

**AN APPRAISAL REPORT**

**A 19,800 SQ. FT. SINGLE TENANT ENTERTAINMENT BUILDING**

**LOCATED ON 1.127 ACRES OF LAND  
11505 ANAHEIM DRIVE  
DALLAS, DALLAS COUNTY, TEXAS 75229**

**PREPARED FOR:**

**MS. CONNIE CHUNG  
COMMONWEALTH BUSINESS BANK (CBB)  
3435 WILSHIRE BOULEVARD  
LOS ANGELES, CA 90010**

*Effective Date: April 26, 2018*

*Report Date: May 11, 2018*

*Prospective Future Value Date: October 1, 2018*

**PREPARED BY:**

**PRESTONWOOD PROPERTY ANALYSIS  
6764 ORANGEWOOD DRIVE  
DALLAS, TEXAS 75248**

**FILE NO. 2018-2460.CBB**



## *Prestonwood Property Analysis*

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May 11, 2018

Ms. Connie Chung  
CBB Bank  
3435 Wilshire Boulevard  
Los Angeles, CA 90010

Re: An Appraisal Report  
A 19,800 Square Feet Single Tenant Entertainment Building  
Located on 1.127 acres of land  
***11505 Anaheim Drive***  
***Dallas, Dallas County, Texas 75229***  
File No. 2018-2460.CBB

Dear Ms. Chung:

At your request, we have personally inspected the above-captioned property in order to estimate the market values “as if completed” value upon completion of renovations and finish out – value date October 1, 2018; an “as is” of the fee simple real estate interest, as of April 26, 2018. The report date is May 11, 2018. The purpose of this appraisal is to estimate the value opinions for the following:

As if completed” market value of the fee simple interest in the real estate upon completion of renovations as of October 1, 2018 and the “as is” market value as of the inspection date being April 26, 2018, for subject property at ***11505 Anaheim Drive, Dallas, Dallas County, Texas 75229.***

A description of the subject, together with the sources of information and bases of the conclusions, is stated in the accompanying sections of this report. This report was prepared in accordance with the appraisal standards of the Appraisal Institute, the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation, and follows the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). Additionally, the report conforms to the SBA SOP 50-10-5 (J) implemented by the Office of Financial Assistance. The report was prepared in accordance with the minimum standards as set forth by the client

To report the assignment results, we used the Appraisal Report format of Standards Rule 2-2 of USPAP. This report contains all information significant to the solution of the appraisal problem.

The appraisal includes: a personal inspection of the property and influencing environ; a review of historical ownership regarding the subject; review of surveys, building plans/specifications, plats, maps, etc. as available; research into market activity including sales, current listings; inspection of comparables; research into investor motivations; and analysis of the above. Based upon our inspection, the subject does not appear to contain any significant natural, cultural, recreation, or scientific value.

Ms. Chung  
CBB Bank  
May 11, 2018

### **Extraordinary Assumptions**

Extraordinary Assumptions assume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of the data used in the analysis. There is one extraordinary assumption to this appraisal assignment.

*The appraiser requested, but was not provided a Phase I Environmental Report for the determination of the site's compliance with EPA regulations. Should it become apparent that the site requires remediation, Prestonwood Property Analysis reserves the right to amend any and all value conclusions.*

*The subject ownership will operate a Sexually Oriented Business (SOB) based the licensing information provided and determined from city of Dallas records. The SOB is considered a business license granted to an individual and is considered an intangible asset not considered in the scope of this report.*

### **Hypothetical Conditions**

Hypothetical Conditions are contrary to known facts about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in the analysis. There was one hypothetical condition to this appraisal assignment.

*This report contains one Hypothetical Condition mainly that the subject improvements are completed substantially similar to the information provided via contractors plans and / or estimates. As of the inspection date (April 26, 2018) the subject property was approximately 70% complete. It is assumed that the improvements will be completed in an attractive, workmanlike manner. Should the proposed improvements be constructed differently from that considered herein, the value may be impacted and our report subject to amendment. It is assumed that the property construction will be completed on or before October 1, 2018.*

### **Additional Conditions**

The services and information rendered are on a best effort basis. Appraiser does not represent or guarantee that the real estate and/or business will be profitable or will achieve any particular level of performance. Budgets, estimates and other projections are based on information derived from data sources which are believed to be reliable and other facilities that are believed to be reasonably comparable to this property and the market in which this property is located.

This report is intended only for the named client and any named intended users. It was not written for any other party including but not limited to (1) anyone who may get a copy of the report (2) any party in litigation on the other side of the case from the client or intended user, (3) any enforcement officer at any regulatory body, (4) any judge or jury, (5) anyone else other than the named client or intended user set forth in this report.

The report is not the appraisal, but is the reporting of the appraisal to the named client or named intended user. Anyone else who attempts to rely on an appraisal report that is not a named user may be misled by the report.

USPAP defines a report as "any communication written or oral of an appraisal...transmitted to the client upon the completion of an assignment." If you are not the client you would have no way to know if this is the "report" as defined by USPAP. Any changes will result in a different report date. Any subsequent reports, with a latter report date, void this document even to the client or intended user. One who takes possession of this report would not know if this document has been voided by a subsequent report or later report date.

**Valuation Opinion**

Therefore, after careful consideration of all pertinent data available, it is the opinion of the undersigned that the “prospective value upon completion” of the fee simple real estate as of October 1, 2018, is

***TWO MILLION SIX HUNDRED SEVENTY FIVE THOUSAND DOLLARS***  
***(\$2,675,000)***

Additionally, the “as is” value as of the inspection date of April 26, 2018 is based an estimated 70% completion value of the interior finish out. The estimated remaining finish out is considered to cost \$40.00 per square foot or \$792,000, rounded to \$790,000. This is a deduction from the above “as if completed” value, indicating an “as is” value as of April 26, 2018, as indicated below:

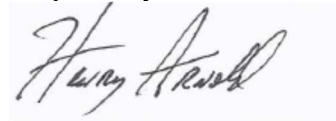
“Prospective value upon completion” Value of Real Property	\$ 2,675,000
Less: Cost to Complete	<u>\$ 790,000</u>
Total Value of Land, Improvements, and Equipment	\$ 1,885,000

Therefore, the “As Is” fee simple market value as of April 26, 2018, is:

***ONE MILLION EIGHT HUNDRED EIGHTY-FIVE THOUSAND DOLLARS***  
***(\$1,885,000)***

It has been a pleasure conducting this assignment for you. Please keep us in mind for future real estate appraisal or consulting opportunities.

Respectfully submitted,



Henry M. Arnold  
State Certified General Real Estate Appraiser  
TX-1323236-G  
Date: May 11, 2018



## CERTIFICATION OF VALUE

- to the best of our knowledge, the statements of fact contained in this report are true and correct.
- the reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions and conclusions.
- we have no present or prospective interest in the properties which are the subject of this report, and have no personal interest of bias with respect to the parties involved.
- we have performed no other 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 acceptance of this assignment.
- we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- our 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.
- our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Uniform Standards of Professional Appraisal Practice.
- Henry M. Arnold and Shaun Ghanfili made a physical inspection of the subject property that is the subject of this report with an inspection and effective date of April 26, 2018.
- Shaun Ghanfili provided significant real property appraisal assistance to the person signing this certification.
- Henry M. Arnold has sufficient educational background and similar experience in the appraisal of properties similar to the subject. The knowledge and experience allows the appraiser to complete the appraisal assignment in accordance with the competency of USPAP.



Henry M. Arnold  
State Certified General Real Estate Appraiser  
TX-1323236-G  
Date: May 11, 2018

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### ADDENDA

Engagement Letter  
Chapter 41A – “Sexually Oriented Business” & License  
Appraiser Qualifications

## DIGEST OF FACTS, ASSUMPTIONS AND CONCLUSIONS

Subject Property:	A 19,800 square feet single tenant Entertainment Building Located at <b>11505 Anaheim Drive</b> <b>Dallas, Dallas County, Texas 75229</b>
Site Summary -	Size: 1.127 acres / 49,092 SF Shape: Irregular Zoning: "IR" Industrial Research / SUP-97 Utilities: All Available Topography: Generally Level Flood Zone: Zone X; Map 48113C0170K, dated July 7, 2014
Improvements -	Building Area: Two (2) Story; 19,800 square feet Construction Type: Concrete aggregate tilt walls, with steel joist and girders supporting the flat roof deck. Parking: Approximately 113 open concrete surface parking Year Built: 1969; renovations 2018
Inspection Date of Appraisal:	April 26, 2018
"As Is" Valuation Date:	April 26, 2018
"As if Completed" Value Date:	October 1, 2018
Report Date of Appraisal:	May 11, 2018
Purpose of the Appraisal:	Estimate the "as if completed" and the "as is" market values of the fee simple interest in real estate.
Highest and Best Use (As If Vacant):	Investment potential and/or future commercial / Entertainment Center.
Highest and Best Use (As Improved):	Current use as single tenant entertainment center.

**“AS IS” FEE SIMPLE MARKET VALUE CONCLUSIONS –**

THE COST APPROACH

Indicated Cost Approach: **Not Developed**

THE SALES COMPARISON APPROACH

Indicated Sales Comparison Approach: \$2,700,000

THE INCOME APPROACH

Direct Capitalization Method: \$2,660,000

**Valuation Opinion**

Therefore, after careful consideration of all pertinent data available, it is the opinion of the undersigned that the “prospective value upon completion” of the fee simple real estate as of October 1, 2018, is

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“Prospective value upon completion” Value of Real Property	\$ 2,675,000
Less: Cost to Complete	<u>\$ 790,000</u>
Total Value of Land, Improvements, and Equipment	\$ 1,885,000

Therefore, the “As Is” fee simple market value as of April 26, 2018, is:

***ONE MILLION EIGHT HUNDRED EIGHTY-FIVE THOUSAND DOLLARS  
(\$1,885,000)***

**PHOTOGRAPHS OF THE SUBJECT PROPERTY**



**Front or east elevation of the subject property from Anaheim Drive, Dallas, Texas**

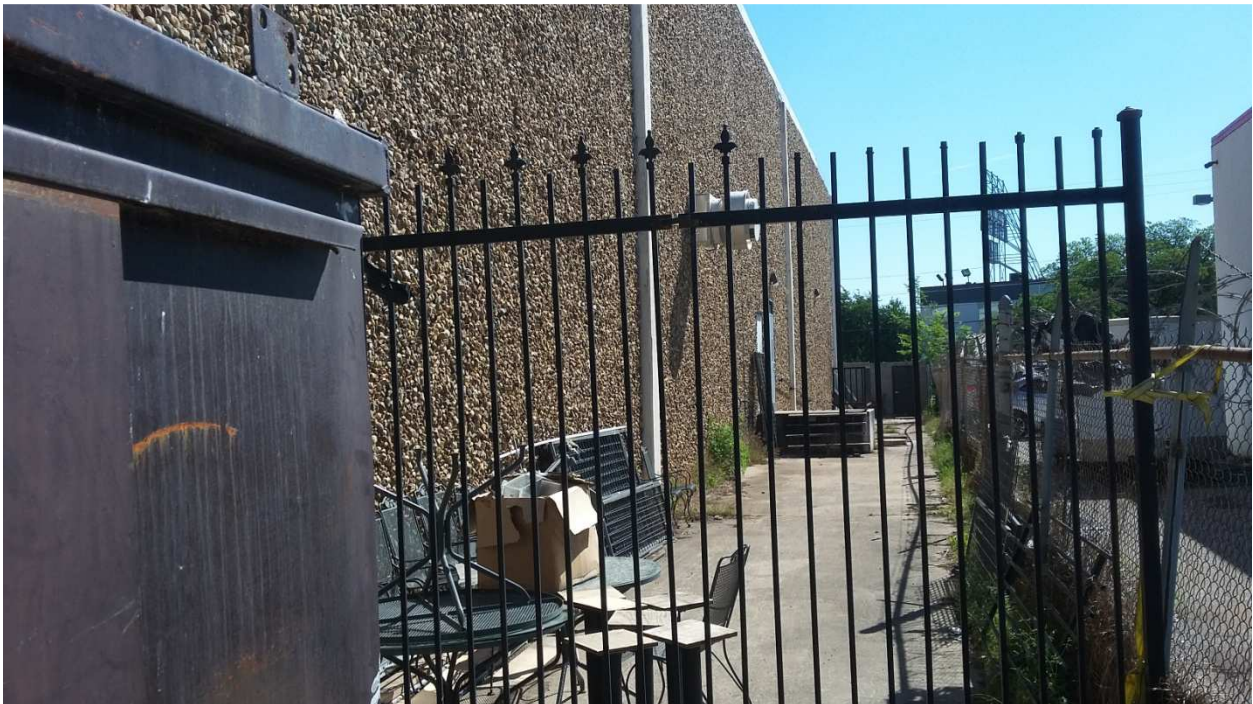


**View of north elevation of the subject property**





**View of west elevation of the subject property**



**View of south elevation of the subject property**



**View north along Anaheim Drive from the subject property**



**View south along Anaheim Drive from the subject property**





**Interior view of the subject property (Retail Area)**



**Interior view of the subject property (Retail Area)**



**Interior view of the subject property (Entertainment Area)**



**Interior view of the subject property (Entertainment Area)**





**Interior view of the subject property (Entertainment Area)**



**Interior view of the subject property (Entertainment Area)**



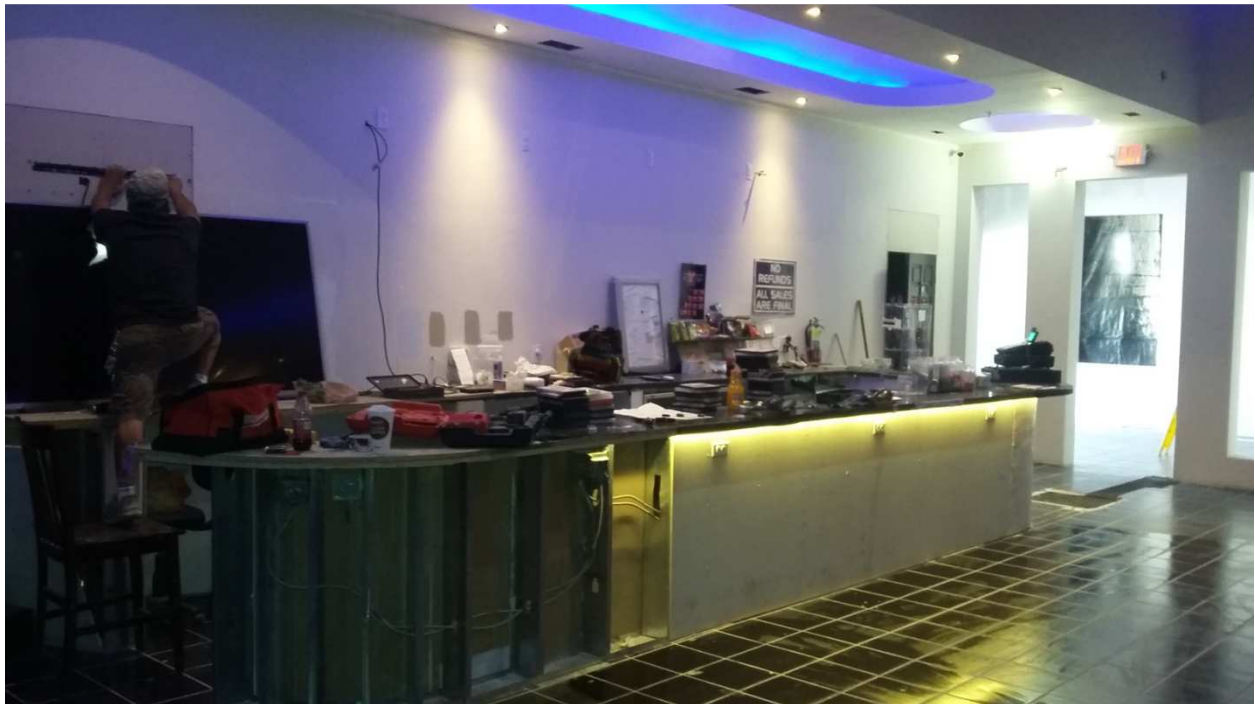
**Interior view of the subject property (Second Floor)**



**Interior view of the subject property (Second Floor)**



**Interior view of the subject property (Second Floor)**



**Interior view of the subject property (Bar Area)**





**Interior view of the subject property (Entertainment Area)**



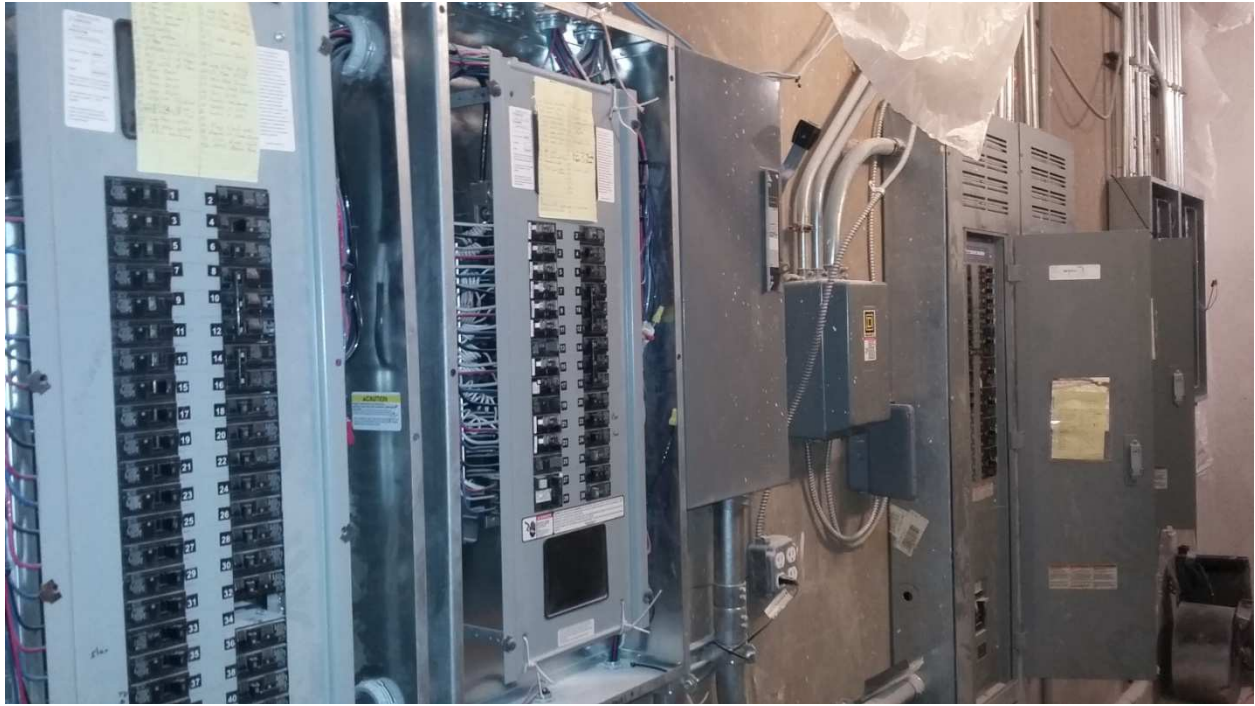
**Interior view of the subject property (Kitchen Area)**



**Interior view of the subject property (Unfinished Area)**



**Interior view of the subject property (Unfinished Area)**



**Interior view of the subject property (Electrical Boxes)**



**Interior view of the subject property**

## **ASSUMPTIONS AND LIMITING CONDITIONS**



## General Assumptions

This appraisal has been made with the following general assumptions:

1. That the date of value, to which the opinions expressed in this report apply, is set forth in the Letter of Transmittal. The appraisers assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.
2. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated. Name of ownership and the legal description were obtained from sources generally considered reliable; however, no responsibility is assumed for their accuracy. Taxes are assumed to be current unless otherwise reported. This data is not certified and should not be relied upon by the client. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.
3. The property is appraised free and clear of any and all liens or encumbrances unless otherwise stated.
4. Responsible ownership and competent property management are assumed.
5. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging of engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.
10. 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.
11. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

12. Various construction materials may contain items that have been or may in the future be determined to be hazardous (toxic) or undesirable and may need to be specially treated/handled or removed. For example, some transformers and other electrical components contain PCBs, and asbestos has been used in components such as fire proofing, heating and cooling systems, air duct insulation, spray-on and tile acoustical materials, linoleum, floor tiles, roofing, and dry wall plaster. Due to prior or current uses of the Property or in the area, the Property may have hazardous or undesirable metal, mineral, chemicals, hydrocarbons, or biological or radioactive items in soils, water, building components, above or below-ground containers or elsewhere in areas that may or may not be accessible or noticeable. Such items may leak or otherwise be released. Real estate appraisers have no expertise in the detection or correction of hazardous or undesirable items. Expert inspections are necessary. Current or future laws may require clean up by past, present and/or future owners and or operations. it is the responsibility of the Seller/Lessor, Buyer/Tenant or prospective Mortgagee to retain qualified experts to detect and correct such matters and to consult with legal counsel of their choice to determine what provisions, if any, they may wish to include in transaction documents regarding the Property.

Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, was not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

13. Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within this report. They should not be considered as surveys or relied upon for any other purpose.
14. Any person or entity relying on this appraisal report should be aware that **The Americans With Disability Act Of 1990 (ADA)** became effective on January 26, 1992. The ADA extends to individuals with disabilities civil rights protection similar to that provided to persons previously on the basis of race, sex, national origin and religion under the Civil Rights Act of 1999. One objective of the ADA is to make accessible to persons with disabilities all buildings and other facilities open to the general public on the same basis that those buildings and facilities are available to person without disabilities.

From a real estate perspective, owners and/or managers of existing facilities must be primarily concerned with barrier removals and the installation of auxiliary aids. Barrier removal measures include building access ramps, making curb-cuts at sidewalks and entrances, lowering shelves and public telephones, adding braille marking in elevators, installing flashing alarm lights, widening doorways, installing grab bars in toilet areas, designating special parking spaces, installing accessible water fountains, removing high-pile, low density carpeting, and others. These changes must be made if they are "readily achievable," which means easily accomplished

without much difficulty or expense and taking into account factors such as the cost of alterations and the overall financial resources of the facility. Whether it is "readily achievable" to remove an architectural or communication barrier will be decided on a case-by-case basis.

A real estate appraisal does not include an ADA compliance assessment since this is beyond the realm of the appraiser's expertise. If the property owner, manager or prospective interested party has not already done so, he or she is strongly advised that appropriate experts should be engaged to perform an analysis and evaluation of the subject property for compliance with the ADA's regulatory requirements. These experts should also prepare detailed cost estimates or compliance as the cost of compliance procedures may impact on the value of the property. Unless otherwise stated herein, the estimate of value expressed in this report does not include an allowance for any costs which may be necessary for the subject property to comply with ADA regulatory requirements.

15. No detailed soil, subsoil, or geophysical studies covering the subject property were available to the appraisers. Therefore, premises as to soil or subsoil qualities employed in this report are not conclusive but have been considered consistent with information available to the appraisers. Additionally, the existence of surface or subsurface faults, which may or may not exist on the property, were not observed by the appraisers. No responsibility is assumed for any hidden or unapparent conditions of the property, subsoil, or structures, nor for any expertise or engineering knowledge required. The client is urged to retain an expert in these fields, if desired.

16. The existence of endangered species, which may or may not be present on the property, was not observed by the appraisers.

17. Unless otherwise stated herein, all of the improvements described were considered operational and in adequate condition.

18. Any information furnished to us by other is believed to be reliable, but we assume no responsibility for its accuracy.

19. The value is reported in U. S. dollars on the basis of the value of the currency prevailing at the date of this appraisal.

20. Unless otherwise stated the subject of this appraisal includes all vertical realty rights, including surface rights, subsurface rights and air rights. However, the conclusions in this appraisal assume that any subsurface or mineral rights associated with the subject have no significant or atypical contributory value. This is important to note given the influence in Texas of certain shale formations containing natural gas or oil. Recent advances in drilling technology have provided greater opportunities to recover minerals.

The appraisers are not experts in the valuation of mineral interests. Should it be determined that the subject's mineral rights contribute material value, we reserve the right to re-evaluate the conclusions of this report.

21. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

22. Possession of this report, or a copy thereof, does not carry with it the right of publication.

23. 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 have been previously made.

24. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.

25. The Appraiser(s) makes no guarantee or warranty, whether implied or expressed, concerning the market value set forth in the Appraisal. Opinion of value contained herein are estimates and there is no guarantee the property will sell for such amounts.

***The following are property-specific general assumptions and limiting conditions related to the subject property being appraised.***

26. An "as built" certified survey of the subject property was not provided to the appraiser; therefore, reliance for the site size (1.127 acres, 49,092 square feet) is upon the information from either the client and/or that public information available from the Dallas County Appraisal District (DCAD). Additionally, the appraiser relied on Dallas County Appraisal District (DCAD) for the building area of 19,800 square feet. Should these figures later prove to be in error, then a re-valuation of the property may be necessary.

27. The "real estate" value estimate excludes the all equipment and intangibles associated with the subject property, FF&E, inventory, goodwill, permits, franchises, start-up/operating capital, etc, unless otherwise noted.

28. The appraiser requested but was not provided with a Phase I Environmental Report. We have assumed that the property does not have any outstanding environmental infractions, and that it has been inspected and violations, if any, have been corrected.

29. The appraisers cannot be held responsible for unforeseeable events that may alter market conditions after the effective date of appraisal.

30. The client and / or current management provided sufficient financial and operating data. The appraiser relied upon the information provided and certain market data available to the appraiser.

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## **GENERAL INFORMATION**

### **Identification of the Property**

The subject site encompasses 1.127 acres or 49,092 square feet located on the west side of Anaheim Drive in the city of Dallas, Dallas County, Texas. The local address is ***11505 Anaheim Drive, Dallas, Texas 75229.***

### **Legal Description**

The subject is legally described by the legal description as being: FREEWAY NORTH INDUSTRIAL PARK, BLK 5/6593 S PT LT 1 & N PT LT 2 ACS 1.267, DALLAS COUNTY, TEXAS.

### **Purpose of the Appraisal**

The purpose of the appraisal is to estimate the “as if completed” value as of the Prospective Date of Completion (October 1, 2018) and the “as is” fee simple interest of the subject property as of April 26, 2018. These values have been based upon a careful and personal inspection of the subject on April 26, 2018 and upon research into various factors that tend to influence value.

### **Intended Use / User**

The intended use of this report is to assist the client in loan underwriting of the subject property, or may be used in connection with the acquisition, disposition, portfolio monitoring and / or financing of the property. The intended user of the report is CBB Bank.

### **Appraisal Dates**

The effective date of the appraisal is April 26, 2018. The report date is May 11, 2018. The Prospective Future Value Date is October 1, 2018.

### **Property Rights Appraised**

The interest appraised represents

- 1) “As Is” Fee Simple Value - Date of Value: April 26, 2018
- 2) Prospective Value upon Completion/Renovations – Date of Value: October 1, 2018.

In this analysis we recognize the existence of leases, utility easements, zoning, and any other legal restrictions or limitations. The fee is considered as if unencumbered by any existing mortgages.

**History of the Subject Property** The current ownership indicated by the Dallas County Appraisal District (DCAD) records is JSAA Realty LLC. The DCAD records indicate the last ownership transfer was on September 28, 2016 from JSAA Ents Inc to JSAA Realty LLC. We are not aware of any other transactions that have involved the subject property in the past three years.

No other historical ownership data was found in the normal course of research. The client is advised to procure a current survey, title policy, and title abstract if additional details and historical ownership data are required. To the best of our knowledge there are no contracts encumbering the property nor is it currently offered for sale. The subject property has not previously been appraised by the appraisers within three years of the date of this report.

### Scope of the Appraisal

**Problem Identification:** In the appraisal of the property, the client seeks 1) an estimate of the “as is” market values of the fee simple interest in real estate, 2) an estimate of the “as if completed” market values of fee simple in real estate.

**Data Deficiencies:** The appraiser requested, but was not provided 1) Phase I Environmental Study 2) Construction and architectural plans 3) Title Commitment 4) Detailed construction costs for the renovations.

**Scope of Work:** This appraisal considers two approaches to value: 1) Sales Comparison Approach and 2) Income Capitalization Approach.

Methodological Determination						
	Cost Approach		Sales Comparison Approach		Income Approach	
	Yes	No	Yes	No	Yes	No
Applicable		x	x		x	
Necessary		x	x		x	

The procedures and methodologies employed in this appraisal are outlined in the Appraisal Process section of this report. This appraisal utilizes two approaches to value: the Sales Comparison Approach and Income Capitalization Approach. The Cost Approach was not utilized in this instance since investors rarely utilize the Cost Approach in investment decisions. The Cost Approach is deemed less accurate due to the difficulty of determining all forms of depreciation and is thus not considered necessary to determine value.

The following steps were completed and exhibited herein:



1. Henry M. Arnold and Shaun Ghanfili inspected the property, the neighborhood and the comparable properties, unless otherwise indicated, and the last inspection of the subject was completed on April 26, 2018.
2. Gathered information from various public sources regarding market trends, property taxes, and the retail and restaurant markets in the Dallas and extended area of the Dallas Fort Worth metro area. We were provided certain data and site surveys from the client and the developer. Secondary data sources were utilized regarding the compilation of regional and economic data.
3. Analyzed neighborhood trends, the subject zoning, the subject characteristics, adjoining land uses, and supply and demand to determine the highest and best use of the property.
4. Confirmed sales of comparable land, restaurant buildings, and rental data for restaurant buildings. The specific unit of comparison analyzed was the Sales Price/ SF.
5. Analyzed the data to arrive at the market value conclusions via the Cost, Sales Comparison and the Income Capitalization Approach.
6. Reconciled the results of these analyses into probable ranges of value, and finally the “as is” value for the vacant land and the improved property.
7. Estimated reasonable marketing and exposure periods.

## **Definitions of Terminology**

### **Market Value-**

**Market Value Definition:** Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) is sometimes referred to as the “Savings and Loan Bailout Bill”. This legislation accomplished a great deal with regard to lenders, appraisers, and the states in which the lending and appraising takes place. Title XI also led the federal regulatory agencies to develop a market value definition to be used in the appraisal of real property that constitutes a federally related transaction by a federally regulated institution. Additionally, Fannie Mae, Freddie Mac, and others have adopted this definition of market value (with some minor variance in some cases). Following is the definition as developed by the federal regulatory agencies:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a. buyer and seller are typically motivated;
- b. both parties are well-informed or well-advised, and each acting in what they consider their own best interests;
- c. a reasonable time is allowed for exposure in the open market;



- d. payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Some of the definitions for various property rights under consideration include the following:

**Fee Simple-** Absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power and taxation.

**Fee Simple-** an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of lease.

**Leasehold** - The right to use and occupy real estate for a stated term under certain conditions; conveyed by a lease.

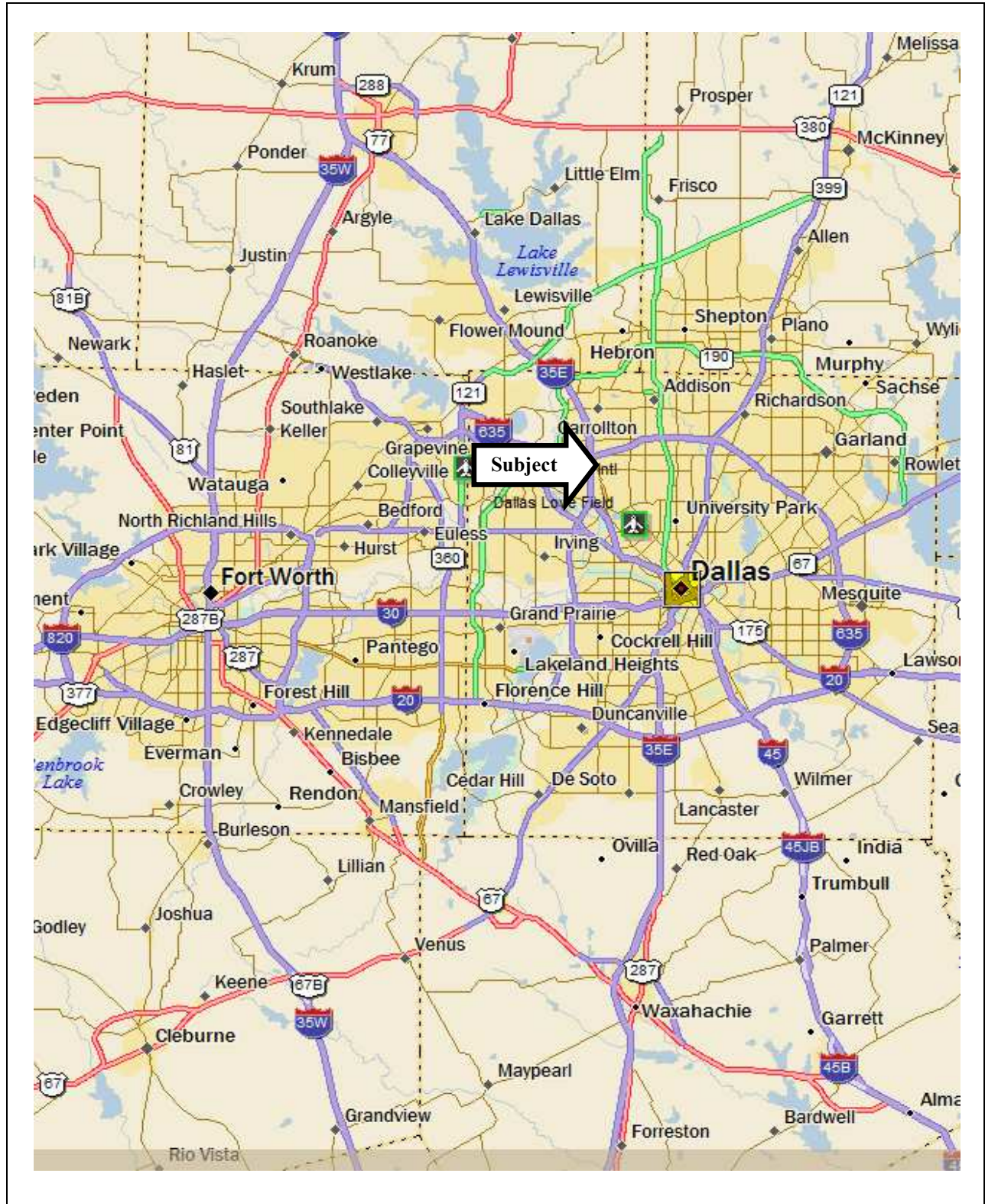
**Value in Use** - Value concept which is based upon the productivity of an economic good to its owner-user. Value in use may be a valid substitute for market value when current use is so specialized that it has no demonstrable market and the use is economic and likely to continue.

**Stabilized Value** - The estimate of market value that would likely be expected for the identified rights in a completed project when that project is anticipated to have reached a point of stabilized occupancy, in terms of market conditions forecast to exist as of the date stabilized occupancy is achieved. All forecasts are based upon facts, conditions and trends that exist and are known as of the date of the appraisal.

**Market Value "As is" on Appraisal Date** - An estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions or qualifications as the date the appraisal is prepared.

**Market Value "As If Completed" on Appraisal Date** - The market value of a property with all proposed construction, conversion, or rehabilitation hypothetically completed, or under other specified hypothetical conditions as of the date of the appraisal. With regard to properties wherein anticipated market conditions indicate that stabilized occupancy is not likely as of the date of completion, this estimate of value shall reflect the market value of the property on the date that construction is completed, based upon market conditions forecast to exist as of that completion date.

## REGIONAL LOCATION MAP



## REGIONAL DESCRIPTION AND ANALYSIS

Real estate values reflect the influence of four primary forces that motivate human activity, social trends, economic conditions, governmental policies and environmental factors. The purpose of the city data synopsis is to describe and analyze the area within which the interactions of the four major forces influence properties similar to the subject. This section will further analyze past trends for insight into possible future trends affecting the value of real estate.

### PHYSICAL FORCES

**Strategic Location:** The Dallas-Fort Worth-Arlington Metropolitan area is located in North Central Texas, approximately 250 miles north of the Gulf of Mexico. It is near the headwaters of the Trinity River, which lie in the upper margins of the Coastal Plain. The rolling hills in the area range from 500 to 800 feet in elevation.

Dallas is a major city in Texas and along with Fort Worth, is one of the two urban centers of a metropolitan area that ranks fourth in the United States. The city proper ranks ninth in the U.S. and third in Texas. The city's prominence arose from its historical importance as a center for the oil and cotton industries, and its position along numerous railroad lines. The bulk of the city is in Dallas County, of which it is the county seat. According to the 2010 United States Census, the city had a population of 1,197,816. The United States Census Bureau's estimate for the city's population increased to 2,481,580, as of 2017.

Dallas is the largest economic center of the 13-county Dallas–Fort Worth – Arlington metropolitan area, which had a population of 7,424,256 as of December 31, 2017. The city's economy is primarily based on banking, commerce, telecommunications, technology, energy, healthcare and medical research, and transportation and logistics. The city is home to the third-largest concentration of Fortune 500 companies in the nation (behind New York City and Houston). The Dallas-Fort Worth-Arlington economy continues to thrive, as increases in total population and overall employment endure. According to Moody's Analytics, population increased by 144,000 year-over-year, reaching 7.43 million people at the end of Q3 2017. This equates to an average of ±400 new residents each day. During the same time period, the Dallas-Fort Worth-Arlington employment base increased by 98,000, dropping the unemployment rate by 30-basis-points (bps) and closing the third quarter of 2017 at 3.6%. Out of the 98,000 jobs added, 27% (26,000 jobs) can be attributed to the industrial sector, which is comprised of goods producing and trade, transportation, and utilities. The trade, transportation, and utilities category accounts for 62% of the entire industrial sector and is the leading indicator for industrial space demand. Total nonfarm employment in the Dallas-Fort Worth-Arlington Metropolitan Statistical Area stood at 3,612,900 in August 2017, up 96,700 over the year, the U.S. Bureau of Labor Statistics reported today. From August 2016 to August 2017, local nonfarm employment rose 2.8 percent, above the national increase of 1.5 percent. Assistant Commissioner for Regional Operations Stanley W. Suchman noted that among the 12 largest metropolitan areas in the country, Dallas ranked second in both the rate of job growth and the number of jobs added.

**Climate:** The Dallas-Fort Worth-Arlington climate is humid subtropical with warm summers. Precipitation varies considerably, ranging from less than 20 to more than 50 inches. Winters are



mild, but northers occur about three times each month. Periods of extreme cold that occasionally occur are short-lived, so that even in January mild weather occurs frequently. Usually, periods of rainy weather last for only a day or two, and are followed by several days with fair skies. Thunderstorms are most frequent in the spring. Snowfall is rare. The average length of the warm season (freeze-free period) in the Dallas-Fort Worth-Arlington metropolitan area is about 249 days. The Mean Annual Daily Maximum temperature is 76 degrees and the Mean Annual Daily Minimum temperature is 55.2 degrees. Many industrial and commercial businesses have established plants and regional offices in the metro area, as well as making it their corporate headquarters; due to the accommodating weather.

**Ground Transportation:** Dallas is at the confluence of four major interstate highways—Interstates 20, 30, 35E, and 45. Starting from the center of the city, a small freeway loop surrounds Downtown, followed by the Interstate 635 loop about 10 miles (16 km) outside Downtown, and ultimately the tolled President George Bush Turnpike. Inside these freeway loops are other boulevard- and parkway-style loops, including Loop 12 and Belt Line Road. Radiating out of Downtown Dallas' freeway loop are the spokes of the area's highway system—Interstates 30, 35E, and 45, U.S. Highway 75, U.S. Highway 175, State Spur 366, the Dallas North Tollway, State Highway 114, U.S. Highway 80, and U.S. Highway 67. Other major highways around the city include State Highway 183 and State Spur 408. The interchange at the intersection of Lyndon B. Johnson Freeway (Interstate 635) and Central Expressway (U.S. Highway 75) contains 5 stacks and is aptly called the High Five Interchange. It is currently one of the few 5-level interchange in Dallas and is one of the largest freeway interchanges in the United States. These thoroughfares provide convenient access for business, commerce and domestic travel; as well as making the metro area a hub and terminal location for over 100 motor freight companies throughout the United States, Canada, Mexico, and South America.

**Air Transportation:** Dallas is served by two commercial airports: Dallas/Fort Worth International Airport (DFW) and Dallas Love Field (DAL). In addition, Dallas Executive Airport (formerly Red Bird Airport), serves as a general aviation airport for the city, and Addison Airport functions similarly just outside the city limits in the suburb of Addison. Two more general aviation airports are located about 35 miles (56 km) north of Dallas in McKinney, and another two are located in Fort Worth, on the west side of the metro area.

DFW International Airport is located in the suburbs slightly north of and equidistant to Downtown Fort Worth and Downtown Dallas. In terms of size, DFW is the largest airport in the state, the 2nd largest in the United States and 9th largest in the world; DFW International Airport is larger than the island of Manhattan. In terms of traffic, DFW is the busiest airport in the state, 5th busiest in the United States, and 6th busiest in the world. The headquarters of American Airlines, the largest air carrier in the world ahead of United Airlines and Delta Air Lines, is located less than a mile from DFW within the city limits of Fort Worth. Similarly, Love Field is located within the city limits of Dallas about 6 miles (10 km) northwest of Downtown, and is headquarters to Southwest Airlines, the largest domestic airline in the United States. As of January 2018, DFW Airport has service to 216 destinations, including 57 international and 159 domestic destinations within the U.S. with over 65.7 million passengers. DFW has five current terminals with 165 gates with expansion capabilities to thirteen terminals and 260 gates. Overall the DFW International Airport has an annual economic impact on North Texas of more than

\$31.0 billion and support over 143,000 jobs directly or indirectly. DFW Airport is undergoing a \$2.7 billion "Terminal Renewal and Improvement Program" (TRIP), which encompasses renovations of the original four terminals (A, B, C and E). Work on the project began following the conclusion of Super Bowl XLV in February 2011. Terminal A was the first terminal to undergo these renovations. Gates A6–A16 were completed in April 2016, and the entire TRIP project should be complete by the end of 2020. The airport has also completed a US \$2.8 million renovation of Terminal D to accommodate the double-deck Airbus A380.

Another major airport is Dallas Love Field, home of Southwest Airlines. A recent economic analysis, prepared by the City of Dallas, determined that Dallas Love Field currently contributes approximately \$3.4 billion annually to the regional economy. The airport is estimated to generate an additional \$1 billion in regional economic impact totaling \$4.4 billion annually, if demand requires full implementation of the Dallas Love Field Master Plan. As of 2014, Love Field had 15,562,738 million passengers pass through the airport. Love Field service seven full service fixed base operators (FBOs) at Love Field and provides general aviation services including fuel, maintenance, hangar rentals, and charters. Love Field is 20 minutes from the Dallas CBD and offers air services to most domestic markets.

A significant aviation-related development is the emergence since of the 418-acre, non-passenger Alliance Airport in north Tarrant County, which has helped to create more than 30,000 jobs. Constructed in 1989, this master-planned industrial airport is a result of the collective work and funding of Ross Perot, Jr., the FAA, and city and state governments. Approximately 155 aircraft presently operate out of the city owned Alliance Airport with runway and taxiway expansions currently being developed. The airport is in the center of the 7,500-acre Alliance regional development. Alliance operates as an industrial park servicing large manufacturing companies in the export/transport of their products. Currently, Alliance is home to 31 Fortune 500 companies, 26 Global 500 companies and more than 50 other firms in more than 19.4 million square feet of industrial related space. Alliance development additionally has areas of single family development and commercial/retail facilities.

**Public Transportation:** Dallas Area Rapid Transit (DART) is the Dallas-area public transportation authority, providing rail, buses and HOV lanes to commuters. DART began operating the first light rail system in Texas in 1996 and is now the largest operator of light rail in the US. Today, the system is the seventh-busiest light rail system in the country with approximately 55 stations on 90 miles of light rail, and 10 stations on 35 miles of commuter rail. Four light rail lines and a commuter line are currently in service. In addition to light rail, Amtrak's *Texas Eagle* also serves Dallas' Union Station, providing long-distance train service to Chicago, San Antonio and Los Angeles once daily.

**Health Care:** The Dallas-Fort Worth-Arlington area has many hospitals and a number of medical research facilities. One major research center is the Dallas Medical District with the UT Southwestern Medical Center in the Stemmons Corridor, along with the affiliated UT Southwestern Medical School. The health care complex includes within its bounds Parkland Memorial Hospital, Children's Medical Center, St. Paul University Hospital, and the Zale Lipshy University Hospital. Dallas also has a VA hospital in the southern portion of the city, the Dallas Veterans Affairs Medical Center. The center is home to a Consolidated Mail Outpatient

Pharmacy (CMOP), part of an initiative by the Department of Veterans Affairs to provide mail-order prescriptions to veterans using computerization at strategic locations throughout the United States. Diversity is the Dallas- Fort Worth- Arlington metropolitan area's strength in health care. Many areas of the country pride themselves on being the top location for medical care. The Dallas-Fort Worth-Arlington region is unique in that you can find superior health care in a variety of areas. Newfound opportunities in the space in between traditional care are being founded right here in the metro area. And a few stand outs from the crowd are at the core of the regions health care DNA.

**Education:** The Dallas-Fort Worth-Arlington area is a center of education for much of the south central United States. There are 337 public schools, 89 private schools, 38 colleges, and 32 libraries in the Dallas area. Southern Methodist University (SMU) and the University of Texas at Dallas are both in the Dallas area. In the Fort Worth area there are 145 public schools and 75 private schools. Fort Worth boasts seven colleges and universities. The University of Texas at Arlington (UTA) and Texas Christian University (TCU) are two of it's largest. The Fort Worth Public Library system operates a central library, a Southwest Regional location, an East Regional location, two satellite libraries in public housing communities, and nine branches. Nearly 30 special libraries are located in Fort Worth, affiliated with local businesses, art museums, hospitals and colleges, and U.S. government agencies.

**Tourism & Recreation:** Travel and tourism is a growing industry for Texas having outperformed the greater U.S. travel industry in both traveler spending and travel supported employment since 2000. In 2015, direct travel spending in Texas was estimated at \$68.7 billion. Travel spending in Texas directly supported 647,900 jobs and an additional 487,500 jobs indirectly across many industry sectors. Some examples include leisure and hospitality, transportation, retail trade, services, finance, real estate, construction, insurance, and others. Travel spending generated an estimated \$10.4 billion in state (\$3.8 billion), local (\$2.4 billion) and federal (\$4.2 billion) tax revenues in 2015. As a tourist center, Dallas hosts several million tourists annually. Attractions in and around Dallas include the State Fair of Texas, which is the nation's largest annual exposition, drawing over 3,000,000 visitors each year. The \$13 million IMAX Theater draws an additional 1.2 million people to Fair Park annually. Other attractions include the West End Historic District, Dallas Zoo, Old City Park, Southwestern Historical Wax Museum, Six Flags over Texas, International Wildlife Park, Thanksgiving Square, John F. Kennedy Memorial, Owen Fine Arts Museum, Texas Sports Hall of Fame, and Hurricane Harbor (a water park). The city of Dallas, alone, maintains and operates 406 parks on 21,000 acres (85 km<sup>2</sup>) of parkland. Its flagship park is the 260-acre Fair Park, which hosted the Texas Centennial Exposition in 1936. The city is also home to Texas' first and largest zoo, the 95

Acres Dallas Zoo, which opened at its current location in 1888. The city's parks contain 17 separate lakes, including White Rock and Bachman lakes, spanning a total of 4, acres. In addition, Dallas is traversed by 61.6 miles of biking and jogging trails, including the Katy Trail, and is home to 47 community and neighborhood recreation centers, 276 sports fields, 60 swimming pools, 232 playgrounds, 173 basketball courts, 112 volleyball courts, 126 play slabs, 258 neighborhood courts, 258 picnic areas, six 18-hole golf courses, two driving ranges, and 477 athletic fields. As part of the ongoing Trinity River Project, the Great Trinity Forest, at 6,000

acres, is the largest urban hardwood forest in the United States and is part of the largest urban park in the United States.

Dallas is home to five professional sports teams: The Dallas Cowboys (NFL); Dallas Stars (NHL); Dallas Mavericks (NBA); Dallas Wings (WNBA); FC Dallas (MLS) and the Texas Rangers (MLB) plus NASCAR and Indy racing. The area is also home to more than 200 golf courses. Arlington, Texas is the new home to the Dallas Cowboys of the National Football League. Since joining the league as an expansion team in 1960, the Cowboys have enjoyed substantial success, advancing to eight Super Bowls and winning five; according to profootballreference.com, as of the end of the 2009 season they were the winnings active NFL franchise. Known widely as "America's Team", the Dallas Cowboys are financially the most valuable sports 'franchise' in the United States, worth approximately 1.5 billion dollars. They are also the second most valuable sports organization in the world. The Cowboys are only out-valued by Manchester United, who are valued at 1.8 billion dollars. In 2009, the Cowboys relocated to their new 80,000-seat stadium in Arlington, which was the site of Super Bowl XLV. The college Cotton Bowl Classic football game was played at the Cotton Bowl through its 2009 game, but has moved to AT&T Stadium.

Globe Life Park in Arlington is a stadium in Arlington, Texas, located between Dallas and Fort Worth. It is home to the American League's Texas Rangers, and the Texas Rangers Baseball Hall of Fame. It was constructed as a replacement for nearby Arlington Stadium. Last November, Arlington voters approved the use of tax dollars to pay up to \$500 million of the cost for a new stadium of over 1 billion, after Arlington and the Rangers announced a deal in May 2016. The city will use revenue from a half-cent sales tax, 2 percent hotel-occupancy tax and 5 percent car-rental tax to fund its share, with the Rangers committed to pay any cost overruns. The new stadium is scheduled to be completed by 2020.

## **SOCIAL FORCES**

**Population:** Population trends affect employment, retail spending, housing, bank deposits, and many other key demand parameters analyzed in determining real estate productivity. Population growth, stability or decline is strong indicators of real estate viability within an area.

The Dallas–Fort Worth–Arlington, Texas Metropolitan Statistical Area, the official title designated by the United States Office of Management and Budget, encompasses 13 counties within the U.S. state of Texas. Residents of the area refer to it as the Dallas/Fort Worth Metroplex, DFW, or The Metroplex. It is the economic and cultural hub of the region commonly called North Texas or North Central Texas and is the largest inland metropolitan area in the United States.

The 2015 official estimate U.S. Census has the Dallas–Fort Worth Metroplex at 7,424,256, making it the largest metropolitan area in the South. The area's population has grown by about one million since the 2000 US census. The Dallas–Fort Worth–Arlington MSA is, by population, the largest metropolitan area in Texas, the largest in the South, the fourth-largest in the United States, and the tenth-largest in the Americas. The metro-plexus encompasses 9,286 square miles of total area: 8,991 sq mi is land, while 295 sq mi is water. It also has the fourth largest gross

metropolitan product (GMP) in the United States, and approximately tenth largest by GMP in the world.

County	2000 Household Population	2010 Household Population	2015 Household Population	2020 Household Population	2025 Household Population	2030 Household Population
Collin	491,675	761,378	873,969	1,007,638	1,139,019	1,264,006
Dallas	2,218,899	2,397,572	2,511,578	2,666,344	2,825,629	2,976,809
Denton	432,976	625,580	713,745	787,294	874,875	962,223
Ellis	111,360	152,861	176,686	193,918	213,991	234,353
Hood	41,100	64,427	72,569	74,016	75,477	86,717
Hunt	76,596	90,918	110,597	116,834	122,490	135,548
Johnson	126,811	163,748	188,733	209,293	227,253	247,968
Kaufman	71,313	95,537	134,859	147,878	157,793	176,989
Parker	88,495	116,093	131,795	148,002	162,668	178,521
Rockwall	43,080	79,234	96,729	117,580	135,886	154,859
Tarrant	1,446,219	1,785,206	1,944,211	2,151,696	2,378,257	2,604,119
Wise	48,793	66,908	75,078	80,726	85,720	90,853
Delta	na	na	5,231	5,200	5,250	5,300
<b>Total</b>	<b>5,197,317</b>	<b>6,399,462</b>	<b>7,035,780</b>	<b>7,706,419</b>	<b>8,404,308</b>	<b>9,118,265</b>

**Households:** There were 2,601,024 households in this region in 2010. The data revealed household counts of 2,064,378 in 2000, representing a change of 26.1%. It is estimated that the number of households in this area will be 3.48 million in 2030, an increase of over 33.8%, over the 2010 count. For 2010, the average household size in this area was 2.82 persons. In 2010, the median number of years in residence in this region's population was 2.80. The average number of vehicles per household in this region was 1.9.

**Income:** In 2016, Dallas had a per capita personal income (PCPI) of \$52,784. This PCPI ranked 24th in the state and was 114 percent of the state average, \$46,274, and 107 percent of the national average, \$49,246. The 2016 PCPI reflected a decrease of 0.5 percent from 2015. The 2015-2016 state change was -1.2 percent and the national change was 1.6 percent. In 2006, the PCPI of Dallas was \$40,362 and ranked 14th in the state. The 2006-2016 compound annual growth rate of PCPI was 2.7 percent. The compound annual growth rate for the state was 2.8 percent and for the nation was 2.6 percent. The Census ACS 1-year survey reports that the median household income for the Dallas-Fort Worth-Arlington Texas metro area was \$63,812 in 2016, the latest figures available. Dallas median household income is \$7,247 higher than the median Texas household income and \$6,195 greater than the US median household income. 2017 metro income data (including Dallas median household income) will be released in September of 2018.

**Housing:** Sales volume for single-unit residential housing increased 6.8% YoY from 7,818 to 8,350 transactions. Year-to-date sales reached a total of 102,128 closed listings. Dollar volume rose from \$2.29 billion to \$2.66 billion. The average sales price rose 9.16% YoY from \$292,382



to \$319,158, while the average price per square foot subsequently rose from \$121.38 to \$132.49. Median price rose 8.33% YoY from \$240,000 to \$260,000, while the median price per square foot also rose from \$113.30 to \$122.81. Month’s inventory for single-unit residential housing rose from 1.8 to 1.9 months’ supply, and days to sell rose from 79 to 83.

**Cost of Living:** Both the Dallas and Fort Worth MSAs (dated January, 2018), enjoy a relatively low cost of living compared to other U.S. cities of similar stature, with an index for the three primary cities of the area being between 93.0 and 96.4, all well below other major U.S. cities.

<b>COMPARISON OF COST OF LIVING</b>	
<b>CITY</b>	<b>COST OF LIVING INDEX</b>
<b>Arlington, TX</b>	<b>63.2</b>
Atlanta, GA	74.9
Austin, TX	72.4
Baltimore, MD	76.5
Boston, MA	87.0
Boulder, CO	82.1
Charlotte, NC	75.3
Chicago, IL	80.1
<b>Dallas, TX</b>	<b>65.9</b>
<b>Fort Worth, TX</b>	<b>67.8</b>
Houston, TX	70.3
Los Angeles, CA	82.3
New York, NY	100.0
Pittsburgh, PA	78.6
San Diego, CA	70.1
Seattle, WA	88.0

## **ECONOMIC FORCES**

As Dallas grew and technology developed, cotton became its boon and by 1900 Dallas was the largest inland cotton market in the world, becoming a leader in cotton gin machinery manufacturing. By the early 1900s Dallas was a hub for economic activity all over the Southern United States and was selected in 1914 as the seat of the Eleventh Federal Reserve District. By 1925 Texas churned out more than 1/3 of the nation's cotton crop, with 31% of Texas cotton produced within a 100-mile radius of Dallas. In the 1930s petroleum was discovered east of Dallas near Kilgore, Texas. Dallas' proximity to the discovery put it immediately at the center of the nation's petroleum market. Petroleum discoveries in the Permian Basin, the Panhandle, the Gulf Coast, and Oklahoma in the following years further solidified Dallas' position as the hub of the market.

The end of World War II left Dallas seeded with a nexus of communications, engineering, and production talent by companies such as Collins Radio Corporation. DTCAD later, the telecommunications and information revolutions still drive a large portion of the local economy. The city is sometimes referred to as the heart of "Silicon Prairie" because of a high concentration of telecommunications companies in the region, the epicenter of which lies along the *Telecom*

*Corridor* located in Richardson, a northern suburb of Dallas. The Corridor is home to more than 5,700 companies including Texas Instruments (headquartered in Dallas), Nortel Networks, Alcatel Lucent, AT&T, Ericsson, Fujitsu, Nokia, Rockwell Collins, Cisco Systems, Sprint, Verizon Communications, XO Communications and until recently CompUSA (which is now headquartered in Miami, FL). Texas Instruments, a major manufacturer, employs 10,400 people at its corporate headquarters and chip plants in Dallas.

In the 1980s Dallas was a real estate hotbed, with the increasing metropolitan population bringing with it a demand for new housing and office space. Several of Downtown Dallas' largest buildings are the fruit of this boom, but over-speculation, the savings and loan crisis and an oil bust brought the 80's building boom to an end for Dallas as well as its city sister Houston. Between the late 1980s and the early 2000s, central Dallas went through a slow period of growth. However, since the early 2000s the central core of Dallas has been enjoying steady and significant growth encompassing re-purposing of older commercial buildings in downtown Dallas into residential and hotel uses as well as the construction of new office and residential towers. The opening of Klyde Warren Park, built across Woodall Rodgers Freeway seamlessly connecting the central Dallas CBD to Uptown/Victory Park, has acted synergistically with the highly successful Dallas Arts District so that both have become catalysts for significant new development in central Dallas.

The residential real estate market in the Dallas–Fort Worth metro plexus has not only been resilient but has once again returned to a boom status. Dallas and the greater metro have been leading the nation in apartment construction and net leasing with rents reaching all time highs. Single family home sales, whether pre-owned or new construction, along with home price appreciation are leading the nation.

A sudden drop in the price of oil, starting in mid-2014 and accelerating throughout 2015, has not affected Dallas and its greater metro due to the highly diversified nature of its economy. Dallas, and the DFW metro, continues to see strong demand for housing, apartment and office leasing, shopping center space, warehouse and industrial space with overall job growth remaining very robust. Oil dependent cities and regions have felt significant effects from the downturn but Dallas growth has continued unabated, strengthening in 2015. Significant national headquarters relocations to the area (as exemplified by Toyota's decision to leave California and establish its new North American headquarters in the Dallas region) coupled with significant expansions of regional offices for a variety of corporations and along with company relocations to downtown Dallas are helping drive the current boom in the Dallas economy. Dallas leads Texas' largest cities in Forbes' 2015 ranking of "The Best Place for Business and Careers".

Dallas and its suburbs have one of the highest concentrations of corporate headquarters in the United States. Business management and operations is a major part of the economy. The Metroplex also contains the largest Information Technology industry base in the state (often referred to as Silicon Prairie or the Telecom Corridor, especially when referring to US-75 through Richardson just north of Dallas itself). This area has a large number of corporate IT projects and the presence of numerous electronics, computing and telecommunication firms such as Microsoft, TI Instruments, HP Enterprise Services, Dell Services, Nokia, i2, AT&T, Alcatel-Lucent, Ericsson, CA, Google, and Verizon in and around Dallas. On the other end of the

business spectrum, and on the other side of the Metroplex, the Texas farming and ranching industry is based in Fort Worth. According to the *Dallas Business Journal's* 2006 Book of Lists, American Airlines is the largest employer in the Metroplex. Several major defense manufacturers, including Lockheed Martin, Bell Helicopter Textron, and Raytheon, maintain significant operations in the Metroplex, primarily on the "Fort Worth side." They are concentrated along State Highway 170 near I-35W, commonly called the "Alliance Corridor" due to its proximity to the Fort Worth Alliance regional airport. ExxonMobil, the #2 corporation on the Fortune 500 listings, is headquartered in Irving, Texas. Toyota USA, in 2016, relocated its corporate headquarters to Plano, Texas. Southwest Airlines hold their headquarters in Dallas. The airline has more than 53,000 employees as of October 2016 and operates more than 3,900 departures a day during peak travel season. In October 2016, Jacobs Engineering, a Fortune 500 company and one of the world's largest engineering companies, relocated from Pasadena, California to Dallas.<sup>1</sup> Susan G. Komen for the Cure, the world's largest breast cancer organization was founded and is headquartered in Dallas.

In addition to its large number of businesses, Dallas has more shopping centers per capita than any other city in the United States and is also home to the second shopping center ever built in the United States, Highland Park Village, which opened in 1931. Dallas is home of the two other major malls in North Texas, the Dallas Galleria and North Park Center, which is the 2nd largest mall in Texas. Both malls feature high-end stores and are major tourist draws for the region.

Forbes released its annual 400 Richest Americans list on Tuesday, October 17 2017 and the verdict is in: 18 of the 34 Texans who made the cut call Dallas-Fort Worth "home".

Dallas is currently the third most popular destination for business travel in the United States, and the Dallas Convention Center is one of the largest and busiest convention centers in the country, at over 1,000,000 square feet (93,000 m<sup>2</sup>), and the world's single-largest column-free exhibit hall.

## **REAL ESTATE MARKET**

The following is a real estate market overview of the Office, Industrial, Retail, Multi-Family, Single-Family real estate markets. The Texas A & M Real Estate Center studies the Metropolitan Statistical Areas (MSA) in Texas and reports on individual submarkets individually.

## **DALLAS / FORT WORTH OFFICE OVERVIEW**

Large corporate relocations continue to generate buzz in the Dallas-Fort Worth real estate market. So far, Far North Dallas has seen more absorption in 2017 than the whole market had in all of 2016. After delivering their 2.1 million square foot headquarters in June 2017, Toyota has occupied the space, accounting for 70% of Far North Dallas' YTD absorption. 2017 has already exceeded 2016's annual net absorption by 1.1 million square feet. Multitenant office product has accounted for only 20% of the total net absorption and is lagging behind the same period in 2016 by almost a million square feet. Corporate relocations have been the fuel for this DFW real estate boom, but will this continue? In September, Amazon unleashed a flurry of speculation by announcing it will build HQ2 — a second headquarters located in another major North American

metro. The announcement sparked hundreds of proposals from cities and developers across the metro plexus hoping that they have what it takes to attract one of the largest, most innovative companies in the nation. While prices have increased and the labor market is tightening, DFW still compares favorably to many competitors. Amazon already has an office presence in Galleria Towers and over 8 million square feet of warehouse space. Could Amazon be DFW's next big Toyota? Major corporate move-ins will boost 2017's net absorption significantly higher than in 2016. To keep this from being the peak, DFW will need to woo more corporate relocations, as in-market expansions are insufficient to maintain such high demand. Construction activity will continue to taper, as major corporate campuses deliver and new groundbreakings slow. So far in 2017, 49 buildings totaling 2.5 million square feet have broken ground, just over a quarter of the 8.8 million square feet that broke ground in 2016. Barring any major corporate announcements, expect construction starts to slow as vacancy is higher than in 2015 and lenders are skittish about being caught at the end of the cycle.

Job growth slowed slightly in DFW, as the metro added less than 100,000 jobs from August 2016 to August 2017. Year-to-date Fort Worth has outperformed Dallas, with employment growth at an annualized 1.6% to 1.1% respectively. The unemployment rate in Dallas increased slightly to 3.9% but continues to trail the nationwide rate of 4.5%. Manufacturing and Mining and Construction led the metro with over 3% employment growth each, while office-using sectors experienced modest 1-2% growth. The market delivered 870,000 square feet in Q3 2017, and approximately 40% was leased. After the Toyota North American Headquarters delivered in Q2 2017, the construction pipeline after Q3 was about 57% multitenant speculative office, and the overall pipeline was 60% leased or owned. Vacancy Rate The overall vacancy rate was flat at 15.5% from Q2 2017 to Q3 2017. The vacancy rate has held steady at 15.5% throughout 2017. Class A vacancy decreased 0.2% to 17.2% from Q2 to Q3, Class B vacancy remained the same as last quarter at 14.7%. Far North Dallas saw the largest improvement from the prior quarter, dropping from 14.1% in Q2 to 12.7% in Q3 as several new projects saw significant move-ins. LBJ Freeway has the highest year-over-year improvement, lowering the vacancy rate 2.4% to 21.9%. It is likely this trend will continue as tenants experience higher rental rates in the Far North Dallas area, Preston Center, and now along Central Expressway





Figure 1: Under Construction vs. Vacancy (MSF)

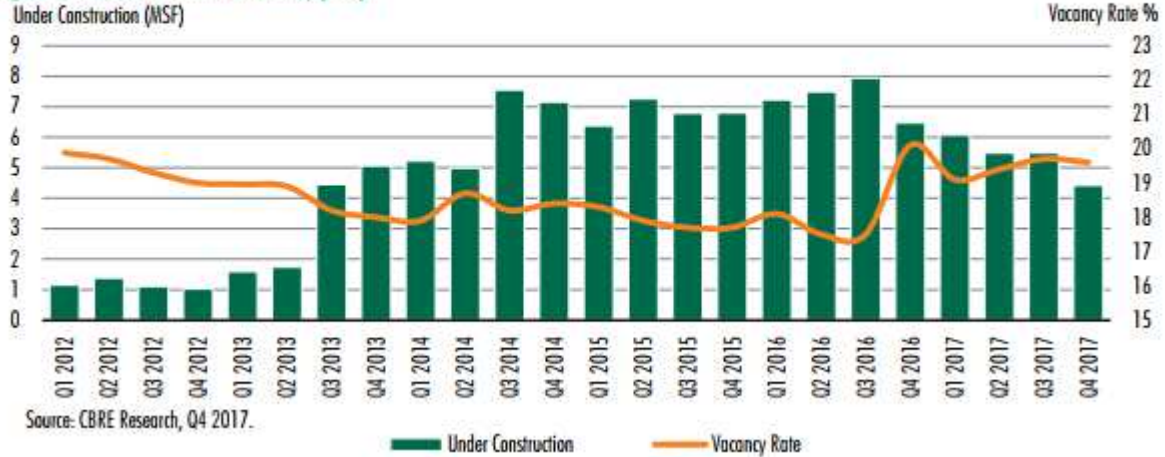
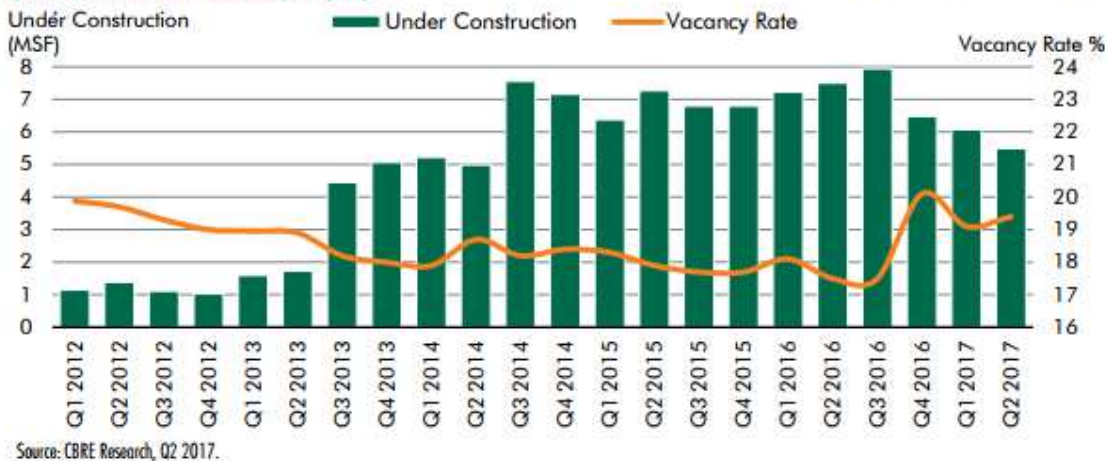
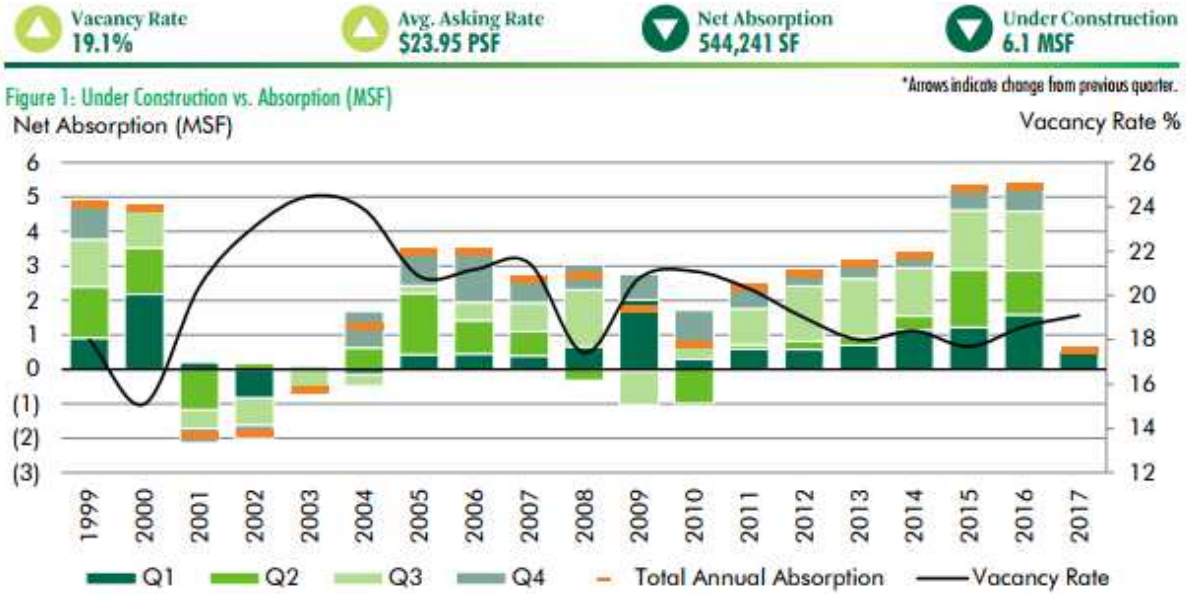


Figure 1: Under Construction vs. Absorption (MSF)



It's a bird... It's a plane... No, it's just one of the many cranes spotted throughout the DFW Metroplex. The pipeline still remains sizeable with 30 projects totaling 5.5 million sq. ft., at 37.0% pre-leased. Of the 30 projects, over 21 are greater than 100,000 sq. ft. It is important to note the 1.1 million sq. ft. Liberty Mutual campus was removed from CBRE's statistical set after they purchased the building, classifying it owner occupied.

Strong demand characterized leasing velocity during the first half of 2017 led by Far North Dallas and Dallas CBD. Enlink and Industrious occupied One Arts Plaza in Dallas CBD which was left vacant from 7-Eleven's relocation to Las Colinas last year. While Industrious, a coworking center, helped fill 23,000 sq. ft., Enlink's 156,000 sq. ft. expansion and relocation from Uptown was the largest moves this quarter. NTT Data occupied 126,700 sq. ft. in the recently delivered One Legacy West and is already considering an expansion.



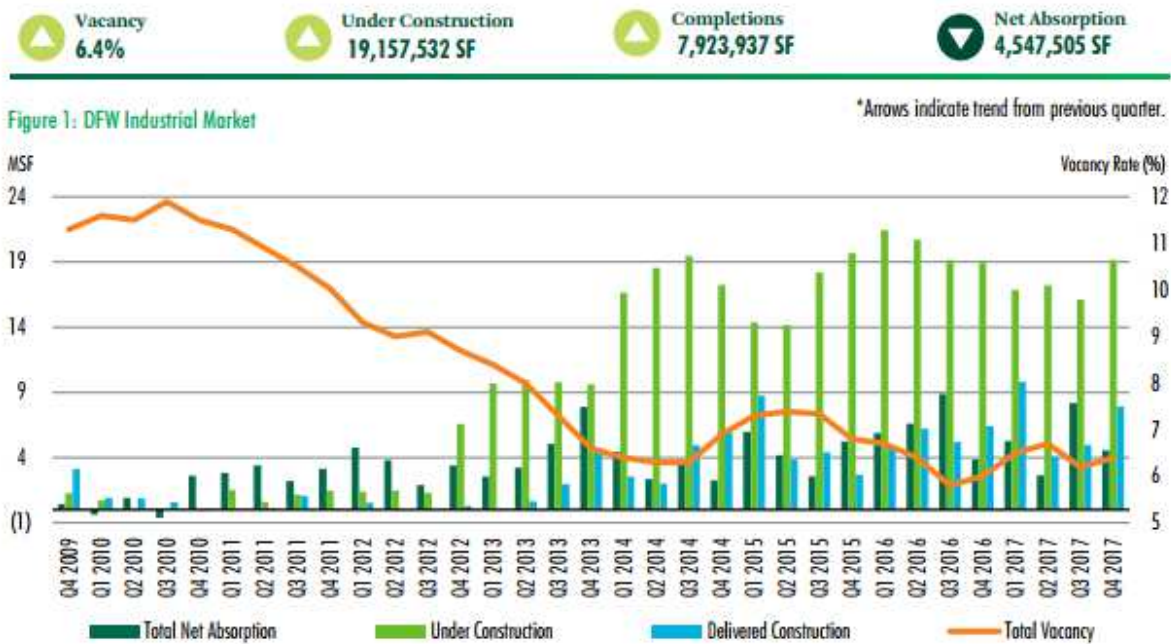
## DALLAS / FORT WORTH INDUSTRIAL OVERVIEW

Year ended with a surge of leasing activity Q4 2017 marks the 29th consecutive 90-day period of positive net absorption. The annual industrial absorption in Dallas/Fort Worth surged to over 20.6 million sq. ft. Despite the relatively fainter absorption in the first two quarters, yearly demand was the second-highest of the current cycle and fourth-highest of all annual absorption tracked by CBRE Research with data from the early 1990s. Third party logistics groups (3PLs) and consumer goods companies led tenant demand this quarter, accounting for over half of the top 25 move-ins of Q4 2017. Market experts say DFW will see more distribution center consolidation into larger regional and super-regional hubs. Being located adjacent to or near third party logistics groups such as FedEx, UPS and additional fulfillment service providers is now a major factor in real estate decision making for industrial tenants.

Build-to-suit construction picks up deliveries in 2017 totaled 26.8 million sq. ft., breaking the record set last year for annual construction completions. Since 2010, 96.6 million sq. ft. has been delivered to the market, slightly more than the entire Austin and San Antonio industrial markets combined. The industrial product pipeline widened to 19.2 million sq. ft. during Q4 2017. The majority of the starts in Q4 2017 were attributable to build-to-suits (BTS), with 4.6 million sq. ft. of newly started BTS activity in South Dallas alone. Market-wide, BTS projects account for 50% of all active industrial development, the highest ratio of BTS to speculative construction seen this cycle. The increase in BTS activity is not unexpected as distribution centers have become more sophisticated to meet specific occupier needs.

E-commerce re-energized leasing Q3 2017 marks the 28th consecutive period of positive net absorption. While the absorption of the first two quarters was fainter than the blockbuster quarters of the past two years, industrial demand roared back this past quarter to nearly 8.2 million sq. ft., which is the second highest absorption observed this cycle after Q3 2016 when 8.9

million sq. ft. was taken down by tenants in Dallas/Fort Worth. The majority of absorption can be attributed to consumer goods, ecommerce and logistics companies this quarter. Q3 2017 was marked by large move-ins, with 43.5% of absorption due to the largest five tenants move in, which were all from the aforementioned categories. Consequently, vacancy fell 56 basis points to 6.2% as tenants are taking down empty newer spaces that had caused recent rises in the rate. Stronger prelease rates for new buildings delivered in Q3 2017 were 60.3% preleased and accounted for over one third of the quarterly absorption; an indication of healthy demand in the market and an improvement over Q4 2016 and Q1 2017 when market deliveries were preleased at only 22.2% and 36.5%, respectively. The overall amount of industrial space under construction in DFW continued to decline and is now observed to be around 16.4 million sq. ft. This was still firmly in the top markets for building activity, but could be a sign that developers are holding back a bit to let the existing vacant space occupy. Notably, only 6.3% of these active construction projects are attributable to REITs, as many have tabled planned projects in Dallas/Fort Worth, particularly in South Dallas and Great Southwest/Arlington where a combined 27.6 million sq. ft. has been delivered since 2015.



Q2 2017 marks the 27th consecutive period of positive net absorption. While the recent absorption is fainter than the blockbuster quarters of the past two years (and naysayers are quick to point to signs of softening), a more clear picture can be found by careful deciphering of the data. Industrial absorption has remained strong throughout this prolonged economic recovery that was more of a slow burn than a fire flash. Basics for the Dallas/Fort Worth industrial market remain solid and North Texas continues to attract corporate relocations and individual job seekers alike. In fact, an estimated 143,435 new residents chose the Metro plexus during 2016, or about 393 new consumers per day. This expanding consumer base is boosting area industrial metrics. Following a record year for product delivery, when 22.7 million sq. ft. was delivered in



the DFW industrial market, a quarterly record 9.8 million sq. ft. was delivered in Q1 2017. Pre-leasing for construction deliveries was only 22.2% for Q4 2016 and 36.5% for Q1 2017. The pre-lease rate for Q2 2017 was 49.5% - more in line with long term trends seen in the market. Also, while vacancy raised another 24 basis points (BPS) from Q1 2017 to 6.7%, space availability decreased 13 BPS over the quarter to 9.0%, despite having an additional four million sq. ft. delivered during Q2 2017. Pre-leased rates at or above 50%, as has largely been the case in Dallas/Fort Worth this cycle, suggest a sustainable resiliency in the market beyond headline grabbing deals, and a product type that continues to attract investors seeking consistent and stable returns.

Industrial occupier demand in Q1 2017 kept pace with 2016, as the Dallas/Fort worth Industrial Market absorbed 5.3 million sq. ft. E-commerce and consumer goods occupiers led absorption in Q1 2017, a reflection of population growth in the Metro plexus. Dallas/Fort Worth is the largest urban agglomeration in the south with a population of 7.2 million people. DFW posted the highest population growth in the U.S., adding 143,435 new residents in 2016. Dallas/Fort Worth also showed robust employment gains with 4.0% year-over-year growth through January 2017, second only to Orlando, which grew jobs at an impressive 4.6%. DFW continues to attract corporate relocations and individual job seekers due to its south-central location, robust transportation infrastructure, low cost of doing business and pro-business environment.

## MARKETVIEW DALLAS/FORT WORTH INDUSTRIAL

Figure 2: DFW Industrial Market Snapshot

Market	Net Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Direct Vacancy (SF)	Direct Vacancy Rate (%)	Total Vacancy (SF)	Total Vacancy Rate (%)	Q4 2017 Direct Net Absorption (SF)	Q4 2017 Total Net Absorption (SF)	2017 Total Absorption (SF)
DFW Airport	71,370,995	5,695,188	8.0	3,469,490	4.9	3,732,244	5.2	101,224	126,276	2,051,707
East Dallas	36,271,745	2,761,444	7.6	1,833,717	5.1	1,843,717	5.1	117,261	227,561	708,463
Northeast Dallas	97,527,670	7,806,758	8.0	5,054,134	5.2	5,718,794	5.9	1,078,688	1,033,997	1,046,946
Northwest Dallas	108,689,981	6,788,121	6.2	4,405,493	4.1	4,539,729	4.2	501,470	567,589	2,995,680
South Dallas	68,819,169	10,651,361	15.5	10,035,457	14.6	10,035,457	14.6	389,883	406,520	3,609,125
South Stemmons	120,799,622	10,704,915	8.9	6,435,865	5.3	6,558,893	5.4	338,131	287,419	1,221,125
Great SW/Arlington	108,700,741	12,047,574	11.1	8,721,996	8.0	8,918,551	8.2	1,428,987	1,423,721	4,091,849
North Ft. Worth	83,043,489	4,989,643	6.0	3,798,745	4.6	3,860,145	4.6	1,296,254	1,302,254	6,033,150
South Ft. Worth	71,227,828	5,345,533	7.5	4,054,868	5.7	4,172,365	5.9	(784,335)	(827,832)	(1,095,582)
<b>DALLAS TOTALS</b>	<b>503,479,182</b>	<b>44,407,787</b>	<b>8.8</b>	<b>31,294,156</b>	<b>6.2</b>	<b>32,428,894</b>	<b>6.4</b>	<b>2,526,657</b>	<b>2,649,362</b>	<b>11,633,046</b>
<b>FT.WORTH TOTALS</b>	<b>262,972,058</b>	<b>22,382,750</b>	<b>8.5</b>	<b>16,575,609</b>	<b>6.3</b>	<b>16,951,061</b>	<b>6.4</b>	<b>1,940,906</b>	<b>1,898,143</b>	<b>9,029,417</b>
<b>MARKET TOTALS</b>	<b>766,451,240</b>	<b>66,790,537</b>	<b>8.7</b>	<b>47,869,765</b>	<b>6.2</b>	<b>49,379,955</b>	<b>6.4</b>	<b>4,467,563</b>	<b>4,547,505</b>	<b>20,662,463</b>



## DALLAS / FORT WORTH RETAIL OVERVIEW

Occupancy at all-time highs; maintaining 94.6%; positive outlook for 2018 within Dallas/Fort Worth’s tightening retail market, strong net absorption and heavily preleased deliveries caused occupancy to measure an all-time high. The year has proven to be a strong one for retail landlords and tenants alike, with an expectation of positive sales growth continuing into 2018. Construction pipeline tightens multiple construction projects across North Texas have been sidelined as labor and borrowing costs remain elevated, specifically for those in the early stages. An increase in equity requirements and cost of capital may result in a delay to bring these projects to market, as well as increased tenant sales volume expectations to appease lenders. Class a big box supply remains elevated as market stabilizes As forecasted, the pace of absorption in big box space slowed throughout 2017 when compared to years past – even within Class A product. As seen in other major U.S. retail markets, elevated supply, at 813,572 million sq. ft., is due to a smaller pool of big box retailers. Tanger Factory Outlets, Legacy Food Hall in Plano, and IKEA in Grand Prairie all celebrate grand openings in Q4 2017 three major local developments celebrated their grand openings recently, accounting for 702,000 sq. ft. of delivery and absorption in the Metro plexus. Tanger Factory Outlets on October 27, Legacy Food Hall on December 6, and IKEA in Grand Prairie on December 16<sup>th</sup>.

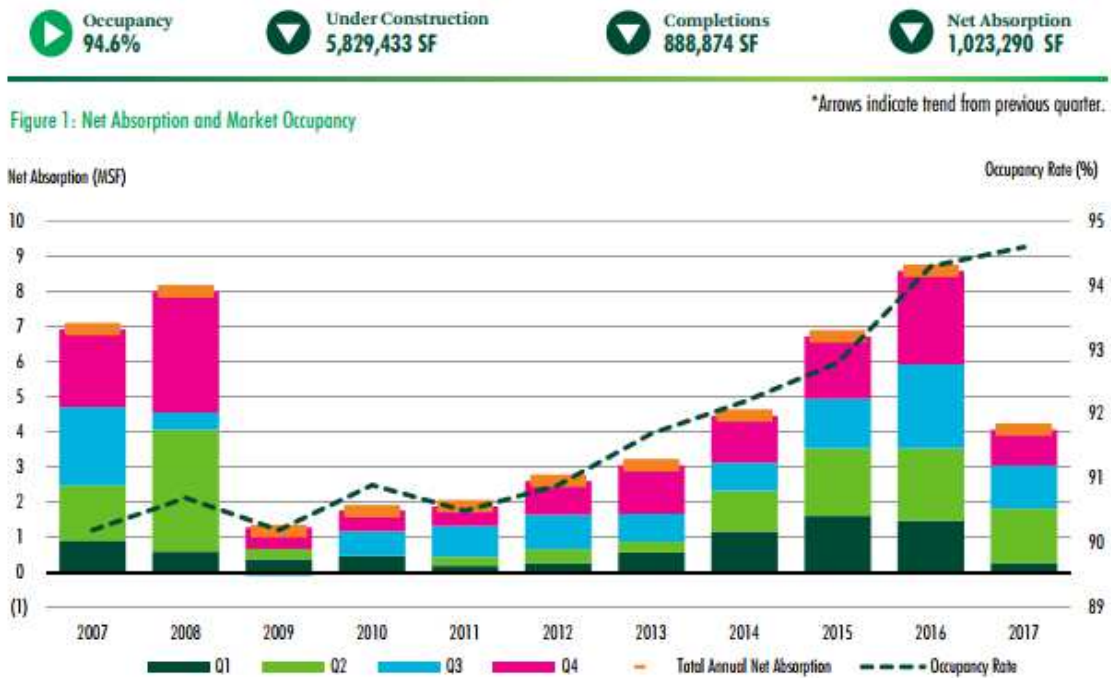
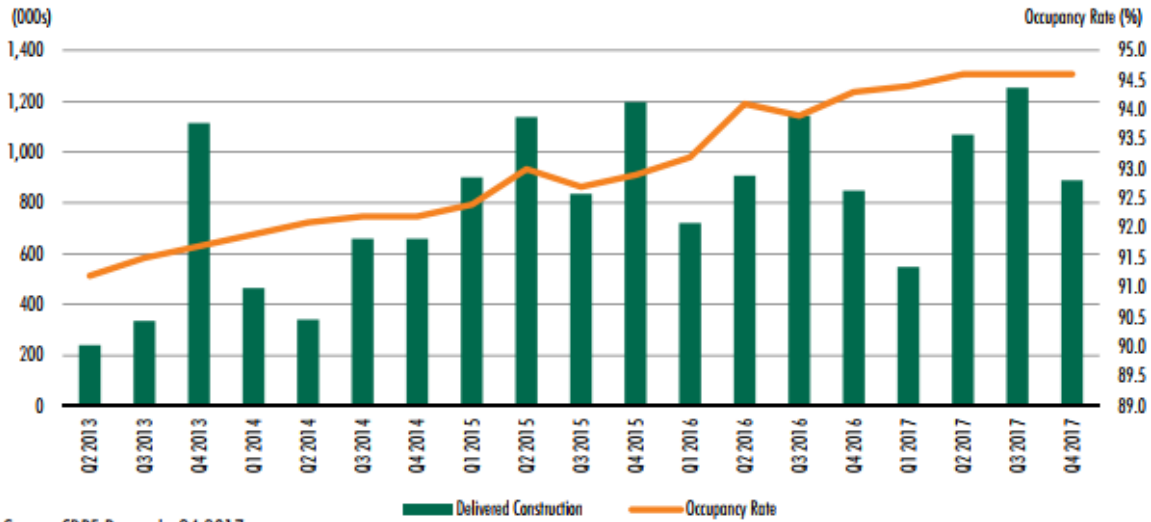
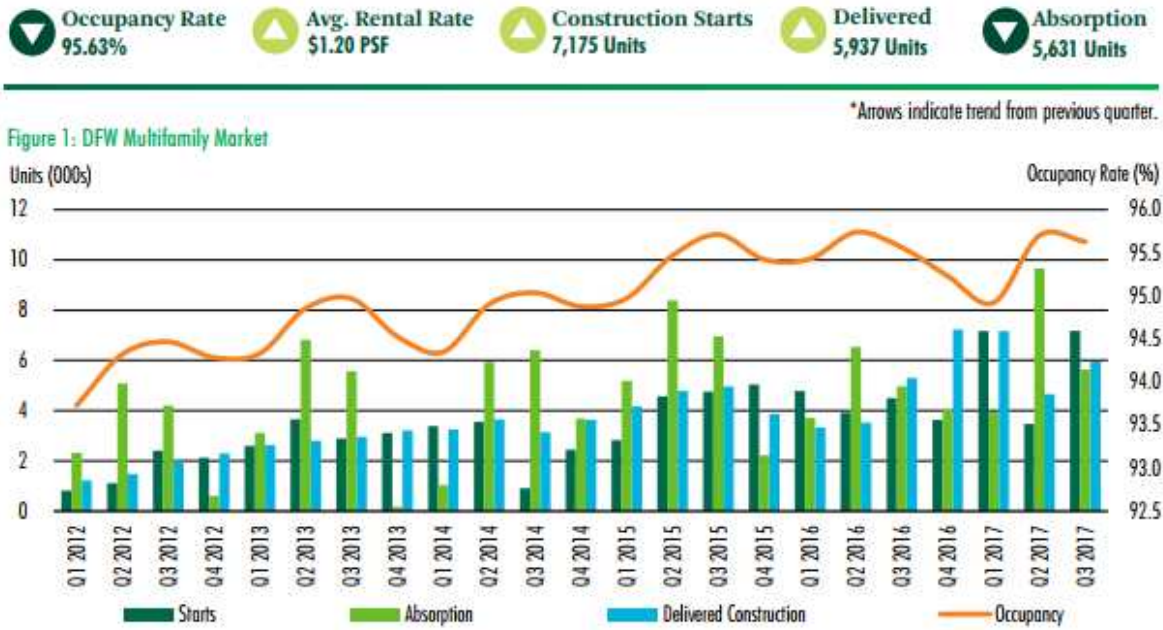


Figure 3: Historical Completions and Occupancy Rate



### DALLAS / FORT WORTH MULTI-FAMILY OVERVIEW

For the second-consecutive year, more than 100,000 jobs were created in the Dallas-Fort Worth metro area. Employment increased 2.9% annually with 103,700 new workers in 2017, a deceleration from 3.8% growth in the prior year. Despite the slowdown, job growth was still more than twice the national rate of expansion in 2017. While all employment sectors grew, staffing in five sectors swelled by more than 3%. Much of the growth was in the Plano/Allen/McKinney submarket, where multiple corporate and regional relocations and expansions made a profound impact on the local economy. Over the past two years, multifamily developers feverishly added new stock to the submarket in anticipation of thousands of new workers arriving in the area. In 2017, more than 20% of the 24,411 new apartments in the Metro plexus came online in the Plano/Allen/McKinney submarket. Metro wide, the new inventory outpaced absorption by 22%, which led to a 50-basis-point annual decrease in occupancy to 94.7% in December. Meanwhile, average effective rent increased 2.7% to \$1,102 per month

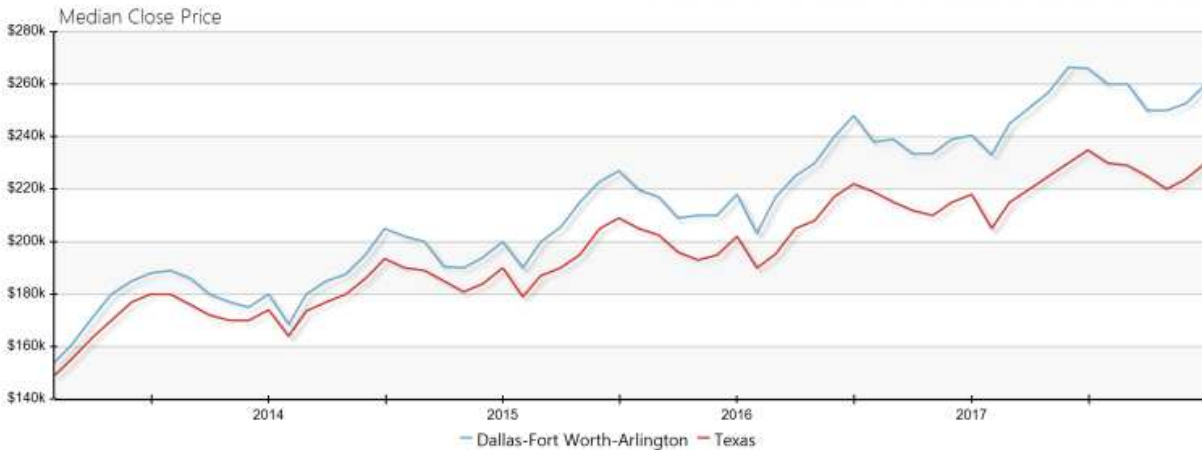


Driven by accelerating household formation and job growth, apartment absorption is forecast to surpass deliveries in 2018. Builders are scheduled to complete approximately 100 apartment communities this year. The completions, coupled with more than 20 additional properties underway, will result in deliveries topping 28,100 units. Apartment absorption is estimated to exceed 30,200 units. The enormous leasing activity is projected to drive occupancy up 50 basis points to 95.2%. Operators will capitalize on the vigorous demand by raising effective rent 3.5% during the year. By December, effective rent is forecast to reach an average of \$1,140 per month. Developers are expected to request permits for 28,185 apartments in 2018, 3% greater than 2017. This year the local job growth rate is again expected to outpace most metro areas in the country. Employers are projected to add 114,100 new workers to payrolls this year, a 3.1% year-over-year increase. A significant amount of this growth will originate within major developments Legacy West District, \$5 Billion Mile, and Arlington Stadium District. Over the long term, other massive projects including Dallas Midtown and Hidden Ridge in Irving will also become sizable centers of employment.

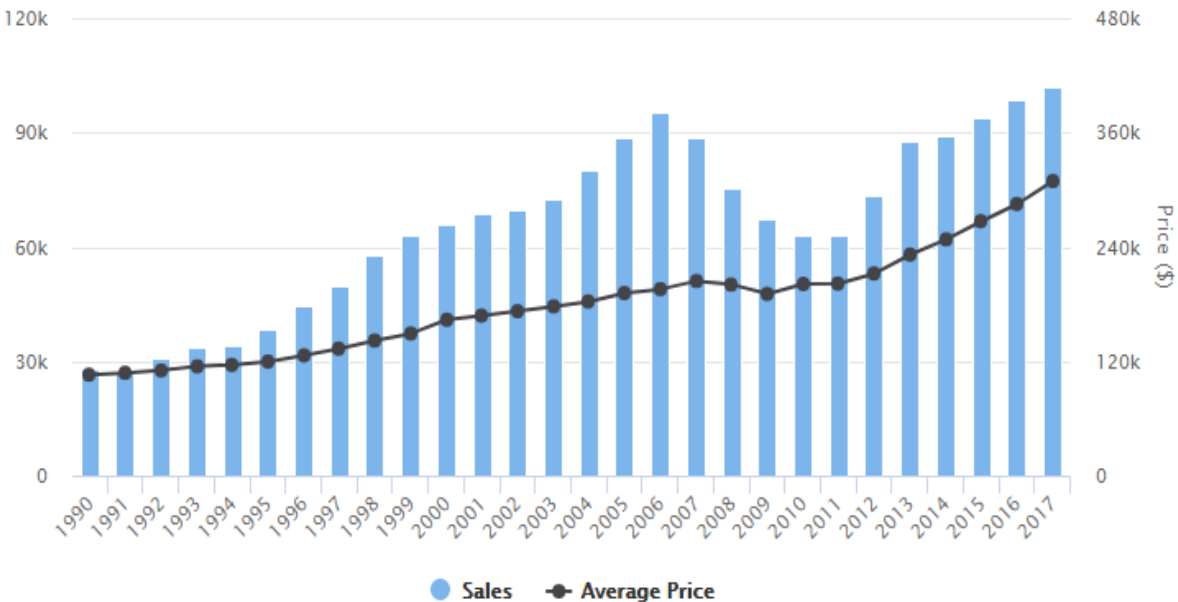
Rents rose to a greater extent across Fort Worth than they did across the Dallas area, though both regions pushed the overall monthly rent up to \$1.127 per sq. ft. This continued to reflect strong multifamily demand in the booming North cluster, though Denton, Oak Lawn, and Northwest Fort Worth submarkets have also remained robust. Whether demand will be able to keep pace with supply and support occupancy and rent growth remains to be seen, hinging on sustained job growth in professional services and hospitality, or unexpected gains elsewhere such as transportation. With 8,722 units projected to be delivered in Q4 2017 and a total of 40,801 units in the pipeline under construction, job growth needs to stay strong to balance supply. Through Q3 2017, the Metro plexus claimed more blockbuster corporate arrivals, headlined by the relocation of Toyota’s North American headquarters to Plano. But the rate of corporate relocations and expansions to North Texas is beginning to taper which means the final tally for new payrolls during Q4 2017 may be slower in 2017 than highs seen in recent prior years.

## DALLAS / FORT WORTH SINGLE FAMILY OVERVIEW

Sales volume for single-family homes increased 7.11% YoY from 7,297 to 7,816 transactions. Year-to-date sales reached a total of 95,601 closed listings. Dollar volume rose from \$2.16 billion to \$2.5 billion. The average sales price rose 8.37% YoY from \$295,646 to \$320,378, while the average price per square foot subsequently rose from \$118.91 to \$129.56. Median price rose 8.11% YoY from \$240,500 to \$260,000, while the median price per square foot also rose from \$112.01 to \$121.40. Month’s inventory for single-family homes did not change from the December 2016 supply level of 1.8 months, and days to sell rose from 80 to 83.



### Home Sales and Average Price



Sales volume for townhomes increased 7.04% YoY from 213 to 228 transactions. Year-to-date sales reached a total of 2,792 closed listings. Dollar volume rose from \$61.1 million to \$69.33 million. The average sales price rose 6% YoY from \$286,877 to \$304,088, while the average price per square foot subsequently rose from \$146.49 to \$153.40. Median price rose 10.42%



YoY from \$251,500 to \$277,700, while the median price per square foot also rose from \$140.04 to \$147.18. Months' inventory for townhomes declined from 2.4 to 2.3 months' supply, and days to sell rose from 79 to 91.

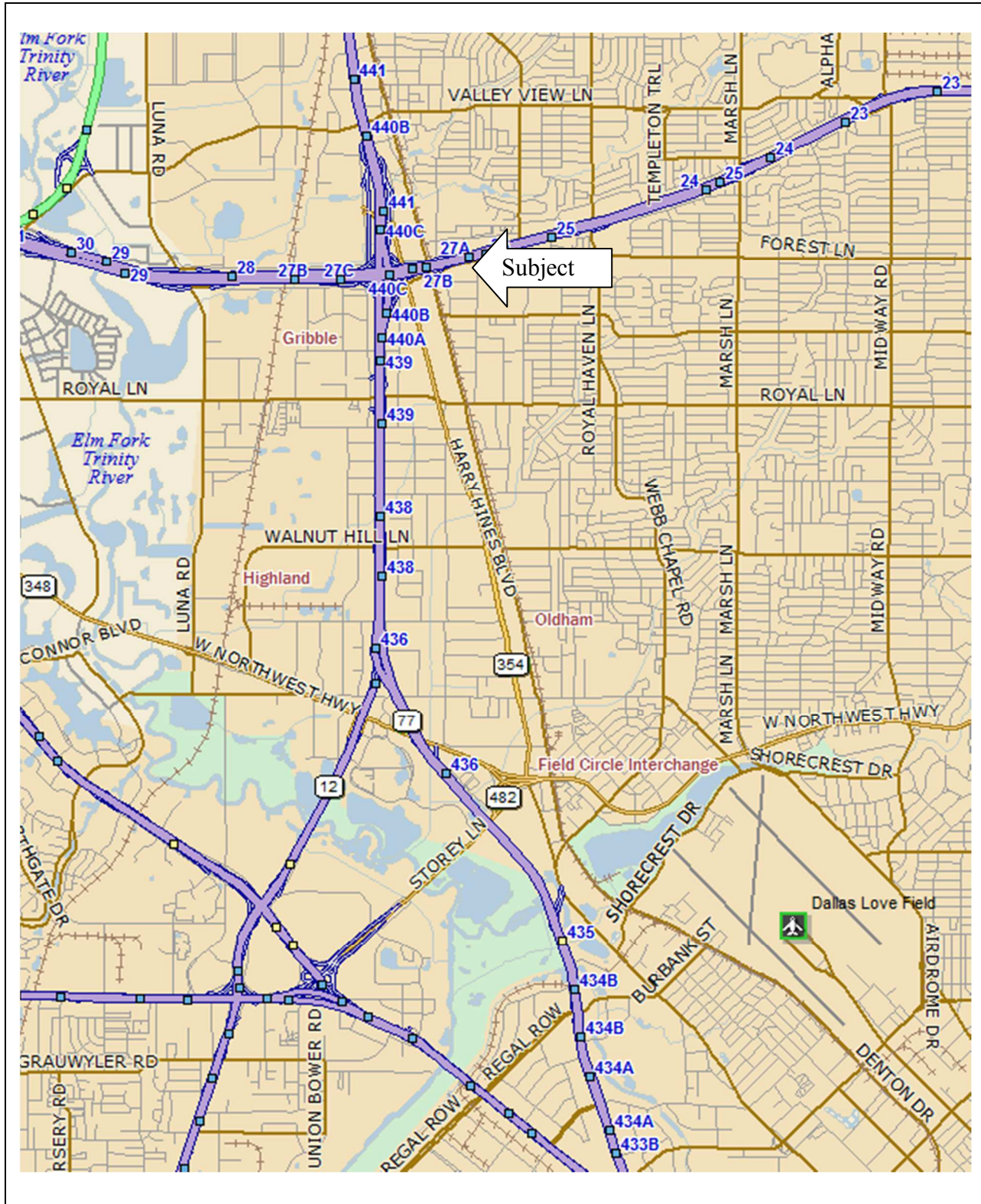
Sales volume for condominiums decreased 2.6% YoY from 308 to 300 transactions. Year-to-date sales reached a total of 3,727 closed listings. Dollar volume rose from \$67.42 million to \$89.84 million. The average sales price rose 36.82% YoY from \$218,880 to \$299,467, while the average price per square foot subsequently rose from \$162.64 to \$191.39. Median price rose 8.63% YoY from \$178,500 to \$193,900, while the median price per square foot also rose from \$150.31 to \$167.43. Months inventory for condominiums rose from 2.2 to 2.3 months' supply, and days to sell rose from 71 to 86.

Median price in the Dallas-Fort Worth-Arlington metro increased by approximately 7.6% year-over-year, from \$236,000 to \$254,000. Metro area price exceeded the statewide median price of \$223,050 by \$30,950. 2017 Q4 total sales volume increased by approximately 4.9% year-over-year, from 23,048 to 24,182. Sales of homes between \$200k and \$250k rose from 3,879 to 4,498, while homes between \$300k and \$400k rose from 3,658 to 4,477, and homes between \$150k and \$200k dipped from 4,549 to 4,284. Metro area months' inventory increased year-over-year from 1.79 to 1.86 months. Homes between \$200k and \$250k rose year-over year, from 1.15 to 1.15 months, while homes between \$300k and \$400k fell year-over-year, from 2.31 to 2.28 months and homes between \$150k and \$200k rose year-over year, from .84 to .88 months. Average days to sell throughout the metro area increased from 76 to 78 days, an increase of 2.6% year over-year. Average days to sell for homes between \$200k and \$250k increased from 65 to 68 days, a 4.6% increase year-over-year.

## **CONCLUSION**

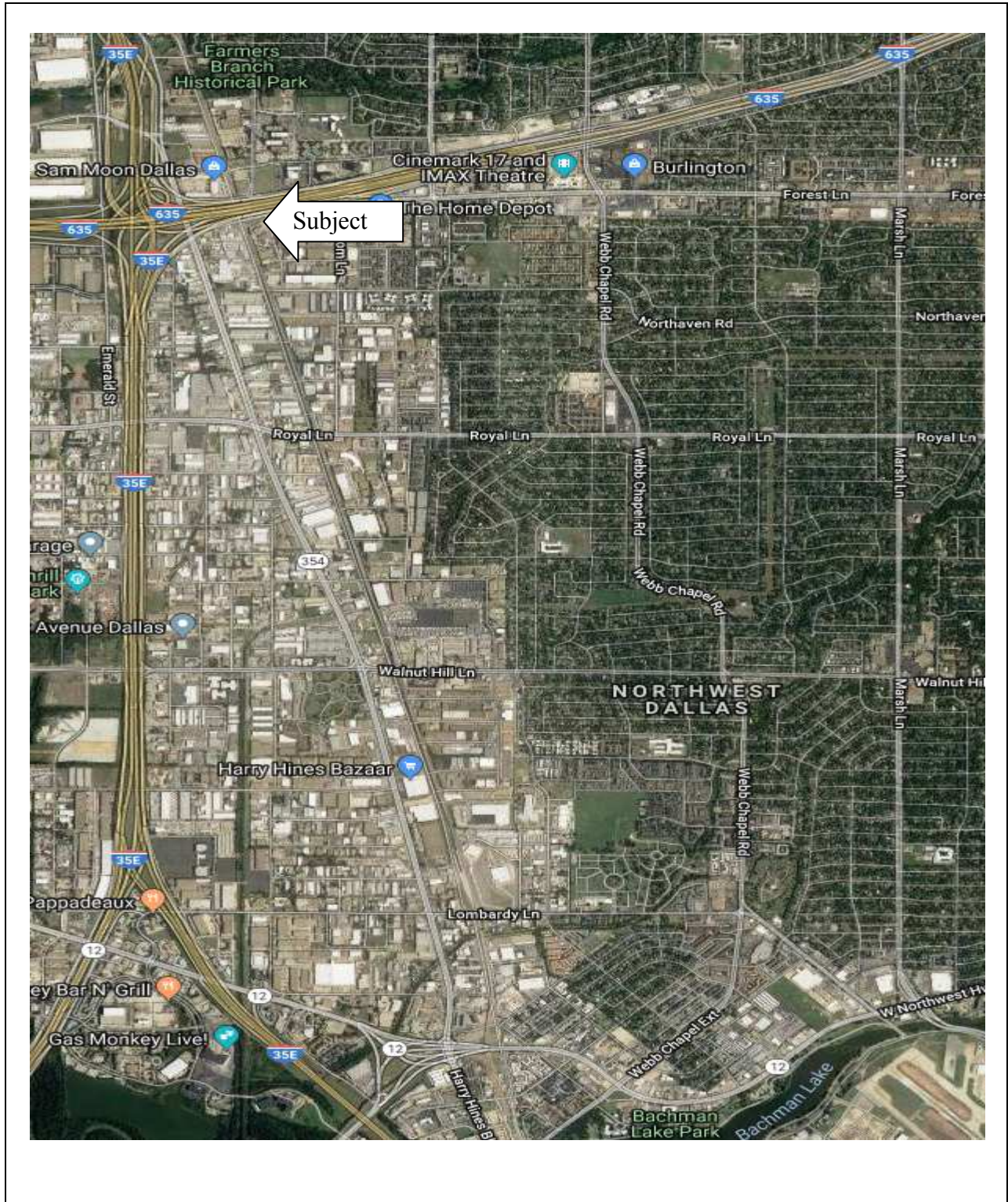
The preceding market overview underscores the major trends which have occurred in the D/FW area as a result of the interaction of the four predominant forces that affect real estate values (environmental, political, economic, and sociological). Overall growth in Texas remains positive despite the drop in crude oil prices which has had a minor dampening effect on the Texas economy. The share of employment in energy-related sectors is much smaller within the Dallas-Fort Worth (DFW) economy where direct job losses have been minimal. The North Texas economy is well diversified, and any consternation over the long-term effects of depressed crude oil prices can be mitigated in the fact that the energy and mining sector makes up a mere 1.2% of total regional employment. Business and financial services sectors will see continued growth in part due to large corporate relocations and consolidations. Therefore, real estate in the Dallas / Fort Worth metro area is expected to remain stable to increasing in values.

### NEIGHBORHOOD LOCATION MAP





## AERIAL LOCATION MAP



## NEIGHBORHOOD DESCRIPTION

A neighborhood is defined as "a group of complementary land uses". A neighborhood should be distinguished from a district which is defined as "a type of neighborhood that is characterized by homogenous land use". A neighborhood will contain land uses complementary to one another. For example, predominately residential neighborhoods typically contain some commercial properties that provide services for local residents. The boundaries of a neighborhood can be physical, such as a lake, stream or major highway, or they may be less easily discernible such as changes in prevailing land use, or occupant characteristics.

**Neighborhood Boundaries:** The neighborhood encompasses an area of the northwestern portion of Dallas County. The neighborhood is considered to be within the Harry Hines Boulevard corridor extending from W. Northwest Highway (State Highway12) on the south, Interstate Highway 35 on the west, LBJ Freeway (IH-635) on the north, and Marsh Lane on the east.

**Location:** This area encompasses a portion of northwestern Dallas County. Overall, accessibility to and from the neighborhood is considered good due to accessibility afforded by both Interstate Highway 635, Interstate Highway 35E and W. Northwest Highway (State Highway12).

**Developments/Land Uses:** The subject lies in a densely populated, but still growing and developing section of northwest Dallas County. The developments immediate to the subject include commercial, light industrial, retail and automotive uses, with a minimal amount of residential development which is predominant to the east of the immediate subject area. Properties in the neighborhood appear to be maintained in average condition and well-occupied. These instances point to the stable income level of area residents and continued demand for retail, office and commercial facilities in the area. Overall, neighborhood growth patterns appear to be stable. These trends should continue into the foreseeable future.

**Surrounding Land Uses:** Presently, adjacent land uses surrounding the subject are retail, office, commercial and light industrial developments along Forest Lane, Harry Hines Boulevard and along the major roadways including Royal Lane, Walnut Hill Lane and Denton Drive. Along LBJ Freeway (IH-635), Interstate Highway 35 and W. Northwest Highway (State Highway12) there are a variety of commercial, office and industrial developments as well as a variety of lodging facilities. The majority of the development in the subject area is industrial buildings and commercial developed.

**Accessibility/Transportation:** The highway system in the area is well developed with a grid of east/west and north/south surface roadways. As mentioned previously, the major highway in the area is Interstate Highway 35E to the west, which is a limited access, eight lane highway, which extends from south of downtown Dallas to Denton County. Interstate Highway 35E is currently undergoing significant re-development, improvement and expansion. Interstate Highway 635 is the northern boundary of the neighborhood and likewise is an eight-lane, limited access freeway and is part of the interstate highway system. Harry Hines Boulevard is a six-lane, median divided roadway, intersecting with W. Northwest Highway (State Highway12) to the south and Interstate Highway 635 to the north. Overall, accessibility to and from the neighborhood is considered good. Maneuverability in and out of the subject site is considered good.



On the following are the demographics for the subject area:

**11505 Anaheim Dr, Dallas, TX 75229-2211, Dallas County**

**Demographics**

Based on ZIP Code: **75229**

**Population Summary**

Estimated Population:	<b>33,034</b>
Population Growth (since 2010):	<b>5.1%</b>
Population Density (ppl / mile):	<b>2,636</b>
Median Age:	<b>38.16</b>

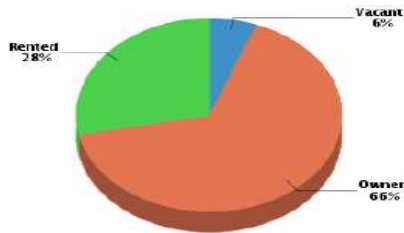
**Household**

Number of Households:	<b>11,653</b>
Household Size (ppl):	<b>3</b>
Households w/ Children:	<b>3,991</b>

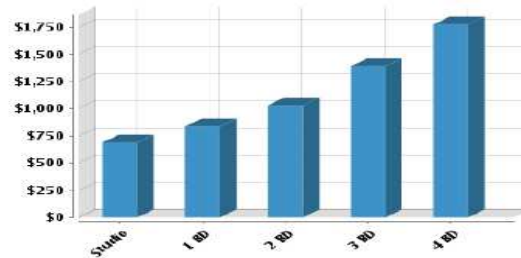
**Age**



**Occupancy**



**Fair Market Rents (County)**

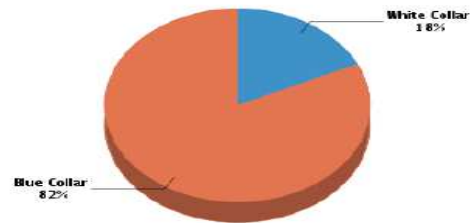


**Quality of Life**

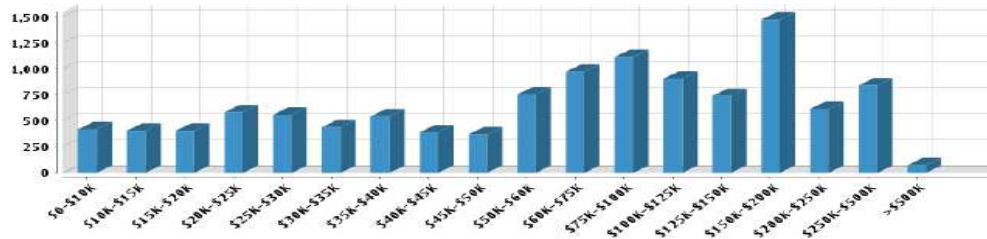
**Workers by Industry**

Agricultural, Forestry, Fishing:	7
Mining:	85
Construction:	5,703
Manufacturing:	6,299
Transportation and Communications:	1,320
Wholesale Trade:	1,612
Retail Trade:	4,957
Finance, Insurance and Real Estate:	602
Services:	2,024
Public Administration:	623
Unclassified:	146

**Workforce**



**Household Income**



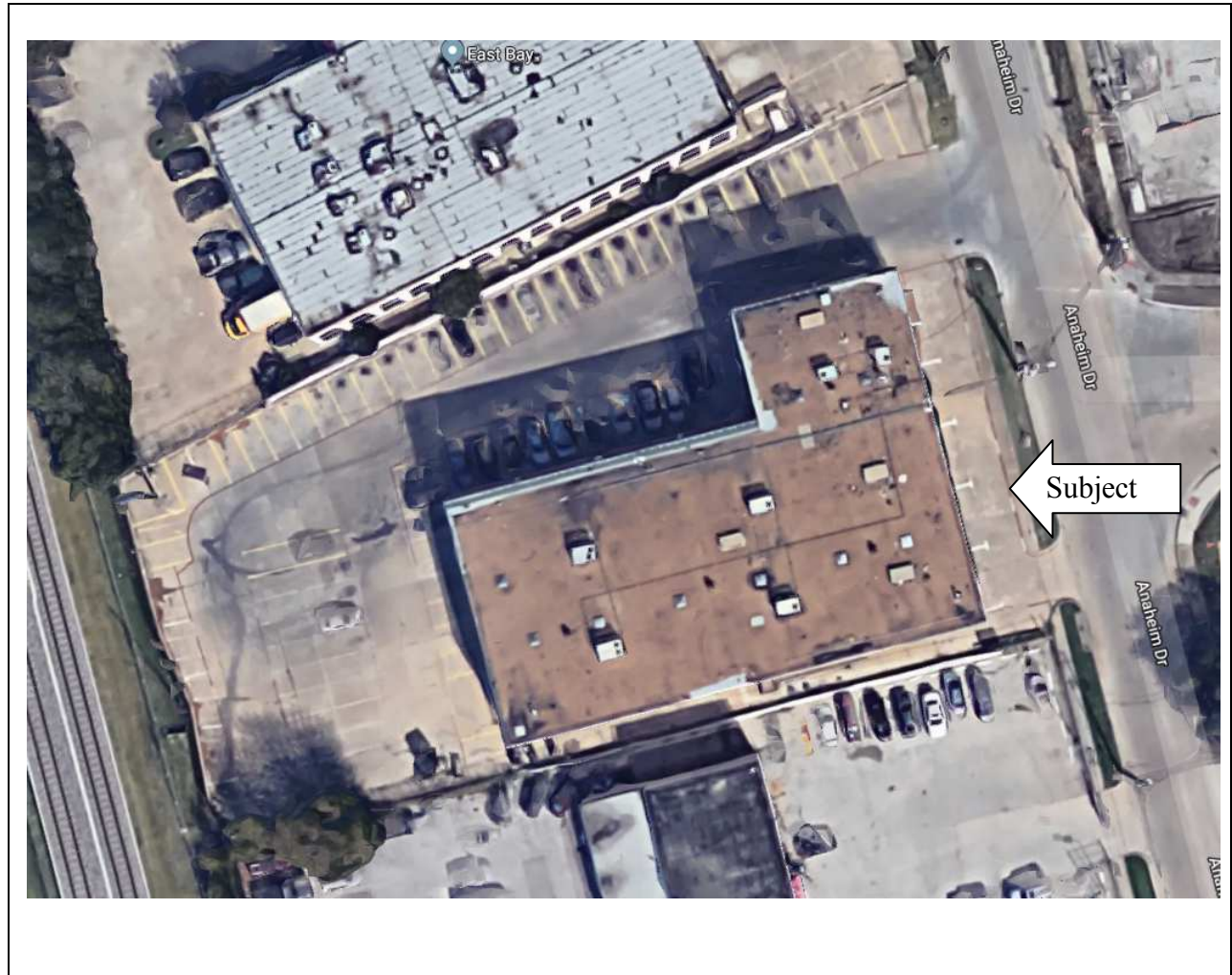
Average Household Income: **\$129,828**

Average Per Capita Income: **\$45,804**

**Legal/Governmental/Social Issues:** The neighborhood is served by most typical city services including fire and police protection. The area is also served by adequate utilities to support the existing land use patterns. We are not aware of any local legal issues which may have a significant negative impact on local real estate values.

**Conclusion:** In summary, the subject neighborhood is a stable area of northwest Dallas County which is easily accessible and convenient to major employment centers and supportive retail facilities of both the immediate area as well as the Dallas/Fort Worth metro area to the west. Property values have been more or less stable to modestly rising in keeping with the stable nature of the neighborhood and this trend should continue for the immediately foreseeable future.

## AERIAL LOCATION MAP

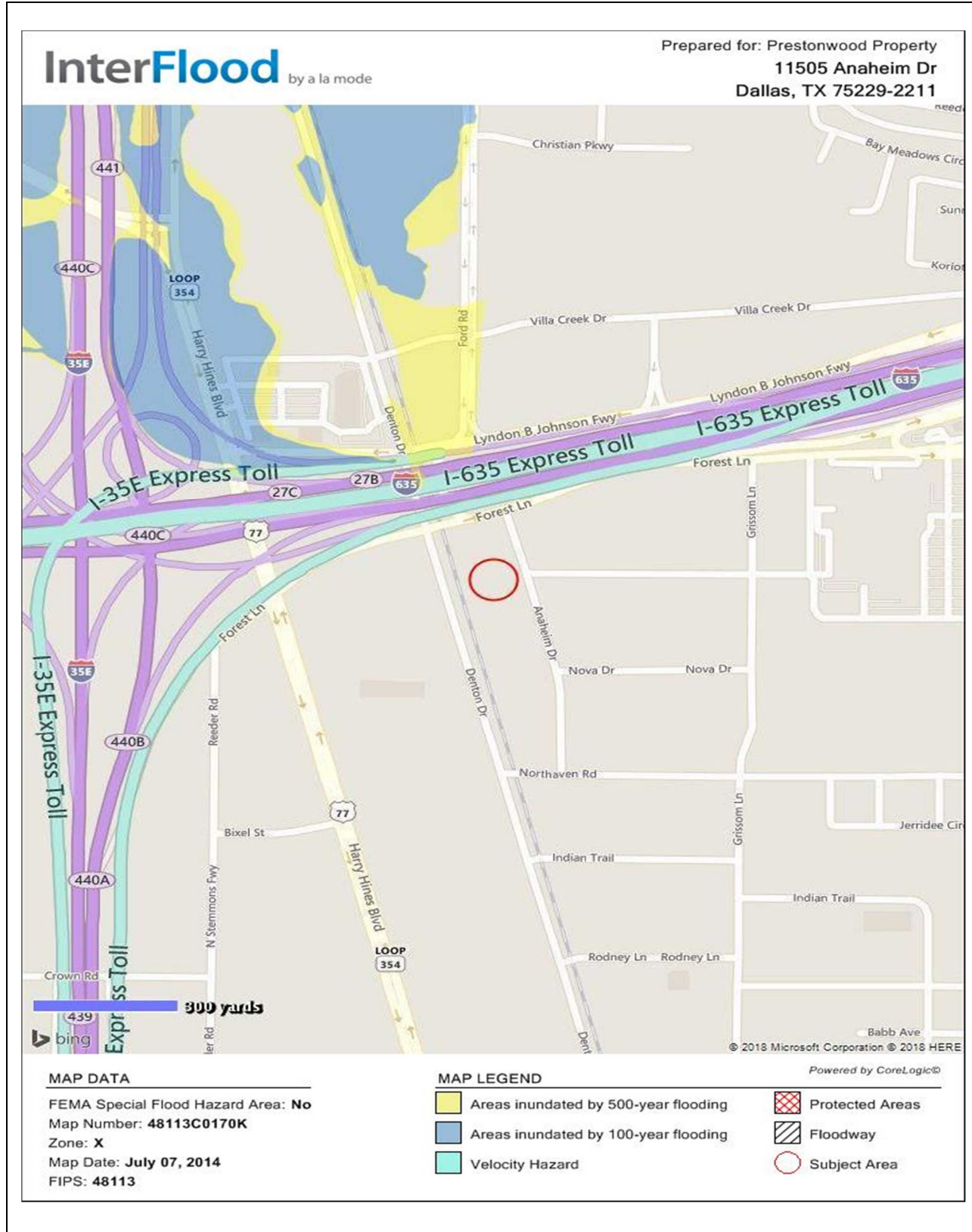


### PLAT MAP



### FEMA FLOOD MAP





## **DESCRIPTION OF SUBJECT SITE**

All references to location, size, configuration and frontage made by the appraiser have been by reliance on the information provided by the client and Dallas County Appraisal District and our on-site inspection. An “as built” survey and a Commitment for Title Insurance were requested but not provided to the appraiser.

### **Location**

The subject site is located at *11505 Anaheim Drive, in the city of Dallas, Dallas County, Texas.*

### **Size /Shape and Access**

The site is 1.127 acres or 49,092 square feet with an irregular shape. The site has frontage along the west side of Anaheim Drive in the city of Dallas, Dallas County, Texas. It has access with two curb cuts on west side of Anaheim Drive. The site has ample parking in front and along sides of the structure. The site is considered to have good access and good visibility.

### **Topography**

The topography of the site is basically level. According to our visual survey of the Federal Emergency Management Association Flood Insurance Rate Map Number 48113C0170K, dated July 07, 2014, the subject lies within Zone X, an area outside the 100 year flood plain. The subject site is generally level and at grade with the fronting streets. No study of the soils or sub-soils was undertaken, and it is assumed no adverse soils or conditions exist. It is a basic assumption of this appraisal that the soils of the subject are adequate for proper structural support, provided good quality construction design, techniques, materials, and supervision are utilized.

### **Easements**

The site is encumbered by a number of utility easements. These easements simply allow for the installation and maintenance of utilities by the corresponding utility companies. The appraiser was not provided a title policy to determine the existence of cross access easements, but considering the design of the ingress/egress, it is assumed such easements do exist. The subject's easements are not considered to be a detriment to either the utility or value of the site.

## Utilities

The subject is assumed to be encumbered by a number of utility easements which are typical of improved properties. These easements simply allow for the installation and maintenance of utilities by the corresponding utilities companies. The site is serviced by electrical service and municipal water and sewer service in sufficient capacity to support most potential uses of the site. The subject's easements are not considered to be a detriment to either the value or marketability of the site. Utility availability is summarized in the following table.

AVAILABILITY OF UTILITIES	
Utility	Various Providers
Electricity	Entergy / Various providers
Water	City of Dallas
Sewer	City of Dallas
Telephone	Various Providers
Natural Gas	Various providers

## Environmental

We were not provided with a Phase I Environmental Site Assessment Report. We have assumed that the property does not have any outstanding environmental infractions, and that it has been inspected and violations, if any, have been corrected. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials could potentially affect the value of the subject property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value.

## Conclusion

In summary, the subject site is an irregular shaped site and located in an area predominately composed of commercial and retail properties. The site is located in Zone X which is not within the designated 100 year flood plain. The site enjoys good visibility and accessibility from Anaheim Drive in the city of Dallas, Texas. The site is serviced by electrical service and municipal water and sewer service in sufficient capacity to support most potential uses of the site. There are no known physical limitations, with the exception of its irregular shape.

## DESCRIPTION OF THE IMPROVEMENTS

**General Information** - The subject is located at *11505 Anaheim Drive, Dallas, Dallas County, Texas*. All references to location, size, configuration and frontages made by the appraiser have been by reliance on a physical inspection of the property, the data available from the client, and the Dallas County Appraisal District. Thus, we have relied on observations and have "estimated" construction components.

**Description of the Existing and Completed Improvements** - The subject improvements consists of a two (2) story commercial / retail / adult entertainment center. It has 19,800 square feet (GBA); based upon the data from the DCAD. The building improvements are in the final stage of completion of interior finish out and is considered to be about 70% completed based on the appraisers estimated observations. The remaining finish out is expected to cost \$40.00 per square foot which includes materials, labor, supervision and soft costs. This totals \$792,000, rounded to \$790,000, which is a deduction from the "as if completed" value. The subject "as is" and "as if completed" appeared to be in good condition. Both the interior and exterior of the subject buildings were inspected.

Structural improvements consist of a concrete slab on concrete piers foundation, concrete aggregate tilt wall structure, minimal windows and a flat roof with built-up membrane roof. The interior of subject property consists of retail areas with built-in sales counter, entertainment area, bar area, storage room, office, bathrooms and kitchen area. The subject is currently occupied by sexually oriented business, mainly Playmates Lounge Cabaret, Adult Arcade, Adult Bookstore, Adult video, Store-Adult Motion, Bar and Entertainment area. The interior finish "as complete" is considered good in quality and it is in the process of renovation. However, the details of renovation were not provided to the appraiser. Based on the visual inspection, a large portion of the subject area are still in process of transformation. The details and the cost of renovation were not available to the appraiser. Therefore, it is estimated that approximately 30% remains to be finished and completed.

**Condition of Improvements** - The subject building was built in 1969 and in the process of renovation.

**Construction Components** - The following is a brief recap of the basic construction components observed during inspection. As previously noted, actual construction plans and specifications were not available.

Foundation:	Concrete slab with supporting piers, beams and footings
Exterior Walls:	Concrete aggregate tilt wall.
Roof:	Flat roof with built-up membrane roof.
Interior Finish-out:	Good commercial grade; configuration per owner/tenant requirements
Plumbing/Electrical:	Per code, assumed adequate



HVAC:	Per code, assumed adequate
Design:	Originally an industrial buildings but now finished for club and restaurant use.
Year Built:	1969; renovations to be complete by October 2018.
Site Improvements:	Concrete flatwork & curbing, Asphalt / Concrete parking for sufficient to meet code, exterior lighting, signage, etc.
Physical Condition:	The subject improvements “as completed” is considered in good condition. An exterior and interior inspection of the building improvements revealed no significant physical deficiencies.
Deferred Maintenance:	None. Building interior and mechanical systems are assumed to be in average working order.
Functional Adequacy:	The subject improvements represent a two story, retail / adult lounge cabaret in terms of design; but typical in overall functional utility.
Parking:	Concrete surface parking, with adequate spaces per building code.

## Depreciation

Depreciation is any loss in value from reproduction or replacement cost new of improvements as of the effective date of appraisal. There are three types of depreciation; physical deterioration, functional obsolescence, and external obsolescence. Further, both physical deterioration and functional obsolescence can be further segregated as either curable or incurable. External obsolescence is always said to be incurable, as only changes in circumstances outside of the property can reverse economic obsolescence. Definitions of each type of depreciation are as follows:

**Curable Physical Deterioration** - Refers to items of deferred maintenance; the estimate of curable physical deterioration applies only to items in need of repair on the date of the appraisal. Thus, this element of accrued depreciation is measured as the cost of restoring an item to new or reasonably new condition - i.e., the cost to cure.

**Incurable Physical Deterioration** - Items of deterioration that cannot be practically or economically corrected at present. This type of depreciation is calculated for all structural elements that are not included in the curable physical category.

**Curable Functional Obsolescence** - A loss in value resulting from defects in design. It can also be caused by changes that, over time, have made some aspect of a structure, such as its materials or design, obsolete by current standards. To be curable, the cost of replacing the outmoded or unacceptable aspect must be the same as or less than the anticipated increase in value. Curable functional obsolescence is measured as the cost to cure the condition.

**Incurable Functional Obsolescence** - An element of accrued depreciation; an incurable defect caused by a deficiency or super-adequacy in the structure, materials, or design.

**External Obsolescence** - An element of accrued depreciation; an incurable defect caused by negative influences outside the property itself.

Curable physical depreciation was noted in the need of painting and limited asphalt paving repair. The facility is well designed, and is considered to have average functional utility. No evidence of functional or economic obsolescence was noted.

### **Estimate of Economic Life, Effective Age, and Remaining Economic Life**

The estimation of the economic life, effective age and remaining economic life of a property are crucial, as the estimates are utilized in the calculation of depreciation in the cost approach, and in the adjustment of sale and rental comparables in the sales comparison and income approaches. Definition of these terms follow.

**Economic Life** - The period of time over which improvements to real estate contribute to property value. Economic life and physical life can differ widely; typically, physical life is expected to be longer than economic life. For example, improvements with varying degrees of physical integrity are ordinarily replaced with new structures. However, when some older properties are renewed or remodeled their economic lives are usually extended. At any given point in time a property's economic life cannot exceed its physical life. Rehabilitation can extend a property's physical life.

**Effective Age** - The age indicated by the condition and utility of a structure. A building's effective age may be less than its actual age if it has had above-average maintenance, is of superior quality or design, or there is a scarcity of such buildings in the market. For example, a 40 year building may have an effective age of 25 years due to rehabilitation, modernization, or strong market demand. However, if the building has not been adequately maintained, its effective age may be greater than its actual age.

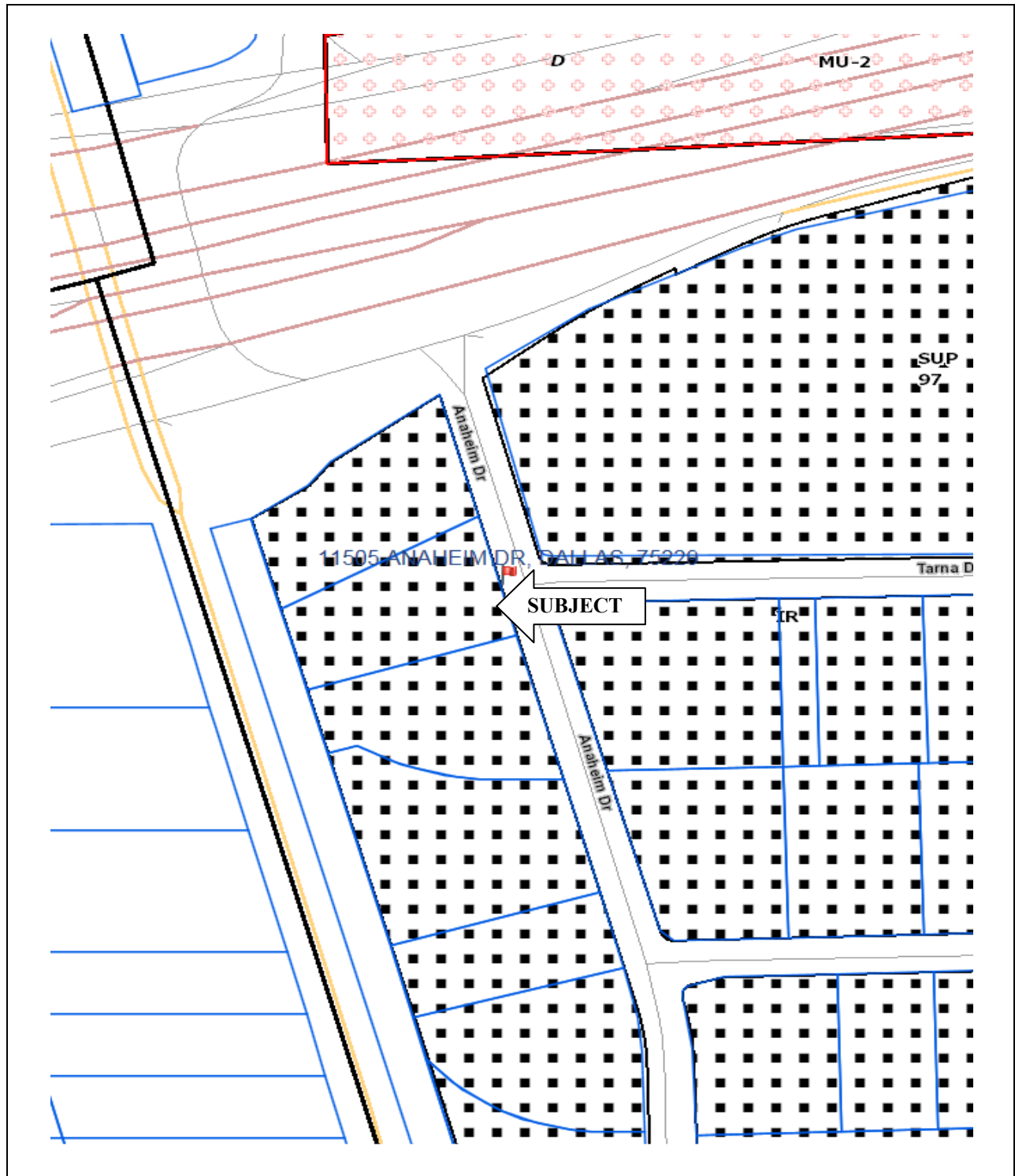
**Remaining Economic Life** - The estimated period during which improvements continue to contribute to property value.

Remaining economic life is typically estimated by determining the difference between a property's economic life, and its effective age. In many cases, there is a wide variance between effective age and actual, chronological age. This may be caused by any of a number of factors.

According to the *Marshall Valuation Service* (Commercial Cost Manual: Los Angeles, California: Marshall & Swift), the typical life expectancy of properties similar to the subject improvements is 45 years. The subject improvements were constructed in 1969. The building has a chronological age of 49 years. Considering the building condition, the effective age of the building is considered 15 years with a remaining economic life of 30 years and incurable physical depreciation was estimated at 33.3% (15/45).

**Conclusion** - The project appears to be properly designed and engineered, and the quality of construction materials and workmanship is generally consistent with industry development trends in the market area. Physical condition was considered above average. The effective age of the improvements were considered to be 15 years. No functional inadequacies or structural deficiencies were apparent during inspection.

### ZONING MAP





## LEGAL CONSTRAINTS

### Zoning

The subject site is zoned “IR”; Industrial Research District with “SUP 97” by the city of Dallas, Texas. The “IR”; Industrial Research District zoning designation and district allows for industrial, wholesale distribution and storage, and supporting office and retail complements. There are three types of zoning changes in the City of Dallas: general zoning change, planned development district (PDD), and specific use permit (SUP). Each has a different process and requirements. The “SUP”- Special Use Permits procedure is designed to provide the Planning and Zoning Commission and the City Council with an opportunity for discretionary review of requests to establish or construct uses or structures which may be necessary or desirable for, or which have the potential for a deleterious impact upon, the health, safety, and welfare of the public or the purpose of determining whether the proposed location of the use or structure is appropriate and whether it will be designed and located so as to avoid, minimized or mitigate any potentially adverse effects upon the community or the other properties in its vicinity.

The subject currently has Sexually Oriented Business (License # 1132771) by City of Dallas. It is licensed for Adult Arcade, Adult Bookstore, Adult Video Store and Adult Motion. It is regulated by chapter 41A “Sexually Oriented Businesses” ordinances under city of Dallas (See Addenda).

<b>IR Zoning Requirements</b>	
Min. Lot Area	None
Max. Building Size	15 stories above grade
Front Setback	15 feet
Side Setback	30
Min. Rear Setback	30 feet
Max Height	200 feet
Max Lot Coverage	80%
Source: City of Dallas Zoning Code	

The requirement of parking spaces for general offices and storage or warehousing is one space per 2 employees or one space per 1,000 square feet of gross floor area, whichever is greater. The subject has approximately 113 parking spaces which meet code requirements. The subject is considered to be a legal conforming use.

### Deed Restrictions

There are no known deed restrictions or encumbrances affecting the use of the site. However, deed restrictions are a legal matter and normally only a title search by a competent attorney would uncover them.

## **Easements and Other Restrictions**

We have assumed that the subject is affected by typical utility and fire lane easements which do not negatively impact the functional utility of the site. The appraiser was not provided a title policy to determine the existence of cross access easements, but considering the design of the ingress/egress, it is assumed such easements do exist

**AD VALOREM TAX ANALYSIS**

In Dallas County, the Dallas County Appraisal District is responsible for ad valorem tax appraisals of all real estate within the county. Based upon the ad valorem tax appraisal, various tax districts levy annual taxes on property located within their respective districts. Typical taxing jurisdictions include assessments from the county, city, and school district in which the property is located. The total ad valorem tax burden is the sum of the assessments for the various taxing authorities.

The subject property is under the taxing jurisdiction of the Dallas Central Appraisal District and various agencies of Dallas County. The estimates of assessed values made by the various taxing authorities are not usually considered indicative of market value due to the use of mass appraisal techniques, and the lack of the completion of property specific analysis by the appraisal district. The subject’s primary address from DCAD is *11505 Anaheim Drive, Dallas, Texas*.

The 2018 proposed tax rates (per \$100 of assessed valuation) for these entities are as follows:

<b>Tax Rate Summary</b>	
<b>Taxing Jurisdiction</b>	<b>Tax Rate</b>
City of Dallas	\$0.780400
Dallas ISD	\$1.282085
Dallas County	\$0.253100
Dallas CO Community Collage	\$0.124238
Parkland Hospital	\$0.279400
<b>Total</b>	<b>\$2.719223</b>

The subject’s account number from Dallas County is No. *00000606821000000*. The 2018 total proposed assessment value is \$666,180 or \$33.65 per square foot based on 19,800 square feet.

The current taxes are estimated in the following table:

<b>Subject Tax Burden</b>			
<b>Property</b>	<b>2018 Tax Rate</b>	<b>Valuation</b>	<b>Tax</b>
Subject	\$2.719223	\$666,180	\$18,114.92

The estimated tax burden for the subject is \$18,115, rounded, or \$0.91 per square foot based on 19,800 square feet.

## HIGHEST AND BEST USE ANALYSIS

### Definition of Highest and Best Use

Highest and best use is defined as:

*The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.*

As the definition implies, there are two types of highest and best use: the highest and best use of land or a site as if vacant; and the highest and best use of property as improved. Highest and best use is shaped and determined by forces within the market such as supply and demand. As market forces also shape market value, highest and best use can be described as "the foundation on which market value rests." Highest and best use and feasibility are related concepts, but are not the same. For example, many uses may be feasible upon a site, but the one use which will produce the highest return to the site is the highest and best use.

There are four criteria that are utilized in evaluating the highest and best use of a property. The highest and best use must be:

1. Physically possible
2. Legally permissible
3. Financially feasible
4. Maximally productive

The four criteria are applied in sequential order. The selection of uses is narrowed through the consideration of each criteria, so that by the time the last criteria is applied, only a single use is indicated. Hence, a property often will have numerous uses which are physically possible; a lesser number which are both physically possible and legally permissible; fewer still which are physically possible, legally permissible and financially feasible; and only a single use which meets all four criteria. In addition to the preceding four criteria, the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation further indicate that the following items must be considered as they relate to the use and value of a property:

1. Existing land use regulations
2. Reasonably probable modifications of such regulations
3. Economic demand
4. The physical adaptability of the property
5. Neighborhood trends



## **Highest and Best Use, Site Assumed Vacant**

The analysis of the highest and best use of the land as vacant is critical in that it serves to determine the use that provides the greatest net return to capital, and also identifies alternate probable uses to which the site may be put.

The highest and best use of the land is an important consideration in the analysis of the highest and best use as improved, particularly in cases of rapidly changing market conditions, under utilization and transition. These analyses provide the underlying basis for valuation and are fundamental to the appraisal process.

**Physically Possible** - The subject site is a 1.127 acres or 49,092 square feet tract of land located on west side of Anaheim Drive in the city of Dallas. The site has good road exposure and access attributes. The site is adjacent to developed tracts and within a nearly fully developed area. The subject site is irregular in shape with no limits to its development from its physical attributes.

**Legally Permissible** - Legal restrictions as they apply to the subject are private deed restrictions and municipal zoning. As far as we can ascertain, there are no private restrictions affecting title, however, the client is advised to procure a title policy and legal opinion with regard to this matter as no warranty is expressed or implied. The appraisers have specifically assumed no atypical or unfavorable encumbrances. Deed restrictions are a legal matter and a title search by a competent attorney is recommended.

The subject site is within the city of Dallas and is encumbered by zoning regulations, which allows for a wide variety of development. The current zoning of the site is “IR”- Industrial Research District allowing a relatively broad range of commercial and retail uses. A change in zoning is unlikely in considering the general balance of land uses in the area. The economics of the area and compatibility with existing uses will tend to narrow the range of choices. Among the range of permitted uses, the subject appears to be well-suited for current use for which tenant demands dictate, and for which a moderate sized site is suitable.

**Financially Feasible** - Financial feasibility addresses the economics and profitability of a program of utilization for a site. Investment (cost to produce) should yield a positive return over a reasonable time period before a product is judged feasible. In this instance, financial feasibility is highly dependent upon the type of use the subject site is devoted to. In the case of an owner/user development, financial feasibility will tend to become less of criteria. Although each of the potential uses can be tested, variances in rents, costs and other factors will tend to weaken any meaningful relationship. Therefore, a test for financial feasibility should be addressed once a specific use is contemplated. Based on an informal survey of the local market area, there does seem to be adequate demand for some type of commercial development of the subject.

**Maximally Productive** - Given the nature of the local market, some form of commercial or retail development use of the site appears highly probable. It is physically possible, legally permitted and demand factors appear to be adequate. The financial feasibility consideration must be addressed when a specific type of commercial development is contemplated.

Based on the preceding, it is our opinion that the highest and best use of the subject site (assumed vacant) is for commercial/retail development. The most probable use of the site is for investment or future development as demand warrants.

**Highest and Best Use of the Property As Improved**

The subject site, as currently improved, appears to satisfy all the elements of highest and best use analysis. Therefore, it is our opinion that the highest and best use of the subject is for continued operation as single tenant commercial / entertainment center.

## **OVERVIEW OF THE VALUATION PROCESS**

The steps in the valuation process are as follows, according to *The Appraisal of Real Estate* (Chicago, Ill.: Appraisal Institute, Thirteenth Edition, 2008):

1. Definition of the problem to be solved
2. Preliminary analysis and data selection collection
3. Highest and best use analysis
4. Land value estimate
5. Application of the three approaches to value
6. Reconciliation of the value indications and final value estimate
7. Report of defined value

In defining the problem to be solved, the appraiser must ascertain a number of items. Firstly, the property to be valued must be identified. Secondly, the appraiser must determine and identify the property rights to be appraised. The date of the estimate of value must be determined, and it is common for appraisals to be prepared as of a retrospective date, rather than a current date for a number of reasons. The use of the appraisal should be addressed, in order to determine the needs and requirements of the client. A definition of value should be set forth at the outset of the valuation process. Lastly, the appraiser must consider and set forth any special limiting conditions that will be a part of the appraisal.

Part two of the valuation process involves gathering data related to the subject property, its environs (region and immediate neighborhood), and comparable market data. General data gather relates to the region in which the property is located, and the interaction of social, economic, governmental, and environmental forces. In gathering data and completing research into general data, the appraiser should seek to identify any data factors which directly or indirectly influence the subject property, so that said factors can be considered in the appraisal. Specific data is data related directly to the subject property. This includes site data, improvement data, zoning data, ad valorem tax data, and market data. Market data is a broad term referring to all real estate market sales, listings, leases, and offers which are utilized in developing the three approaches to value.

After describing and analyzing the subject's environs, site, and improvements, the appraiser analyzes the highest and best use of the property. The highest and best use analysis for improved properties has a two-fold purpose. First, the highest and best use of the site as if vacant is determined, and then the highest and best use of the property as improved is analyzed. The highest and best use of the site as if vacant is required so that land comparables with similar highest and best uses can be utilized in the land value estimate section of the appraisal. Also, the highest and best use of the site as if vacant is compared to the exiting improvements, and if the existing improvements do not conform to the highest and best use of the site, changes or modifications should be considered. The highest and best use of a property is a very crucial conclusion, as the three approaches to value are then developed based upon the conclusion of the property's highest and best use.

The next step in the valuation process involves estimating the value of the subject's site as if vacant. In determining the value of the site as if vacant, consideration must be given to the highest and best use of the site. One or more of the following methods can be utilized to arrive at an indication of the value of the site as if vacant:

1. Sales comparison
2. Allocation
3. Extraction
4. Subdivision development
5. Land residual technique
6. Ground rent capitalization

A more detailed description of each of these methods is presented in the Land Value Estimate of this report.

Following the site value estimate, the three approaches to value are developed (or discussion is included to support an omission of one or more of the three approaches). The three approaches to value are: the cost approach, the sales comparison approach and the income capitalization approach. Sometimes, one or more of the three approaches is not applicable to a given property, and is not developed in the appraisal. But this can be determined only by careful analysis of the property being appraised in relation to the analytical tools available to the appraiser. A short explanation of each approach follows.

The cost approach is based upon the principle of substitution. It recognizes that buyers tend to judge the value of an existing structure by comparing it with the cost to construct a new structure of the same type. In developing the cost approach, the appraiser estimates the cost to replace or reproduce, the improvements, then deducts depreciation (if any) and then adds to this figure the estimated value of the site or land as though vacant. The major limitation of this approach is the difficulty in estimating accrued depreciation, particularly when depreciation is present in more than one form.

The sales comparison approach recognizes that no informed and prudent person will pay more for a property than it would cost to purchase an equally desirable substitute property (the principle of substitution). In developing this approach, the appraiser locates sales in the market of properties similar to the property being appraised (called comparable sales). These sales are then compared to the property being appraised and adjustment are made for differences between each sale and the property being appraised. The reliability of this approach is directly related to the quality and quantity of the sales data.

The income capitalization approach is based upon the principle of anticipation which states that value is created by the anticipation of future benefits to be derived from ownership of a given property. The appraiser is primarily concerned with the future benefits to be derived from operation of the subject property (NOI, or cash flow). The steps in this approach include estimating potential gross income by comparison with competing properties, deducting a market derived vacancy and collection loss allowance, and estimating expenses (derived from historical and/or market experience) to determine a projected net income stream. The income stream is then capitalized into an indication of value by using capitalization rates extracted from competitive properties in the market, or by using other techniques when applicable.

It should be noted that all three approaches are closely interrelated. Data and conclusion from



one approach are often used in one or more of the other approaches. If good data is available for application of all three approaches, the resulting indications should fall within a narrow range. Then, the value indications are reconciled, and a final estimate of value is made. Among the things considered are the accuracy, reliability, and pertinence of the data available for each approach. Major considerations in the reconciliation are which approach has the best data, which is the most likely to be free of error, and which is the most reliable approach for the type of property being appraised.

The final step in the appraisal process is the report of defined value. While such a report can be made in many forms, the most preferred and most common is in the form of a written narrative appraisal report. A properly written narrative report should be capable of leading the reader through the appraisal process with the result of leading the reader to the same conclusion or conclusions that were arrived at by the appraiser.

### **Application of the Approaches to Value**

In this appraisal we have applied the Sales Comparison and the Income Capitalization Approaches to formulate a current estimate of market value. The Cost Approach is considered neither applicable nor necessary since investors in the market rarely depend on the Cost Analysis for investment decisions. Therefore, two approaches to value are developed in this report.

## SALES COMPARISON APPROACH

The Sales Comparison Approach is based primarily upon the principle of substitution which implies that a prudent individual will pay no more for a property than it would cost the individual to purchase a comparable substitute property. The approach recognizes that a typical buyer will compare asking prices and seek to purchase the property which meets his wants and needs for the lowest cost. In developing the sales comparison approach, the appraiser attempts to interpret and measure the actions of parties involved in the market place including buyers, sellers, and investors. The steps involved in developing the sales comparison approach are as follows:

1. Research the market to obtain information pertaining to sales, listings and sometimes offerings of property similar to the property being appraised.
2. Investigate the market data to determine if the data is factually accurate and to determine if each sale represents an arm's length transaction.
3. Determine relevant units of comparison (i.e. sales price per square foot) and develop a comparative analysis for each.
4. Compare the subject and comparable sales according to the elements of comparison and then adjust each sale as appropriate.
5. Reconcile the multiple value indications that result from the adjustment of the comparables into a single value indication.

*Units of comparison* are defined as "the components into which a property may be divided for purposes of comparison." For example, apartment complexes are analyzed on the basis of one or more of the following three units of comparison: sales price / square foot of rentable area, sales price per apartment unit, and gross income multiplier. All appropriate units of comparison should be analyzed for the property type being appraised, and the resulting value indications reconciled to a single indicated value or value range.

Adjustments are required to compare sale properties to the subject property. The adjustments may either be applied to the total sales price, or to unit or units of comparison. Income multipliers are not normally adjusted, however. The sales are adjusted for differences in *elements of comparison*, which are defined as "the characteristics of properties and transactions that cause the prices paid for real estate to vary."

The following *elements of comparison* should be considered in the sales comparison approach.

1. Property rights conveyed
2. Financing terms/cash equivalency
3. Conditions of sales
4. Market conditions (time)
5. Location
6. Physical characteristics
7. Economic characteristics

Adjustments may be made in terms of percentages, or in dollar amounts. Either the total sales price of the sales may be adjusted, or the adjustments can be applied to one or more units of comparison. The adjustments should be made in sequential order, with the adjustment for real property rights always made first, the adjustment to financing terms then made to the sales price adjusted for real property rights conveyed, etc. The exception is that adjustments for location and physical characteristics can be grouped together as a single cumulative adjustment amount or percentage.

After adjustment, the sales will indicate a range in total value or unit value for the property being appraised. If the sales data is highly comparable, and occurred in a reasonably efficient market, the range in indicated values should be tight. However, in cases where market conditions are imperfect and comparable sales data is limited, the range in indicated values might be wider.

In reconciling the value indications provided by the comparable sales, the appraiser should consider the amount of adjustment required for each sale. Sales requiring lesser degrees of adjustment are typically the most comparable, and are given greater weight than sales requiring greater degrees of adjustment. However, other factors must be considered including the reliability of the sales data, and the degree of support of the required adjustments. After consideration of these factors, a final point value or value range is set.

### **Presentation of Comparable Sales**

The following sales have been selected as being comparable to the subject property. The sales have been researched and factual data concerning each sale has been verified with the buyer, seller, broker, or some other knowledgeable party involved in the sale. The sales comparables were the best data available. We initially searched for SOB facilities; however, no sales were able to be verified and the delineation between real estate and business entity is difficult to determine/ Therefore, sales utilized were more oriented to restaurant sales.

Improved Sale No. 1  
**5400 Basswood Boulevard**  
**Fort Worth, Tarrant County, Texas 76137**

Grantor:	Twist Magnolia, LLC
Grantee:	KM Magnolia Park LP
Date of Sale:	February 1, 2017
Sales Price:	\$2,700,000
Sales Price/SF:	\$198.15
Building Data:-	
Year of Construction:	2005
Land Area:	1.77 acres, 76,927 square feet
Leasable Area:	13,626 square feet
No. Stories:	One
Construction:	Block, brick veneer, glass storefront
Parking:	Adequate on site
Quality:	Average
Condition:	Average

Several factors can affect a negotiated sales price. These are factors are discussed and if warranted adjusted below.

Adjustments for Property Rights: The leased fee interest was conveyed. No adjustment for this item is required.

Property Condition: The property was in average condition at the date of sale with no evident deferred maintenance.

Adjustment for Cash Equivalency: Cash to seller, no adjustments are required.

Adjustment for Below-Stabilized Occupancy: This property was purchased for investment purposes. No adjustment for below-stabilized occupancy required.

Leasehold Adjustment: The building was acquired by an investor.

Sale #1 - continued

The calculation for factors influencing the comparable's sale price are displayed below.

SALE PRICE ADJUSTMENTS	DOLLARS	PER SF
Uadj. Sale Price	\$2,700,000	\$198.15
Adjustments -		
Property Rights	\$0	\$0.00
Cash Equivalency	\$0	\$0.00
Deferred Maintenance	\$0	\$0.00
Below-Stabilized Occ.	\$0	\$0.00
Interior Finish	\$0	\$0.00
Adjusted Sale Price	\$2,700,000	\$198.15

Financial Analysis (Income and Expense Pro-Forma)

PRO FORMA	DOLLARS	PER SF
Gross Income (incl Rec.)	\$286,146	\$21.00
Vacancy	-\$14,307	5.00%
Expenses	-\$95,382	\$7.00
Net Operating Income	\$176,457	\$12.95
Bldg Area		13,626
Overall Rate		6.54%
Gross Income Multiplier		9.44

Comments: This property is located at the southeast corner of Basswood Boulevard and Park Vista Drive. The center is 100% occupied with nine tenants. The property is considered in average condition. .



Improved Sale No. 2  
**Hebron Fairway Center**  
**1628 W. Hebron Parkway**  
**Carrollton, Denton County, Texas 75010**

Grantor: IPTV-B-L5-152, LLC  
Grantee: PVS Properties, LLC  
Date of Sale: February 8, 2017  
Sales Price: \$2,850,000  
Sales Price/SF: \$194.01

Building Data:-  
Year of Construction: 2006  
Land Area: 1.61 acres; 70,132 square feet  
Leasable Area: 14,690 square feet  
No. Stories: One  
Construction: Block, brick veneer, glass storefront  
Parking: Adequate on-site parking  
Quality: Average  
Condition: Average

Several factors can affect a negotiated sales price. These are factors are discussed and if warranted adjusted below.

Adjustments for Property Rights: The fee simple interest was conveyed. No adjustment for this item is required.

Property Condition: The property was in average condition at the date of sale.

Adjustment for Cash Equivalency: Cash to seller, no adjustments are required.

Adjustment for Below-Stabilized Occupancy: This property is a multi-tenant retail center which is 100% occupied.

Leasehold Adjustment: The building was acquired by an investor for income generation.

Sale #2- continued

The calculation for factors influencing the comparable's sale price are displayed below.

SALE PRICE ADJUSTMENTS	DOLLARS	PER SF
Uadj. Sale Price	\$2,850,000	\$194.01
Adjustments -		
Property Rights	\$0	\$0.00
Cash Equivalency	\$0	\$0.00
Deferred Maintenance	\$0	\$0.00
Below-Stabilized Occ.	\$0	\$0.00
Interior Finish	\$0	\$0.00
Adjusted Sale Price	\$2,850,000	\$194.01

Financial Analysis (Income and Expense Pro-Forma)

PRO FORMA	DOLLARS	PER SF
Gross Income (incl Rec.)	\$323,180	\$22.00
Vacancy	-\$16,159	5.00%
Expenses	-\$102,830	\$7.00
Net Operating Income	\$204,191	\$13.90
Bldg Area		14,690
Overall Rate		7.16%
Gross Income Multiplier		8.82

Comments: This property is located on the north side of W. Hebron Parkway west of SH-121. The property is considered in average condition.

Improved Sale No. 3  
**Wylie Crossing Retail Center**  
**456 Country Club Road**  
**Wylie, Collin County, Texas 75098**

Grantor:	Wylie Building LP
Grantee:	WinWin Holdings LP
Date of Sale:	April 6, 2017
Sales Price:	\$3,180,000
Sales Price/SF:	\$257.97
Building Data:-	
Year of Construction:	2012
Land Area:	1.69 acres, 73,547 square feet
Leasable Area:	12,327 square feet
No. Stories:	One
Construction:	Block, brick; storefront glass.
Parking:	Adequate on-site parking
Quality:	Good
Condition:	Good

Several factors can affect a negotiated sales price. These are factors are discussed and if warranted adjusted below.

Adjustments for Property Rights: The leased fee interest was conveyed. No adjustment for this item is required.

Property Condition: The property was in average condition at the date of sale.

Adjustment for Cash Equivalency: Cash to seller, no adjustments are required.

Adjustment for Below-Stabilized Occupancy: This property is a multi-tenant retail center which is 100% occupied.

Leasehold Adjustment: The building was occupied by six tenants and was 100% occupied. The actual rents were not available but were estimated at market levels.

Sale #3- continued

The calculation for factors influencing the comparable's sale price are displayed below.

SALE PRICE ADJUSTMENTS	DOLLARS	PER SF
Uadj. Sale Price	\$3,180,000	\$257.97
Adjustments -		
Property Rights	\$0	\$0.00
Cash Equivalency	\$0	\$0.00
Deferred Maintenance	\$0	\$0.00
Below-Stabilized Occ.	\$0	\$0.00
Interior Finish	\$0	\$0.00
Adjusted Sale Price	\$3,180,000	\$257.97

Financial Analysis (Income and Expense Pro-Forma)

PRO FORMA	DOLLARS	PER SF
Gross Income (incl Rec.)	\$302,012	\$24.50
Vacancy	-\$15,101	5.00%
Expenses	-\$80,126	\$6.50
Net Operating Income	\$206,785	\$16.78
Bldg Area		12,327
Overall Rate		6.50%
Gross Income Multiplier		10.53

Comments: This property is located the city of Wylie in a fast growing area of Collin County. The property was built in 2012 and is considered in good condition.

Improved Sale No. 4  
**Carrollton Retail Center**  
**3320 E. Hebron Parkway**  
**Carrollton, Denton County, Texas 75010**

Grantor:	Westwood Financial Corp.
Grantee:	Crow Holdings LLC
Date of Sale:	April 23, 2018
Sales Price:	\$4,222,000
Sales Price/SF:	\$291.50
Building Data:-	
Year of Construction:	2007
and Area:	2.49 acres, 108,247 square feet
Leasable Area:	14,484 square feet
No. Stories:	One
Construction:	Block, brick, glass storefront
Parking:	Adequate surface parking.
Quality:	Good
Condition:	Good

Several factors can affect a negotiated sales price. These are factors are discussed and if warranted adjusted below.

Adjustments for Property Rights: The leased fee interest was conveyed. No adjustment for this item is required.

Property Condition: The property was in good condition at the date of sale.

Adjustment for Cash Equivalency: Cash to seller, no adjustments are required.

Adjustment for Below-Stabilized Occupancy: This property is a multi-tenant retail center which is 100% occupied.

Leasehold Adjustment: The building was acquired for investment purposes and was 100% occupied at date of sale. Market rents have been estimated.



Sale #4 - continued

The calculation for factors influencing the comparable's sale price are displayed below.

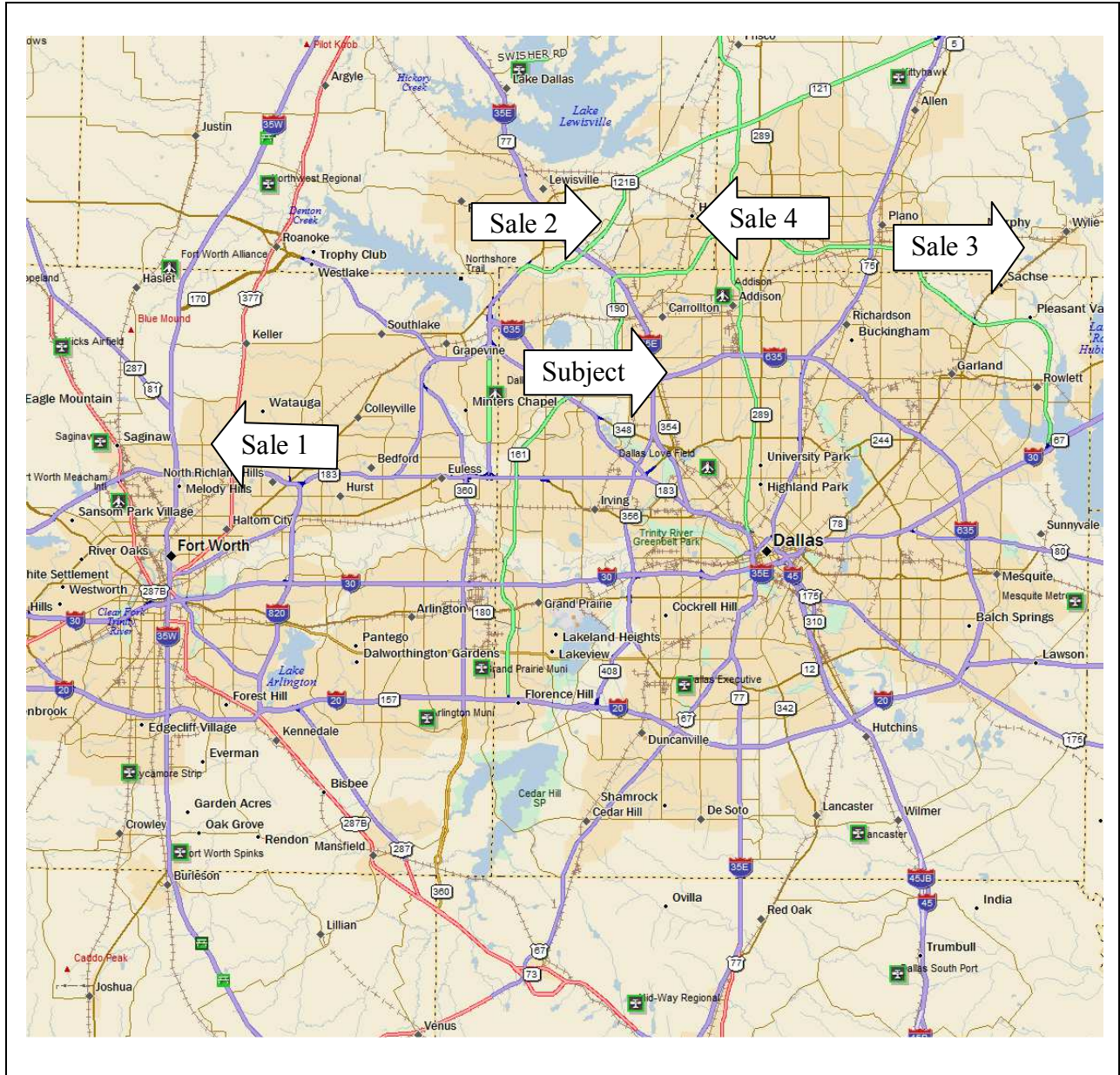
SALE PRICE ADJUSTMENTS	DOLLARS	PER SF
Uadj. Sale Price	\$4,222,000	\$291.49
Adjustments -		
Property Rights	\$0	\$0.00
Cash Equivalency	\$0	\$0.00
Deferred Maintenance	\$0	\$0.00
Below-Stabilized Occ.	\$0	\$0.00
Interior Finish	\$0	\$0.00
Adjusted Sale Price	\$4,222,000	\$291.49

Financial Analysis (Income and Expense Pro-Forma)

PRO FORMA	DOLLARS	PER SF
Gross Income (incl Rec.)	\$391,068	\$27.00
Vacancy	-\$19,553	5.00%
Expenses	-\$94,146	\$6.50
Net Operating Income	\$277,369	\$19.15
Bldg Area		14,484
Overall Rate		6.57%
Gross Income Multiplier		10.80

Comments: This property is a six tenant retail center with three restaurants and three general retailers. The property is considered in good condition

## IMPROVED SALES COMPARABLE MAP







Sale No. 1



Sale No. 2



Sale No. 3



Sale No. 4

Improved Property Sales Summary							
#	Location	Date	Adj. \$/SF	Age RBA	Occpncy	L/B Ratio Acres	OAR GIM
1	5400 - 5420 Basswood Blvd Ft. Worth, Texas	Feb-17	\$198.15	2005 13,626	88%	5.64 1.77	6.54% 9.44
2	1628 W. Hebron Parkway Carrollton, Texas	Feb-17	\$194.01	2006 14,690	90%	4.77 1.61	7.16% 8.82
3	456 Country Club Road Wylie, Texas	Apr-17	\$257.97	2012 12,327	100%	5.97 1.69	6.50% 10.53
4	3320 E. Hebron Parkway Carrollton, Texas	Apr-18	\$291.50	2007 14,484	100%	7.47 2.49	6.57% 10.80
Indicators							
Average Overall Rate (OAR)							6.69%
Average Gross Inc. Multiplier (GIM)							9.90
				Mean	High	Low	Range
Adj. Sales Price Per SF				\$235.41	\$291.50	\$194.01	33%

The above sales represent both current and past sales activity of commercial / retail properties.

Primary differences among the comparable sales are evaluated by the appraiser, using the following units of comparison:

1. Property rights conveyed;
2. Financing terms/cash equivalency;
3. Conditions of sales;
4. Market conditions (time);
5. Location; and
6. Physical characteristics.

### Adjustment Analysis

The proper sequence for adjustments is first, adjustment for property rights; second, adjustment for financing terms; third, adjustment for market conditions; and, fourth, subsequent adjustments for location and physical characteristics made to the time-adjusted, normal price. This results in the adjusted sales price which reflects the price for which the comparable property would sell on the date of the appraisal if it were exactly like the subject property.

#### Property Rights Conveyed

All sales involved the conveyance of either the fee simple or fee simple interests. The existing rents for the sale comparables were more or less at market levels, thus no leaseholds exist, and no adjustments are warranted. No adjustment is required for property rights conveyed, as it is the fee simple interest in the subject property that is under consideration.

#### Financing Terms

Adjustments are sometimes required for financing. Financing may affect sales price when a purchaser is able to assume an existing mortgage at a favorable interest rate, when a seller



finances a sale with favorable terms, when a seller pays points to "buy-down" an interest rate on a mortgage, or in various other situations.

Adjustments for cash equivalency can be made by paired sales analysis, or mathematically. Paired sales analysis does indicate favorable financing can affect the price paid for a property. However, mathematical adjustments can account for favorable financing arrangements of any given sale.

All of the comparables sold on a cash basis with the buyers either paying cash or obtaining unrelated third party financing at no cost to the seller. No adjustments are required for financing.

#### Conditions of Sale

This adjustment is made to account for atypical motivation of either the buyer or seller in a given sale. None of the sales required adjustment for Conditions of Sale.

#### Market Conditions

This adjustment is often referred to as a time adjustment. It is made to reflect changes in market conditions that occurred between the date of each sale and the effective date of appraisal.

A review of sale prices indicates that property values have been either modestly improving or stable during the period from the most dated sale and this appraisal's effective date. No clear trend is revealed by simply segregating the sales by time period and then averaging them. For this reason, no time adjustment is considered necessary.

#### Land to Building Ratio

The subject has a land to building ratio of 2.48:1. The range of the four comparables is from 4.77:1 to 7.47:1. This is a wide range and requires some adjustment since buildings with greater land area have more utility or greater value due to excess land for future development. All sales have a much greater land to building ratio which is superior to the subject and is adjusted downward by -5%.

#### Location Adjustments

The location adjustment is inherent primarily in the land component. Superior site locations tend to generate higher rents or increase the potential success of a project; therefore, higher prices tend to be paid for superior sites. This principle is considered valid in that construction costs tend to be relatively constant over a regional area while land values vary.

The subject is located on the west side of Anaheim Drive in the city of Dallas, Texas. A comparison with the four comparables indicates that each of the four sales were considered superior due to locations within more desirable demographic areas and with greater accessibility and visibility. The range of adjustments is from -10% to -20%.

Age/Condition/Quality of Construction Adjustment

It is generally recognized that newer buildings have a higher value than older buildings, all else being equal. Additionally, masonry buildings have a longer economic life than metal or mixed construction buildings. The sales were constructed in 2005 to 2012. The subject was built in 1969. All of the comparables were considered superior to the subject due to the age and condition; and were adjusted downward by -10%.

Building Size

The comparables range in size from 12,327 square feet to 14,690 square feet. The subject building is 19,800 square feet. All sales were considered smaller and were required -5% downward adjustments.

Finish Out and Condition

The subject property is an existing commercial / retail building. None of the sales required adjustment for finish out and condition.

Based on the preceding discussion the following adjustment grid indicates all of the adjustments applied to the comparables: Adjustments are considered in the following grid:

<b>Improved Sale Adjustment Chart</b>							
#	Base Price/SF	L / B	Loc	Age/Cond	Size	Total	Adj. \$/SF
1	\$198.15	-5%	-10%	-10%	-5%	-30%	\$138.71
2	\$194.01	-5%	-15%	-10%	-5%	-35%	\$126.11
3	\$257.97	-5%	-20%	-10%	-5%	-40%	\$154.78
4	\$291.50	-5%	-20%	-10%	-5%	-40%	\$174.90
<b>Adjusted Values Per Square Foot</b>							
Average Adjusted Value/SF							\$148.62
Adjusted High Value/SF							\$174.90
Adjusted Low Value/SF							\$126.11
Percent Difference							39%
<b>Unadjusted Values Per Square Foot</b>							
Average Unadjusted Value/SF							\$235.41
Unadjusted High Value/SF							\$291.50
Unadjusted Low Value/SF							\$194.01
Percent Difference							50%

Prior to any physical adjustments the sales data indicated a price range from \$194.01 per square foot to \$291.50 per square foot, with a mean of \$235.41 which is a difference of about 50%. There were various differences among the sales comparables as noted in the preceding adjustment grid. Adjustments were made to the comparables for differing factors. The net adjusted price range was from \$126.11 per square foot to \$174.90 per square foot, with an average price of \$148.62 per square foot and variance of 39%.

Therefore, it is our opinion that the appropriate sales price per square foot for the subject property on a stabilized basis was between \$135.00/SF to \$140.00/SF, resulting in the following:

<u>Building Area SF</u>		<u>Rate/SF</u>	=	<u>Indicated Value</u>
19,800	x	\$135.00	=	\$2,673,000, rounded to \$2,675,000
19,800	x	\$140.00	=	\$2,772,000, rounded to \$2,770,000
<b>Point Value - Sales Comparison Approach</b>				<b>\$ 2,700,000</b>

## **INCOME APPROACH - DIRECT CAPITALIZATION**

Investment properties are normally valued in proportion to their ability to produce income. Hence, an analysis of the property in terms of its ability to provide a sufficient net annual return on investment capital is an important means of valuing an asset. Value is estimated by deducting all applicable expenses from anticipated gross income to arrive at projected net income, which is then capitalized at an interest rate commensurate with the risk inherent in the ownership of the property. Such a conversion of net operating income considers the competitive returns and growth potential offered by alternative investments (as indicated by overall rates abstracted from sales of other properties or by other rate of abstraction).

The approach requires four basic and important steps:

1. Analyze the economic and contractual income for the subject property.
2. From available market data, estimate a proper allowance for vacancy and credit loss forecast to occur during the projected period of ownership.
3. Estimate and project anticipated fixed and operating expenses to be incurred by the real estate.
4. Select and apply an appropriate capitalization rate.

### **Income**

Income for investment properties consists primarily of rent. The quantity of projected income may be fixed by contract, at economic levels, or by some combination of the two. Economic rent is defined as the rental income a property would probably command in the open market, indicated by current rents for comparable space at the time of the appraisal. Contract rent is defined as that specified by contract in written lease agreements. The appraiser estimates economic rent separately from actual rents currently charged, and then compares his estimate with the rent charged by management.

### Presentation of Comparable Rents

In estimating and projecting the potential economic rental income for the subject property, we have made a survey of several existing retail buildings in proximity to the subject along the Harry Hines Boulevard, Interstate Highway 635 and Interstate Highway 35E corridor in the Dallas market area. In this market, rental rates are typically quoted on an "Annual Rent per Square Foot" basis; unless otherwise specified, the square footage is calculated on a net rentable basis. Rents considered most relevant are presented hereinafter.

No	Location	Year Built	Gross Building Area	SF Available	Occ. Rate	Lease Rate/SF	Lease Type
1	Retail 3720 Walnut Hill Lane Dallas, TX 75229	1985	37,082	2,366	84%	\$12.00- \$18.00	NNN
2	Retail 11363 Denton Drive Dallas, TX 75229	1987	20,000	5,760	71%	\$12.00	NNN
3	Retail 11888 Marsh Lane Dallas, TX 75234	1968	10,480	1,000	80%	\$14.00	NNN
4	Retail 2603 Southwell Road Dallas, TX 75034	1985	15,550	3,000	81%	\$10.00	NNN
<p>NNN = Tenant responsible for pro rata taxes, insurance &amp; common area maintenance (CAM);</p> <p>Modified Net = Tenant pays any increase in designated expenses over the base year.</p>							

The four rent comparables are all within the subject’s market area in Dallas, Texas. The quote rental rates are the current asking rates. No actual lease rates were available for these rent comparables.





Rent No. 1



Rent No. 2



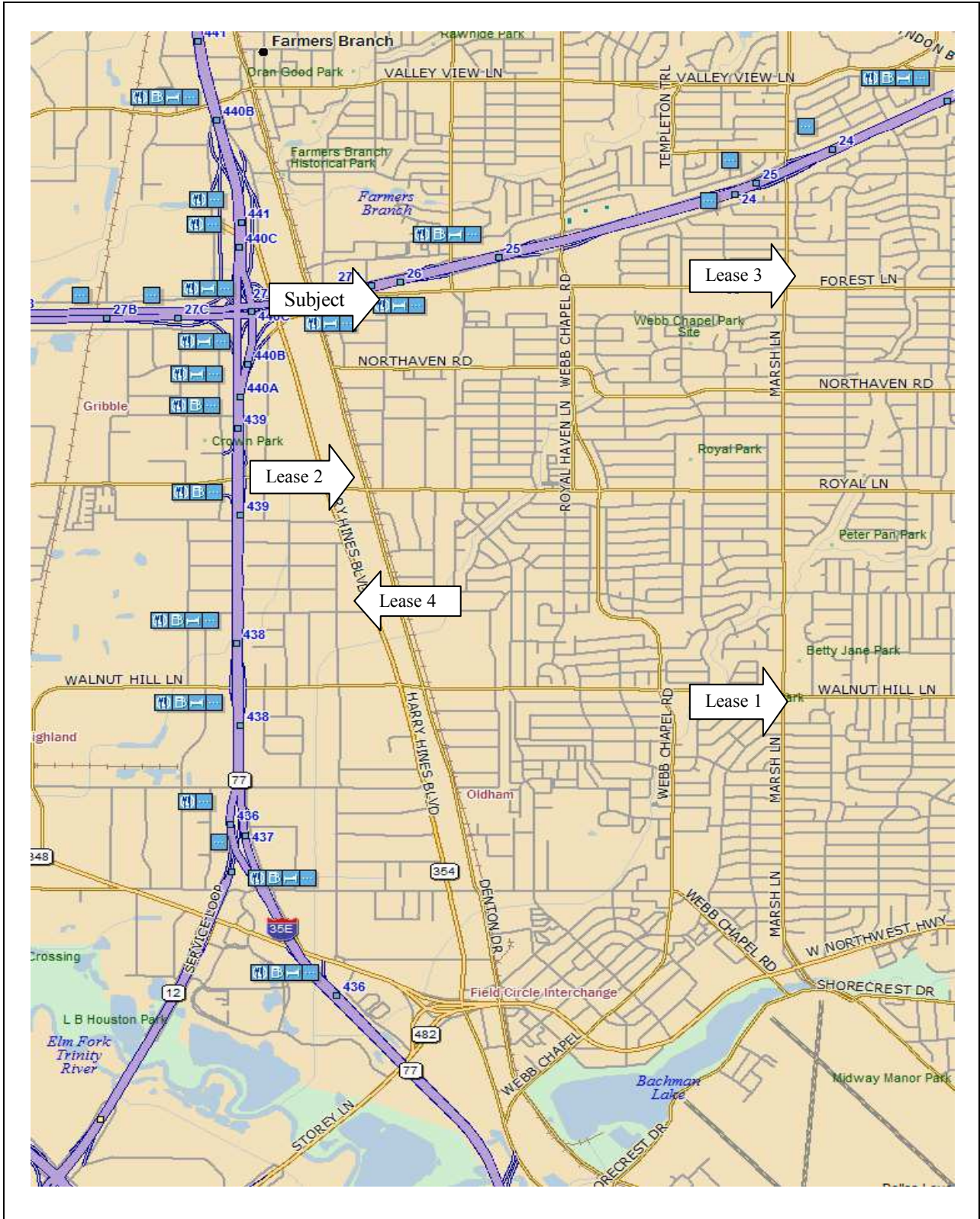
Rent No.3



Rent No. 4



### RENT COMPARABLE MAP



### Comments on Market Data

The preceding comparables are the best available for the subject and are considered indicative of leases commanded by substitute projects in the subject marketplace which includes the Dallas metro area. We have attempted to identify similar quality properties in the general market area of the subject.

### Estimate of Economic Rent

The subject is an existing 19,800 square feet commercial / retail building. The property was built in 1969 and is being renovated. The property is 100% owner occupied.

The comparables summarized above indicate rates for substitute commercial / retail buildings or spaces in the immediate Dallas market area. Each of the comparables is considered to be competitive with the subject for tenants.

### Commentary on the Comparables and Market Rent Determination

Rent Comparable No. 1 is a two story, 37,082 square feet commercial building located along Walnut Lane in the city of Dallas, Dallas County, Texas. The property was built in 1985. This property is offered at \$12.00 - \$ 18.00 per square foot on a NNN basis. It has sufficient parking on the site. This comparable is considered similar in most regards to the subject property. Listing Broker is Zimmermann at (214) 351-2922.

Rent Comparable No. 2 is a single story, 20,000 square feet Retail Building located on Denton Drive in the city of Dallas, Dallas County, Texas. The property was built in 1987. This property is offered at \$12.00 per square foot on a NNN basis. It has sufficient parking on the site. This comparable is located near the subject and is a multi-tenant building. Listing Broker is Alfred Gah at (972) 792-9888.

Rent Comparable No. 3 is a single story, 10,450 square feet commercial building located on Marsh Lane in the city of Dallas, Dallas County, Texas. This property is offered at \$14.00 per square foot on a NNN basis. It has sufficient parking on the site. This comparable is also in close proximity to the subject. Listing Broker is Joe Swedlund at (972) 931-7400.

Rent Comparable No. 4 is a single story, 15,550 square feet Commercial Building located on Southwell Road in the city of Dallas, Dallas County, Texas. This property is offered at \$10.00 per square foot on a NNN basis. It has sufficient parking on the site. This property was built in 1985. This comparable is also in close proximity to the subject. Listing Broker is Han Maller at (972) 744-6462.

The comparables are each similar in function and market competitiveness with the subject. The range of the rental rates is from a low of \$10.00 per square foot to \$18.00 per square foot. The subject is owner occupied. Each of the comparables is leased on a NNN basis. Under the NNN lease the tenant pays for taxes, insurance and any CAM charges on a pass through or bill back basis. The tenant is additionally responsible for all interior maintenance and all utilities. The landlord is responsible for structural maintenance and management.

None of the comparables required adjustment for concessions such as free rent or extra tenant improvements. For retail uses, it is not uncommon for actual lease rates to reflect rather wide variance. Rates are often established on the basis of current construction costs, capital requirements of users and investors, as well as other extraneous factors (e.g., "whatever the market is willing to bear"). Much of the final outcome of lease negotiations depends on the needs and perceptions of both the tenant and landlord at the time of the lease.

### **Rent Adjustment Summary**

The market data included in this analysis is considered to be the best available in today's market and to be indicative of current market trends. The following factors were analyzed in determining a final market value for the subject property, via the income approach to valuation.

**Lease Structure:** Each of the comparables is leased on a triple-net lease basis, which is the most common lease for the convenience store space. This allows the landlord to pass through to the tenant the expense for property taxes, insurance and any common area maintenance. The subject property, were it available for lease, would likely be offered on a NNN lease basis. The four comparables are each leased on a NNN basis. Since we are determining the Market Rental Rate for the Subject, no adjustments for lease differences are required.

**Location:** Differences in value occur due to varying degrees of accessibility, exposure and surrounding development to a site. Access is often determined by corner locations, natural barriers, ease of entrance on and off of major thoroughfares, etc. Surrounding development also plays an important part of locational influences for a property. Rent No. 2 and Rent No. 4 were considered to be similar in location to the subject while Rent No. 1 and Rent No. 3 were considered superior and adjusted downward due to visibility and surrounding development.

**Quality and Condition:** The overall site characteristics of each sale have been compared to the subject site. These include traits such as type of construction, age of building, physical features, and overall condition of property. With respect to this factor, all rent comparables were considered similar and required no adjustments.

**Size:** Size is a factor that must be considered when comparing property improvements. Typically, but not always, larger improvements sell for a lower unit value and, therefore, when making comparisons on a unit basis such as price per square foot, the larger improvement must be adjusted upward and the smaller improvement must be adjusted downward to accurately reflect the difference. The improvements consist of approximately 19,800 square feet. With respect to this factor, all comparables were considered similar and required no adjustments

The rental comparables are adjusted in the following grid.



<b>Rent Comparable Adjustment Table</b>					
<b>Subject</b>	<b>No. 1</b>	<b>No. 2</b>	<b>No. 3</b>	<b>No. 4</b>	
Annual Rent/SF		\$18.00	\$12.00	\$14.00	\$10.00
Expense Structure	NNN	NNN	NNN	NNN	NNN
Adjustment		0%	0%	0%	0%
Location		Superior	Similar	Superior	Similar
Adjustment		-15%	0%	-10%	0%
Quality/Condition		Similar	Similar	Similar	Similar
Adjustment		0%	0%	0%	0%
Size - SF	19,800	37,082	20,000	10,480	15,550
Adjustment		0%	0%	0%	0%
Negotiations		NA	NA	NA	NA
Adjustment		0%	0%	0%	0%
Total Adjustment		-15%	0%	-10%	0%
Adjusted Rent/SF		\$15.30	\$12.00	\$12.60	\$10.00
Adjusted Mean					\$12.48

Based on our analysis and interpretation of the data, if the subject were vacant and available, a projected overall average effective base rental rate of \$12.00 per square foot for the subject's space is considered probable. We have considered the building's two story design and the average finish out in the determination of the market rental rate. Therefore, were the 19,800 square feet space available, the building would likely lease for \$12.00 per square foot on a NNN lease structure for the combined area of the first and second floor of the subject.

Therefore, was the subject vacant and available, the base market rental rate would be as follows:

<p>Base Rental Income  <i>(First and Second Floor)</i>  <b>19,800 Square Feet x \$12.00 per Square Foot = \$237,600</b></p>
---

Analysis of Contract Rent

According to the client, there is no contract lease on the property and it is 100% owner occupied.

**Occupancy Analysis**

The subject is an existing 19,800 square feet building which is currently 100% owner occupied. The subject has 19,800 square feet with an estimated market rental rate for the subject of \$12.00 per square foot. Since according to the owner there is no lease pending on the property the total calculated rental income for real estate is as follows:

<b>MARKET RENTAL RATE – BASE RENTAL INCOME</b>			
Base Income	19,800 SF	\$12.00	\$237,600
Total Rental Base Income			<b>\$237,600</b>

Reimbursable NNN Income: The NNN expenses are estimated at \$1.91 per square foot. The indicated real estate taxes and property insurance and Common Area Maintenance (CAM), if any, constitute the reimbursed NNN expenses. The subject’s NNN expenses are as follows:

<b>REIMBURSABLE NNN INCOME</b>			
Retail-Store	19,800 SF	\$1.91	\$ 37,915
Total Reimbursable NNN Income			<b>\$ 37,915</b>

**Vacancy and Collection Loss:** Vacancy and collection must be deducted from the Gross Annual Income to derive the Effective Gross Income. Based on the market analysis included herein, the subject’s immediate market area is trending toward an occupancy rate of +/- 90%. Therefore, a 5% vacancy and collection loss factor is indicated and utilized herein as the property will be 100% occupied upon purchase.

**Effective Gross Income:** The effective gross income is that amount of total income that will be realized after vacancy and collection loss deductions. The effective gross income for the subject property is computed as follows:

<b>EFFECTIVE GROSS INCOME</b>			
Base Income	19,800 SF	\$12.00	\$ 237,600
Reimbursable NNN Income	19,800 SF	\$ 1.91	\$ 37,915
Total Revenue			\$ 275,515
Less: Vacancy & Coll. Loss 5%			(\$ 13,776)
<b>Effective Gross Income</b>			<b>\$ 261,739</b>

**Operating Expenses:** Based upon the preceding, the following stabilized operating expenses are estimated for the subject property:

**Ad Valorem Taxes** - The real estate taxes for the subject were discussed in a preceding section of this report. Based on area tax comparables and the recent assessment, the subject's real estate taxes are estimated to be **\$18,115**. For further information on taxes, the reader is referred to the previous Real Estate Taxes section of this report. The landlord pays the total real estate taxes.

**Insurance** - This expense covers the cost of fire and extended coverage premium for property, casualty and liability insurance. For the subject the year one insurance expense is estimated at \$1.00 per square foot, which equates to **\$19,800** annually. This is consistent with the market based information and published cost guides for retail/commercial insurance.

**Management Fee** - Management charges are typically a percentage of collected revenues and cover overseeing the collection of rents, leasing, payment of expense and property maintenance. It is common in the subject's market to employ a professional management company, and an analysis of the management fee is appropriate. Typical management fees range from 3% to 7% in the area, with the majority of management companies charging in the range of 5.0% to 7.0% of EGI. Therefore, based on an overall management fee of **5.0%** of Effective Gross Income, the annual charges for management equates to **\$13,087 or \$0.66 per SF**. This is not a reimbursable expense under a triple net lease.

**Utilities** - All utilities are metered under the owners name thus it is excluded from the pro forma analysis.

**Building Maintenance and Repair Expenses** - Repair costs include maintenance of common areas, parking areas, expenses associated with the upkeep of the building, minor repairs and painting. This expense is estimated at **\$1.25 per SF**, given the size of the subject and paid by landlord.

**Pro Forma Statement of Income and Expenses:**

<b>PRO-FORMA ANALYSIS SUMMARY - REAL ESTATE ONLY</b>				
<b>11505 Anaheim Drive, Dallas, TX</b>				
		Sq. Ft.	Total	PSF
<b>REVENUE</b>				
Rental Income	19,800		\$237,600	\$12.00
Other Income			\$0	\$0.00
Expense Reimbursement			\$37,915	\$1.91
<b>TOTAL REVENUE</b>			<b>\$275,515</b>	<b>\$13.91</b>
Less: Vacancy & Collection Loss	5.00%		(\$13,776)	(\$0.70)
<b>EFFECTIVE GROSS INCOME</b>			<b>\$261,739</b>	<b>\$13.22</b>
<b>LESS: OPERATION EXPENSES</b>				
Property Taxes			\$18,115	\$0.91
Insurance			\$19,800	\$1.00
CAM Charges (Trash Removal & other)			\$0	\$0.00
Management Fee (% of EGI)	5.00%		\$13,087	\$0.66
Maintenance & Repair			\$24,750	\$1.25
<b>TOTAL OPERATING EXPENSES</b>			<b>\$75,752</b>	<b>\$3.83</b>
<b>NET OPERATING INCOME</b>			<b>\$185,987</b>	<b>\$9.39</b>

**Selection of Overall Rate**

**Direct Capitalization:** Direct capitalization assumes that income of a project before interest and depreciation can be expressed on a stabilized (constant dollars) basis. The income and expenses also assume competent management. There are several methods by which overall rates may be estimated.

In considering the subject property, the direct capitalization of the income by use of an overall capitalization rate is considered the most appropriate method of converting the subjects estimated net operating income into an indication of value. The capitalization of income is the process of translating the net annual income into an expression of capital worth. The basic formula for most capitalization methods is “net annual income divided by rate of return equals value”. The most important factor in the capitalization is the selection of the appropriate capitalization rate and the methodology of extracting to be used. It is both the characteristics of the property and the actions of the market that determine both the capitalization rate and the most suitable technique.

**Market Derived Technique**

Although there are dissimilarities between the subject and available comparable, it is believed that the overall rates provided represent a reasonable range. Overall rates developed from the four sales are summarized in the following table and included in their entirety in the Sales Comparison Approach:

Improved Property Sales Summary							
#	Location	Date	Adj. \$/SF	Age RBA	Occpncy	L/B Ratio Acres	OAR GIM
1	5400 - 5420 Basswood Blvd Ft. Worth, Texas	Feb-17	\$198.15	2005 13,626	88%	5.64 1.77	6.54% 9.44
2	1628 W. Hebron Parkway Carrollton, Texas	Feb-17	\$194.01	2006 14,690	90%	4.77 1.61	7.16% 8.82
3	456 Country Club Road Wylie, Texas	Apr-17	\$257.97	2012 12,327	100%	5.97 1.69	6.50% 10.53
4	3320 E. Hebron Parkway Carrollton, Texas	Apr-18	\$291.50	2007 14,484	100%	7.47 2.49	6.57% 10.80
Indicators							
Average Overall Rate (OAR)							6.69%
Average Gross Inc. Multiplier (GIM)							9.90
Adj. Sales Price Per SF				Mean \$235.41	High \$291.50	Low \$194.01	Range 33%

The above sales represent both current and past sales activity of retail properties in the Dallas and Dallas County market area. The above market data indicates a range of Overall Capitalization Rates for the real estate of 6.50% to 7.16%, with an average for the four sales (See Sales Comparison Approach) of 6.69%.

## **Net Lease Market Report (The Boulder Group)**

Cap rates in the net lease casual dining restaurant sector increased 25 basis points to 6.00% in the first quarter of 2017 when compared to the first quarter of 2016. Casual dining restaurant properties with corporately guaranteed leases had cap rates of 5.75%, while franchisee leased properties were priced 50 basis points higher at 6.25%. Cap rates for casual dining restaurant properties leased to franchisees will vary depending on the strength of the operator. In the first quarter of 2017, franchisee backed casual dining restaurants accounted for 49% of the overall supply of casual dining restaurants. A contributing factor to the increased cap rates associated with the net lease casual dining sector is the increase in concentration of franchise backed leases. In the first quarter of 2016, franchise backed leases accounted for only 31% of the casual dining sector compared to 49% in the first quarter of 2017. Accordingly, the cap rate premium associated with the casual dining sector when compared to the overall net lease market declined to 19 basis points from 43 in the prior year. Despite isolated issues with some casual dining tenants, this asset class remains a popular target amongst net lease investors as it is one of the few net lease retail sectors that is e-commerce resistant. Furthermore, casual dining properties frequently exhibit absolute triple net leases and rental escalations during their lease term. Similar to the overall net lease market, private and 1031 buyers remain the most aggressive purchasers of net lease casual dining assets due to their absolute price points. Outside of portfolio sales, private buyers accounted for 70% of net lease casual dining transactions in the first quarter of 2017. The single tenant net lease casual dining restaurant sector will remain active as this asset type continues to attract all investor types. Private and 1031 buyer will continue to be the primary buyer of non-portfolio transactions as they do not have the same yield requirements of institutional investors. Corporately guaranteed leases or franchisees with significant operational experience will remain in the highest demand among private investors due to the strength of credit associated with the assets. REITs and institutional investors will continue to seek larger portfolios of casual dining restaurant properties via sale leaseback transactions. Portfolio transactions typically allow economies of scale and higher yields compared to acquisitions on a one-off basis.



## CORPORATE LEASED PROPERTIES MEDIAN ASKING CAP RATE

Tenant	Q1 2016 (Previous)	Q1 2017 (Current)	Basis Point Change
Buffalo Wild Wings	5.90%	6.25%	+35
Chili's (GL)	5.00%	5.25%	+25
Hooters	6.00%	6.15%	+15
IHOP	6.00%	5.90%	-10
Outback Steakhouse	5.00%	5.15%	+15
Red Lobster	5.75%	5.83%	+8
Texas Roadhouse (GL)	4.75%	4.73%	-2
All Corporate Casual Dining	5.65%	5.75%	+10

GL=Ground Lease

The table below compares the Casual Dining sector cap rates to general Retail Net Leases.

## CASUAL DINING VS RETAIL NET LEASE MARKET CAP RATES

Sector	Q1 2016 (Previous)	Q1 2017 (Current)
Casual Dining Sector	5.75%	6.00%
Retail Net Lease Market	6.18%	6.19%
Casual Dining Premium (bps)	43	19

### Band of Investment Analysis

In addition to the above analysis, we have used the band of investment analysis to derive an indication of the overall capitalization rate. This method derives a weighted-average of the mortgage and equity components of the investment. It is our opinion that an investor would require a cash equity dividend rate or equity capitalization rate as indicated in the tables below. Based on interviews with market participants and local lenders, our assumptions of mortgage and equity requirements are as follows:

BAND OF INVESTMENTS – 70% LTV					
Loan to Value Ratio	70%				
Interest Rate	4.50%				
Amortization Period	30 Years				
Mortgage Constant	6.08				
Equity Ratio	30.00%				
Equity Dividend	12.00%				
Mortgage Components	70.00%	x	6.08%	=	4.26%
Equity Components	30.00%	x	12.00%	=	3.60%
Overall Capitalization Rate			Rounded	to	7.86%

BAND OF INVESTMENTS – 80% LTV					
Loan to Value Ratio	80%				
Interest Rate	5.00%				
Amortization Period	30 Years				
Mortgage Constant	6.44				
Equity Ratio	20.00%				
Equity Dividend	16.00%				
Mortgage Components	80.00%	x	6.44%	=	5.15%
Equity Components	20.00%	x	16.00%	=	3.20%
Overall Capitalization Rate			Rounded	to	8.35%

## Conclusion – Income Approach

A range of capitalization rates was derived from analysis of the overall rates associated with the market derived improved sales, as well as secondary information and the mortgage/equity component analysis. Based on the analysis of the data we have estimated an appropriate  $R_O$  for the subject. Thus, an  $R_O$  of 7.00% was deemed appropriate for the subject, based primarily on the market based comparable sales researched with secondary support from the industry trends and the band of investment analysis.

**Capitalization Calculations-** Utilizing the indicated  $R_O$ , an indication of value can be derived through the formula cash flow/ $R_O$  equals V (value):

### Direct Capitalization Value Estimate

$$\$185,987 / 7.00\% = \$2,656,957$$

**Rounded to \$2,660,000**

## RECONCILIATION AND REPORT OF DEFINED VALUE

The appraisers have confidence in the market information and analysis process utilized in the preparation of each of the applicable approaches.

The Cost Approach was not developed since investors rarely utilize the Cost Approach in their investment decisions. Additionally, the amount of depreciation inherent in the subject is difficult to estimate accurately, and therefore renders the Cost Approach as less precise than the value estimations derived from market information as found in the Sales Comparison and Income Capitalization Approaches. .

The Sales Comparison Approach analysis is highly pertinent and the analysis is well supported and readily identifies the actions of buyers and sellers in the marketplace. Sales of similar restaurant buildings were located and the sale price of the real estate was determined. Each of the sales were similar in most aspect to the subject and this approach is considered with similar, weight to the Income Approach.

The Income Approach serves as formidable measure of value based on economic/investment potential. The Income Approach, when sufficient rental data is available, is considered a critical method of measuring value against alternate acquisition scenarios and given similar weight as the Sales Comparison Approach.

## VALUE SUMMARIES

### “AS IF COMPLETED” FEE SIMPLE MARKET VALUE CONCLUSIONS –

#### THE COST APPROACH

Indicated Cost Approach: **Not Developed**

#### THE SALES COMPARISON APPROACH

Indicated Sales Comparison Approach: \$2,700,000

#### THE INCOME APPROACH

Direct Capitalization Method: \$2,660,000

**Valuation Opinion**

Therefore, after careful consideration of all pertinent data available, it is the opinion of the undersigned that the “prospective value upon completion” of the fee simple real estate as of October 1, 2018, is

***TWO MILLION SIX HUNDRED SEVENTY FIVE THOUSAND DOLLARS***  
***(\$2,675,000)***

Additionally, the “as is” value as of the inspection date of April 26, 2018 is based an estimated 70% completion value of the interior finish out. The estimated remaining finish out is considered to cost \$40.00 per square foot or \$792,000, rounded to \$790,000. This is a deduction from the above “as if completed” value, indicating an “as is” value as of April 26, 2018, as indicated below:

“Prospective value upon completion” Value of Real Property	\$ 2,675,000
Less: Cost to Complete	<u>\$ 790,000</u>
Total Value of Land, Improvements, and Equipment	\$ 1,885,000

Therefore, the “As Is” fee simple market value as of April 26, 2018, is:

***ONE MILLION EIGHT HUNDRED EIGHTY-FIVE THOUSAND DOLLARS***  
***(\$1,885,000)***



## **ESTIMATED MARKETING AND EXPOSURE PERIOD**

Per the Appraisal Standards Board (ASB) of the Appraisal Foundation, “reasonable marketing time” is an estimate of the amount of time it might take to sell a property interest at the estimated Market Value during the period immediately after the effective date of the appraisal. It is not intended to be a prediction of a specific date of sale and, therefore, maybe expressed as a range. Exposure time is defined as the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at Market Value on the effective date of appraisal.

Based on exposure times of comparable sales and interviews with active participants in the market area, the Market Value opinion could be achieved with an exposure time of 12 months or less. Furthermore, given the anticipated continued interest by regional and national investors, it is our opinion that a sale could be consummated on the subject with a 12 month or less marketing period subsequent to the effective date. This conclusion is based on the assumption that the subject is offered at a price near the concluded value opinion herein, and is supported by recent historical sales data reviewed by the appraisers.

***ADDENDA***

***ENGAGEMENT LETTER***

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## LETTER OF ENGAGEMENT

Client hereby engages Appraiser to complete an appraisal assignment as follows:

**DATE OF AGREEMENT:** 04/20/2018

**PARTIES TO AGREEMENT:**

**CLIENT**

**Client Name** Connie Chung  
**Client Company** Commonwealth Business Bank  
**Relationship Manager** Tommy Kang  
**Address** 3435 Wilshire Boulevard  
**City** Los Angeles  
**State** CA  
**Zip** 90010

**APPRAISER:**

**Appraiser Name** Henry Arnold  
**Appraiser Company** Prestonwood Property Analysis  
**Address** 15150 Preston Rd  
**City** Dallas  
**State** TX  
**Zip** 75248  
**Phone** (214) 415-4277  
**Email** hmarnold@prestonwoodappraisals.com

**SUBJECT PROPERTY:**

**Borrower Name** JSAA Enterprises, Inc  
**Property Address** 11505 Anaheim Drive  
**Suite/Floor/Unit**  
**Property City** dallas  
**Property State** TX  
**Property Zip Code** 75229  
**Property Type** Retail  
**Loan Type**  
**Loan Number**

**ASSIGNMENT INFORMATION:**

**Interest Valued** Fee Simple  
**Intended Users**  
**Intended Use** The intended use of this assessment is for loan underwriting and/or credit decisions by the Bank and/or participants  
**Type of Value** As Is  
**Date of Value**

**ANTICIPATED SCOPE OF WORK:**

**Inspection Requirements** An interior and exterior inspection of the subject property in sufficient detail to understand the physical features of the property.  
**Approaches to Value** All approaches that are both applicable and necessary to produce a credible result.  
**Report Format** Narrative  
**Report Type** Appraisal Report  
**Delivery Date** 05/11/2018  
**Delivery Method** EDR's Collateral360 via www.parcelplatform.com  
**Payment to Appraiser** 2,200 USD

**CONTACT FOR PROPERTY ACCESS, IF APPLICABLE:**

**Name** Arpit Joshi  
**Phone** 214-679-9298  
**Email** ajoshi@hotmail.com  
**Comments**

**Hypothetical Conditions, Extraordinary Assumptions**

No additional hypothetical conditions or extraordinary assumptions are required as part of this engagement.

**Applicable Requirements Other than the Uniform Standards of Professional Appraisal Practice (USPAP)**

No additional applicable requirements other than the Uniform Standards of Professional Appraisal Practice (USPAP) are required as part of this engagement.

**Additional Terms and Conditions**

**PROPOSED IMPROVEMENTS**

If the property appraised consists of proposed improvements, Client shall provide to Appraiser plans, specifications, or other documentation sufficient to identify the extent and character of the proposed improvements.

**PROPERTIES UNDER CONTRACT FOR SALE**

If the property appraised is currently under contract for sale, Client shall provide to Appraiser a copy of said contract including all addenda.

**CONFIDENTIALITY**

Appraiser shall not provide a copy of the written Appraisal Report to, or disclose the results of the appraisal prepared in accordance with this Agreement with, any party other than Client, unless Client authorizes in writing, except as stipulated in the Confidentiality Section of the ETHICS RULE of the Uniform Standards of Professional Appraisal Practice (USPAP).

**CHANGES TO AGREEMENT**

Any changes to the assignment as outlined in this Agreement shall necessitate a new Agreement. The identity of the client, intended users, or intended use; the date of value; type of value; or property appraised cannot be changed without a new Agreement.

**CANCELLATION**

Client may cancel this Agreement at any time prior to the Appraiser's delivery of the Appraisal Report upon written notification to the Appraiser. Client shall pay Appraiser for work completed on assignment prior to Appraiser's receipt of written cancellation notice, unless otherwise agreed upon by Appraiser and Client in writing.

**NO THIRD PARTY BENEFICIARIES**

Nothing in this Agreement shall create a contractual relationship between the Appraiser or the Client and any third party, or any cause of action in favor of any third party. This Agreement shall not be construed to render any person or entity a third party beneficiary of this Agreement, including, but not limited to, any third parties identified herein.

**USE OF EMPLOYEES OR INDEPENDENT CONTRACTORS**

Appraiser may use employees or independent contractors at Appraiser's discretion to complete the assignment, unless otherwise agreed by the parties. Notwithstanding, Appraiser shall sign the written Appraisal Report and take full responsibility for the services provided as a result of this Agreement.

**TESTIMONY AT COURT OR OTHER PROCEEDINGS**

Unless otherwise stated in this Agreement, Client agrees that Appraiser's assignment pursuant to this Agreement shall not include the Appraiser's participation in or preparation for, whether voluntarily or pursuant to subpoena, any oral or written discovery, sworn testimony in a judicial, arbitration or administrative proceeding, or attendance at any judicial, arbitration, or administrative proceeding relating to this assignment.

**APPRAISER INDEPENDENCE**

Appraiser cannot agree to provide a value opinion that is contingent on a predetermined amount. Appraiser cannot guarantee the outcome of the assignment in advance. Appraiser cannot insure that the opinion of value developed as a result of this Assignment will serve to facilitate any specific objective by Client or others or advance any particular cause. Appraiser's opinion of value will be developed competently and with independence, impartiality and objectivity.

**EXPIRATION OF AGREEMENT**

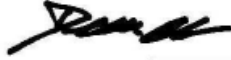
This Agreement is valid only if signed by both Appraiser and Client within X days of the Date of Agreement specified.



**GOVERNING LAW & JURISDICTION**

The interpretation and enforcement of this Agreement shall be governed by the laws of the state in which the Appraiser's principal place of business is located, exclusive of any choice of law rules.

By Client:



\_\_\_\_\_  
Dean Kim  
FVP & Senior Credit Officer

By Appraiser:



***CHAPTER 41A***  
***“SEXUALLY ORIENTED BUSINESSES”***  
***&***  
***LICENSE***

Print

The Dallas City Code

## **CHAPTER 41A SEXUALLY ORIENTED BUSINESSES**

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- Sec. 41A-1. Purpose and intent.
- Sec. 41A-2. Definitions.
- Sec. 41A-3. Classification.
- Sec. 41A-4. License and designated operator required.
- Sec. 41A-5. Issuance of license.
- Sec. 41A-6. Fees.
- Sec. 41A-7. Inspection.
- Sec. 41A-7.1. Identification records.
- Sec. 41A-8. Expiration of license.
- Sec. 41A-9. Suspension.
- Sec. 41A-10. Revocation.
- Sec. 41A-10.1. Denial, suspension, revocation, or denial of renewal of a license for criminal convictions.
- Sec. 41A-10.2. Notice of denial of issuance or renewal of license or suspension or revocation of license; surrender of license.
- Sec. 41A-11. Appeal.
- Sec. 41A-12. Transfer of license.
- Sec. 41A-13. Location of sexually oriented businesses.
- Sec. 41A-14. Exemption from location restrictions.
- Sec. 41A-14.1. Exterior portions of sexually oriented businesses.
- Sec. 41A-14.2. Sign requirements.
- Sec. 41A-15. Additional regulations for escort agencies.
- Sec. 41A-16. Additional regulations for nude model studios.
- Sec. 41A-17. Additional regulations for adult motion picture theaters.
- Sec. 41A-18. Additional regulations for adult motels.

- Sec. 41A-18.1. Additional regulations for adult cabarets.
- Sec. 41A-19. Regulations pertaining to exhibition of sexually explicit films or videos.
- Sec. 41A-20. Display of sexually explicit material to minors.
- Sec. 41A-20.1. Prohibitions against minors in sexually oriented businesses.
- Sec. 41A-21. Enforcement.
- Sec. 41A-22. Injunction.
- Sec. 41A-23. Amendment of this chapter.

**SEC. 41A-1. PURPOSE AND INTENT.**

(a) It is the purpose of this chapter to regulate sexually oriented businesses to promote the health, safety, morals, and general welfare of the citizens of the city; to establish reasonable and uniform regulations to prevent the continued concentration of sexually oriented businesses within the city; and to minimize the deleterious secondary effects of sexually oriented businesses both inside such businesses and outside in the surrounding communities. The provisions of this chapter have neither the purpose nor effect of imposing a limitation or restriction on the content of any communicative materials or performances, including sexually oriented materials and performances. Similarly, it is neither the intent nor effect of this chapter to restrict or deny access by adults to sexually oriented materials and performances protected by the First Amendment, or to deny access by the distributors and exhibitors of sexually oriented entertainment to their intended market.

(b) It is the intent of the city council that this chapter is promulgated pursuant to Chapter 243 of the Texas Local Government Code, as amended.

(c) A license, permit, or decal granted under this chapter or under any other city ordinance does not authorize or legalize any conduct, activity, or business that is illegal under state or federal law. (Ord. Nos. 19196; 24440; 24699; 25296; 27139)

**SEC. 41A-2. DEFINITIONS.**

In this chapter:

(1) **ACHROMATIC** means colorless or lacking in saturation or hue. The term includes, but is not limited to, grays, tans, and light earth tones. The term does not include white, black, or any bold coloration that attracts attention.

(2) **ADULT ARCADE** means any place to which the public is permitted or invited wherein coin-operated or slug-operated or electronically, electrically, or mechanically controlled still or motion picture machines, projectors, or other image-producing devices are maintained to show images to five or fewer persons per machine at any one time, and where the images so displayed are distinguished or characterized by the depicting or describing of “specified sexual activities” or “specified anatomical areas.”

(3) **ADULT BOOKSTORE** or **ADULT VIDEO STORE** means a commercial establishment that as one of its principal business purposes offers for sale or rental for any form of consideration any one or more of the following:

(A) books, magazines, periodicals or other printed matter, or photographs, films, motion pictures, DVD's, video cassettes or video reproductions, slides, or other visual representations, that depict or describe "specified sexual activities" or "specified anatomical areas"; or

(B) instruments, devices, or paraphernalia that are designed for use in connection with "specified sexual activities."

(4) ADULT CABARET means a commercial establishment that regularly features the offering to customers of adult cabaret entertainment.

(5) ADULT CABARET ENTERTAINER means an employee of a sexually oriented business who engages in or performs adult cabaret entertainment.

(6) ADULT CABARET ENTERTAINMENT means live entertainment that:

(A) is intended to provide sexual stimulation or sexual gratification; and

(B) is distinguished by or characterized by an emphasis on matter depicting, simulating, describing, or relating to "specified anatomical areas" or "specified sexual activities."

(7) ADULT MOTEL means a hotel, motel, or similar commercial establishment that:

(A) offers accommodations to the public for any form of consideration; provides patrons with closed-circuit television transmissions, films, motion pictures, video cassettes, slides, or other photographic reproductions that are characterized by the depiction or description of "specified sexual activities" or "specified anatomical areas"; and has a sign visible from the public right-of-way that advertises the availability of this adult type of photographic reproductions; or

(B) offers a sleeping room for rent for a period of time that is less than 10 hours; or

(C) allows a tenant or occupant of a sleeping room to subrent the room for a period of time that is less than 10 hours.

(8) ADULT MOTION PICTURE THEATER means a commercial establishment where, for any form of consideration, films, motion pictures, video cassettes, slides, or similar photographic reproductions are regularly shown that are characterized by the depiction or description of "specified sexual activities" or "specified anatomical areas."

(9) APPLICANT means:

(A) a person in whose name a license to operate a sexually oriented business will be issued;

(B) each individual who signs an application for a sexually oriented business license as required by Section 41A-4(d);

(C) each individual who is an officer of a sexually oriented business for which a license application is made under Section 41A-4, regardless of whether the individual's name or signature appears on the application;

(D) each individual who has a 20 percent or greater ownership interest in a sexually oriented business for which a license application is made under Section 41A-4, regardless of whether the individual's name or signature appears on the application; and



(E) each individual who exercises substantial de facto control over a sexually oriented business for which a license application is made under Section 41A-4, regardless of whether the individual's name or signature appears on the application.

(10) CHIEF OF POLICE means the chief of police of the city of Dallas or the chief's designated agent.

(11) CHILD-CARE FACILITY has the meaning given that term in Section 51A-4.204 of the Dallas Development Code, as amended.

(12) CHURCH has the meaning given that term in Section 51A-4.204 of the Dallas Development Code, as amended.

(13) CONVICTION means a conviction in a federal court or a court of any state or foreign nation or political subdivision of a state or foreign nation that has not been reversed, vacated, or pardoned. "Conviction" includes disposition of charges against a person by probation or deferred adjudication.

(14) DESIGNATED OPERATOR means the person or persons identified in the license application, or in any supplement or amendment to the license application, as being a designated operator of the sexually oriented business.

(15) EMPLOYEE means any individual who:

(A) is listed as a part-time, full-time, temporary, or permanent employee on the payroll of an applicant, licensee, or sexually oriented business; or

(B) performs or provides entertainment on the sexually oriented business premises for any form of compensation or consideration.

(16) ESCORT means a person who, for consideration, agrees or offers to act as a companion, guide, or date for another person, or who agrees or offers to privately model lingerie or to privately perform a striptease for another person.

(17) ESCORT AGENCY means a person or business association that furnishes, offers to furnish, or advertises to furnish escorts as one of its primary business purposes, for a fee, tip, or other consideration.

(18) ESTABLISHMENT means and includes any of the following:

(A) the opening or commencement of any sexually oriented business as a new business;

(B) the conversion of an existing business, whether or not a sexually oriented business, to any sexually oriented business;

(C) the addition of any sexually oriented business to any other existing sexually oriented business; or

(D) the relocation of any sexually oriented business.

(19) HISTORIC DISTRICT means an historic overlay zoning district as defined in the Dallas Development Code, as amended.

(20) HOSPITAL has the meaning given that term in Section 51A-4.204 of the Dallas Development Code, as amended.

(21) LICENSEE means:

- (A) a person in whose name a license to operate a sexually oriented business has been issued;
  - (B) each individual listed as an applicant on the application for a license;
  - (C) each individual who is an officer of a sexually oriented business for which a license has been issued under this chapter, regardless of whether the individual's name or signature appears on the license application;
  - (D) each individual who has a 20 percent or greater ownership interest in a sexually oriented business for which a license has been issued under this chapter, regardless of whether the individual's name or signature appears on the license application; and
  - (E) each individual who exercises substantial de facto control over a sexually oriented business for which a license has been issued under this chapter, regardless of whether the individual's name or signature appears on the license application.
- (22) MINOR means a person under the age of 18 years.
- (23) NUDE MODEL STUDIO means any place where a person who appears in a state of nudity or displays "specified anatomical areas" is provided to be observed, sketched, drawn, painted, sculptured, photographed, or similarly depicted by other persons who pay money or any form of consideration.
- (24) NUDITY or a STATE OF NUDITY means:
- (A) the appearance of a human bare buttock, anus, male genitals, female genitals, or female breast; or
  - (B) a state of dress that fails to completely and opaquely cover a human buttock, anus, male genitals, female genitals, or any part of the female breast or breasts that is situated below a point immediately above the top of the areola.
- (25) OPERATES OR CAUSES TO BE OPERATED means to cause to function or to put or keep in operation. A person may be found to be operating or causing to be operated a sexually oriented business whether or not that person is an owner, part owner, or licensee of the business.
- (26) OPERATOR means any person who has managerial control of the on-site, day-to-day operations of a sexually oriented business, regardless of whether that person is a designated operator of the sexually oriented business.
- (27) PERSON means an individual, proprietorship, partnership, corporation, association, or other legal entity.
- (28) PUBLIC PARK has the meaning given that term in Section 51A-4.208 of the Dallas Development Code, as amended.
- (29) RESIDENTIAL DISTRICT means a single family, duplex, townhouse, multiple family, or mobile home zoning district as defined in the Dallas Development Code, as amended.
- (30) RESIDENTIAL USE means a single family, duplex, multiple family, or "mobile home park, mobile home subdivision, and campground" use as defined in the Dallas Development Code, as amended.
- (31) SEXUALLY ORIENTED BUSINESS means an adult arcade, adult bookstore or adult video store, adult cabaret, adult motel, adult motion picture theater, escort agency, nude model studio, or other commercial enterprise the primary business of which is the offering of a service or the selling, renting,



or exhibiting of devices or any other items intended to provide sexual stimulation or sexual gratification to the customer.

(32) SIGN means any display, design, pictorial, or other representation that is:

(A) constructed, placed, attached, painted, erected, fastened, or manufactured in any manner whatsoever so that it is visible from the outside of a sexually oriented business; and

(B) used to seek the attraction of the public to any goods, services, or merchandise available at the sexually oriented business.

The term “sign” also includes any representation painted on or otherwise affixed to any exterior portion of a sexually oriented business establishment or to any part of the tract upon which the establishment is situated.

(33) SPECIFIED ANATOMICAL AREAS means:

(A) any of the following, or any combination of the following, when less than completely and opaquely covered:

(i) any human genitals, pubic region, or pubic hair;

(ii) any buttock; or

(iii) any portion of the female breast or breasts that is situated below a point immediately above the top of the areola; or

(B) human male genitals in a discernibly erect state, even if completely and opaquely covered.

(34) SPECIFIED SEXUAL ACTIVITIES means and includes any of the following:

(A) the fondling or other erotic touching of human genitals, pubic region, buttocks, anus, or female breasts;

(B) sex acts, normal or perverted, actual or simulated, including intercourse, oral copulation, or sodomy;

(C) masturbation, actual or simulated; or

(D) excretory functions as part of or in connection with any of the activities set forth in Paragraphs (A) through (C) of this subsection.

(35) SUBSTANTIAL ENLARGEMENT of a sexually oriented business means an increase in the floor area occupied by the business by more than 25 percent, as the floor area existed on:

(A) June 18, 1986, for any premises that were used as a sexually oriented business on or before that date, regardless of any subsequent changes in applicants, licensees, owners, or operators of the premises or the sexually oriented business;

(B) August 22, 2001, for any premises that were used as a sexually oriented business on or before August 22, 2001, but not on or before June 18, 1986, regardless of any subsequent changes in applicants, licensees, owners, or operators of the premises or the sexually oriented business; or

(C) for any premises not used as a sexually oriented business on or before August 22, 2001, the date an initial application for a license to use the premises as a sexually oriented business is received by the chief of police designating the floor area of the structure or proposed structure in which the sexually

oriented business will be conducted, regardless of any subsequent changes in applicants, licensees, owners, or operators of the premises or the sexually oriented business.

(36) TRANSFER OF OWNERSHIP OR CONTROL of a sexually oriented business means and includes any of the following:

(A) the sale, lease, or sublease of the business;

(B) the transfer of securities that constitute a controlling interest in the business, whether by sale, exchange, or similar means; or

(C) the establishment of a trust, gift, or other similar legal device that transfers the ownership or control of the business, except for transfer by bequest or other operation of law upon the death of the person possessing the ownership or control.

(37) VIP ROOM means any separate area, room, booth, cubicle, or other portion of the interior of an adult cabaret (excluding a restroom and excluding an area of which the entire interior is clearly and completely visible from the exterior of the area) to which one or more customers are allowed access or occupancy and other customers are excluded. (Ord. Nos. 19196; 19377; 20291; 20552; 21838; 23137; 24440; 24699; 25296; 27139)

#### **SEC. 41A-3. CLASSIFICATION.**

Sexually oriented businesses are classified as follows:

- (1) adult arcades;
- (2) adult bookstores or adult video stores;
- (3) adult cabarets;
- (4) adult motels;
- (5) adult motion picture theaters;
- (6) escort agencies; and
- (7) nude model studios. (Ord. Nos. 19196; 24440; 24699; 25296; 27139)

#### **SEC. 41A-4. LICENSE AND DESIGNATED OPERATOR REQUIRED.**

(a) A person commits an offense if he operates a sexually oriented business without a valid license issued by the city for the particular type of business.

(b) An application for a license must be made on a form provided by the chief of police. The application must be accompanied by a sketch or diagram showing the configuration of the premises, including a statement of total floor space occupied by the business. The sketch or diagram need not be professionally prepared but must be drawn to a designated scale or drawn with marked dimensions of the interior of the premises to an accuracy of plus or minus six inches. Applicants who must comply with Section 41A-19 of this chapter shall submit a diagram meeting the requirements of Section 41A-19.



(c) Only a person who is an officer of or who has an ownership interest in a sexually oriented business may apply for a license for the business. Each applicant must be qualified according to the provisions of this chapter.

(d) If a person who wishes to operate a sexually oriented business is an individual, he must sign the application for a license as the applicant. If a person who wishes to operate a sexually oriented business is other than an individual, each individual who is an officer of the business or who has a 20 percent or greater ownership interest in the business must sign the application for a license as an applicant. The application must be sworn to be true and correct by each applicant. Each applicant must be qualified under Section 41A-5, and each applicant shall be considered a licensee if a license is granted.

(e) The fact that a person possesses a valid dance hall license does not exempt the person from the requirement of obtaining a sexually oriented business license. A person who operates a sexually oriented business and possesses a dance hall license shall comply with the requirements and provisions of this chapter as well as the requirements and provisions of Chapter 14 of this code when applicable.

(f) In addition to identifying those persons required to sign an application under Subsection (b), the application must identify all parent and related corporations or entities of any person who will own or operate the sexually oriented business and include the names of the officers of each parent or related corporation or entity.

(g) The application must also include the name, address, and telephone number of one or more designated operators who will be present on the premises of the sexually oriented business during all hours of operation. The applicant or licensee shall maintain a current list of designated operators with the chief of police. Before a person may serve as a designated operator of the sexually oriented business, the person must be named in the license application, or a supplement or amendment to the license application, and not be disqualified to operate a sexually oriented business under this chapter.

(h) A licensee commits an offense if he fails to maintain at least one designated operator present on the premises of the sexually oriented business during all hours of operation.

(i) The application must include a current official Texas criminal history report with a fingerprint card (issued within the preceding 12 months) for the applicant, the applicant's spouse, and each designated operator showing that they are not disqualified to operate a sexually oriented business under this chapter. (Ord. Nos. 19196; 20552; 21838; 24440; 24699; 27139)

#### SEC. 41A-5. ISSUANCE OF LICENSE.

(a) The chief of police shall approve the issuance of a license by the special collections division of the water utilities department to an applicant within 30 days after receipt of an application unless the chief of police finds one or more of the following to be true:

(1) An applicant is a minor.

(2) An applicant or an applicant's spouse is overdue in payment to the city of taxes, fees, fines, or penalties assessed against or imposed upon the applicant or the applicant's spouse in relation to a sexually oriented business.

(3) An applicant has failed to provide information reasonably necessary for issuance of the license or has falsely answered a question or request for information on the application form.



(4) An applicant, an applicant's spouse, or a designated operator has been convicted of a violation of a provision of this chapter within two years immediately preceding the application.

(5) Any fee required by this chapter has not been paid.

(6) Reserved.

(7) An applicant or the proposed establishment is in violation of or is not in compliance with Section 41A-7, 41A-7.1, 41A-12, 41A-13, 41A-14.1, 41A-14.2, 41A-15, 41A-16, 41A-17, 41A-18, 41A-18.1, 41A-19, 41A-20, or 41A-20.1(a).

(8) An applicant, an applicant's spouse, or a designated operator has been convicted of a crime:

(A) involving:

(i) any of the following offenses as described in Chapter 43 of the Texas Penal Code:

(aa) prostitution;

(bb) promotion of prostitution;

(cc) aggravated promotion of prostitution;

(dd) compelling prostitution;

(ee) obscenity;

(ff) sale, distribution, or display of harmful material to a minor;

(gg) sexual performance by a child; or

(hh) possession of child pornography;

(ii) any of the following offenses as described in Chapter 21 of the Texas Penal Code:

(aa) public lewdness;

(bb) indecent exposure; or

(cc) indecency with a child;

(iii) sexual assault or aggravated sexual assault as described in Chapter 22 of the Texas Penal Code;

(iv) incest, solicitation of a child, or harboring a runaway child as described in Chapter 25 of the Texas Penal Code; or

(v) criminal attempt, conspiracy, or solicitation to commit any of the foregoing offenses;

(B) for which:

(i) less than two years have elapsed since the date of conviction or the date of release from confinement imposed for the conviction, whichever is the later date, if the conviction is of a misdemeanor offense;

(ii) less than five years have elapsed since the date of conviction or the date of release from confinement for the conviction, whichever is the later date, if the conviction is of a felony offense; or

(iii) less than five years have elapsed since the date of the last conviction or the date of release from confinement for the last conviction, whichever is the later date, if the convictions are of two or more misdemeanor offenses or combination of misdemeanor offenses occurring within any 24-month period.

(9) An applicant has been operating the proposed business as a sexually oriented business without a valid license issued under this chapter.

(10) Operation of the proposed sexually oriented business would violate the city's zoning ordinances.

(b) The fact that a conviction is being appealed has no effect on the disqualification of the applicant, the applicant's spouse, or a designated operator under Subsection (a).

(c) Except as otherwise provided in this subsection, when the chief of police denies issuance or renewal of a license, the applicant may not apply for or be issued a sexually oriented business license for one year after the date the denial became final. If, subsequent to the denial, the chief of police finds that the basis for the denial has been corrected or abated, the applicant may apply for and be granted a license if at least 90 days have elapsed since the date the denial became final. If issuance or renewal of a license is denied under Subsection (a)(7) for a violation of Section 41A-13 only, the applicant may be granted a license immediately upon compliance with Section 41A-13 of this chapter. If issuance or renewal of a license is denied under Subsection (a)(8)(A), the applicant may not apply for or be issued another sexually oriented business license until the appropriate number of years required by Subsection (a)(8)(B) has elapsed. If issuance or renewal of a license is denied under Subsection (a)(4), the applicant may not apply for or be issued another sexually oriented business license until the time period required by Subsection (a)(4) has elapsed.

(d) The chief of police, upon approving issuance of a sexually oriented business license, shall send to the applicant, by certified mail, return receipt requested, written notice of that action and state where the applicant must pay the license fee and obtain the license. The chief of police's approval of the issuance of a license does not authorize the applicant to operate a sexually oriented business until the applicant has paid all fees required by this chapter and obtained possession of the license.

(e) The license, if granted, must state on its face the name of the person or persons to whom it is granted, the expiration date, and the address of the sexually oriented business. The license must be posted in a conspicuous place at or near the entrance to the sexually oriented business so that it may be easily read at any time. (Ord. Nos. 19196; 19377; 20552; 21629; 21838; 24206; 24440; 24699; 27139; 27697)

#### SEC. 41A-6. FEES.

(a) The annual fee for a sexually oriented business license is \$808.

(b) In addition to the fees required by Subsection (a) and (c), an applicant for an initial sexually oriented business license shall, at the time of making application, pay a nonrefundable fee of \$3,175 for the city to conduct a survey to ensure that the proposed sexually oriented business is in compliance with the locational restrictions set forth in Section 41A-13.

(c) In addition to the fees required by Subsections (a) and (b), an applicant for an initial sexually oriented business license shall, at the time of making application, pay a nonrefundable fee of \$90 for the chief of police to obtain a letter of zoning verification to ensure that the proposed sexually oriented



business is permitted in the zoning district in which it will be located. The chief of police shall request and obtain the letter of zoning verification from the department of sustainable development and construction within 30 days after receipt of the license application. For any sexually oriented business holding a valid license on October 25, 2000, this subsection will apply to the first renewal of that license issued after October 25, 2000. (Ord. Nos. 19196; 20612; 21838; 22206; 24051; 24440; 24699; 25047; 25048; 25909; 27697; 29477, eff. 10/1/14)

#### **SEC. 41A-7. INSPECTION.**

(a) An applicant, licensee, operator, or employee shall permit representatives of the police department, the fire department, the department of code compliance, and the building official to inspect the premises of a sexually oriented business, for the purpose of ensuring compliance with the law, at any time it is occupied or open for business and at other reasonable times upon request.

(b) A person who operates a sexually oriented business or the person's agent or employee commits an offense if he refuses to permit a lawful inspection of the premises by a representative of the police department, the fire department, the department of code compliance, or the building official at any time the sexually oriented business is occupied or open for business and at other reasonable times upon request.

(c) The provisions of this section do not apply to areas of an adult motel that are currently being rented by a customer for use as a permanent or temporary habitation. (Ord. Nos. 19196; 19377; 22026; 23694; 24440; 24699; 27139; 27697)

#### **SEC. 41A-7.1. IDENTIFICATION RECORDS.**

(a) A person commits an offense if he operates a sexually oriented business without maintaining on the premises a current registration card or file that clearly and completely identifies all employees of the sexually oriented business as required by this section.

(b) The registration card or file must contain the following information for each employee:

- (1) Full legal name.
- (2) All aliases or stage names.
- (3) Date of birth.
- (4) Race and gender.
- (5) Hair color, eye color, height, and weight.

(6) Current residence address and telephone number, and, for designated operators and adult cabaret entertainers, all residence addresses during the 12-month period preceding commencement of an employment or contractual relationship with the sexually oriented business.

(7) Legible copy of a valid driver's license or other government-issued personal identification card containing the employee's photograph and date of birth.

(8) Date of commencement of employment or contractual relationship with the sexually oriented business.

(9) Original color photograph with a full face view that accurately depicts the employee's appearance at the time the employee commenced an employment or contractual relationship with the sexually oriented business.

(c) The licensee shall maintain a separate file on each designated operator (other than the licensee or the licensee's spouse) and on each adult cabaret entertainer, which contains, in addition to the information and documentation required in Subsection (b), the person's current official Texas criminal history report with a fingerprint card issued within the preceding 12 months.

(d) Not later than 90 days after employing or contracting with a designated operator or an adult cabaret entertainer, the licensee shall include in the file a current official criminal history report from any state other than Texas in which the designated operator or adult cabaret entertainer resided during the 12-month period preceding commencement of the employment or contractual relationship with the sexually oriented business.

(e) A licensee commits an offense if he allows a designated operator to operate a sexually oriented business without having on file, and available for inspection by representatives of the police department, all records and information required by this section for the designated operator.

(f) A licensee or an operator commits an offense if he allows an adult cabaret entertainer to perform adult cabaret entertainment at a sexually oriented business without having on file, and available for inspection by representatives of the police department, all records and information required by this section for the adult cabaret entertainer.

(g) All records maintained on an employee in compliance with this section must be retained at the sexually oriented business for at least 90 days following the date of any voluntary or involuntary termination of the employee's employment or contract with the sexually oriented business.

(h) A person who operates a sexually oriented business or the person's agent or employee shall allow immediate access to these records by representatives of the police department. (Ord. Nos. 24440; 24699; 27139)

#### **SEC. 41A-8. EXPIRATION OF LICENSE.**

Each license expires one year from the date of issuance, except that a license issued pursuant to an exemption to a locational restriction expires on the date the exemption expires. A license may be renewed only by making application as provided in Section 41A-4. Application for renewal should be made at least 30 days before the expiration date, and when made less than 30 days before the expiration date, the expiration of the license will not be affected by the pendency of the application. (Ord. Nos. 19196; 20552; 21838; 24440; 24699; 27139)

#### **SEC. 41A-9. SUSPENSION.**

The chief of police shall suspend a license for a period not to exceed 30 days if the chief of police determines that a licensee, an operator, or an employee has:

(1) violated or is not in compliance with Section 41A-4(h), 41A-7, 41A-7.1, 41A-13, 41A-14.1, 41A-14.2, 41A-15, 41A-16, 41A-17, 41A-18, 41A-18.1, 41A-19, or 41A-20 of this chapter;

(2) refused to allow an inspection of the sexually oriented business premises as authorized by this chapter; or



(3) knowingly permitted gambling by any person on the sexually oriented business premises. (Ord. Nos. 19196; 24440; 24699; 27139)

**SEC. 41A-10. REVOCATION.**

(a) The chief of police shall revoke a license if a cause of suspension in Section 41A-9 occurs and the license has been suspended within the preceding 12 months.

(b) The chief of police shall revoke a license if the chief of police determines that one or more of the following is true:

(1) A licensee gave false or misleading information in the material submitted to the chief of police during the application process.

(2) A licensee or an operator has knowingly allowed possession, use, or sale of controlled substances on the premises.

(3) A licensee or an operator has knowingly allowed prostitution on the premises.

(4) A licensee or an operator knowingly operated the sexually oriented business during a period of time when the licensee's license was suspended.

(5) A licensee or designated operator has been convicted of an offense listed in Section 41A-5(a)(8)(A) for which the time period required in Section 41A-5(a)(8)(B) has not elapsed.

(6) On two or more occasions within a 12-month period, a person or persons committed an offense occurring in or on the sexually oriented business premises of a crime listed in Section 41A-5(a)(8)(A) for which a conviction has been obtained, and the person or persons were employees of the licensee or the sexually oriented business at the time the offenses were committed.

(7) A licensee or an operator has knowingly allowed any act of sexual intercourse, sodomy, oral copulation, masturbation, or sexual contact to occur in or on the sexually oriented business premises. The term "sexual contact" shall have the same meaning as it is defined in Section 21.01, Texas Penal Code.

(8) A licensee is delinquent in payment to the city for hotel occupancy taxes, ad valorem taxes, or sales taxes related to the sexually oriented business.

(9) A licensee or an operator has violated Section 41A-12 of this chapter.

(10) A licensee or an operator has violated Section 41A-20.1(a) of this chapter.

(c) The fact that a conviction is being appealed has no effect on the revocation of the license.

(d) Subsection (b)(7) does not apply to adult motels as a ground for revoking the license unless the licensee or employee knowingly allowed the act of sexual intercourse, sodomy, oral copulation, masturbation, or sexual contact to occur in a public place or within public view.

(e) When the chief of police revokes a license, the revocation will continue for one year, and the licensee, for one year after the date revocation becomes effective, shall not apply for or be issued a sexually oriented business license for the same location for which the license was revoked. If, subsequent to revocation, the chief of police finds that the basis for the revocation has been corrected or abated, the applicant may apply for and be granted a license if at least 90 days have elapsed since the



date the revocation became effective. If the license was revoked under Subsection (b)(5), an applicant may not apply for or be granted another license until the appropriate number of years required under Section 41A-5(a)(8)(B) has elapsed. (Ord. Nos. 19196; 19377; 21629; 24206; 24440; 24699; 27139)

**SEC. 41A-10.1. DENIAL, SUSPENSION, REVOCATION, OR DENIAL OF RENEWAL OF A LICENSE FOR CRIMINAL CONVICTIONS.**

(a) In determining whether a sexually oriented business license should be denied, suspended, revoked, or denied for renewal based on criminal convictions of an applicant or licensee of a sexually oriented business, or on convictions of an operator or employee of the applicant, the licensee, or the sexually oriented business, all convictions for offenses occurring within a designated time period will be counted, regardless of whether the offenses occurred during the current license period, a prior license period, or an unlicensed period.

(b) Notwithstanding Subsection (a), a conviction for an offense committed during a prior license period or an unlicensed period will not be counted against a current applicant or licensee of a sexually oriented business if no person who is deemed a current applicant or licensee was an applicant, licensee, owner, or operator of the sexually oriented business during the prior license period or unlicensed period in which the offense was committed. (Ord. Nos. 24699; 27139)

**SEC. 41A-10.2. NOTICE OF DENIAL OF ISSUANCE OR RENEWAL OF LICENSE OR SUSPENSION OR REVOCATION OF LICENSE; SURRENDER OF LICENSE.**

(a) If the chief of police denies the issuance or renewal of a sexually oriented business license or suspends or revokes a sexually oriented business license, the chief of police shall deliver to the applicant or licensee, either by hand delivery or by certified mail, return receipt requested, written notice of the action, the basis of the action, and the right to an appeal.

(b) If the chief of police suspends or revokes a license or denies renewal of a license that was valid on the date the application for renewal was submitted, the chief of police may not enforce such action before the 11th day after the date the written notice required by Subsection (a) is delivered to the applicant or licensee.

(c) After suspension or revocation of a license or denial of renewal of a license that was valid on the date the application for renewal was submitted, the applicant or licensee shall discontinue operating the sexually oriented business and surrender the license to the chief of police by 11:59 p.m. of the 10th day after the date:

(1) notice required by Subsection (a) is delivered to the applicant or licensee, if no appeal is filed under Section 41A-11 of this chapter; or

(2) a final decision is issued by the permit and license appeal board upholding the action of the chief of police, if an appeal is filed under Section 41A-11 of this chapter.

(d) For purposes of this chapter, written notice is deemed to be delivered:

(1) on the date the notice is hand delivered to the applicant or licensee; or

(2) three days after the date the notice is placed in the United States mail with proper postage and properly addressed to the applicant or licensee at the address provided for the applicant or licensee in the most recent license application. (Ord. Nos. 24440; 24699; 27139)

**SEC. 41A-11. APPEAL.**

(a) Upon delivery of written notice of the denial, suspension, or revocation of a sexually oriented business license as required by Section 41A-10.2, the applicant or licensee whose application for a license or license renewal has been denied or whose license has been suspended or revoked has the right to appeal to either the permit and license appeal board or the state district court.

(b) An appeal to the permit and license appeal board must be in accordance with Section 2-96 of this code, except that an appeal from the denial of an initial sexually oriented business license must be heard and decided by the board within 30 days after the applicant files a written request for an appeal hearing.

(c) The filing of an appeal under this section stays the action of the chief of police in suspending or revoking a license, or in denying renewal of a license that was valid on the date the application for renewal was submitted, until a final decision is made by the permit and license appeal board. A suspension or revocation of a license, or a denial of renewal of a license that was valid on the date the application for renewal was submitted, that is upheld by the board takes effect at 11:59 p.m. on the 10th day after the board issues its decision.

(d) An appeal to the state district court must be filed within 30 days after notice of the decision of the chief of police is delivered to the applicant or licensee as required by Section 41A-10.2 or a final decision is issued by the permit and license appeal board upholding the decision of the chief of police. The applicant or licensee shall bear the burden of proof in court. The filing of an appeal to state district court stays a suspension or revocation of the license, or denial of renewal of a license that was valid on the date the application for renewal was submitted, pending a judicial determination of the appeal by the trial court. (Ord. Nos. 19196; 20552; 21838; 24440; 24699; 27139)

**SEC. 41A-12. TRANSFER OF LICENSE.**

A licensee shall not transfer his license to another, nor shall a licensee operate a sexually oriented business under the authority of a license at any place other than the address designated in the application. (Ord. Nos. 19196; 24440; 24699)

**SEC. 41A-13. LOCATION OF SEXUALLY ORIENTED BUSINESSES.**

(a) A person commits an offense if he causes or permits the operation, establishment, substantial enlargement, or transfer of ownership or control of a sexually oriented business within 1,000 feet of:

- (1) a church;
- (2) a public or private elementary or secondary school;
- (3) a boundary of a residential or historic district as defined in this chapter;
- (4) a public park;
- (5) the property line of a lot devoted to a residential use as defined in this chapter;



(6) a hospital; or

(7) a child-care facility.

(b) A person commits an offense if he causes or permits the operation, establishment, substantial enlargement, or transfer of ownership or control of a sexually oriented business within 1,000 feet of another sexually oriented business.

(c) A person commits an offense if he causes or permits the operation, establishment, or maintenance of more than one sexually oriented business in the same building, structure, or portion of a building or structure, or the increase of floor area of any sexually oriented business in any building, structure, or portion of a building or structure containing another sexually oriented business.

(d) For the purposes of Subsection (a), measurement must be made in a straight line, without regard to intervening structures or objects, from the nearest portion of the building or structure used as a part of the premises where a sexually oriented business is conducted, to the nearest property line of the premises of a church, public or private elementary or secondary school, hospital, or child-care facility or to the nearest boundary of an affected public park, residential district, historic district, or residential lot.

(e) For purposes of Subsection (b) of this section, the distance between any two sexually oriented businesses must be measured in a straight line, without regard to intervening structures or objects, from the closest exterior wall of the structure in which each business is located.

(f) Any sexually oriented business lawfully operating on May 28, 1997 that is in violation of Subsections (a), (b), or (c) of this section is a nonconforming use. The nonconforming use will be permitted to continue for a period not to exceed six months, unless sooner terminated for any reason or voluntarily discontinued for a period of 30 days or more. The nonconforming use may not be increased, enlarged, extended, or altered, except that the use may be changed to a conforming use. If two or more sexually oriented businesses are within 1,000 feet of one another and otherwise in a permissible location, the sexually oriented business that was first established and continually operating at a particular location is the conforming use and the later-established business is nonconforming.

(g) An owner of a nonconforming sexually oriented business who cannot recoup actual investments in the use by November 29, 1997 may request an extension of the compliance date from the board of adjustment. The request must be in writing and filed with the city building official on or before October 29, 1997. No application for an extension that is received by the building official after October 29, 1997 may be considered.

(h) The board of adjustment shall conduct a hearing on the request for extension in accordance with applicable procedures set forth in Section 51A-4.703 of the Dallas Development Code. If the board of adjustment determines that the owner of the nonconforming sexually oriented business cannot recoup actual investments in the use by November 29, 1997, it may by written order provide a new compliance date to the owner. The board of adjustment shall consider the factors listed in Section 51A-4.704(a)(1) (D) of the Dallas Development Code in determining whether to grant the request for extension. Any extension granted by the board of adjustment must specify a date certain for closure of the sexually oriented business and is not valid for operation of the business at any other location.

(i) The board of adjustment's decision on a request for an extended compliance date is final unless appealed to the district court within 10 days in accordance with Chapter 211 of the Texas Local Government Code.

(j) A sexually oriented business that remains in operation pursuant to an extension granted under this section is not considered as having a license for purposes of measuring distances between a sexually



oriented business and a church, a public or private elementary or secondary school, a boundary of a residential or historic district, a public park, the property line of a lot devoted to a residential use, a hospital, a child-care facility, or another sexually oriented business, as required in Section 41A-13.

(k) A sexually oriented business lawfully operating as a conforming use is not rendered a nonconforming use by the location, subsequent to the grant or renewal of the sexually oriented business license, of a church, public or private elementary or secondary school, public park, residential district, historic district, residential lot, hospital, or child-care facility within 1,000 feet of the sexually oriented business. This provision applies only to the renewal of a valid license, and does not apply when an application for a license is submitted after a license has expired or has been revoked.

(l) Requirements for posting an intent to locate a sexually oriented business.

(1) Whenever a sign is posted at an intended location of a sexually oriented business in compliance with Section 243.0075 of the Texas Local Government Code, as amended, and the intended location of the sexually oriented business is not in violation of the locational restrictions of this section at the time the sign is posted, the sexually oriented business will qualify as a conforming use and will not be rendered nonconforming by any location, subsequent to the posting of the sign, of a church, public or private elementary or secondary school, public park, residential district, historic district, residential lot, hospital, or child-care facility within 1,000 feet of the posted location of the sexually oriented business.

(2) The operator of a proposed sexually oriented business shall notify the chief of police, by either certified mail or hand delivery, whenever a sign is posted at the intended location of the business in compliance with Section 243.0075 of the Texas Local Government Code, as amended. The notification must be in the form of a sworn statement indicating the location of the sign and the date it was posted and must be received by the chief of police within five days after the date of the sign's posting.

(3) Paragraph (1) of this subsection does not apply if:

(A) a completed license application for the proposed sexually oriented business is not filed with the chief of police within 20 days after the expiration of the 60-day posting requirement of Section 243.0075 of the Texas Local Government Code, as amended; or

(B) the notification requirements of Paragraph (2) of this subsection are not met. (Ord. Nos. 19196; 19377; 20291; 21629; 23137; 24440; 24699; 25092)

#### **SEC. 41A-14. EXEMPTION FROM LOCATION RESTRICTIONS.**

(a) If the chief of police denies the issuance of a license to an applicant because the location of the sexually oriented business establishment is in violation of Section 41A-13 of this chapter, then the applicant may, not later than 10 calendar days after receiving notice of the denial, file with the city secretary a written request for an exemption from the locational restrictions of Section 41A-13.

(b) If the written request is filed with the city secretary within the 10-day limit, a permit and license appeal board, selected in accordance with Section 2-95 of this code, shall consider the request. The city secretary shall set a date for the hearing within 60 days from the date the written request is received.

(c) A hearing by the board may proceed if a quorum of the board is present. The board shall hear and consider evidence offered by any interested person. The formal rules of evidence do not apply.

(d) The permit and license appeal board may, in its discretion, grant an exemption from the locational restrictions of Section 41A-13 if it makes the following findings:



- (1) that the location of the proposed sexually oriented business will not have a detrimental effect on nearby properties or be contrary to the public safety or welfare;
  - (2) that the location of the proposed sexually oriented business will not downgrade the property values or quality of life in the adjacent areas or encourage the development of urban blight;
  - (3) that the location of the proposed sexually oriented business in the area will not be contrary to any program of neighborhood conservation nor will it interfere with any efforts of urban renewal or restoration; and
  - (4) that all other applicable provisions of this chapter will be observed.
- (e) The board shall grant or deny the exemption by a majority vote. Failure to reach a majority vote shall result in denial of the exemption. Disputes of fact shall be decided on the basis of a preponderance of the evidence. The decision of the permit and license appeal board is final.
- (f) If the board grants the exemption, the exemption is valid for one year from the date of the board's action. Upon the expiration of an exemption, the sexually oriented business is in violation of the locational restrictions of Section 41A-13 until the applicant applies for and receives another exemption.
- (g) If the board denies the exemption, the applicant may not re-apply for an exemption until at least 12 months have elapsed since the date of the board's action.
- (h) The grant of an exemption does not exempt the applicant from any other provisions of this chapter other than the locational restrictions of Section 41A-13. The grant of an exemption does not exempt the applicant from the provisions of Section 41A-13 prohibiting substantial enlargement of a sexually oriented business. (Ord. Nos. 19196; 24440; 24699; 25002)

**SEC. 41A-14.1. EXTERIOR PORTIONS OF SEXUALLY ORIENTED BUSINESSES.**

- (a) An owner or operator of a sexually oriented business commits an offense if he allows:
- (1) the merchandise or activities of the establishment to be visible from any point outside the establishment;
  - (2) the exterior portions of the establishment to have flashing lights, or any words, lettering, photographs, silhouettes, drawings, or pictorial representations of any manner except to the extent permitted by this chapter; or
  - (3) the exterior portions of the establishment to be painted any color other than a single achromatic color, except that this paragraph does not apply to an establishment if the following conditions are met:
    - (A) the establishment is a part of a commercial multi-unit center; and
    - (B) the exterior portions of each individual unit in the commercial multi-unit center, including the exterior portions of the establishment, are painted the same color as one another or are painted in such a way as to be a component of the overall architectural style or pattern of the commercial multi-unit center.
- (b) Nothing in this section requires the painting of an otherwise unpainted exterior portion of a sexually oriented business.



(c) The exterior of any sexually oriented business lawfully operating on May 28, 1997 is not required to comply with Subsections (a)(2) and (a)(3) of this section until alterations, repairs, remodeling, and repainting that cumulatively affect more than 50 percent of the exterior are performed on the sexually oriented business during any 12-month period. (Ord. Nos. 23137; 24440; 24699)

**SEC. 41A-14.2. SIGN REQUIREMENTS.**

(a) Notwithstanding any provision of the Dallas Development Code or any other city ordinance, code, or regulation to the contrary, the owner or operator of any sexually oriented business or any other person commits an offense if he erects, constructs, or maintains any sign for the establishment other than one primary sign and one secondary sign, as provided in this section.

(b) A primary sign may have no more than two display surfaces. Each display surface must:

- (1) not contain any flashing lights;
- (2) be a flat plane, rectangular in shape;
- (3) not exceed 75 square feet in area; and
- (4) not exceed 10 feet in height or 10 feet in length.

(c) A secondary sign may have only one display surface. The display surface must:

- (1) not contain any flashing lights;
- (2) be a flat plane, rectangular in shape;
- (3) not exceed 20 square feet in area;
- (4) not exceed five feet in height or four feet in width; and
- (5) be affixed or attached to a wall or door of the establishment.

(d) A primary or secondary sign must contain no photographs, silhouettes, drawings, or pictorial representations of any manner, and may contain only:

- (1) the name of the establishment; and/or
- (2) one or more of the following phrases:
  - (A) "Adult arcade."
  - (B) "Adult bookstore or adult video store."
  - (C) "Adult cabaret."
  - (D) "Adult motel."
  - (E) "Adult motion picture theater."
  - (F) "Escort agency."
  - (G) "Nude model studio."

(e) In addition to the phrases listed in Subsection (d)(2) of this section, a primary sign for an adult motion picture theater may contain the phrase, "Movie Titles Posted on Premises," and a primary sign for an adult bookstore or adult video store may contain the word "DVD's".

(f) Each letter forming a word on a primary or secondary sign must be of a solid color, and each letter must be the same print-type, size, and color. The background behind the lettering on the display surface of a primary or secondary sign must be of a uniform and solid color.

(g) Notwithstanding the sign requirements of this section and Section 41A-14.1, any sign lawfully existing on the premises of a lawfully operating sexually oriented business on May 28, 1997 may continue to be maintained on the premises, until:

(1) the sign is intentionally removed or destroyed by the owner or operator of the sexually oriented business or abandoned by the owner or operator of the sexually oriented business; or

(2) the city requires removal, relocation, or reconstruction of the sign in accordance with applicable state law. (Ord. Nos. 23137; 24440; 24699; 25296)

**SEC. 41A-15. ADDITIONAL REGULATIONS FORESCORT AGENCIES.**

A person commits an offense if the person acts as an escort or agrees to act as an escort for a minor. (Ord. Nos. 19196; 24440; 24699; 27139)

**SEC. 41A-16. ADDITIONAL REGULATIONS FOR NUDE MODEL STUDIOS.**

(a) Reserved.

(b) A minor commits an offense if the minor appears in a state of nudity in or on the premises of a nude model studio.

(c) A person commits an offense if the person appears in a state of nudity or knowingly allows another to appear in a state of nudity in an area of a nude model studio premises that can be viewed from the public right-of-way.

(d) A nude model studio shall not place or permit a bed, sofa, or mattress in any room on the premises, except that a sofa may be placed in a reception room open to the public.

(e) An employee of a nude model studio, while exposing any specified anatomical areas, commits an offense if the employee touches a customer or the clothing of a customer.

(f) A customer at a nude model studio commits an offense if the customer touches an employee who is exposing any specified anatomical areas or touches the clothing of the employee.

(g) A licensee, an operator, or an employee of a nude model studio commits an offense if he permits any customer access to an area of the premises not visible from the manager's station or not visible by a walk through of the premises without entering a closed area, excluding a restroom. (Ord. Nos. 19196; 23137; 24440; 24699; 27139)

**SEC. 41A-17. ADDITIONAL REGULATIONS FOR ADULT MOTION PICTURE THEATERS.**



(a) A person commits an offense if he knowingly allows a minor to appear in a state of nudity in or on the premises of an adult motion picture theater.

(b) A minor commits an offense if the minor knowingly appears in a state of nudity in or on the premises of an adult motion picture theater. (Ord. Nos. 19196; 21838; 24440; 24699; 27139)

**SEC. 41A-18. ADDITIONAL REGULATIONS FOR ADULT MOTELS.**

(a) Evidence that a sleeping room in a hotel, motel, or similar commercial establishment has been rented and vacated two or more times in a period of time that is less than 10 hours creates a rebuttable presumption that the establishment is an adult motel as that term is defined in this chapter.

(b) A person commits an offense if, as the person in control of a sleeping room in a hotel, motel, or similar commercial establishment that does not have a sexually oriented business license, he rents or subrents a sleeping room to a person and, within 10 hours from the time the room is rented, he rents or subrents the same sleeping room again.

(c) For purposes of Subsection (b) of this section, the terms “rent” or “subrent” mean the act of permitting a room to be occupied for any form of consideration. (Ord. Nos. 19196; 24440; 24699)

**SEC. 41A-18.1. ADDITIONAL REGULATIONS FOR ADULT CABARETS.**

(a) A licensee or an operator of an adult cabaret commits an offense if he employs, contracts with, or otherwise allows a person to act as an adult cabaret entertainer if the person has been convicted of an offense listed in Section 41A-5(a)(8)(A) for which the time period required in Section 41A-5(a)(8)(B) has not elapsed.

(b) An employee of an adult cabaret, while exposing any specified anatomical areas, commits an offense if the employee touches a customer or the clothing of a customer.

(c) A customer at an adult cabaret commits an offense if the customer touches an employee who is exposing any specified anatomical areas or touches the clothing of the employee.

(d) An adult cabaret may not contain any VIP rooms, except that any VIP room contained in a lawfully operating adult cabaret on April 21, 2008 may continue in existence until April 21, 2009, provided that no adult cabaret entertainment occurs in the VIP room.

(e) Except for a restroom or an area of which the entire interior is clearly and completely visible from the exterior of the area, no area of an adult cabaret that is accessible to a customer may be separated from any other customer-accessible area by a door, wall, curtain, drape, partition, or room divider of any kind. Nothing in this subsection precludes the installation or maintenance of any wall or column that is essential to the structural integrity of the building. Any adult cabaret lawfully operating on April 21, 2008 must comply with the requirements of this subsection not later than April 21, 2009.

(f) A licensee, an operator, or an employee of an adult cabaret commits an offense if he permits any customer access to an area of the premises:

(1) not visible from the manager’s station or not visible by a walk through of the premises without entering a closed area, excluding a restroom; or

(2) not regularly open to all customers of the business.



(g) Adult cabaret entertainment must occur only in the presence of, and be visually observable by, an employee who is not an adult cabaret entertainer. A licensee or operator commits an offense if he knowingly allows adult cabaret entertainment to be performed in violation of this subsection.

(h) The purpose of Subsections (d), (e), (f), and (g) of this section is to reduce the opportunity for unlawful activity such as indecent exposure, solicitation for prostitution, and prostitution that occurs in VIP rooms and other areas of adult cabarets that are not open to the view of management personnel, law enforcement officers, and customers. By prohibiting VIP rooms and requiring adult entertainment to be performed in more open and visible surroundings, unlawful activity will be deterred because it will be more readily observable by management personnel, law enforcement officers, and customers. (Ord. Nos. 23137; 24440; 24699; 27139)

#### **SEC. 41A-19. REGULATIONS PERTAINING TO EXHIBITION OF SEXUALLY EXPLICIT FILMS OR VIDEOS.**

(a) A person who operates or causes to be operated a sexually oriented business, other than an adult motel, which exhibits on the premises in a viewing room of less than 150 square feet of floor space, a film, video cassette, or other video reproduction that depicts specified sexual activities or specified anatomical areas, shall comply with the following requirements:

(1) Upon application for a sexually oriented business license, the application must be accompanied by a diagram of the premises showing a plan thereof specifying the location of one or more manager's stations and the location of all overhead lighting fixtures and designating any portion of the premises in which patrons will not be permitted. A manager's station may not exceed 32 square feet of floor area. The diagram must also designate the place at which the permit will be conspicuously posted, if granted. A professionally prepared diagram in the nature of an engineer's or architect's blueprint is not required; however, each diagram should be oriented to the north or to some designated street or object and should be drawn to a designated scale or with marked dimensions sufficient to show the various internal dimensions of all areas of the interior of the premises to an accuracy of plus or minus six inches. The chief of police may waive the foregoing diagram for renewal applications if the applicant adopts a diagram that was previously submitted and certifies that the configuration of the premises has not been altered since it was prepared.

(2) The application must be sworn to be true and correct by the applicant.

(3) No alteration in the configuration or location of a manager's station may be made without the prior approval of the chief of police or the chief's designee.

(4) It is the duty of the owners and operator of the premises to ensure that at least one employee is on duty and situated in each manager's station at all times that any patron is present inside the premises.

(5) The interior of the premises must be configured in such a manner that there is an unobstructed view from a manager's station of every area of the premises to which any patron is permitted access for any purpose excluding restrooms. Restrooms may not contain video reproduction equipment. If the premises has two or more manager's stations designated, then the interior of the premises must be configured in such a manner that there is an unobstructed view of each area of the premises to which any patron is permitted access for any purpose from at least one of the manager's stations. The view required in this subsection must be by direct line of sight from the manager's station.

(6) It shall be the duty of the owners and operator, and it shall also be the duty of any agents and employees present in the premises, to ensure that the view area specified in Paragraph (5) of this



subsection remains unobstructed by any doors, walls, merchandise, display racks, or other materials at all times that any patron is present in the premises and to ensure that no patron is permitted access to any area of the premises that has been designated as an area in which patrons will not be permitted in the application filed pursuant to Paragraph (1) of this subsection.

(7) The premises must be equipped with overhead lighting fixtures of sufficient intensity to illuminate every place to which patrons are permitted access at an illumination of not less than one (1.0) footcandle as measured at the floor level.

(8) It shall be the duty of the owners and operator, and it shall also be the duty of any agents and employees present in the premises, to ensure that the illumination described in Paragraph (7) of this subsection is maintained at all times that any patron is present in the premises.

(b) A person having a duty under Paragraphs (1) through (8) of Subsection (a) commits an offense if he knowingly fails to fulfill that duty. (Ord. Nos. 19196; 24440; 24699)

**SEC. 41A-20. DISPLAY OF SEXUALLY EXPLICIT MATERIAL TO MINORS.**

(a) A person commits an offense if, in a business establishment open to minors, the person displays a book, pamphlet, newspaper, magazine, film, or video cassette, the cover of which depicts, in a manner calculated to arouse sexual lust or passion for commercial gain or to exploit sexual lust or perversion for commercial gain, any of the following:

- (1) human sexual intercourse, masturbation, or sodomy;
- (2) fondling or other erotic touching of human genitals, pubic region, buttocks, or female breasts;
- (3) less than completely and opaquely covered human genitals, buttocks, or that portion of the female breast below the top of the areola; or
- (4) human male genitals in a discernibly turgid state, whether covered or uncovered.

(b) In this section “display” means to locate an item in such a manner that, without obtaining assistance from an employee of the business establishment:

- (1) it is available to the general public for handling and inspection; or
- (2) the cover or outside packaging on the item is visible to members of the general public. (Ord. Nos. 19196; 24440; 24699; 27139)

**SEC. 41A-20.1. PROHIBITIONS AGAINST MINORS IN SEXUALLY ORIENTED BUSINESSES.**

(a) A licensee or an operator commits an offense if he knowingly:

- (1) allows a minor to enter the interior premises of a sexually oriented business;
- (2) employs, contracts with, or otherwise engages or allows a minor to perform adult cabaret entertainment; or
- (3) employs a minor in a sexually oriented business.



(b) Knowledge on the part of the licensee or operator is presumed under Paragraph (2) or (3) of Subsection (a) if identification records were not kept in accordance with the requirements of Section 41A-7.1, and properly kept records would have informed the licensee or operator of the minor's age.

(c) An employee commits an offense if the employee knowingly:

- (1) allows a minor to enter the interior premises of a sexually oriented business;
- (2) employs, contracts with, or otherwise engages or allows a minor to perform adult cabaret entertainment; or
- (3) employs a minor in a sexually oriented business.

(d) A minor commits an offense if the minor knowingly enters the interior premises of a sexually oriented business. (Ord. 27139)

#### SEC. 41A-21. ENFORCEMENT.

(a) Whenever a person does an act that is forbidden, fails to perform an act that is required, or commits an act that is made an offense by any provision of this chapter, the violation is punishable as provided by Section 243.010(b) of the Texas Local Government Code, as amended. A person violating a provision of this chapter is guilty of a separate offense for each day or part of a day during which the violation is committed, continued, or permitted.

(b) Except where otherwise specified, a culpable mental state is not required for the commission of an offense under this chapter.

(c) It is a defense to prosecution under Section 41A-4(a), 41A-13, or 41A-16(d) that a person appearing in a state of nudity did so in a modeling class operated:

- (1) by a proprietary school licensed by the state of Texas; a college, junior college, or university supported entirely or partly by taxation;
- (2) by a private college or university that maintains and operates educational programs in which credits are transferrable to a college, junior college, or university supported entirely or partly by taxation; or
- (3) in a structure:

(A) that has no sign visible from the exterior of the structure and no other advertising that indicates a nude person is available for viewing; and

(B) where in order to participate in a class a student must enroll at least three days in advance of the class; and

(C) where no more than one nude model is on the premises at any one time.

(d) It is a defense to prosecution under Section 41A-4(a) or Section 41A-13 that each item of descriptive, printed, film, or video material offered for sale or rental, taken as a whole, contains serious literary, artistic, political, or scientific value. (Ord. Nos. 19196; 19963; 20552; 24440; 24699)

#### SEC. 41A-22. INJUNCTION.

A person who operates or causes to be operated a sexually oriented business without a valid license or in violation of Section 41A-13 of this chapter is subject to a suit for injunction as well as prosecution for criminal violations. (Ord. Nos. 19196; 24440; 24699)

**SEC. 41A-23. AMENDMENT OF THIS CHAPTER.**

Sections 41A-13 and 41A-14 of this chapter may be amended only after compliance with the procedure required to amend a zoning ordinance. Other sections of this chapter may be amended by vote of the city council. (Ord. Nos. 19196; 24440; 24699)



***APPRAISER QUALIFICATIONS***



## **Qualifications of Henry M. Arnold**

Henry Arnold has been engaged in the real estate industry for over thirty years. The following is a general description of his experience in real estate appraisal and other segments of the real estate industry.

### Appraisal Experience

Mr. Arnold is a founding principal of Prestonwood Property Analysis, a regional real estate appraisal firm that performs appraisals of all types of real estate properties, with a particular emphasis on valuations of convenience stores, gas stations, truck stops, travel centers, and car washes. Prestonwood Property Analysis has associates in Dallas/Fort Worth, Houston, and East Texas. The firm provides appraisal and consulting services to financial institutions and property owners in the State of Texas and adjacent states. The firm has expertise in providing appraisals involving both real estate value and going concern value, including lodging facilities, convenience stores and other special use properties.

Prior to founding Prestonwood Property Analysis, Mr. Arnold had over 20 years experience in appraising real estate. He started his real estate appraisal career in Waco, Texas as an appraiser for the Texas Department of Transportation, where he was involved in right of way acquisitions. He then took a position with one of the largest appraisal firms in Dallas. He gained experience in performing complex valuations of commercial properties, primarily multi-family, office and retail properties.

Mr. Arnold has obtained the designation of Certified General Real Estate Appraiser in the State of Texas (which is the highest level a state-certified appraiser can obtain). In connection with obtaining this designation, he was required to submit over 3000 hours of appraisal work that was verified by the state. He has passed the appraisal courses required to obtain the Appraisal Institute's MAI Designation. He also holds a Real Property Tax Consulting License from the State of Texas.

## EXPERIENCE

Mr. Arnold has conducted research on, and completed appraisals of numerous property types which include the following:

- Agricultural Land & Ranch properties
- Apartment and multi-family properties
- Car Washes
- Condemnations
- Convenience Stores/Service Stations
- Hotel/Motel
- Houses of Worship
- Industrial manufacturing facilities
- Industrial warehouse facilities
- Malls (Indoor and outdoor)
- Medical office buildings
- Mini-warehouses
- Mobile home parks
- Office buildings
- Offices/warehouses
- Retail Buildings
- Residential subdivisions
- Restaurants/nightclubs
- Right-of-way takings
- Vacant land

## Education

Baylor University, Business  
University Of Texas, Austin, Liberal Arts

## Courses

Mr. Arnold has successfully completed the following courses which are requisites for the MAI designation offered the *The Appraisal Institute*: Standard of Professional Practice, Real Estate Appraisal Principles, Basic Valuation Procedures, Capitalization Theory and Techniques (Parts A and B), Case Studies in Real Estate Valuation, and Report Writing. Mr. Arnold has also successfully passed the demonstration report in satisfaction of the requirements for the MAI designation.

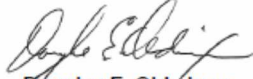
## Recent Courses

Right of Way – Case Studies	October, 2014	Appraisal Institute
Regression Modeling	October, 2014	Appraisal Institute
Fundamentals of Going Concerns	July, 2014	Appraisal Institute
Fundamentals of Separating Real Personal Property, and Intangible Business Assets	March, 2012	Appraisal Institute

**Texas Appraiser Licensing and Certification Board**  
P.O. Box 12188 Austin, Texas 78711-2188  
**Certified General Real Estate Appraiser**

Number: **TX 1323236 G**  
Issued: **06/08/2016** Expires: **06/30/2018**  
Appraiser: **HENRY MAXWELL ARNOLD**

Having provided satisfactory evidence of the qualifications required by the Texas Appraiser Licensing and Certification Act, Texas Occupations Code, Chapter 1103, is authorized to use this title, Certified General Real Estate Appraiser.

  
Douglas E. Oldmixon  
Commissioner

**Texas Appraiser Licensing and Certification Board**  
P.O. Box 12188 Austin, Texas 78711-2188  
**Appraiser Trainee**

Authorization#: **TX 1340828 Trainee** I. D. Number: **881311680**  
Issued: **11/28/2016** Expires: **11/30/2018**  
Trainee: **SHAUN HOSSEIN GHANFILI**  
Supervisor: **HENRY MAXWELL ARNOLD** Certification #: **TX 1323236 C**  
I. D. Number: **880359612**

The Texas Appraiser Licensing and Certification Board authorizes the named person to act as an Appraiser Trainee under the supervision of the certified appraiser noted above, pursuant to Texas Occ. Code, Chapter 1103.  
An Appraiser Trainee may perform appraisals only under the direct supervision of the Trainee's supervisory appraiser(s) who signs the report and is responsible for the conduct of the Appraiser Trainee.  
An Appraiser Trainee may be supervised by one or more certified appraisers.

  
Douglas E. Oldmixon  
Commissioner