

### The Income Capitalization Approach

Description	Land Lease 1	Land Lease 2	Land Lease 3
Store	Kmart	BestBuy	Sam's Club
Location	Plaza Las Américas Ave. Hato Rey	230 Federico Costa St. Hato Rey, PR	Kennedy Avenue San Juan, PR
Date of Lease	November 1998	February 2007	January 2009
Initial Lease Term	40 years	20 years	20 years
Land Area	7,619 SM	12,270 SM	35,838 SM
Annual Basic Rent	\$1,500,150	\$1,500,000	\$1,400,000
Building Area by Tenant	137,000 SF	50,000 SF	130,000 SF
Rent per Building SF	\$10.95	\$30.00	\$10.77
Rent Increments	Level	\$100,000 every 5-yrs.	Avg. of 1.7% per year
Verification	Landlord	Landlord	Landlord/Appraiser

The three comparable ground rents range consistently from \$1,400,000 to \$1,500,000 at \$10.77 to \$30.00 per square foot of store area built by the tenant. Land Lease 1 is an older 1998 contract, while Land Leases 2 and 3 are newer 2007 and 2009 agreements negotiated under superior market conditions.

Land Lease 1 is a pad of 7,619 square meter leased to Kmart for its 137,000 square foot two-level store. The Kmart outlot forms part of a larger parcel of 12.56 cuerdas which also houses the 35,531 square foot Rooms-to-Go and 41,419 square foot Office Max stores under building (not land) leases. The Kmart lease concessions included the construction of the multi-story parking serving the store at the Landlord's expense.

Land Lease 1 lies along Plaza Las Américas Avenue within the periphery of the mall, near the subject. In this same vicinity, Pueblo and Toys R Us also hold land leases for smaller 50,000 to 60,000 square foot ground floor stores under the following rents:

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Description	Land Lease 4A	Land Lease 4B	Total Land Lease 4
Store	Pueblo	Toys R Us	Pueblo/Toys R Us
Location	Plaza Las Américas Ave.	Plaza Las Américas Ave.	Plaza Las Américas Ave.
Date of Lease	October 2007 <sup>4</sup>	December 1989	1989-2007
Initial Lease Term	21 years	30 years	21 to 30 years
Land Area	N/A	N/A	44,181 SM
Annual Basic Rent	\$500,000	\$499,200	\$999,200
Building Area by Tenant	50,000 SF	60,000 SF	110,000 SF
Rent per Building SF	\$10.00	\$8.32	\$9.08
Rent Increments	6% every 5-8 yrs.	Level	Level to 5% every 5-8 yrs.
Verification	Landlord	Landlord	Landlord

The two additional land rents vary from \$8.32 to \$10.00 per square foot of store area built by tenant, averaging \$9.08 per square foot. The average contracted rent is lower than the \$10.95 per square foot rate of Land Lease 1 (Kmart) in the same location within the Plaza Las Américas periphery. However, Land Lease 4 reflects original leases dating back to 1989-90. The three rents at the mega-mall periphery, Kmart, Pueblo and Toys R Us, average \$10.11 per square foot.

Land Lease 2 is the Best Buy store ground lease at Federico Costa Street across the expressway from Plaza Las Américas Mall. This is a smaller 12,270 square meter pad leased for \$1,500,000, or \$30.00 per square foot of building area built by tenant. On a per square foot basis Land Lease 2 sets the upper end, but its overall annual rent is consistent to that of Land Leases 1 and 3. This location enjoys strong exposure to the Las Américas Expressway, with the lease negotiated under superior market conditions. BestBuy built and elevated store over ground floor parking, plus a parking deck.

Finally, Land Lease 3 is a 35,838 square meter parcel along Kennedy Avenue leased to Walmart for a 130,000 Sam's Club store recently inaugurated. The annual rent amounts to \$1,400,000 at \$10.77 per square foot of building area, lower but quite consistent to the overall rents of Land Leases 1 and 2.

In summary, the four land leases provide annual rents of approximately \$1,000,000 to \$1,500,000, with the lower end set by the sum of two older leases for smaller stores. The three additional ground rents show a consistent annual range of \$1,400,000 to \$1,500,000. On a per unit basis, the ground rents range from \$8.32 to \$30.00 per square foot of building area. Land Leases 1 and 3 provide consistent unit rents of \$10.77 to \$10.95 per square foot, while the older Lease 4 (combined) provides a lower \$9.08 per square foot average rent.

<sup>4</sup>Re-leasing of the Pueblo original lease which dates back to approx. 1990.

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### Rent Loss calculations

Est. Annual Rent Loss	\$2,800,000
Rent Loss Period	36 - 42 months
Discount Rate	9.0%
Present Worth Factor	2.67
Rent Loss Adjustments	\$7,500,000

Overall, a rent loss adjustment of \$7,500,000 will be applied for the as is value estimate.

### As is market value

The as is market value considers the prospective (or as stabilized) value, and deducts the associated costs and estimated rent losses over the development period. Therefore, based on the preceding analyses, the following table presents the as is value calculation for the subject property.

Annual Ground Rent	\$2,800,000
Capitalization Rate	8.0%
Rounded Market Value <sup>6</sup>	\$35,000,000
As Is Adjustments:	
Demolition Costs	\$2,000,000
Permits Process	\$200,000
Geometric Improvements	\$1,300,000
Rent Loss	\$7,500,000
Total Adjustments	\$11,000,000
As-Is Market Value	\$24,000,000

The preceding income capitalization analysis provides an as is value estimate for the property of \$24,000,000. The analysis is based on relevant market data. To support the income capitalization approach I also developed a limited sales comparison analysis based on sales of big-box outlots in the island.

### Alternate sales comparison analysis

The sales comparison approach is the process of deriving a value indication for the subject property by comparing similar properties that have recently sold with the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant when adequate supply of comparable sales is available.

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<sup>6</sup>As stabilized or prospective.

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In the sales comparison approach, the appraiser develops an opinion of value by analyzing closed sales, listing, or pending sales of properties that are similar to the subject property. The comparative techniques of analysis applied in the sales comparison approach are fundamental to the valuation process. In the sales comparison approach, an opinion of market value is developed by comparing properties similar to the subject property that have recently sold, are listed for sale, or are under contract (i.e., for which purchase offers and a deposit have been recently submitted.)

For the supporting sales comparison analysis, I listed and analyzed transactions of comparable and competitive commercial sites purchased for big-box construction, which although at alternate locations, carry similar retail economics. I visited the different areas and made visual observations of the properties involved in these transactions. The data pertaining to the listed sales was verified with at least one of the parties involved and/or the public records at the respective CRIM Municipal Offices.

The transactions researched and presented provide an adequate basis to support the valuation analysis by income capitalization approach. The following table contains the most relevant facts and/or the main characteristics of the land transactions. The listed sales represent "all cash to seller" transactions requiring no adjustments for financing concessions.

Description	Sale 1	Sale 2	Sale 3
Location	PR-2, Km. 56.5, Florida Afuera Ward Barceloneta, PR	Lot B Baramaya Avenue Ponce, PR	RH Todd Avenue & Corchado Street Santurce, PR
Date of Sale	August 2009	January 2009	February 2011
Site Area	117,912 SM 30.00 cuerdas	38,332 SM 9.75 cuerdas	9,926.00 SM 2.53 cuerdas
Zoning	I-1 & C-2	EV.4	ZU-G5
Approvals	Full Permits	Full Permits	Preliminary Permits
Intended Use	Wal-Mart & Sam's Club	Home Depot	Walmart
Topography	Level to Sloping	Mostly Level	Mostly Level
Seller	Millenium Properties Corp.	JM Ponce III	3R Group Corp. <sup>7</sup>
Buyer	Wal-Mart Puerto Rico, Inc.	Home Depot	Walmart PR, Inc.
Legal Data	D-11, Juan C. Salichs Pou	D-2, R. Meléndez	D-1, Daniel García
Verification	Seller/Buyer	Seller	Buyer
Sales Price	\$22,425,814	\$11,200,000	\$10,900,000

<sup>7</sup> and Mr. José Pérez Serrano.

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The listed transactions are vacant land acquired for retail development. The transactions take place between August 2009 and February 2011 and vary in size from 2.53 to 30.00 cuerdas. Sales prices range from \$10,900,000 to \$22,425,814.

Sale 1 is the transaction of the 30 cuerda site of the former Lotus Barceloneta industrial facility formerly comprising a 153,000 square foot industrial building. The property is located at km. 56.5 of PR-2 in Barceloneta and was purchased by Wal-Mart Puerto Rico, Inc. in August 2009 for \$22,425,814 for Wal-Mart and Sam's Club stores that were recently built on the site.

Sale 2 at Baramaya Avenue in Ponce is part of the Reina del Sur shopping center also anchored by Walmart. Home Depot recently acquired the 9.75 cuerda site in January 2009 for \$11,200,000. As part of the agreement, \$2,900,000 in site work was performed by the seller for parking paving, lightning, etc. This provides an adjusted sales price of \$8,300,000, excluding site work. The original agreement dates back to 2004 when the parcel was in raw land condition.

Sale 3 represents a 9,926 square meter lot in two sections divided by Corchado Street acquired by Walmart for the construction of a retail center currently under construction. The property is an infill in Santurce along RH Todd Avenue. It sells recently in February 2011. The site has approvals for the development of a residential multifamily and commercial project.

Overall, the three comparable sales were acquired for big-box store development, have land areas of 2.53 to 30.00 cuerdas, and sell for \$8,300,000 (adjusted) to \$22,425,000, rounded. The Sale 1 price at the upper end reflects a land acquired for development of two mega-stores, Wal-Mart and Sam's Club. Its \$22,425,814 total price provides a unit indication of approximately \$11,212,907 per store ( $\$22,425,814 \div 2$ ) consistent with the Sale 3 price of \$10,900,000.

It was also informed that Target has been negotiating a 9.0 cuerda site in the Río Bayamón Community, near an existing Costco store, for \$12,000,000, also falling in line with the per store unit prices of the listed sales, but at the upper end. In summary:

Transaction	Location	Stores	Cuerdas per Store	Price per Store	Retailer
Sale 1	Barceloneta	2	15.0	\$11,212,907	Walmart
			15.0	\$11,212,907	Sam's Club
Sale 2	Ponce	1	9.75	\$8,300,000	Home Depot
Sale 3	San Juan	1	2.53	\$10,900,000	Walmart
Subject	San Juan	2	5.62	Value Level	N/A
			5.62		
Negotiation	Guaynabo	1	9.00	\$12,000,000	Target

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In summary, the four listed commercial land transactions provide unit prices of \$8,300,000 to \$12,000,000 per store with different land areas and location, two main elements of comparison in commercial land valuation. The market data supports a rounded subject value of \$11,000,000 to \$12,000,000 per outlot as supported by Sales 1 and 3, as well as by the reported Target negotiation, for total values of \$22,000,000 to \$24,000,000 based on the potential two store subject concept. The subject location when compared to the listed sales would support a high end value indication. As such, a \$24,000,000 total value is considered.

The subject property will require demolition and clearing of the existing improvements which have been estimated at \$2,000,000, plus \$200,000 in permits costs, for a total of \$2,200,000. In terms of the geometric improvements, both Sale 1 and Sale 3 required extraordinary site improvements or geometric improvements at the buyer's expense. As such, the as is market value of the property under its highest and best use scenario of development of two big-box outlots by the supporting sales comparison analysis presented is \$21,800,000 (\$24,000,000 less \$2,200,000 in demolition and permits costs), rounded to \$22,000,000. The result value is slightly lower, but quite consistent to the Sale 1 price of \$22,425,814 for two big-box stores. In summary:

Description	Value/Price Levels
Sale 1 Price (2 big-box stores)	\$22,425,814
Sales Comparison Approach - Subject	\$22,000,000

Overall, the sales comparison analysis of commercial land sales for big box development support a general price range of approximately \$22,000,000. The resulting figure is slightly lower but quite consistent to the \$24,000,000 indication resulting from the income capitalization approach. The income capitalization approach based on market rents in the subject vicinity best reflects the value economics of the property, and is considered the best indication of value for the property. I will thus conclude the subject value based on the income capitalization result which is strongly supported by the market data examined.

As such, the as is market value of the subject property based on the income capitalization approach and supported by the limited sales comparison analysis as of March 2, 2012 is concluded at:

**TWENTY FOUR MILLION DOLLARS**  
**\$24,000,000**