially offset by its sports court amenity. Considering the subject's minimal vacancies, the subject's most recent apartment rents are less than the market. Market rents are concluded at $600/2-bed and $775/3-bed apartment. They are then used in the analysis.

The subject generates additional sources of income from the common laundry and other income that includes interest, application fees, late charges, etc. These income sources are detailed as:

- The subject has two sets of coin-operated washers and dryers in the common building but one set was non-operational. The property manager confirmed that insufficient demand existed to warrant repairing the second set as all apartments include in-unit washer/dryer hook-ups. Income from this source is then minimal and any income would be offset from expenses. No income is then included in the analysis.
- "Other" income is minimal. Most results from "application fees" and "late fees". This income source is not separately included but, rather, incorporated into other categories as appropriate.

The apartment rents (includes carports) are stabilized and the subject property's potential gross income at 100% occupancy is then calculated as:

<table>
<thead>
<tr>
<th>POTENTIAL GROSS INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-bed/2-bath</td>
</tr>
<tr>
<td>3-bed/2-bath</td>
</tr>
<tr>
<td>Total PGI</td>
</tr>
</tbody>
</table>

The stabilized income is reflective of the local apartment market as of the appraisal's effective date. The total annual potential gross income of $330,000 is used in this analysis.
3. Estimate Vacancy and Collection Loss to Derive Effective Gross Income

This stabilized annual rental income of $330,000 represents the property's rental income potential at 100% occupancy, before deductions are made for vacancy and collection loss and operating expenses to possibly include major structure repairs/replacement allowances. The first income deduction to consider is **vacancy and collection loss**, defined as:

"A deduction from potential gross income (PGI) made to reflect income reductions due to vacancies, tenant turnover, and nonpayment of rent; also called vacancy and credit loss or vacancy and contingency loss."


One of the subject's 40 apartments (2.5%) was vacant as of February 1, 2018. Again, its present rents were concluded to be less than the market. If operated with market rents, its vacancy rate must then be based on market vacancies. Two of the comparable rental properties reported vacancies of about 25%. Including the subject property and one additional property with vacancy information available (Timber Trails), an overall vacancy of about 19% as of the appraisal's effective date results. Additionally, collection loss is a reality in the local market. A vacancy and collection loss of 22.5% is recognized due to community-wide vacancy, tenant turnover, and collection loss expectations.

Based on the preceding, the subject property's effective gross income (EGI), income after vacancy and collection loss, is computed as:

**EFFECTIVE GROSS INCOME**

Potential gross income (PGI)

- 20 2-bed/2-bath x $600 /mo. x 12 mos. = $144,000
- 20 3-bed/2-bath x 775 /mo. x 12 mos. = 186,000

PGI Subtotal 330,000

Less vacancy & collection loss: 22.5% - 74,250

Effective gross income (EGI) $255,750

This stabilized effective gross income of $255,750 is virtually identical to 2017's EGI of $256,176 but less than that achieved in previous years. Again, local market rents and occupancy decreased dramatically between 2014 and 2017. The subject's reported decreases in income are less than that of the overall market as its rent restrictions had precluded the property from generating market rents. As of the appraisal's effective date, 32 of the subject's 40 apartments (the 32 apartments restricted to tenant's at the 60% AMI threshold) were leased at rents less than that allowed by the restrictions. The stabilized income is reflective of the market as of February 1, 2018. For this reason, the stabilized income is used in the following income analysis.
4. Estimate and Deduct Owner-Paid Expenses to Derive Net Operating Income

The next step in the income approach is estimating operating expenses that are deducted from the estimated effective gross income (EGI), resulting in net operating income (NOI). The total operating expenses are typically based on one or a combination of several sources to include:

- The subject property's actual historical operating expenses,
- estimations based on alternate market sources, and/or
- overall expense ratios extracted from other similar property types.

At the concluded effective gross income of $255,750 the owner is responsible for paying all operating expenses with the exception of electricity, heat, and cable/internet/phone expenses for each apartment (landlord pays water/sewer/garbage). The property owner provided the income and expenses for the last four calendar years, 2014-2017. They were reformatted and are presented on the following chart. Every attempt was made to list only those expenses applicable to the operation of the subject apartment property if operated as a market-oriented entity (bank service charges, depreciation, interest expenses, etc. were excluded.) but the income is impacted by the rent restrictions. (Again, this analysis assumes these restrictions do not exist.) Some expenses were combined for ease of comparison. The "Reformatted Historical Operating Statement" is detailed on the next page.
### REFORMATTED HISTORICAL OPERATING STATEMENT

<table>
<thead>
<tr>
<th>Component</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potential gross income</strong></td>
<td>$348,920</td>
<td>$351,927</td>
<td>$371,188</td>
<td>$339,760</td>
</tr>
<tr>
<td><strong>Less vacancy and collection loss</strong></td>
<td>2,668 (0.8%)</td>
<td>5,816 (1.7%)</td>
<td>66,115 (17.8%)</td>
<td>97,164 (28.6%)</td>
</tr>
<tr>
<td><strong>Effective gross income</strong></td>
<td>Apartments: 346,252 (97.8%)</td>
<td>346,111 (92.1%)</td>
<td>305,073 (95.5%)</td>
<td>242,596 (94.7%)</td>
</tr>
<tr>
<td><strong>EGI Subtotal</strong></td>
<td>354,063 (100.0%)</td>
<td>375,709 (100.0%)</td>
<td>319,580 (100.0%)</td>
<td>256,176 (100.0%)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate taxes*</td>
<td>6,102 (1.7%)</td>
<td>47,140 (12.5%)</td>
<td>44,054 (13.8%)</td>
<td>13,642 (5.3%)</td>
</tr>
<tr>
<td>Insurance</td>
<td>14,738 (4.2%)</td>
<td>14,687 (3.9%)</td>
<td>19,003 (5.9%)</td>
<td>19,041 (7.4%)</td>
</tr>
<tr>
<td>Total fixed expenses</td>
<td>20,840 (5.9%)</td>
<td>61,827 (16.5%)</td>
<td>63,057 (19.7%)</td>
<td>32,683 (12.8%)</td>
</tr>
<tr>
<td><strong>Variable expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>21,467 (6.1%)</td>
<td>26,541 (7.1%)</td>
<td>19,008 (5.9%)</td>
<td>23,635 (9.2%)</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>20,968 (5.9%)</td>
<td>45,814 (12.2%)</td>
<td>56,513 (17.7%)</td>
<td>76,970 (30.0%)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>69,308 (19.6%)</td>
<td>70,307 (18.7%)</td>
<td>51,075 (16.0%)</td>
<td>55,091 (21.5%)</td>
</tr>
<tr>
<td>Management</td>
<td>23,892 (6.7%)</td>
<td>23,824 (6.3%)</td>
<td>24,024 (7.6%)</td>
<td>20,894 (8.2%)</td>
</tr>
<tr>
<td>Total variable expenses</td>
<td>135,635 (38.3%)</td>
<td>166,486 (44.3%)</td>
<td>150,620 (47.1%)</td>
<td>176,590 (68.9%)</td>
</tr>
<tr>
<td>Replacement allowance</td>
<td>12,000 (3.4%)</td>
<td>12,000 (3.2%)</td>
<td>12,000 (3.8%)</td>
<td>12,000 (4.7%)</td>
</tr>
<tr>
<td>Total</td>
<td>148,475 (41.7%)</td>
<td>180,486 (47.5%)</td>
<td>162,620 (47.9%)</td>
<td>188,590 (73.6%)</td>
</tr>
<tr>
<td><strong>Net operating income</strong></td>
<td>$185,588 (52.4%)</td>
<td>$240,313 (64.0%)</td>
<td>$225,677 (67.6%)</td>
<td>$221,273 (86.4%)</td>
</tr>
</tbody>
</table>

1 Reflective of rent restrictions.

2 Vacancy and collection loss percentage reflects % of PGI.
Most of the owner's reported expenses appear to be reasonable. They are stabilized based on the following market observations:

- **Real Estate Taxes:** This expense was previously detailed at $12,825 based on the assumption that the property's real estate taxes are derived from assessed values consistent with the concluded market value.

- **Insurance:** This expense was virtually identical in the last two years at $475-$476/apt. It is stabilized at $475/apt. x 40 apts. = $19,000.

- **Utilities:** This expense was reported at a consistent range of about $19,008-$26,541 in 2014-2017 with a 4-year average of $22,663 ($567/apt.). It includes expenses for water/sewer/garbage and common area and vacant unit electricity/heat. This expense is stabilized at $23,000 ($575/apt.), consistent with its four-year average.

- **Repairs & Maintenance:** This expense was reported at about $21,000 in 2014, increasing to about $77,000 in 2017, 5.9%-30% of income and $524-$1,924/apt. This expense typically increases as the improvements age and occupancy increases. Six similar-aged Williston apartment complexes reported this expense at about $1,216-$1,583/apt. This expense is stabilized at $1,250/apt. x 40 apts. = $50,000.

- **Miscellaneous:** This expense was reported at about $51,000-$70,000 in the last four years. It includes the "administrative expense", less management fees, in 2016/2017 and "advertising and marketing", "professional fees", "administrative and office expense", and "salaries and employee benefits" in 2014/2015. The subject's expense of 16.0%-19.6% EGI exceeds that typically anticipated by market participants due to significant administrative costs associated with maintaining compliance with the "land use restriction". Six similar-aged Williston apartment complexes operated as "market rate" properties reported this expense at about 8%-14.5% EGI and $725-$1,700/apt. This expense is stabilized at $850/apt. x 40 apts. = $34,000 (13.3% EGI) to be consistent with that typically anticipated by market participants for market rate apartments.

- **Management:** This expense was reported at 6.3%-8.2% in the last four years but 7.5%-8.2% in the last two years. It approximates the upper end of the range area property managers confirmed to be typical, 4%-8% of total income. This expense is stabilized at 6.0% EGI to be consistent with typical market expectations, resulting in a dollar amount considerably less than generated historically. The subject's comparatively lesser stabilized income results from lesser concluded market rents in the current market. However, some of the "management" duties are included in the stabilized miscellaneous expenses. Therefore, a 6% management fee is reasonable.

- **Replacement Allowance:** A replacement allowance is defined as:

  "An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life; sometimes referred to as reserves or reserves for replacement."

  (Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition: 197)

Replacements are significant in improvements requiring considerable use of furniture, fixtures, and equipment and have major building components that need periodic replacement. This particular complex includes FF&E (kitchen appliances, laundry equipment) and the building and site components (floor cover, painting, landscaping, etc.) that definitely require periodic replacements. Actual expenses of $300/apt., 3.2%-4.7% EGI, was reported, consistent with that anticipated for similar sized/aged apartment properties. Therefore, this expense of $300/apt. is used in the analysis. Recognition of this expense is also considered in estimating an appropriate capitalization rate.
The previous discussion and conclusions relating to total income and expenses is reconstructed as:

**RECONSTRUCTED OPERATING STATEMENT**

<table>
<thead>
<tr>
<th>Component</th>
<th>% of EGI</th>
<th>Per Apt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential gross income</td>
<td>$330,000</td>
<td>$8,250</td>
</tr>
<tr>
<td>Less vacancy and collection loss - 22.5%</td>
<td>-</td>
<td>1,856</td>
</tr>
<tr>
<td>Effective gross income</td>
<td>$255,750</td>
<td>100.0%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>12,825</td>
<td>5.0%</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 apts. x $475 /apt. =</td>
<td>19,000</td>
<td>7.4%</td>
</tr>
<tr>
<td>Total fixed expenses</td>
<td>31,825</td>
<td>12.4%</td>
</tr>
<tr>
<td>Variable expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>23,000</td>
<td>9.0%</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 apts. x $1,250 /apt. =</td>
<td>50,000</td>
<td>19.6%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 apts. x $850 /apt. =</td>
<td>34,000</td>
<td>13.3%</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$255,750 EGI x 6.0% =</td>
<td>15,345</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total variable expenses</td>
<td>122,345</td>
<td>47.8%</td>
</tr>
<tr>
<td>Replacement allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 apts. x $300 /apt. =</td>
<td>12,000</td>
<td>4.7%</td>
</tr>
<tr>
<td>Total</td>
<td>166,170</td>
<td>65.0%</td>
</tr>
<tr>
<td>Net operating income</td>
<td>$89,580</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

To test for reasonableness, the subject property's stabilized reconstructed operating expense ratio of 65.0% is now compared to expense ratios extracted from direct market evidence. These market-extracted expense ratios should be reasonably similar in that the net income is based on revenue sources and expenditures similar to that generated in the subject property. Five of the sales and the one listing used in the following sales comparison approach had sufficient information to indicate expense ratios. These market-derived expense ratios generally include a management fee and replacement allowance for the "larger" complexes. The data is detailed as:
This data indicates an expense ratio range of 40.3%-65.8%, bracketing the subject's previously stabilized expense ratio of 65.0%. An expense ratio at the upper end of the expense ratio range was expected as the subject apartments are only capable of generating comparatively lesser rents, as of the appraisal's effective date, and the stabilized expenses include a replacement allowance. Based on this market analysis, the stabilized expense ratio of 65.0% of effective gross income is market-supported and is used in the analysis. The net operating income (NOI) is detailed as:

### NOI SUMMARY

<table>
<thead>
<tr>
<th>Component</th>
<th>% of EGI</th>
<th>Per Apt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential gross income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less vacancy and collection loss - 22.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective gross income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less stabilized expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating income</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

rounded to: $89,600 $2,240
5. Capitalization Process

The estimated net operating income of $89,600 is now applied to a proper capitalization method(s) resulting in a fee simple market value for the subject property by application of the income approach. In this particular market segment, most market participants use direct capitalization. Direct capitalization is direct, easily understood, and is frequently used by most area buyers. The net operating income (I) is divided by an overall rate (R) resulting in a value indication (V). Many accepted methods of deriving an overall rate are available but the one that is used in this appraisal is derivation from direct market evidence.

Deriving overall rates from direct market evidence results from locating "similar use" property sales and dividing their respective net operating incomes by the purchase price. Five sales and one listing used in the following sales comparison approach had sufficient information in which to properly extract an overall rate. This data is tabulated on the following chart.

<table>
<thead>
<tr>
<th>MARKET-EXTRACTED OVERALL RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying Name</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td><strong>COMPARABLE SALES</strong></td>
</tr>
<tr>
<td>1. Three-Building Sale</td>
</tr>
<tr>
<td>417 2nd St. E</td>
</tr>
<tr>
<td>2. 1147 17th Ave. W</td>
</tr>
<tr>
<td>Dickinson, ND</td>
</tr>
<tr>
<td>4. 6th St. SW Apartments</td>
</tr>
<tr>
<td>Minot, ND</td>
</tr>
<tr>
<td>5. Noonmark Apartments</td>
</tr>
<tr>
<td>Williston, ND</td>
</tr>
<tr>
<td>6. 3rd Street Apartments</td>
</tr>
<tr>
<td>Minot, ND</td>
</tr>
<tr>
<td><strong>COMPETITIVE LISTING</strong></td>
</tr>
<tr>
<td>2. Timber Ridge Apartments</td>
</tr>
<tr>
<td>Minot, ND</td>
</tr>
</tbody>
</table>

Minimum 4.1%
Maximum 8.0%
Median 6.4%
The market sampling indicates an overall rate range of 4.1%-9.2%. As expected, the least overall rate of 4.1% is only an "asking" rate. The "sales" indicate a greater overall rate range of 5.2%-8.0%. Sales with "older" apartments typically reflect greater overall rates than sales with "newer" apartments. However, the two sales of the "oldest" apartment complexes (Sales 1 & 2) indicate the least overall rates of 5.2% and 6.1%. The least rate of 5.2% resulted from the apartments' potential to increase income as demand increases since it is reflective of vacancy and collection losses of 45%. The significant vacancies may have resulted from above-market asking rents. The two "newer" apartment complex sales with lesser vacancy and collection losses and, therefore, less potential to increase income, Sales 4 and 6, indicate overall rates of 8.0%. These sales bracket Sale 5's overall rate of 6.7%. It has good similarity to the subject but had somewhat greater vacancy and collection loss of 30%. An overall rate similar to or somewhat greater than Sale 5 at 6.7% and somewhat less than Sale 4's and Sale 6's overall rates of 8.0% is applicable to the subject. The subject's inclusion of miscellaneous expenses and a replacement allowance support an overall rate less than the upper end of the range. An OAR range of 6.5%-7.5% is then concluded.

Applying the concluded overall rate range to the previously estimated net operating income results in the following fee simple value conclusion by the income capitalization approach:

a. Net Operating Income: $89,600 (I) $89,600 (I)
b. Capitalized at
   • 7.5%: ÷ 0.075 (R)
   • 6.5%: ÷ 0.065 (R)

Fee Simple Market Value Indication by Income Capitalization Approach: $1,194,667 (V) $1,378,462 (V)

Concluded at: $1,300,000
1. Introduction

The sales comparison approach is a method of developing an indication of a property's market value by assembling, analyzing, and comparing the subject property to recent and similar properties that have sold, are under-contract, and/or current listings. If sufficient data is available and properly analyzed, the resulting pattern generally provides a reliable indication of probable market value. Typically, the sales comparison approach is the most reliable and easily understood method of providing a market value opinion, especially for properties that are bought and sold regularly. This valuation technique can normally be accomplished in three basic steps:

- research the market for the applicable market data,
- analyze the market data to determine a relevant unit(s) of comparison, and
- reconcile the data to the subject property resulting in a single value indication or a value range.

2. Market Data Assemblage

Application of the sales comparison valuation technique starts by assembling "recent and similar" market data, preferably comparable sales or, if necessary and available, competitive listings. This market data should be similar to the subject property in property rights conveyed, location, the improvement's physical characteristics, and, most importantly, economic or income characteristics. At its basic level, the subject property consists of an average quality, 7-year-old, 40-unit apartment complex located in the Williston, North Dakota.

This particular property type, an apartment complex, is common to the market but is not a common-day market transaction. A search of the local market resulted in only four similar sales and three listings. The location parameter was then expanded regionally to include the most recent and similar sale/listings. The expanded search resulted in four additional sales and an additional listing. This market data included the real estate and the non-real property needed in the complete operation of an apartment complex.

This data was carefully analyzed and two units of comparison were extracted:

a. Price/Apartment, computed by dividing the sale/list price by the total number of apartments provided in each sale.

b. Effective Gross Income Multiplier (EGIM), computed by dividing the sale/list price by the effective gross income (after recognition of vacancy and collection loss) at time of sale/listing.

The second common unit of comparison, gross income multiplier, is generally perceived as being a form of the income approach as it is a direct reflection of a property's income producing capability. Most any applicable common unit of comparison in an income producing property (the price/apartment in this particular market segment) becomes a reflection of its income characteristics. (Correlation of price/apartment to a property's income producing capability is further explained in the following analysis.) For this reason, the gross income multiplier analysis has been applied in the sales comparison approach. Additionally, the assembled data also provided sufficient information to extract other indicators (expense ratios and overall rates) that were used in the previous income approach.
The market data is tabulated on the following chart with the sales and listings grouped separately. Within each group, they are then arrayed by "net operating income/apartment" (NOI/apt.), least-to-greatest. The NOI/apt. is computed by dividing the reported annual net income by the number of apartments. As expected, the price/apt. *generally* increases as the net income increases. Photos of each property follow the chart. (Some photos may have been taken after the sale and may not be entirely representative of the property at the time of sale.) Again, the data is tabulated on the following chart:
<table>
<thead>
<tr>
<th>Identifying Name</th>
<th>Location</th>
<th>Sale Date</th>
<th>Sale Price</th>
<th>Year Built</th>
<th>Complex Composition</th>
<th>Vac. &amp; Coll Loss</th>
<th>NOI Per Apt.</th>
<th>Price/Apt.</th>
<th>EGI M</th>
<th>Expense Ratio</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three-Building Sale</td>
<td>Dickinson, ND</td>
<td>12-16</td>
<td>$1,670,000</td>
<td>1965</td>
<td>5 studio 18 1-bed, 1-bath 32 2-bed, 1-bath 1 3-bed, 1-bath</td>
<td>45%</td>
<td>$1,564</td>
<td>$29,821</td>
<td>6.5</td>
<td>65.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>a. West Side Terrace</td>
<td>138 13th Ave. W</td>
<td>1970</td>
<td>3 studio 20 1-bed, 1-bath 30 2-bed, 1-bath 56 total, no garages</td>
<td>17.5%</td>
<td>$2,421</td>
<td>$40,000</td>
<td>7.7</td>
<td>53.3%</td>
<td>6.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. 423 &amp; 425 Sims St.</td>
<td>Dickinson, ND</td>
<td>1980</td>
<td>3 studio 20 1-bed, 1-bath 56 total, no garages</td>
<td>17.5%</td>
<td>$2,421</td>
<td>$40,000</td>
<td>7.7</td>
<td>53.3%</td>
<td>6.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Oak Manor</td>
<td>417 2nd St. E</td>
<td>1980</td>
<td>3 studio 20 1-bed, 1-bath 56 total, no garages</td>
<td>17.5%</td>
<td>$2,421</td>
<td>$40,000</td>
<td>7.7</td>
<td>53.3%</td>
<td>6.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. 1147 17th Ave. W</td>
<td>Dickinson, ND</td>
<td>2-18</td>
<td>$480,000</td>
<td>1977</td>
<td>4 1-bed, 1-bath 8 2-bed, 1-bath 12 total, no garages</td>
<td>15%</td>
<td>$4,824</td>
<td>$60,000</td>
<td>7.4</td>
<td>40.3%</td>
<td>8.0%</td>
</tr>
<tr>
<td>3. Bison Apartments</td>
<td>Williston, ND</td>
<td>7-17</td>
<td>$1,000,000</td>
<td>1980</td>
<td>24 2-bed, 1-bath</td>
<td>50%</td>
<td>unk.</td>
<td>$41,067</td>
<td>9.5</td>
<td>unk.</td>
<td>unk.</td>
</tr>
<tr>
<td>4. 6th St. SW Apartments</td>
<td>Minot, ND</td>
<td>9-17</td>
<td>$1,200,000</td>
<td>1999</td>
<td>3 1-bed, 1-bath 6 2-bed, 2-bath 6 3-bed, 2-bath 20 total, 20 sgl garages</td>
<td>15%</td>
<td>$4,824</td>
<td>$60,000</td>
<td>7.4</td>
<td>40.3%</td>
<td>8.0%</td>
</tr>
<tr>
<td>5. Noonmark Apartments</td>
<td>Williston, ND</td>
<td>12-17</td>
<td>$1,025,000</td>
<td>2000</td>
<td>16 3-bed, 2-bath 16 sgl. garages</td>
<td>30%</td>
<td>$4,262</td>
<td>$64,063</td>
<td>8.0</td>
<td>46.6%</td>
<td>6.7%</td>
</tr>
<tr>
<td>6. 611 3rd St. NW</td>
<td>Minot, ND</td>
<td>1-18</td>
<td>$550,000</td>
<td>2004</td>
<td>8 2-bed, 2-bath no garages</td>
<td>10%</td>
<td>$5,467</td>
<td>$68,750</td>
<td>7.1</td>
<td>43.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>7. Vue 28 Apartments</td>
<td>Williston, ND</td>
<td>5-16</td>
<td>$6,950,000</td>
<td>2005</td>
<td>25 1-bed, 1-bath 49 2-bed, 2-bath 53 3-bed, 2-bath 93 total, 93 sgl garages</td>
<td>40%</td>
<td>unknown</td>
<td>$74,731</td>
<td>9.5 est.</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td>8. Aspens Townhomes</td>
<td>Williston, ND</td>
<td>2-17</td>
<td>$4,050,000</td>
<td>2012</td>
<td>1 2-bed, 2-bath 6 3-bed, 2-bath 47 total, 47 dbl. garages</td>
<td>40%</td>
<td>unknown</td>
<td>$86,170</td>
<td>8.9</td>
<td>unknown</td>
<td>unknown</td>
</tr>
</tbody>
</table>

**COMPARATIVE PROPERTY SALE MARKET DATA TABULATION**

<table>
<thead>
<tr>
<th>Extracted Units of Comparison</th>
<th>NOI Per Apt.</th>
<th>Price/Apt.</th>
<th>EGI M</th>
<th>Expense Ratio</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vac. &amp; Coll Loss</td>
<td>$1,564</td>
<td>$29,821</td>
<td>6.5</td>
<td>65.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>NOI Per Apt.</td>
<td>$1,564</td>
<td>$29,821</td>
<td>6.5</td>
<td>65.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Price/Apt.</td>
<td>$29,821</td>
<td>6.5</td>
<td>65.8%</td>
<td>5.2%</td>
<td></td>
</tr>
<tr>
<td>EGI M</td>
<td>6.5</td>
<td>65.8%</td>
<td>5.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>65.8%</td>
<td>5.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OAR</td>
<td>5.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**COMPETITIVE LISTINGS**

<table>
<thead>
<tr>
<th>Identifying Name</th>
<th>Location</th>
<th>Sale Date</th>
<th>Sale Price</th>
<th>Year Built</th>
<th>Complex Composition</th>
<th>NOI Per Apt.</th>
<th>Price/Apt.</th>
<th>EGI M</th>
<th>Expense Ratio</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2910-3002 17th Ave. W</td>
<td>Williston, ND</td>
<td>Asking</td>
<td>$2,500,000</td>
<td>1971</td>
<td>3 studio 9 1-bed, 1-bath 36 2-bed, 1-bath 48 total, 12 sgl garages</td>
<td>Unk.</td>
<td>Unknown</td>
<td>$52,083</td>
<td>6.5</td>
<td>Unknown</td>
</tr>
<tr>
<td>2. Timber Ridge Apartments</td>
<td>Minot, ND</td>
<td>Asking</td>
<td>$2,200,000</td>
<td>2011</td>
<td>16 2-bed, 2-bath 24 sgl. garages</td>
<td>12.5%</td>
<td>$3,095</td>
<td>$75,000</td>
<td>9.0</td>
<td>57.6%</td>
</tr>
<tr>
<td>3. Pine View Apartments</td>
<td>Williston, ND</td>
<td>Asking</td>
<td>$2,500,000</td>
<td>2011</td>
<td>2 1-bed, 1-bath 32 2-bed, 1-bath 32 total, no garages</td>
<td>50%</td>
<td>unknown</td>
<td>$78,125</td>
<td>18.6</td>
<td>unknown</td>
</tr>
<tr>
<td>4. 2410 23rd St. W</td>
<td>Williston, ND</td>
<td>Asking</td>
<td>$1,445,000</td>
<td>2012</td>
<td>14 2-bed, 2-bath no garages</td>
<td>Unk.</td>
<td>Unknown</td>
<td>$103,214</td>
<td>9.6</td>
<td>unknown</td>
</tr>
</tbody>
</table>

**SUBJECT**

Nokota Ridge
Williston, ND
2011
20 2-bed, 2-bath
40 3-bed, 2-bath
40 total, 40 carparks

<table>
<thead>
<tr>
<th>EGI M</th>
<th>65.0%</th>
</tr>
</thead>
</table>

1EGIM – Effective Gross Income Multiplier, collected gross rental income after recognition of vacancy/collection loss.
2Expense Ratio - All expressed as percentage of Effective Gross Income.
3OAR – Overhead Rate
4Adjusted for expenditures immediately after sale. Sale price was $1,670,000 but included $150,000 in concessions for deferred maintenance.
5Adjusted for expenditures immediately after sale. Sale price was $850,000.
6Based on income and expenses as stabilized in the previous income capitalization approach.
Sale 1a
West Side Terrace
138 13th Ave. W
Dickinson, ND

Sale 1b
423 & 425 Sims St.
Dickinson, ND

Sale 1c
Oak Manor
417 2nd St. E
Dickinson, ND

Sale 2
1147 17th Ave. W
Dickinson, ND

Sale 3
Bison Apartments
Williston, ND
Listing 1
2910-3002 17th Ave. W
Williston, ND

Listing 2
Timber Ridge Apartments
Minot, ND

Listing 3
Pine View Apartments
Williston, ND

Listing 4
2410 23rd St. W
Williston, ND
3. Market Analysis

This assembled market data is not entirely comparable to the subject property in all aspects. Therefore, adjustments to the data are then considered in an attempt to "equalize" them to the level of the subject property. However, the data was not sufficient to accurately extract the appropriate adjustment(s) needed to employ such a detailed quantitative analysis. The alternative qualitative analysis is the use of relative comparison. It brackets the subject property between sets of comparable market data that are superior and inferior, commonly termed the "property-to-property" analysis. It is a more realistic and reliable technique in the application of the sales comparison approach as it is more reflective of typical market behavior.

The application of the qualitative analysis in the comparable sales indicated reasonably good similarity in most elements of consideration, property rights conveyed, financing terms, and condition of sale. All involved the perception of fee simple transactions as, like the subject, they were encumbered with only short term leases. Thus, no adjustments for ownership rights are required. All were sold on the basis of cash or cash-equivalent terms. Individual motivations for each sale are apt to be as diverse as the market and, consequently, it simply is impossible to adjust each sale for individual sale and/or purchasing motivations.
Changing market conditions (time) is yet another factor that requires consideration in this analysis. The sales sold between May 2016 and February 2018. No time adjustment is made as insufficient market evidence exists to quantify an adjustment. Even so, the subject property's reconciled market value considers current market conditions.

The remaining factors requiring analytical consideration are differences primarily in physical and, most importantly, income characteristics. The first unit of comparison, the price/apt., indicates an imperfect overall price/probable market value range of about $30,000-$103,000/apt. A wide range was anticipated as it is prone to considerable variance depending on a particular property's income producing capability. Generally, the price/apt. increases as the net operating income increases. This pattern is not exact due primarily to an imperfect market. Thus, the price/apt. is not a reliable unit of comparison unless the sale property is reflecting nearly identical income characteristics.

The subject property's net income per apt., stabilized in the previous income capitalization approach as $2,240 ($89,600 NOI ÷ 40 apts.), is bracketed by the range of $1,584-$5,467/apt. indicated by Sales 1, 2, 4, & 5 and Listing 2. Their corresponding prices/unit are about $30,000-$75,000/apt. Adjusting the comparables' price/apt. by their NOI/apt.'s variation from the subject's NOI/apt. results in adjusted price/apt. indications of:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale 1</td>
<td>$29,821</td>
<td>1.432</td>
<td>$42,710</td>
</tr>
<tr>
<td>Sale 2</td>
<td>$40,000</td>
<td>0.925</td>
<td>$37,010</td>
</tr>
<tr>
<td>Sale 4</td>
<td>$60,000</td>
<td>0.464</td>
<td>$27,861</td>
</tr>
<tr>
<td>Sale 5</td>
<td>$64,063</td>
<td>0.526</td>
<td>$33,670</td>
</tr>
<tr>
<td>Listing 2</td>
<td>$75,000</td>
<td>0.724</td>
<td>$54,281</td>
</tr>
</tbody>
</table>

The adjusted market data still reflects a wide range of about $28,000-$54,000/apt. However, the more applicable "sales" indicate a narrowed range of about $28,000-$42,500/apt. The two most similar sales, Sales 2 and 5, indicate an even more narrowed range of about $33,500-$37,000/apt. Applying this adjusted range to the subject property results in the following market value indications:

40 apartments x $33,500/apt. = $1,340,000
40 apartments x $37,000/apt. = $1,480,000

The second unit of comparison typically having more applicability in the marketability of apartment properties is the effective gross income multiplier (EGIM). This income multiplier is simply derived by dividing the sales price by the effective gross income (after recognition of vacancy and collection loss) at time of sale. The validity of this income multiplier is dependent upon the subject property being reasonably similar to the sale properties in physical, locational, and investment characteristics. The income multiplier, therefore, recognizes a particular property's income characteristics. The condition and desirability of the improvements should be reflected in the rent that can be achieved from the market and also in the income that an investor accepts for a given property.

Considerable weight should be given to the EGIM since its market indication is a reflection of gross income, not the net income. The collected gross income is more conclusive and is more easily confirmed. Multi-family property investors/operators also have a reasonable grasp of operating expense ratios. The gross income multiplier is then a reliable unit of comparison in estimating rental housing property values.
The sales and two listings had sufficient information in which to extract the EGIM. The market data indicates a wide EGIM range of 6.5-18.6. The general tendency is for the EGIM to increase as the expense ratio decreases. Arraying the data by expense ratio was not possible as much of the market data did not have sufficient information to extract an expense ratio. The market data is then again presented with the EGIM detailed in the last column:

<table>
<thead>
<tr>
<th>MARKET-EXTRACTED EGIM vs. EXPENSE RATIO</th>
<th>Identifying Name</th>
<th>Location</th>
<th>Sale Date</th>
<th>Sale Price</th>
<th>Year Built</th>
<th>No. of Apts.</th>
<th>Expense Ratio</th>
<th>EGIM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Three-Building Sale</td>
<td>417 2nd St. E</td>
<td>Dickinson, ND</td>
<td>12-16</td>
<td>$1,670,000</td>
<td>1965-1970</td>
<td>56</td>
<td>65.8%</td>
<td>6.5</td>
</tr>
<tr>
<td></td>
<td>423 &amp; 425 Sims St.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3.6 GIM)</td>
</tr>
<tr>
<td></td>
<td>138 13th Ave. W</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dickinson, ND</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. 1147 17th Ave. W</td>
<td>Dickinson, ND</td>
<td>2-18</td>
<td>1977</td>
<td>$480,000</td>
<td>12</td>
<td>53.3%</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>3. Bison Apartments</td>
<td>Williston, ND</td>
<td>7-17</td>
<td>1980</td>
<td>$1,000,000</td>
<td>24</td>
<td>Unk.</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>4. 6th St. SW Apartments</td>
<td>Minot, ND</td>
<td>9-17</td>
<td>2004</td>
<td>$1,200,000</td>
<td>20</td>
<td>40.3%</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&amp; 2010</td>
<td></td>
<td></td>
<td></td>
<td>(6.3 GIM)</td>
</tr>
<tr>
<td>5. Noonmark Apartments</td>
<td>Williston, ND</td>
<td>12-17</td>
<td>2010</td>
<td>$1,025,000</td>
<td>16</td>
<td>46.6%</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>6. 3rd Street Apartments</td>
<td>Minot, ND</td>
<td>1-18</td>
<td>2014</td>
<td>$550,000</td>
<td>8</td>
<td>43.5%</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(6.4 GIM)</td>
</tr>
<tr>
<td>7. Vue 28 Apartments</td>
<td>Williston, ND</td>
<td>5-16</td>
<td>2013</td>
<td>$6,950,000</td>
<td>93</td>
<td>Unknown</td>
<td>9.5 est.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.9 GIM)</td>
</tr>
<tr>
<td>8. Aspens Townhomes</td>
<td>Williston, ND</td>
<td>2-17</td>
<td>2012</td>
<td>$4,050,000</td>
<td>47</td>
<td>Unknown</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.3 GIM)</td>
</tr>
</tbody>
</table>

| COMPETITIVE LISTINGS                    | 2. Timber Ridge Apartments | Asking | 2011 | 16 | 57.6% | 9.0 |
|                                        | Minot, ND              | $1,200,000 |      |    |      | (10.3 GIM) |
|                                        | 3. Pine View Apartments | Asking | 2010 | 32 | Unk.  | 18.6 |
|                                        | Williston, ND          | $2,500,000 |      |    |      | (9.3 GIM) |

| SUBJECT                                | Nokota Ridge         | 2011 | 40 | 65.0% |
|                                        | Williston, ND        |      |    |      |
|                                        | Low 40.3% | 6.5 |
|                                        | High 65.8% | 18.6 |
|                                        | Median 50.0% | 8.3 |
No apparent tendency was obvious. The wide range simply results from an imperfect market. Some pertinent market observations include:

- The lower limit indicator, Sale 1 at 6.5, is the sale of three apartment complexes located in Dickinson. However, they reflected an inferior condition and a "bulk" sale price for the purchase of three properties. Typically, individual properties generate comparatively greater prices if sold individually.
- The extreme upper limit sale indications are Sales 3, 7, & 8 at 8.9-9.5. These sales had significant potential to increase income, if market conditions improved, as their effective gross incomes reflect vacancies of about 40%-50%. Again, the subject's stabilized effective gross income includes a vacancy and collection loss of only 22.5%. An applicable EGIM somewhat less than this range is then applicable.
- The remaining sales, Sales 2, 4, 5, & 6, indicate a narrowed range of 7.1-8.0. They are reflective of vacancy and collection losses of 10%-30%, bracketing the subject's vacancy and collection losses of 22.5%. The sale with the greatest vacancy and collection losses of 30.0% indicates the greatest EGIM of 8.0.
- The listings indicate EGIMs of 9.0-18.6. Again, they are only asking multipliers. Like the sales, the listing with the greatest vacancy and collection loss, and, therefore, greatest potential to increase income, reflects the greatest EGIM.

Considering the subject property's collective characteristics, a range of 7.0-8.0 is used in the analysis. Applying this EGIM range to the subject's previously stabilized effective gross income of $255,750 results in the following market value indication:

\[
\begin{align*}
\text{EGIM} &= \text{Effective Gross Income Multiplier} \\
7.0 &\quad \Rightarrow \quad \text{Market Value} = \text{Effective Gross Income} \times 7.0 \\
8.0 &\quad \Rightarrow \quad \text{Market Value} = \text{Effective Gross Income} \times 8.0
\end{align*}
\]

\[
\begin{align*}
255,750 \times 7.0 &= 1,790,250, \text{rounded to } 1,800,000 \\
255,750 \times 8.0 &= 2,046,000, \text{rounded to } 2,050,000
\end{align*}
\]

Application of the EGIM unit of comparison resulted in a price/probable market value range of $1,800,000-$2,050,000, far exceeding the price/apt. range of $1,340,000-$1,480,000. The lesser price/apt. is given more weight as it recognizes the subject's comparatively greater expense ratio. Based on this market interpretation, the subject property's fee simple market value through application of the sales comparison approach is concluded at $1,400,000 ($35,000/apt.).
M. **RECONCILIATION** (4-28-16)

The final step in the appraisal process is termed *reconciliation,* it is defined as:

> "The phase of a valuation assignment in which two or more value indications are processed into a value opinion, which may be a range of value, a single point estimate, or a reference to a benchmark value."

(Appraisal Institute, *The Dictionary of Real Estate Appraisal,* Sixth Edition: 190)

The appraisal objective was to develop an opinion of the subject property's retrospective fee simple market value, as of February 1, 2018. The applicable valuation techniques used in addressing this appraisal objective resulted in the following:

<table>
<thead>
<tr>
<th>Approach</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Capitalization</td>
<td>$1,300,000</td>
</tr>
<tr>
<td>Sales Comparison</td>
<td>$1,400,000</td>
</tr>
</tbody>
</table>

Theoretically, these valuation techniques should have resulted in identical conclusions. As a practical matter, these results are virtually never identical since the marketplace does not operate in a perfect environment. Reconciliation is, therefore, necessary in order to formulate the final opinion of value.

Apartment properties are typically transacted based on their ability to generate income. As a result, the income capitalization approach is normally given the greatest weight in formulating an opinion of their value. The basis for application of the income capitalization approach and sales comparison approach was accurately stabilizing total revenues and total operating expenses. Both components considered the historical operating statements but were correlated to, and stabilized at reliable market levels. The supportive data used in these two valuation methods was appropriate to the subject property's valuation and, more importantly, it is typically given the most consideration by market participants in this market segment. The resulting market value indications resulted in a reasonable (reasonable considering the highly imperfect market) expectation of this property's inherent worth in the market based on its income producing capabilities.

The previous market area analysis concluded that the state and local community have the basic underlying economic fundamentals to support a value conclusion as developed in this analysis. As a result, the past market for most area properties had been favorably impacted by the resurgence of the energy industry. The significant decrease in the price of oil, a commodity that has greatly impacted the local market, and the resulting lack of recent market activity has definitely affected the market since 2014. Competitive pricing is now needed to achieve sales success though its particular market segment, apartment complexes, is generally perceived as being one of the more active markets.

The final element of consideration required for a properly developed market value relates to reasonable *exposure time.* (Per USPAP "Definitions": "estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of the sale at market value on the effective date of appraisal.") The information gathered through assemblage of the market data and conversations with various market participants confirmed that, if competitively priced, an exposure time would have been 6-12 months.
Based on this analysis and considering the as is subject property's characteristics relative to its particular market segment, its fee simple market value as of July 11, 2018, is concluded at:

**ONE MILLION THREE HUNDRED FIFTY THOUSAND DOLLARS**  
($1,350,000)

The concluded fee simple market value of the apartment complex includes real property (site and improvements) and personal property (kitchen and laundry appliances). The *Uniform Standards of Professional Appraisal Practice* (USPAP) requires analysis of the effect on value of any tangible (personal property and trade fixtures) and intangible items assets are not real property but included in the appraisal. Accurately allocating the contributory value of the personal property should be based on direct market evidence, evidence that is non-existent in the marketplace. Specifically, none of the previously referenced sales had sufficient information to provide an indication of the contributory value of the personal property even though all included the component. Considering that personal property typically has comparatively shorter useful life with an accelerated depreciation rate and most of the appliances are still original, the personal property's contributory value in this complex is estimated at $50,000 ($1,250/apt.). Based on this analysis, the following allocations of the market value are made but only within the context of the appraisal objective and intended use:

1. **Real Property**:  
   (Site & Improvements)  
   $1,300,000  -  96.3%
2. **Non-Real Property**:  
   (Tangible Assets – personal property)  
   $50,000  -  3.7%

Total:  
$1,350,000  -  100.0%

These value *allocations* do not represent individual values for each component but, rather, it is their estimated contributory value as it relates to the total.
III. ADDENDA
June 25, 2018

Mr. Benjamin W. Ide
Director of Development
G.A. Hearn Development
ben@phoenixholding.us

Re: Appraisal Contract
Nokota Ridge Apartments
2205 28th Street NW, Williston, ND

Ben:

This contract outlines the verbal proposal you accepted yesterday. It is then binding upon Dakota Appraisal & Consulting, Ltd., hereafter referred to as the Appraiser, and Nokota Ridge, LLC (property owner), as represented by yourself, hereafter referred to as the Client. It stipulates that:

1. The subject property is identified above.

2. The appraisal objective is to provide an opinion of the as is subject property’s "true and full value" subject to its rent restrictions created by its affordable housing designation.

3. The appraisal’s only intended users are you/the owner to address the appraisal’s only intended use, that being to assist in the tax abatement process. No other uses or users are intended.

4. The appraisal’s retrospective effective date will correspond to the most recent reassessment date, February 1, 2018.

5. An Appraisal Report will be developed using the applicable valuation technique(s), be it the cost, sales comparison, and/or income approaches. The appraisal will be prepared to conform with and be subject to the reporting requirements set forth in the applicable standards of the Uniform Standards of Professional Appraisal Practice (USPAP) and the Standards of Professional Appraisal Practice of the Appraisal Institute.

6. The completion date is August 1, 2018.

7. The agreed-to fee is , inclusive of all expenses. A retainer is requested and the balance is due upon notification that the appraisal is complete. The appraisal assignment and/or the fee are, in no way, connected to a requested minimum valuation, a specific valuation, or predefined results.

8. The fee for preparation and/or testimony at any hearings is invoiced at $/hr. plus "out-of-pocket" expenses.

9. In the event that the Client desires to cancel this contract, written notice thereof shall be delivered to the Appraiser and it is agreed that the Appraiser shall receive compensation from the Client for all services rendered at the rate of $650 per day for the time spent prior to receipt of written notice to stop work, plus all costs advanced in connection with said work prior to receipt of such written notice, not to exceed the entire appraisal fee.
10. If any portion of the compensation or costs due to the Appraiser becomes delinquent, the Client will pay interest thereon at the rate of 10% per annum on said account from the due date until paid and further agrees to pay all costs of collection thereof, including reasonable attorney’s fees, court costs, etc.

If this contract represents your understanding of the appraisal assignment, please provide:
   a. Signed copy of this contract but do not return the certification and assumption pages.
   b. The retainer with the check made payable to Dakota Appraisal & Consulting, Ltd.
   c. Rent roll and rent schedule (rents quoted to incoming tenants) as of February 1, 2018.
   d. Income and expense statements for the four years ending December 31, 2013-December 31, 2017.
   e. Site plan.
   f. Building plans.
   g. Contact information for the person to arrange the appraisal inspection.
   h. All other information you want considered in the appraisal process.

Thank you for selecting Dakota Appraisal & Consulting, Ltd. for this assignment. If you have any questions, please inquire.

Sincerely,

[Signature]

Joel Bach, MAI

Nokota Ridge, LLC
Benjamin W. Ide

[Signature]  

06/25/18

Date
COREY J. KOST, MAI

QUALIFICATIONS

STATE CERTIFICATIONS

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Certification</th>
<th>State</th>
<th>Permit No.</th>
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</thead>
<tbody>
<tr>
<td>2013-Present</td>
<td>Certified General Appraiser</td>
<td>ND</td>
<td>CG-21378</td>
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<tr>
<td>2013-Present</td>
<td>Certified General Appraiser</td>
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<td>REA-RAG-LIC-5085</td>
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<td>2013-Present</td>
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PROFESSIONAL AFFILIATIONS

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<thead>
<tr>
<th>Date(s)</th>
<th>Affiliation</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-Present</td>
<td>MAI Designated Member</td>
<td>Appraisal Institute (AI member since 2010)</td>
</tr>
<tr>
<td>2016-Present</td>
<td>Board Member</td>
<td>ND Real Estate Appraiser Qualifications &amp; Ethics Board</td>
</tr>
<tr>
<td>2017-Present</td>
<td>Alternate Director</td>
<td>Association of Appraiser Regulatory Officials (AARO)</td>
</tr>
<tr>
<td>2016-Present</td>
<td>Charter Member</td>
<td>ND Appraiser Association</td>
</tr>
<tr>
<td>2010-Present</td>
<td>Realtor Member</td>
<td>Bismarck-Mandan Board of Realtors, NDAR, NAR</td>
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WORK EXPERIENCE

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Title</th>
<th>Employer</th>
<th>Location</th>
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<tbody>
<tr>
<td>2009-Present</td>
<td>Staff Appraiser</td>
<td>Dakota Appraisal &amp; Consulting, Ltd.</td>
<td>Bismarck, ND</td>
</tr>
<tr>
<td>2005-2009</td>
<td>Project Engineer</td>
<td>C&amp;H Engineering &amp; Surveying</td>
<td>Bozeman, MT</td>
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RECENT CONTINUING APPRAISAL EDUCATION

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Course</th>
<th>Sponsor</th>
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<tbody>
<tr>
<td>Dec. 2017</td>
<td>USPAP Update 2018-2019</td>
<td>NDREA ¹</td>
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<tr>
<td>April 2017</td>
<td>UASFLA² – Practical Applications</td>
<td>Appraisal Institute</td>
</tr>
<tr>
<td>Dec. 2016</td>
<td>Raise Your Appraiser IQ</td>
<td>NDA</td>
</tr>
<tr>
<td>June 2016</td>
<td>The Appraiser as an Expert Witness: Preparation &amp; Testimony</td>
<td>Appraisal Institute</td>
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<tr>
<td>June 2016</td>
<td>Complex Litigation Appraisal Case Studies</td>
<td>Appraisal Institute</td>
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<tr>
<td>April 2016</td>
<td>Code of Ethics</td>
<td>Bis-Man Board of Realtors</td>
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SECONDARY/POST EDUCATION

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<tr>
<th>Date(s)</th>
<th>School/Degree</th>
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<tbody>
<tr>
<td>2001-2005</td>
<td>University of North Dakota</td>
<td>Grand Forks, ND</td>
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<td>1998-2001</td>
<td>Century High School</td>
<td>Bismarck, ND</td>
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</tbody>
</table>

PARTIAL LIST OF MAJOR CLIENTS

Financial Institutions
- AgCountry Farm Credit Services, American Bank Center, American Federal Bank, American State Bank & Trust, Bell Bank, BNC National Bank, Bremer Bank, Capital Credit Union, Choice Financial, Cornerstone Bank, Dacotah Bank, Dakota Community Bank & Trust, First Community Credit Union, First International Bank & Trust, First Western Bank & Trust, Gate City Bank, JP Morgan Chase Bank, Security First Bank of ND, Starion Bank, Stockman Bank, U.S. Bank, Wells Fargo Bank

Government Entities
- City of Bismarck, Burleigh County, Dickinson State University, City of Minot, Minot Public Schools, NDDOT

Other
- Basin Electric, Civil Science, Houston Engineering, Kadrmas, Lee, & Jackson, McDonalds USA, McKenzie Electric Coop, Minn Kota Power Coop, Southwest Healthcare, Ulteig Engineers, Westcor Land Title, law firms, estates, etc.

TYPES OF ASSIGNMENTS

Residential: Single-family, condominium, 2-4 unit multi-family
Commercial: Apartments, automobile dealerships, convenience stores, industrial, lodging, medical, office, restaurants, retail, RV/mobile home parks, sales and service, self-storage, senior-living, warehouses, worker-housing, etc.
Land: Commercial, industrial, and residential sites, development tracts, and agricultural land
Eminent Domain: Highway right-of-way, utility easements, etc.

¹NDREA: ND Real Estate Appraiser Qualifications & Ethics Board
²Uniform Appraisal Standards for Federal Land Acquisitions

G:\Administrative\Qualifications\CoreyKost Qualifications.1-6-18.docx
JOSEPH J. IBACH, MAI

QUALIFICATIONS

**STATE CERTIFICATIONS**

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Certification</th>
<th>State</th>
<th>Permit No.</th>
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<tbody>
<tr>
<td>1991 - Present</td>
<td>Certified General Appraiser</td>
<td>ND</td>
<td>CG-1009</td>
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<td>1993 - Present</td>
<td>Certified General Appraiser</td>
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<td>324CG</td>
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<td>1993 - Present</td>
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<td>REA-RAG-LIC-241</td>
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<td>1992 - Present</td>
<td>Certified General Appraiser</td>
<td>MN</td>
<td>4001062</td>
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<tr>
<td>2002 - Present</td>
<td>Certified General Appraiser</td>
<td>WY</td>
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**PROFESSIONAL AFFILIATIONS**

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<th>Affiliation</th>
<th>Organization</th>
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<tbody>
<tr>
<td>1988 - Present</td>
<td>MAI Designated Member</td>
<td>Appraisal Institute (AI member since 1980)</td>
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<td>1993 - 2016</td>
<td>Past Board Member</td>
<td>NDREAB 1 (Chairman 1995-2015)</td>
</tr>
<tr>
<td>2013 - 2015</td>
<td>Past Board Member</td>
<td>Association of Appraiser Regulatory Officials (AARO)</td>
</tr>
<tr>
<td>2016 - Present</td>
<td>Charter Member</td>
<td>North Dakota Appraisers Association (NDAA)</td>
</tr>
<tr>
<td>2016 - Present</td>
<td>Board Member/President-elect</td>
<td>North Dakota Appraisers Association (NDAA)</td>
</tr>
<tr>
<td>1983 - Present</td>
<td>Approved Appraiser</td>
<td>Federal Housing Administration (FHA)</td>
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<tr>
<td>1983 - Present</td>
<td>Realtor Member</td>
<td>Bismarck-Mandan Board of Realtors &amp; North Dakota/National Association of Realtors</td>
</tr>
<tr>
<td>1989 - Present</td>
<td>Associate Member</td>
<td>ASFMRA 2</td>
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**WORK EXPERIENCE**

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<tr>
<th>Date(s)</th>
<th>Title</th>
<th>Employer</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>1982 - Present</td>
<td>Owner/President</td>
<td>Dakota Appraisal &amp; Consulting, Ltd.</td>
<td>Bismarck, ND</td>
</tr>
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<td>1977 - 1982</td>
<td>Fee Appraiser</td>
<td>Reilly Appraisal Consultants, Inc.</td>
<td>Grand Forks, ND</td>
</tr>
<tr>
<td>1975 - 1977</td>
<td>Staff Appraiser</td>
<td>Gate City Savings &amp; Loan Assn.</td>
<td>Bismarck, ND</td>
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</tbody>
</table>

**COURT TESTIMONY**

Qualified as an expert witness in Walsh, Emmons, Burleigh, Ramsey, Wells, Ward, Williams, McKenzie, and Mercer County District Courts and U.S. District Bankruptcy Court in Fargo, Bismarck, and Minot, ND

**CONTINUING APPRAISAL EDUCATION**

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Course</th>
<th>Sponsor</th>
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<tbody>
<tr>
<td>Dec. 2017</td>
<td>Hot Topics and Myths in Appraiser Liability</td>
<td>NDAA</td>
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<td>Sept. 2017</td>
<td>Cutting Edge Issues—ND Appraisers</td>
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<td>June 2017</td>
<td>Business Practices and Ethics</td>
<td>Appraisal Institute</td>
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<td>April 2017</td>
<td>Uniform Appraisal Standards for Federal Land Acquisitions:</td>
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<td>Practical Applications</td>
<td>Appraisal Institute</td>
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<td>Mar. 2017</td>
<td>Cutting Edge Issues for Today's Appraisal Professional</td>
<td>Steinley RE Appraisals</td>
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<td>Dec. 2016</td>
<td>FHA Appraising for Valuation Professionals</td>
<td>Appraisal Institute</td>
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<td>Dec. 2016</td>
<td>Raise Your Appraiser IQ.</td>
<td>Ted Whitmer/NDAA</td>
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<td>Sept. 2016</td>
<td>Drone Technology &amp; its impact on the Appraisal Industry</td>
<td>NDAA</td>
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<tr>
<td>July 2016</td>
<td>Appraisal Institute's Summer Meeting-Various Seminars</td>
<td>Appraisal Institute</td>
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<td>Dec. 2015</td>
<td>7-hr. Nat'l USPAP Update 2016-2017</td>
<td>NDREAB</td>
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<td>Dec. 2015</td>
<td>Most Common USPAP Violations, Part 2</td>
<td>NDREAB</td>
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<tr>
<td>July 2015</td>
<td>FHA Appraisals Using Policy Handbook 4000.1</td>
<td>NDREAB</td>
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<tr>
<td>July 2015</td>
<td>Understanding FANNIE MAE's Collateral Underwriter &amp; Regression Analysis</td>
<td>NDREAB</td>
</tr>
<tr>
<td>July 2015</td>
<td>Appraisal Institute's Summer Meeting-Various Seminars</td>
<td>Appraisal Institute</td>
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<tr>
<td>Apr. 2015</td>
<td>Common Appraisal, USPAP, &amp; Review Error</td>
<td>Ted Whitmer</td>
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<tr>
<td>Dec. 2014</td>
<td>Most Common USPAP Violations</td>
<td>NDREAB</td>
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<tr>
<td>Aug. 2014</td>
<td>Appraisal Institute's Summer Conference</td>
<td>Appraisal Institute</td>
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<tr>
<td>July 2014</td>
<td>Appraisal Institute's Supper Meeting-Various Seminars</td>
<td>Appraisal Institute</td>
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<tr>
<td>Mar. 2014</td>
<td>Subdivision Valuation</td>
<td>NDREAB</td>
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</tbody>
</table>

1NDREAB: ND Real Estate Appraiser Qualifications & Ethics Board
2ASFMRA: American Society of Farm Managers & Rural Appraisers
JOSEPH J. IBACH, MAI
QUALIFICATIONS (Contd)

SECONDARY/POST EDUCATION

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>School/Degree</th>
<th>Location</th>
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<tbody>
<tr>
<td>1971 - 1975</td>
<td>Dickinson State College</td>
<td>Dickinson, ND</td>
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<td>B.A. Degree, Business Administration</td>
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<tr>
<td></td>
<td>B.S. Degree, Secondary Education</td>
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</tr>
<tr>
<td>1967 - 1971</td>
<td>Linton Public High School</td>
<td>Linton, ND</td>
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</table>

PARTIAL LIST OF MAJOR CLIENTS

Financial Institutions

Government Agencies
City of Bismarck, City of Minot, Emmons County, Federal Deposit Insurance Corporation (FDIC), General Services Administration (GSA), ND Department of Transportation, ND Public Service Commission, Murray County, Oliver County, ND State Land Department, ND State Water Commission, University of North Dakota, U.S. Army Corps of Engineers, U.S. Attorney’s Office, U.S. Bureau of Reclamation, U.S. Department of Agriculture, U.S. Department of Interior/Fish & Wildlife Services, U.S. National Park Service, Veterans Administration

Employee Relocation Companies
Cartus, Dwelworks, LLC, Prudential Relocation

Businesses/Corporations

TYPES OF APPRAISAL ASSIGNMENTS

Residential
Single-family and multi-family and condominium/townhouse projects

Commercial
Lodging, resorts, medical clinics, office buildings, retail/commercial buildings, automobile dealerships, industrial buildings, restaurants, manufactured housing parks, financial institution buildings, senior care properties, convenience stores, truck stops, warehouses, agricultural processing facilities, self-storage, grocery stores, etc.

Land
Residential, commercial, industrial, farms, and ranches

Other
Condemnation (representing property owners and condemning agencies), rent analysis, informational studies, and feasibility studies
North Dakota Real Estate Appraiser Qualification and Ethics Board

THIS IS TO CERTIFY THAT

Corey J. Kost

IS FULLY QUALIFIED IN THE STATE OF NORTH DAKOTA AS A:

CERTIFIED GENERAL APPRAISER

PERMIT NO. CG-21378

FROM THE DATE HEREOF UNLESS TERMINATED BY THE APPRAISAL BOARD

IN WITNESS WHEREOF, The Appraisal Board has caused these presents to be signed and the official seal to be hereunto affixed this

11th day of April, 2013

North Dakota Real Estate Appraiser Qualifications and Ethics Board

Executive Secretary
North Dakota Real Estate Appraiser Qualification and Ethics Board

THIS IS TO CERTIFY THAT

Joseph J. Ibach

IS FULLY QUALIFIED IN THE STATE OF NORTH DAKOTA AS A:

CERTIFIED GENERAL REAL PROPERTY APPRAISER

PERMIT NO. CG-1009

FROM THE DATE HEREOF UNLESS TERMINATED BY THE APPRAISAL BOARD

IN WITNESS WHEREOF, The Appraisal Board has caused these presents to be signed and the official seal to be hereunto affixed this 16th day of December, 1991.

North Dakota Real Estate Appraiser Qualifications and Ethics Board

Jodie R. Campbell

Executive Secretary