

**Appraisal Report**

**55 Kennedy Plaza  
Plat 20 Lot 14  
Providence, Rhode Island**

**Effective Date  
December 31, 2012**

**Report Date  
February 20, 2014**

**Prepared For**

**Mr. Zachary Darrow, Esquire  
Darrow Everett  
One Turks Head Place  
Suite 1200  
Providence, Rhode Island 02903**

**Prepared By**

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February 20, 2014

Mr. Zachary Darrow, Esq.  
Darrow Everett  
One Turks Head Place  
Suite 1200  
Providence, RI 02903

Dear Mr. Darrow,

As requested I have inspected the property located at 55 Kennedy Plaza also known as 111 Westminster Street and identified as Assessor's Plat 20 Lot 14. The property originally constructed and occupied by Industrial National Bank and known commonly as the Fleet Building or the Superman Building (due to its resemblance to the Daily Planet Building in the original TV series) is Providence's only "sky scraper" having been constructed in the 1920's in that iconic style.

The purpose of my inspection and subsequent research was to determine the Market Value of the Fee Simple Interest in the subject as of December 31, 2012. The function of the appraisal is to assist in an Ad Valorem Tax Appeal.

The subject property consists of a .64 acre/27,960 SF, rectangular shaped parcel with 140± linear feet of frontage on Kennedy Plaza, 140± linear feet on Westminster Street and 200± linear feet along a narrow alley known as Arcade Street. The parcel is serviced by all utilities and falls within a D1-300 zone.

The subject is improved by a 376,867 square foot (SF)/gross building area (GBA), 31 story, masonry structure of which 32,372 SF is below grade and 344,495 SF is above grade. Exterior walls are block; windows are original. The ground floor of the structure is dominated by the very ornate marble finished, banking floor. There are fifteen (15) passenger and freight elevators. The entire building is serviced by a wet sprinkler system. There are two (2) oil-fired, circa 1928, tubular boilers supplying heat in a two (2) zone system. #6 fuel oil is stored in a 7,000 gallon underground tank.

Although the mechanical systems are operational they are antiquated and excessively costly to operate. The reality is that any level of occupancy requires the entire building to be fully heated and air conditioned, consequently, the 15 year projected lease-up will result in a significant negative cash flow over a long period.

Floor plates vary with a general decline in net rentable area as height increase. Office finishes and condition also vary however; the building is for the most part in below average to poor condition and would best be classified as Class C, fair condition. Requirements to bring the property to Class B level would include new heat/air conditioning, floor finishes, ceiling and wall finishes, new lighting and for the most part new bathrooms. We estimate bare bones tenant improvements at a minimum of \$75.00-\$100.00/SF/GBA or \$26,000,000 to \$35,000,000.

The exterior of the subject has not been well-maintained and requires significant pointing and masonry repair. The roofs are adequately maintained for the most part. Windows are predominantly original and require replacement. We estimate a minimum cost range of \$8,000,000-\$10,000,000.

Renovation cost estimates for complete building rehab and re-use have ranged from \$60,000,000-\$100,000,000. Our estimates reflect a very conservative approach and contemplate the end product to be competitive in the Class B market.

As of December 31, 2012 the subject was in the last 3-4 months of a long term, pure net lease with Bank of America (BOA) at \$1,918,482.50/year or \$5.50 NLA, NNN. As of December 31, 2012 BOA had declined to continue its tenancy and had informed High Rock Westminster Street (the landlord) of its intention to vacate. Based on current market conditions, we estimate a lease-up period of fifteen (15) years.

**Assessed Value**

As of December 31, 2012 the City of Providence assessed 55 Kennedy Plaza, AP 20 Lot 14 to High Rock Westminster Street as follows:

Land	\$ 1,344,100	/	\$48.07 SF
Building	\$28,342,100	/	\$82.27 SF GBA above grade
Total	\$29,686,200	/	\$86.17 SF GBA above grade

Although somewhat difficult to decipher, City records appear to indicate that both Cost and Income Models were calculated to arrive at the assessment.

The Cost Model indicated a value of \$27,010,750 or \$71.67/SF GBA for the building which equates to \$78.30 SF NLA above grade. Cost calculations were vague and not based on any recognized cost manual or authority, further there was no indication on available City records of what rate, if any, of depreciation was utilized.

The Income Model utilized a base rent for the banking floor of \$17.20/SF and \$19.60 for the office floors for an overall rate of \$19.29/SF NLA, vacancy loss calculation at 16.5% for the office area and 5% for the banking floor. The model estimated overall expenses at 24.25% and utilized a tax loaded overall Capitalization Rate of 13.5% with a resulting Net Operating Income of \$4,230,161.00 which is 120% greater than the Gross Income from BOA on a net, net, net basis.

Utilizing the same vacancy calculation at 16.5% and minimal expences of 10% when applied to actual income results in a value of eleven million (\$11,000,000.00) dollars with no deduction for lease up cost or time and no deduction for tenant improvements.

**Sales History**

High Rock Westminster Street acquired the property in January 2008 for approximately \$33,000,000 with four years left on the original term of the lease with Bank of America and six (6) consecutive five (5) year options to renew. At the time of purchase BOA had deposits in the branch in excess of four (\$4,000,000,000.00) billion dollars. It seemed reasonable for High Rock to assume that BOA would not close such a high value branch. High Rock's purchase based on the assumption that BOA would remain, given the brevity of the actual remaining lease term, absent options, was optimistic. Unfortunately, High Rock's optimism proved to be unfounded.

## **Economic and Market Conditions**

### **United States**

Gross Domestic Product - The U.S. economy as measured by real gross domestic product (GDP) decreased at a seasonally adjusted annual rate of 0.1% in the fourth quarter of 2012 (that is, from the third quarter to the fourth quarter), according to the “advance” estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased by 3.1%. The decrease in real GDP in the fourth quarter primarily reflected negative contributions from private inventory investment, federal government spending, and exports. These negative contributions were partly offset by positive changes from personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment.

Consumer Prices - For the 12 month period ending in December 2012, the CPI-U for all items rose 1.7% compared to a 1.8% figure in November. The index for all items less food and energy rose 1.9% over the last 12 months, the same figure as last month. The food index has risen 1.8% over the last 12 months, and the energy index has risen 0.5%.

Employment – Non-farm payroll employment rose by 157,000 in January, marking the 28th consecutive monthly increase, based on preliminary seasonally-adjusted BLS data. The economy has now added 5.5 million jobs since February 2010, which was the low point of the recent recession. Non-farm job losses since the pre-recession peak in January 2008 now total 3.2 million, including 2.7 million in the private sector. Employment in the service-providing sector, which accounts for nearly 85% of private sector employment, now exceeds by 700,000 jobs the pre-recession peak of 2008. The goods producing sector, however, has experienced an employment decline of 15.5% over the same period.

Monetary Policy - The federal funds rate is an important tool used by the Federal Reserve to implement short term monetary policy. The rate is set by the Federal Open Market Committee (FOMC), and represents the interest charged to commercial banks and other depository institutions on short term loans they receive from the Federal Reserve Bank. The federal funds rate is a closely-watched indicator of the outlook for price stability and sustainable economic growth, the dual mandates of the Committee. From 2004 through mid 2006 the FOMC implemented a series of rate increases in an effort to control inflation during a period of economic expansion. A series of rate reductions began in 2007, reflecting efforts to stimulate the weakening economy and add liquidity to stressed financial markets. The target range for the rate was reduced to 0 – ¼% in December 2008 and has remained unchanged since that date. Following are comments extracted from the Committee’s January 30, 2013 press release:

Information received since the Federal Open Market Committee met in December suggests that growth in economic activity has paused in recent months, in large part because of weather-related disruptions and other transitory factors. Employment has continued to expand at a moderate pace but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has shown further improvement. Inflation has

been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect fluctuations in energy prices. Longer-term inflation expectations have remained stable.

...Although strains in global financial markets have eased somewhat, the Committee continues to see downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely will run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions, should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. ...If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of Treasury and agency mortgage-backed securities and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. ...

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low levels for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6.5 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer term inflation expectations continue to be well anchored. ...

Selected National Economic Statistics										
	Source	2010	2011				2012			
		4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
GDP - (SAAR) % Change From Prior Quarter	(a)	2.4%	0.1%	2.5%	1.3%	4.1%	2.0%	1.3%	3.1%	-0.1%
CPI-U - Annual Change - 12 Months Ending	(b)	1.5%	2.7%	3.6%	3.9%	3.0%	2.7%	1.4%	2.2%	1.7%
U.S. Unemployment Rate - Quarter Ending Month	(b)	9.4%	8.9%	9.1%	9.0%	8.5%	8.2%	8.2%	7.8%	7.9%
Federal Funds Rate - Quarter Ending	(c)	0-1/4%	0-1/4%	0-1/4%	0-1/4%	0-1/4%	0-1/4%	0-1/4%	0-1/4%	0-1/4%
(a) U.S. Bureau of Economic Analysis; (b) U.S. Bureau of Labor Statistics; (c) Federal Reserve										

### New England (Federal Reserve Report)

The First District (Boston) *Beige Book* issued January 16, 2013 reported the following general conditions:

Commercial Real Estate - Across most of the First District, leasing activity in the final weeks of 2012 is described as very light, driven by a combination of seasonal factors and uncertainty stemming from fiscal cliff negotiations. However, a Portland contact notes an uptick in leasing activity in that city in December, especially in the warehouse sector, although office fundamentals remain flat amid slow employment growth. Boston's warehouse market improved as well, while the city's office vacancy rate remains high--also attributed to slow employment growth--and the trend toward office downsizing persists. In Hartford, the fate of large downtown properties that experienced foreclosure in 2012 remains uncertain; a key question is whether current owners will reinvest in the properties or resell them as is. Demand for commercial real estate loans in the region appears to be softening, while the pipeline of new construction projects in Boston has diminished significantly since the last report.

Most contacts in the region are cautiously optimistic that commercial real estate fundamentals will improve in 2013. However, growth expectations remain very modest and some contacts note downside risks to growth from pending fiscal contraction and ongoing political uncertainty, even taking into account the recently-enacted federal tax deal.

Residential Real Estate - Across the First District, contacts report strong year-over-year growth in sales for November in both single-family home and condominium markets. Similar to previous reports, contacts attribute continued growth in sales to low interest rates, affordable prices, and rising rents. Contacts say that buyers have become more confident about purchasing a home as economic conditions continue to improve. As buyer activity increased, inventory levels fell throughout the region. Contacts argue that declining inventory levels have now translated into higher prices in most areas. The median sale price of homes rose year-over-year across the First District, with some states experiencing significant increases.



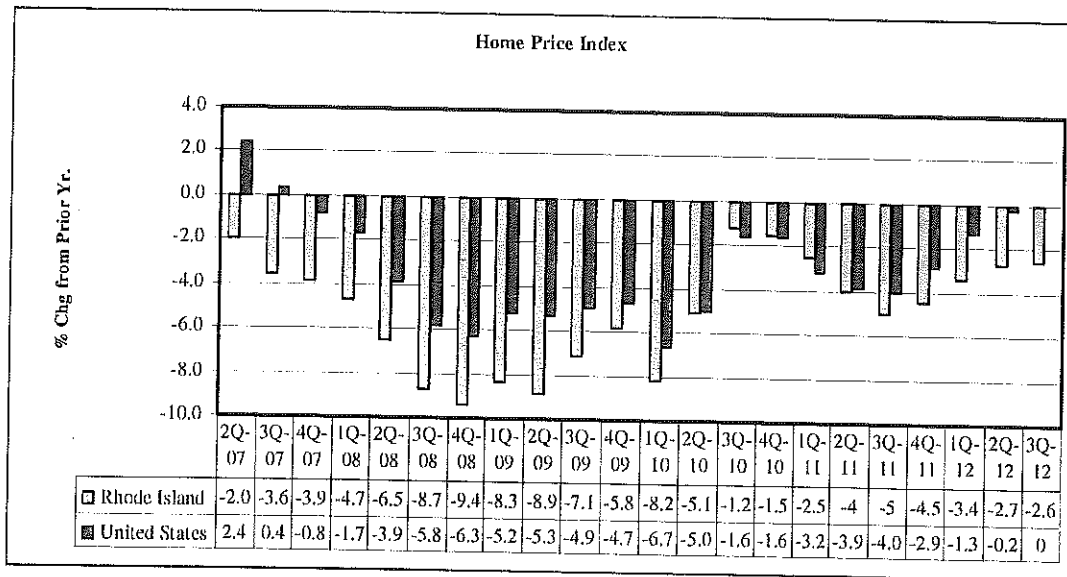
In terms of outlooks for the coming year, contacts continue to feel positive about improvements in home values and strong sales. Significant year-over-year growth in sales is expected for the most of 2013, although a warm winter last year coupled with a potentially harsher winter this year may soften year-over-year growth in the coming months. In Massachusetts and the Greater Boston area, contacts express concern that dwindling inventory levels will discourage buyers and even potentially deter some sellers who would like to purchase a replacement home before listing their current one; at the same time, they express worry about prices appreciating too quickly, but say they are not concerned with ongoing moderate price appreciation. Notwithstanding these potential concerns, contacts across the region are generally very optimistic about the strength of the housing market in 2013.

### **Rhode Island**

Rhode Island is located on the Interstate 95 corridor between New York and Boston. Principal transportation infrastructure includes passenger rail service provided by Amtrak, the Ports of Providence and Quonset Point, and T. F. Green Airport. T. F. Green has become the third most utilized airport in the region, serving nearly four million passengers per year, according to reports by the State Airport Corporation.

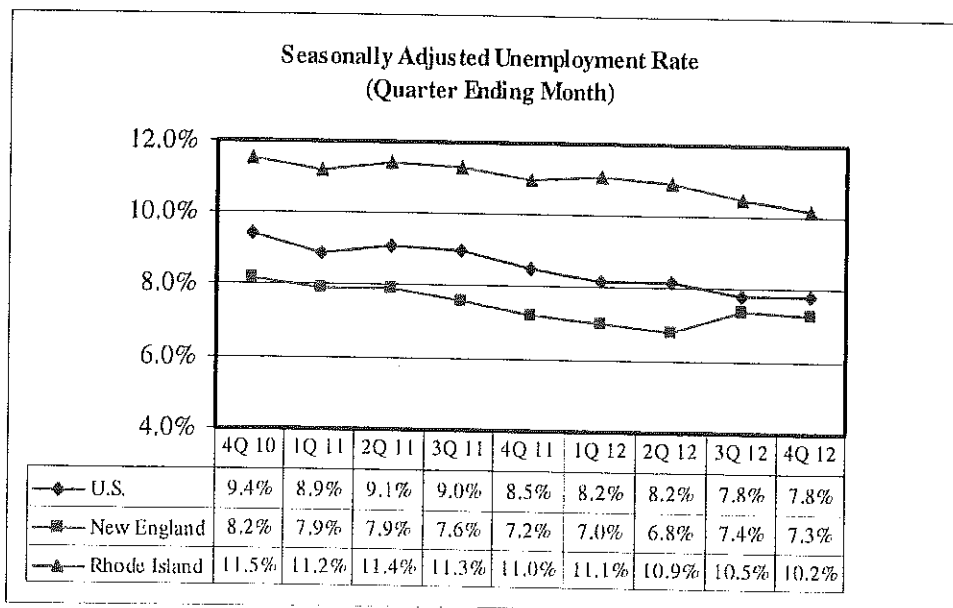
Rhode Island amenities include excellent educational institutions. Brown University and Rhode Island School of Design are best known. The 400±-mile coastline, over 100 marinas, and some of the finest beaches on the eastern seaboard make the state a popular tourist venue. There are 39 communities in the State and the Census Bureau's 2010 estimate of population is 1,052,567. This estimate represents an increase of less than one-half of one percent over the 2000 Census estimate and a slight decline from 2009. The composition of Rhode Island's workforce is similar to that of the United States with a large majority of the labor force (approximately 85%) employed in the service sector, compared with 15% in production.

Housing - Rhode Island housing prices, after experiencing double-digit increases from 2003 through 2005, began a protracted decline in the first quarter of 2007. The Home Price Index for Rhode Island dropped by 2.6% in the third quarter of 2012, compared with the year-earlier quarter, marking the 23rd consecutive quarterly decline in this measure. As of the end of the third quarter 2012, the index has dropped 26% from its peak in June 2006.



Source: Federal Housing Finance Agency

**Employment** – According to the Rhode Island Department of Labor and Training, Rhode Island employment rose to 508,357 in December. This represents an increase of about 8,430 jobs from the same period a year ago. Rhode Island's employment is now 7.4% below the pre-recession peak of December 2006, and the labor force has declined by about 11,000 or 1.9% over the same period. Rhode Island's unemployment rate was estimated at 10.2% in December, a slight improvement from November, but still equal to Nevada as the worst in the nation. The Rhode Island labor market continues to perform much worse than the U.S. and other New England states.



Current Conditions Index - The Rhode Island Current Conditions Index (CCI) is a monthly indicator of the state of the Rhode Island economy prepared by University of Rhode Island economist Leonard Lardaro, Ph.D. that is often cited in local news media. The index is derived by measuring the behavior of twelve key economic indicators pertaining to housing, retail sales, fiscal pressures, employment and labor supply. The CCI can range from zero, when no indicators improve from their year-earlier levels, to 100 when all twelve show improvement. A value greater than 50 indicates that the economy is in a state of expansion; a value less than 50 signals contraction. The table following summarizes the monthly Rhode Island Current Conditions Index (CCI) for recent periods.

**Rhode Island Current Conditions Index**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2009</b>	17	8	0	8	17	33	17	42	33	42	50	33
<b>2010</b>	42	58	67	67	75	75	83	83	67	67	75	83
<b>2011</b>	50	67	67	58	50	58	58	42	50	50	58	50/ 58
<b>2012</b>	58/ 75	50/ 67	58/ 75	50/ 75	58/ 67	67/ 75	50/ 58	67- 75	50/ 58	75/ 83	75/ 83	

Starting in December 2011, the index has been stated as a range, with the lower value based on “official” labor market data (which Lardaro considers to be flawed), and the higher value reflecting anticipated corrections that are not yet “official”. The conclusion as stated in the November report is as follows:

“The Current Conditions Index has shown what appears to be a substantial uptick in the pace of economic activity here. This is certainly welcome news. Part of this apparent strength, though, is the result of the inaccurate “official” labor market data becoming less inaccurate. It is safe to conclude that as we move toward year’s end, Rhode Island’s economy has attained a higher level of activity than the flawed labor data indicate, and that our rate of improvement has gotten more rapid as well. This should provide us some margin for error in dealing with whatever Washington sends our way in 2013.”

Rhode Island – Conclusion – Opinions are mixed about the outlook for the Rhode Island economy in the near term. Although there are some signs of improvement, the State’s persistent high unemployment, unfavorable tax structure, lack of population growth, and unresolved government deficits will likely cause economic recovery in Rhode Island to lag behind other states in the region and the nation.

CoStar Sector Reports – Following is a summary of market statistics for commercial property sectors in Rhode Island, as reported in the Fourth Quarter 2012 reports of CoStar Property®.

Rhode Island Office Market Statistics						
Market	Existing Inventory		Vacancy		SF Under Construction	Quoted Rates /SF
	# of Bldgs	Total RBA SF	SF	%		
Central / West Bay	875	9,638,698	1,038,720	10.8%	104,500	\$17.14
East Bay	179	2,594,438	148,289	5.7%	0	\$13.46
Northern	286	6,294,677	437,773	7.0%	0	\$14.17
Providence Metro	975	17,203,489	1,340,093	7.8%	0	\$20.43
Southern	305	3,773,143	282,066	7.5%	0	\$15.91
Total	2,620	39,504,445	3,246,941	8.2%	104,500	

Source: CoStar Property® 2012 Fourth Quarter Report

Rhode Island Retail Market Statistics						
Market	Existing Inventory		Vacancy		SF Under Construction	Quoted Rates /SF
	# of Bldgs	Total GLA SF	SF	%		
Central / West Bay	1,956	19,204,007	1,256,647	6.5%	61,081	\$14.57
East Bay	472	3,536,586	358,037	10.1%	0	\$16.98
Northern	725	7,852,707	613,261	7.8%	0	\$11.14
Providence Metro	2,396	18,024,865	899,946	5.0%	0	\$14.65
Southern	969	9,948,199	631,501	6.3%	0	\$15.39
Total	6,518	58,566,364	3,759,392	6.4%	61,081	

Source: CoStar Property® 2012 Fourth Quarter Report

Rhode Island Industrial Market Statistics						
Market	Existing Inventory		Vacancy		SF Under Construction	Quoted Rates /SF
	# of Bldgs	Total RBA SF	SF	%		
Central / West Bay	947	24,692,348	1,655,126	6.7%	0	\$5.03
East Bay	220	7,712,486	782,667	10.1%	0	\$4.66
Northern	351	14,110,201	1,090,695	7.7%	0	\$4.55
Providence Metro	884	27,200,269	2,093,168	7.7%	0	\$4.42
Southern	206	8,194,063	1,039,604	12.7%	0	\$4.53
Total	2,608	81,909,367	6,661,260	8.1%	0	

Source: CoStar Property® 2012 Fourth Quarter Report

### Commercial Real Estate Market Conditions

According to Moody's Real Property Price Index, which tracks repeat sales for the four major categories of commercial property, the market for commercial real estate in the Eastern United States peaked in 2007/2008 and was at its lowest point just three years later. Since the peak apartments and retail are off less than 10% while office and industrial are off 33.6% and 13.3%, respectively. Over the last year all four property types showed an increase in price with apartments and office leading the way and retail and industrial not far behind.

	Index	% chg, lyr.	Peak Date	Since Peak	Low	% chg. from low
Apartments	194.61	26.4	2007	-8.3	2010	26.4
Industrial	164.16	11.6	2008	-13.3	2010	11.6
Office	134.44	21.1	2008	-33.6	2010	21.1
Retail	194.81	10.8	2008	-9.1	2009	15.8

The above information suggests that all four categories for institutional grade real estate are in a state of correction showing modest signs of improvement. There is insufficient data available to confirm a correction in any major property category on a local level but we have observed some very interesting sales of investment grade properties at prices that are above previous levels. We have also observed an increase demand for such property especially stable, net lease investments. Multi-family demand has also increased especially in certain areas of the state and region.

Therefore, based on a combination of our observations and the data provided by Moody's we believe that the application of any standardized adjustment is not practical. We therefore consider the property type, previous sales data of similar property and location to be of utmost importance in determining the applicable adjustment for market conditions.

**Providence Office Market**

Source	Location	Effective Date of Information	Vacancy Rate			
			Class A	Class B	Class C	Overall
CB Richard Ellis	Providence CBD	12/31/2012	8.37%	17.81%	27.06%	16.02%
MG Commercial	Providence CBD	12/31/2012	8.50%	18%	28%	16%

According to **CB Richard Ellis's 2013 Market Outlook** the Providence Office market ended with a vacancy rate of 16.02% at the end up year 2012, slightly higher than the 2011 vacancy rate of 15.9%.

The Capital Center Market, a neighborhood in the Providence CBD which has considerable amount of Class A office space, has seen a positive net absorption of 42,890 square feet annually over the last three years. The vacancy rate in the neighborhood is around 11.32%.

The Financial District, where the subject is located, is Providence's largest submarket. Recently, Bank of America renewed and expanded their lease at 50 Kennedy Plaza and 1 Financial Plaza that totaled 155,149 SF of leasable area. They also leased 17,614 SF at 10 Weybosset Street. The vacancy rate in the neighborhood is around 13.84%.

The Promenade District, a neighborhood in the Providence CBD that has many converted mill structures has a significant amount of shell space and has a vacancy rate of 23.07%. Still, CB Richard Ellis reports an annual positive absorption of 31,233 SF/Yr for the past 8 years and there are opportunities for large companies to lease over 100,000 SF of first generation space that would push the vacancy rate down to the single digits.

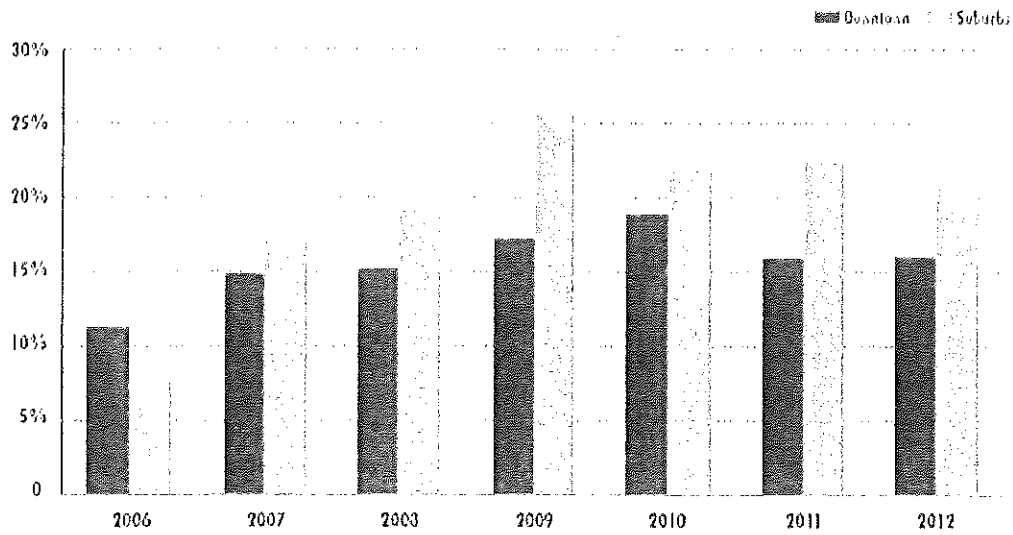
The Empire District has seen a significant increase in their vacancy rate due to the large public failure of 38 Studios, which defaulted on 104,316 SF of office space. The tenant default has provided an opportunity for a tenant to move into this formerly leased area, which has many significant improvements. The vacancy rate for the neighborhood is 19.79%.

The Jewelry District has the most amount of available space. Approximately 50% of the vacant space is mainly from two buildings. The vacancy rate is around 21.36%. The South Main Street District has seen a small absorption of 1,711 SF from 2011-2012 and vacancy rates are at a very low 4.66%. Randall Square has seen a negative absorption of 2,300 SF despite increased rental rates and a vacancy rate of around 11.34%.

2012 Providence Office Market Information					
	Total SF	Available SF	Vacancy	Net Absorption (SF)	Average Asking Lease Rate
Capital Center	626,497	70,935	11.32%	33306.00	\$31.61
Financial	2,687,882	372,056	13.84%	37699.00	\$23.51
Westminster	475,300	62,553	13.16%	(939.00)	\$19.47
South Main	138,107	6,435	4.66%	1711.00	\$21.07
Randall Sq.	195,986	22,223	11.34%	(2300.00)	\$21.63
Empire	527,181	104,316	19.79%	(104316.00)	\$23.79
Promenade	1,195,206	275,709	23.07%	38942.00	\$21.51
Jewelry(Richmond)	417,907	89,257	21.36%	(8512.00)	\$19.42
Total:	6,264,066	1,003,484	-	(4409.00)	-
Source: CB Richard Ellis					

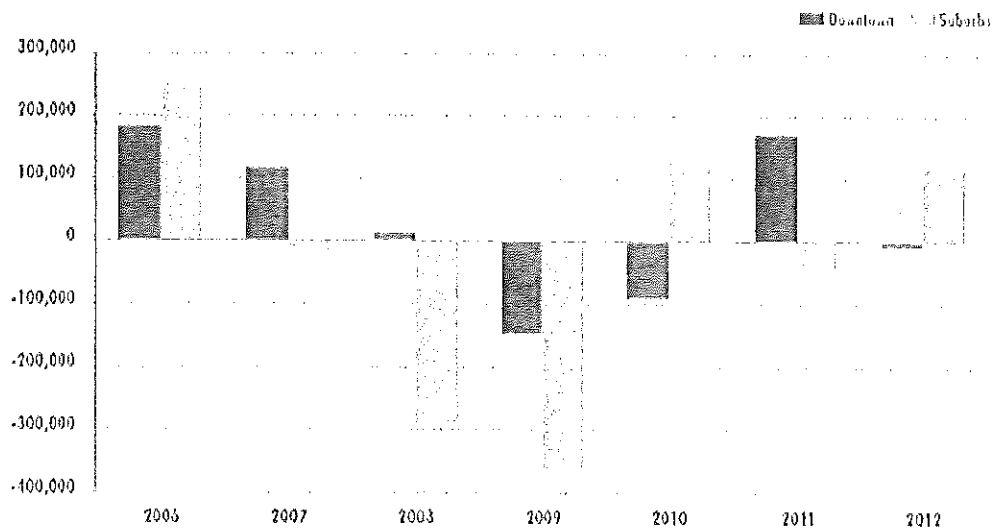
Interpreting the information, it is clear that there is a demand for space that is newer and has modern amenities. The Capital Center for instance has several newer buildings that have important amenities/services, one significant one being on-site parking and for the last three years has had an annual absorption of 42,890 SF according to the 2012 CB Richard Ellis Market Outlook Report. The Promenade District, which has a significant amount of recently converted mill space and good parking ratios, is absorbing space at a noticeable pace. During the past 8 years the Promenade District has had an annual absorption of 31,233 SF/Yr. The Financial District has absorbed a large amount of space from 2011-2012, but this information is slightly misleading because of a renewal and expansion of a previous lease of the tenant Bank of America. Still, there is some Class A space within the Financial District that is desirable, despite lack of parking. The information shows that office users area clearly moving from older to newer space. Below are graphs of historical office vacancy rates and office net absorption rates within the Providence CBD.

RHODE ISLAND HISTORICAL OFFICE VACANCY RATE



Source: CB Richard Ellis

RHODE ISLAND HISTORICAL OFFICE NET ABSORPTION



Source: CB Richard Ellis



Estimated Historical Net Absorption-Rhode Island				
	Providence CBD		Suburbs	
Year	Vacancy Rate	Net Absorption (SF)	Vacancy Rate	Net Absorption (SF)
2009	16.50%	(150,000)	25.10%	(350000.00)
2010	18.00%	(95,000)	22.00%	130000.00
2011	15.90%	180,000	23.00%	(40000.00)
2012	16.00%	(4,409)	20.20%	145789.00
Average	16.60%	(17,352)	19.04%	(28552.75)
Source: CB Richard Ellis				

The excel spreadsheet above reflects estimates of vacancy rates and net absorption rates based on graphical observation of the previous page and may have some variance. Overall the suburban office market has seen the most significant increase in vacancy rates and decrease in absorption rates in the Rhode Island Office Market. Still, the Providence CBD has seen vacancy rates annually of between 16%-18% since 2009. Average annual absorption rate for the Providence CBD since 2009 is around -17,352 square feet with an average annual vacancy rate of 16.60%.

### Conclusion

Negative absorption rates during the past few years indicate that it would take a very long time for the subject to be at full occupancy. The building is currently in below average to fair condition which makes it even more difficult to attract tenants. Overall, we estimate that office market conditions in the neighborhood are fair to poor, particularly for Class B and C office space. We estimate an absorption period for office space for the subject of 15 years.

### **Highest & Best Use and Value Conclusion**

The subject improvements, although a classic 1920's architectural gem, can best be described as a dinosaur, with a seemingly insatiable appetite for cash. The property is inefficient to operate, expensive to maintain and renovate and is located in a district where demand is minimal as exhibited by years of negative absorption.

Given current rental rates and negative absorption, the current use of the subject is not sustainable, consequently we have considered other potential uses including conversion to all residential or some type of mixed office/residential use. Although the subject from the upper floors affords commanding views of Metropolitan Providence and the upper bay, the lack of parking coupled with renovation costs projected at a minimum of \$50,000,000.00 makes re-use untenable without some form of public subsidy.

Given the dismal prognosis for any level of positive cash flow in the near or late term a prudent owner or buyer would typically demolish the structure. The cost of demolition is exacerbated by the relatively small foot print of the building and would probably need to be completed in multiple stages and the result would be a vacant 27,000 SF parcel with a value significantly less than the cost of demolition. Therefore it is my opinion that the Highest and Best Use of the subject is to "shutter" the building with the hope that Market Conditions improve to the point where rehabilitation is an option. We estimate value as of December 31, 2012 to be Zero (\$0.00) Dollars.

Very truly yours,



Peter M. Scotti, MAI  
RI License # CGA.0A00110

**Certification**

1. Peter M. Scotti, MAI inspected the subject property on October 22, 2013.
2. We have no present or contemplated future interest in the subject property.
3. We have no personal interest or bias with respect to the subject of this report or to the parties involved in this assignment.
4. 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.
5. The reported analyses, 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.
6. No one provided significant real property appraisal assistance to the undersigned.
7. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
8. To the best of our knowledge, statements of fact contained herein are true and correct.
9. As of the date of this report Peter M. Scotti, MAI and Michael Kern, MAI have completed the requirements of the Continuing Education Program of the Appraisal Institute.
10. Our analysis, opinions and conclusions were developed and this report has been prepared in compliance with the Uniform Standards of Professional Appraisal Practice. It may be subject to review by members and designates of the Appraisal Institute.
11. The undersigned have not performed previous real estate services on the property that is the subject of this appraisal, or for the parties involved within the last three years.

We estimate value as of December 31, 2012 to be Zero (\$0.00) Dollars.

Very truly yours,



Peter M. Scotti, MAI  
RI License # CGA.0A00110

**General Assumptions & Limiting Conditions**

This appraisal report, the Letter of Transmittal and the Certification of Value are made expressly subject to the following assumptions and limiting conditions and any special limiting conditions contained in the report which are incorporated herein by reference.

1. The legal description used in this report is assumed to be correct.
2. Sketches in this report are included to assist the reader and no responsibility is assumed for accuracy. No independent survey has been made of the property by the appraisers specifically for this report.
3. No responsibility is assumed for matters legal in nature, nor is any opinion rendered as to title, which is assumed to be good and marketable. The title is assumed to be held in fee simple.
4. Information, estimates and opinions furnished by others in this report were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy was assumed by this appraiser.
5. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless so specified within this report. The property is appraised as though under responsible ownership and competent management.
6. Subsurface rights (minerals and oil) were not considered in making this appraisal.
7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures which would render it more or less valuable. No responsibility is assumed for such conditions nor is the appraiser responsible for arranging engineering, which might be required to discover such factors.
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 required licenses, consents, or other legislative or administrative authority from any local, state, or national governmental 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.
10. 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 within this report.
11. Unless arrangements have been previously made, no appearances in court or requirements to give testimony in respect to the subject property will be assumed by the appraiser.
12. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purposes by any person other than the person to whom it is addressed without the written qualification and only in its entirety.

13. The distribution of the total valuation in this report between land and improvements applies only under the highest and best use of the subject property. The separate valuations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
14. Neither all nor any part of the contents of this report, or copy thereof, shall be used for any purpose by anyone but the client, without the previous written consent of the appraiser and/or client; nor shall it be conveyed by anyone but the client to the public through advertising, public relations, news, sales or other media without the written consent and the approval by the author(s), particularly as to valuation conclusions, the identity of the appraiser or a firm.
15. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. In this appraisal assignment, the existence of potentially hazardous material in the construction or maintenance of the building, such as the presence of ureaformaldehyde foam insulation, asbestos, and/or the existence of toxic waste or radon gas, which may or may not be present on the property, has been considered. No information was obtained confirming, disproving, or leading us to suspect the existence of such hazards, except where noted. The appraiser is not qualified to detect such substances. We urge the client to retain an expert in this field if desired. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
16. On January 26, 1992, The Americans with Disabilities Act (ADA) became effective. The Act requires compliance based on each property owner's financial ability with regard to the cost to cure the property's potential physical characteristics. Given that compliance is dependent upon the specific financial ability of each owner as determined by the U.S. Justice Department, it is not possible for the appraiser to comment on either current or potential adherence to the act or its impact on value. Consequently, a specific survey or analysis of the property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines has not been undertaken.
17. This appraisal and report does not consider or address the impact upon the property that may result from recently (post 2001) enacted life saving legislation, specifically amendments to state and local fire and building codes. Unless specified it is assumed that the property meets all fire and building codes as of the effective date.

**Market Value** is defined as the most probable price in terms of money which a property should bring in an open and competitive 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:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interest;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property, sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Rules and Regulations, Federal Register, Vol. 55, No. 165, Page 34696.

**Leased Fee** is a property held in fee with the right to use and occupancy conveyed by lease to others. A property consisting of the right to receive ground rentals over a period of time, plus the right of ultimate repossession at the termination of the lease.<sup>1</sup>

**Fee Simple**, defined is: an absolute fee; a fee without limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power and taxation. An inheritable estate.<sup>2</sup>

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<sup>1</sup> Real Estate Appraisal Terminology (Boyce), Page 102 and 149, respectively.

Real Estate Appraisal Terminology (Boyce), Page 102 and 149, respectively.

Plat Map

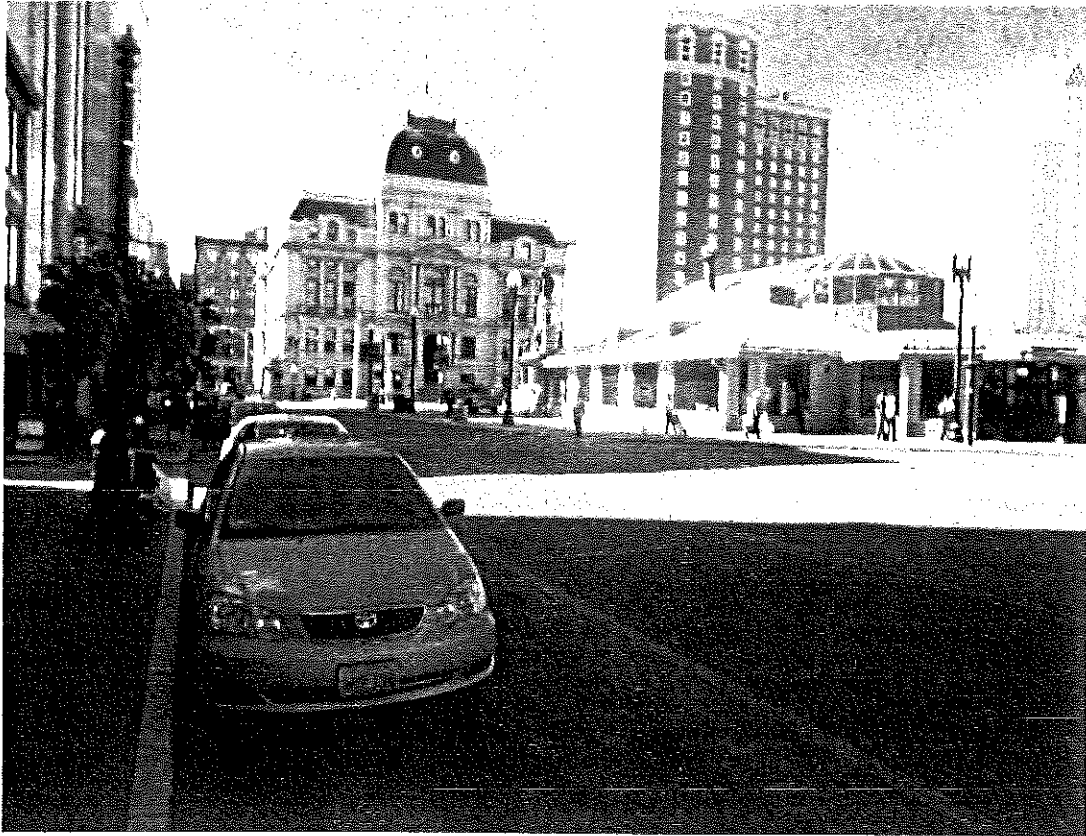


**Subject**





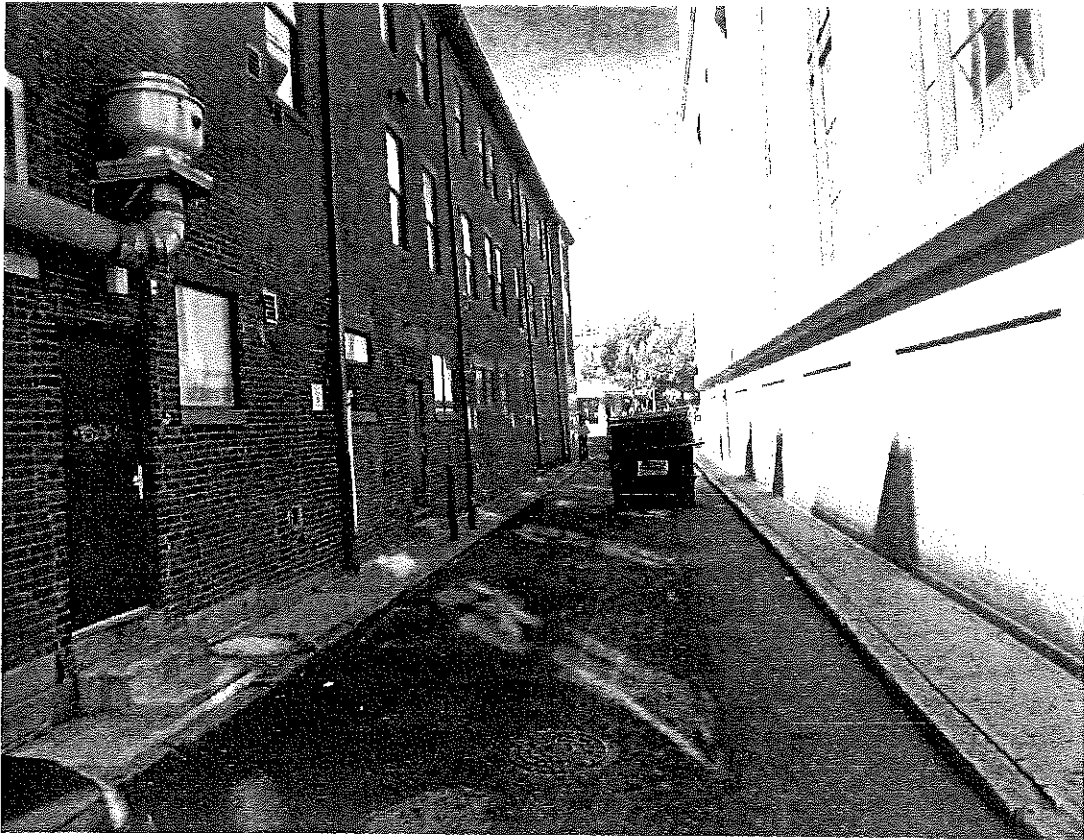
**Kennedy Plaza**



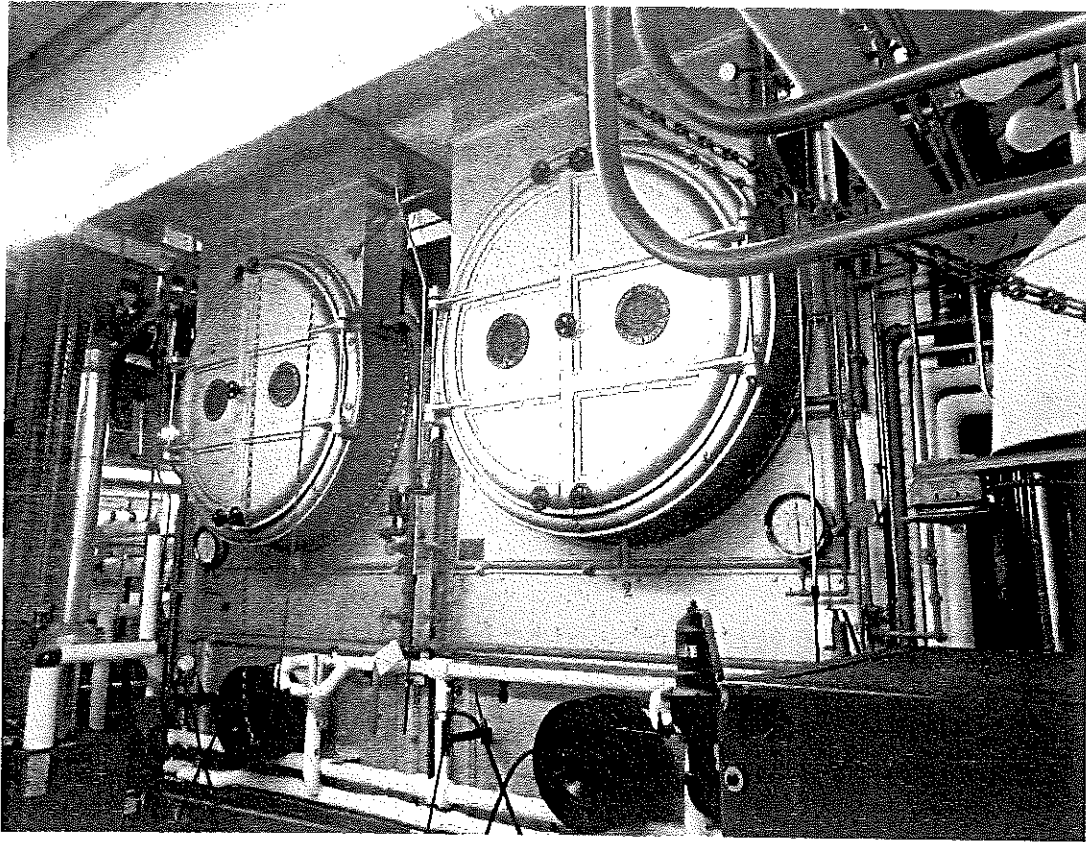
Westminster Street



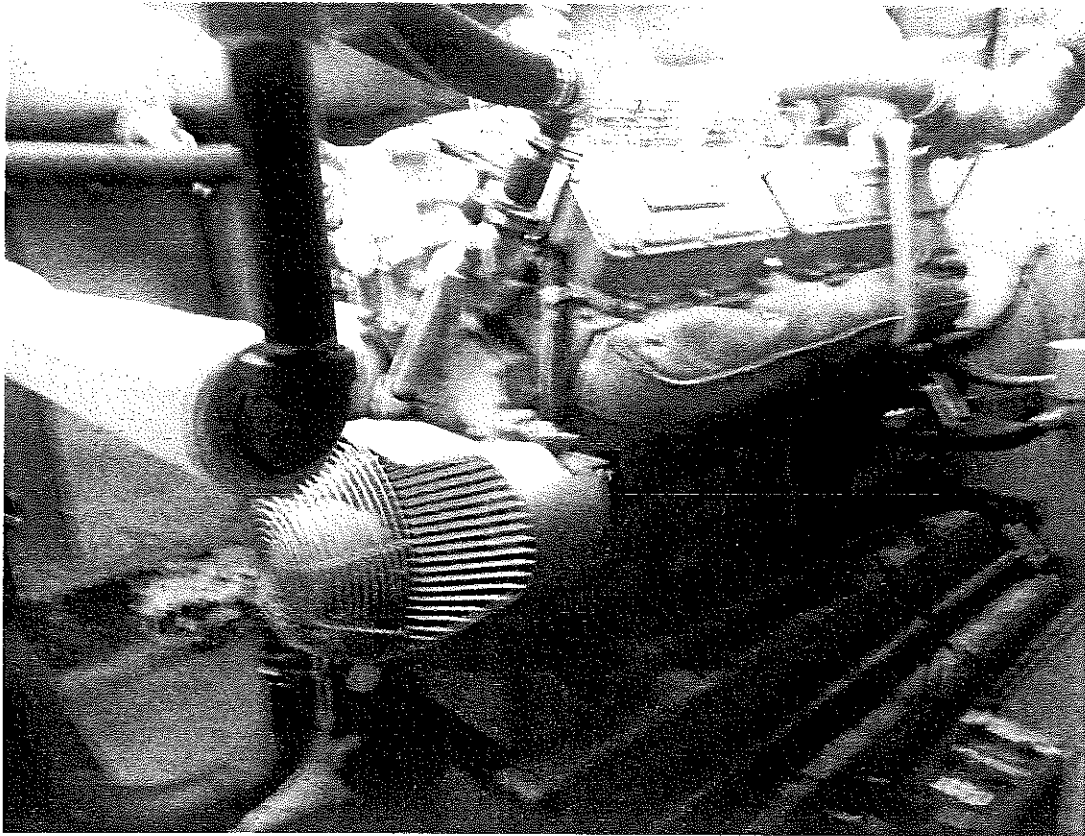
**Arcade Street**



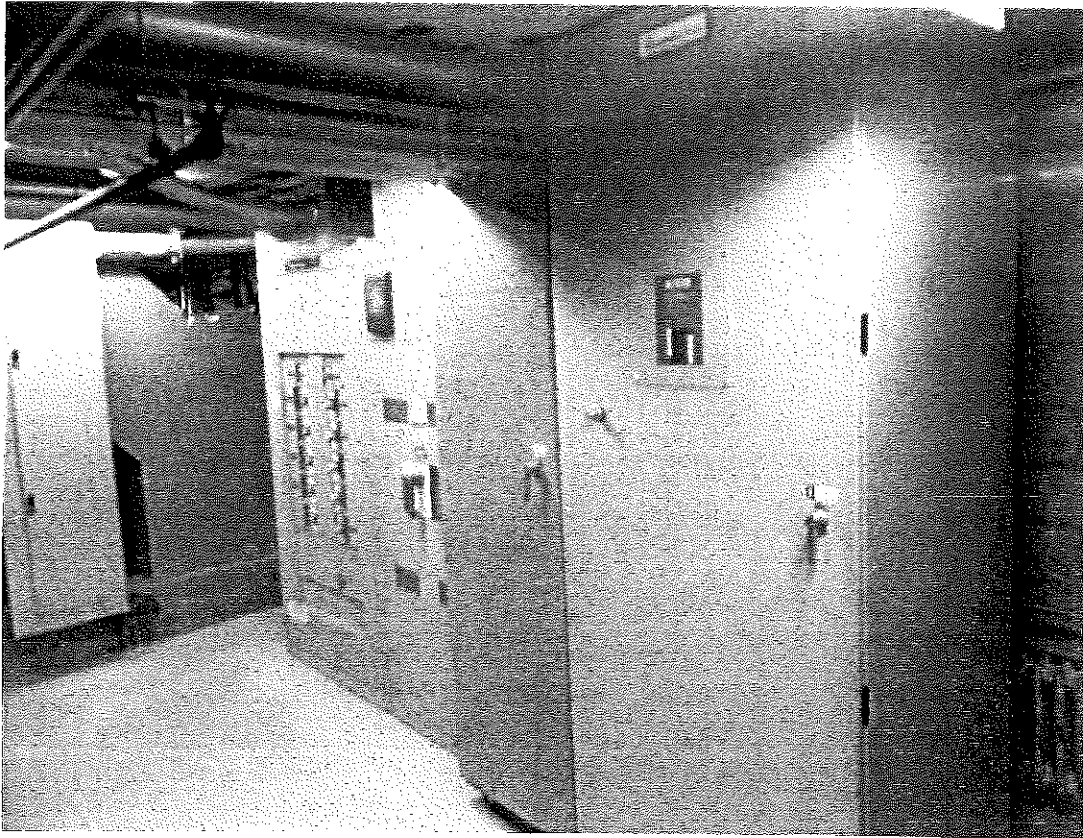
**Boilers**



**Generator**

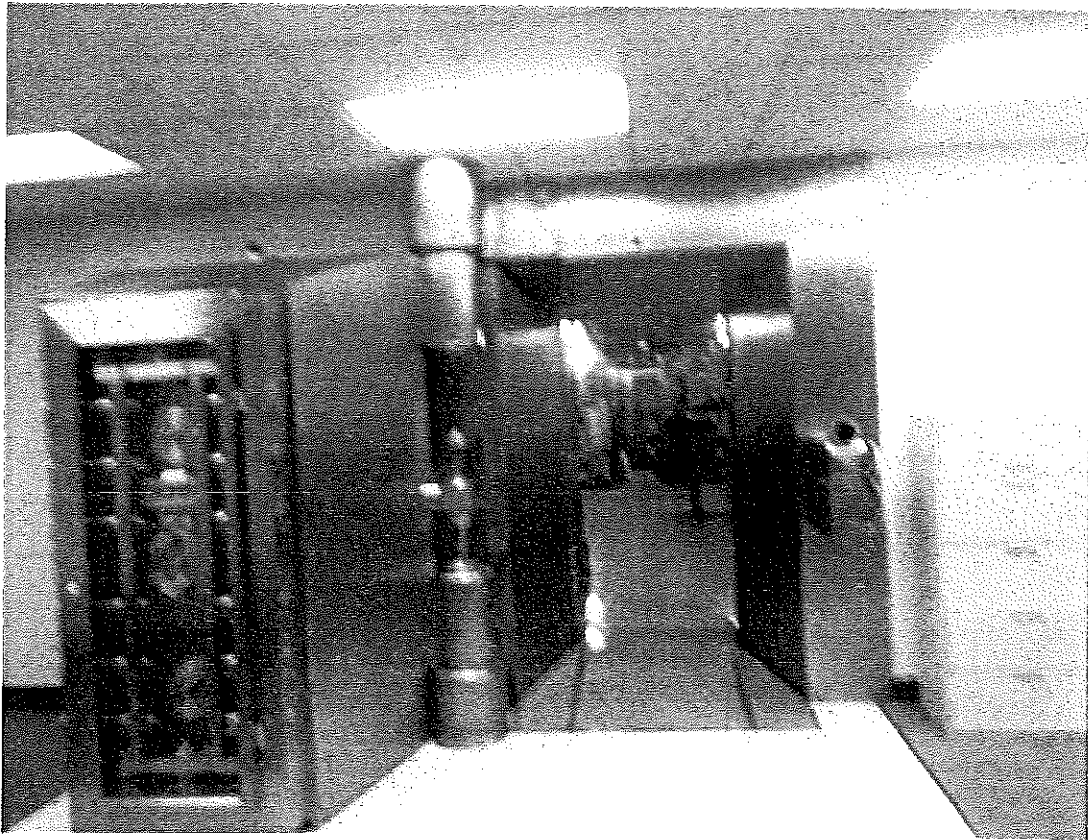


**Electric Vault**

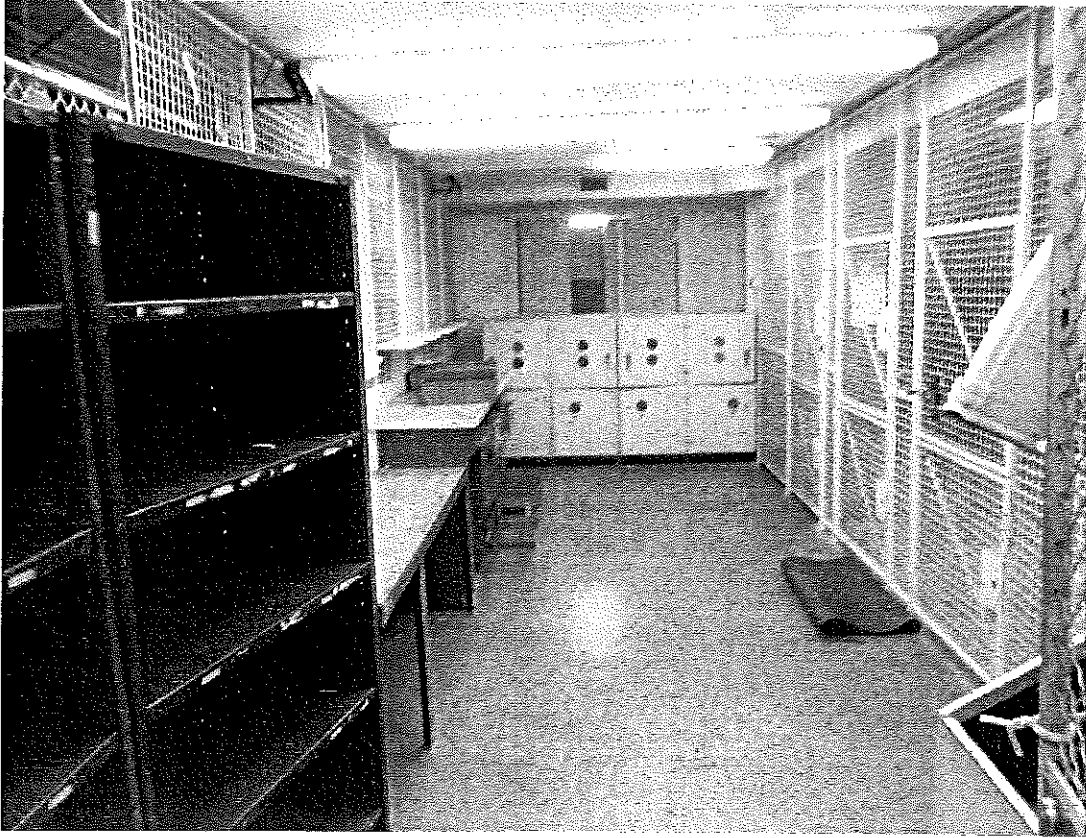




**Basement Vault**



**Basement Vault**





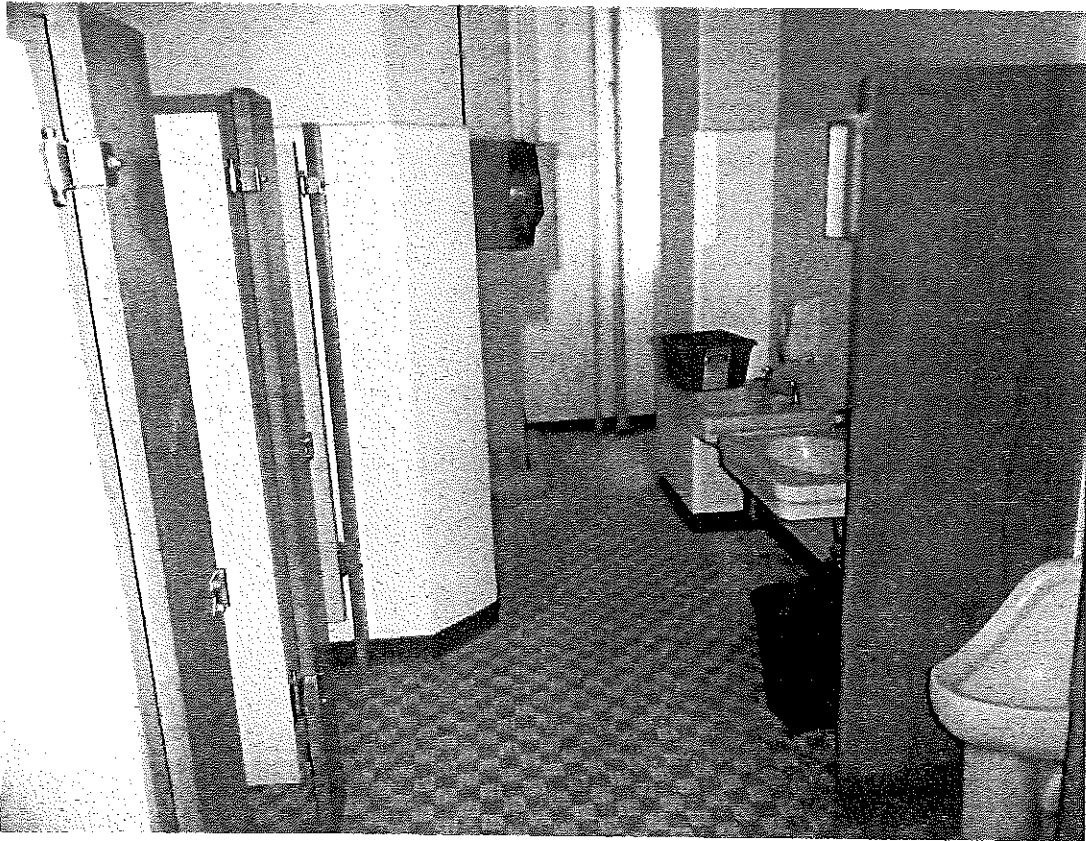
**Typical Floor**



**Typical Office Floor**



**Typical Mens Room**



**Executive Office**



**Looking West From Subject**



**Looking South from Subject**





**PETER M. SCOTTI, MAI**  
**Peter M. Scotti & Associates, Inc.**  
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**Providence, Rhode Island 02906**  
**(401) 421-8888 Ext. 13 / (401) 255-7704**  
[pmgbs@scottire.net](mailto:pmgbs@scottire.net)

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#### **PROFESSIONAL SUMMARY**

Peter Scotti is a seasoned commercial and residential real estate leader. Over 39 years of executive-level experience – spanning the full spectrum of real estate transactions. Recognized sales and appraisal industry expert. Deep understanding of all facets of the commercial and residential real estate marketplace. Especially familiar with the Greater Providence market, including downtown Providence and surrounding communities. Active throughout Rhode Island and the Southeastern Massachusetts areas. Involved in transactions of all classes and possessing the hands-on knowledge and experience to successfully guide the needs and achieve the goals and objectives of a very divergent client base.

Vast experience working closely with government and public agencies on state and local levels. Skilled strategist and negotiator. In-depth knowledge of historic, zoning, planning, assessment and regulatory matters. Proven track-record in managing complex commercial and residential ventures. Comprehensive real estate packaging, branding and marketing direction. Superior analytical skills. Outstanding work ethic and integrity. Diligent and committed to excellence. A civic and community leader: Executive board member, President and Vice President of numerous real estate groups. A Rhode Island and Providence native with multi-generational roots within the community.

#### **SNAPSHOT OF KEY ACHIEVEMENTS**

- **Founder and President of a leading RI appraisal and real estate brokerage firm for 25 years.**
- **In 1996 admitted to membership in Appraisal Institute MAI, the gold standard for real estate appraisers nationwide. Of the 102,000 licensed/certified appraisers in the U.S., only 6% have earned this prestigious designation.**
- **Former Chair, RI Appraisal Board and appointed to current Appraisal Board by Governor Lincoln Chaffee.**
- **Former Chairman of Omni Development Corporation, a nonprofit community development and planning organization.**
- **President, RI Commercial Appraisal Board of Realtors – 2012.**
- **Board Secretary, RI Association of Realtors -2012**
- **City of Providence Economic Development Partnership, Loan Committee Member - 2012**

#### **EXPERIENCE**

1987-present

**PETER M. SCOTTI & ASSOCIATES, Providence, RI**

##### **FOUNDER/PRESIDENT**

Real Estate Appraisal and Sales firm.

Directs staff of up to 15 commercial and residential real estate appraisers and brokers in thriving firm. The education, experience and market sophistication of the firm is unequaled in the Rhode Island brokerage community.

- **Recognized as one of the foremost real estate experts in Rhode Island.**
- **Real Estate consultant/appraiser to RI Department of Transportation, Department of Environmental Management, Department of Administration, Providence Water Supply Board, Providence Planning Department, Narragansett Bay Commission, City of Newport.**

**Clients**

Bank of America; Citizens Trust Company; Rockland Trust Company; Webster Bank; TD Bank North; Coastway Community Bank; BayCoast Bank; Peoples Credit Union; Bank Rhode Island; Home Loan & Investment Company; Greenwood Credit Union; Merrill Lynch Relocation; Lifespan; EXXON; Texaco Corporation; Merritt Oil Company; Blue Cross/Blue Shield; Liberty Mutual; Metropolitan Insurance Corporation; Puritan Life Insurance Company; City of Providence; City of Woonsocket; City of Pawtucket; City of Newport; City of Warwick; Town of North Kingston; Town of Middletown; Town of Richmond; Town of Somerset; Town of Portsmouth; Town of Lincoln; Coastal Resource Management Council/State of Rhode Island; Department of Environmental Management; State of Rhode Island; Department of Transportation, Department of Administration, Port Authority; United States Department of Justice ;United States GSA;United States Small Business Administration; United States Post Office; Rhode Island Housing Mortgage Finance Corporation; Narragansett Bay Commission; Bristol County Water Authority; Providence Water Supply Board; Edwards & Wildman; Blais, Cunningham, Crowe, & Chester; Lynch & Greenfield; Vetter & White; Carroll, Kelly & Murphy; Burns & Levenson; Boyajian, Harrington & Richardson; Revens, Revens & St. Pierre; Hinckley, Allen, Snyder & Comen; Schectman, Halperin & Savage; Adler Pollack & Sheehan; Olen & Penza; Nixon and Peabody.

1983-1988

**H.W. COOKE COMPANY**, Providence, RI

Residential and Commercial Real Estate Sales and Appraisals

**CHIEF APPRAISER/VICE PRESIDENT**

Led the Appraisal Department of Rhode Island's oldest real estate company. Supervised up to 12 appraisers.

- **Achieved highest commercial real estate sales each year.**

1980-1983

**PROVIDENCE LAND COMPANY**, Providence, RI

Real Estate Development and Sales

**VICE PRESIDENT**

Oversaw value analysis and real estate sales.

- **Developed first office condominiums in Providence.**
- **Developed and sold the Masonic Temple Building and Hanly Building.**

**PROFESSIONAL MEMBERSHIPS & QUALIFICATIONS**

**Professional Memberships**

Rhode Island Commercial Appraisal Board of Realtors, President 2012

Rhode Island Appraisal Board, Member

Rhode Island Appraisal Board, Chairman 2003

Rhode Island Chapter Appraisal Institute, Board of Directors 1999

National Association of Realtors

Rhode Island Chapter Appraisal Institute, President 1998

Appraisal Institute Member, MAI 1996

R.I.A.R./CID, Vice President 1989

Greater Providence Board of Realtors/Board of Directors 1987

**Licenses**

Licensed Real Estate Broker State of Rhode Island, License #B14864

Licensed Real Estate Appraiser, State of Rhode Island, License #CGA.0A00110

Licensed Real Estate Appraiser, Commonwealth of Massachusetts, License #2805



**Qualifications**

**Expert Witness in the following Cities and/or Towns, Zoning Board of Review:**

Barrington, Bristol, Burrillville, Central Falls, Coventry, Cranston, Cumberland, East Greenwich, East Providence, Exeter, Foster, Gloucester, Jamestown, Johnston, Lincoln, Middletown, Narragansett, Newport, New Shoreham, North Kingstown, North Providence, Pawtucket, Portsmouth, Providence, Richmond, Smithfield, South Kingstown, Tiverton, Warren, Warwick, West Warwick, and Woonsocket, Rhode Island, Seekonk, Massachusetts

**Real Estate Qualified to Testify before:**

Family Court, District Court, Superior Court - State of Rhode Island; United States Bankruptcy Court; U.S. District Court, Rhode Island

**Tax Review Board**

Barrington, Bristol, Cranston, Cumberland, Johnston, Lincoln, Narragansett, North Kingstown, Pawtucket, Providence, Scituate, South Kingstown, Warwick, West Greenwich, and West Warwick, Rhode Island

**Town Councils**

Providence, Cumberland, Lincoln, North Kingstown, and North Providence, Pawtucket, East Providence, Warwick, Rhode Island

**EDUCATION:**

**PROVIDENCE COUNTRY DAY SCHOOL**, East Providence, RI

**B.A., WASHINGTON AND JEFFERSON COLLEGE**, Washington, Pennsylvania

**EDUCATION (Partial List):**

**SPECIALIZED:**

Appraising Real Property; Applied Property Valuation; Principles of Income Property Appraising; Applied Income Property Valuation; Standards of Professional Practice; Income Valuation Mixed Use; Rates and Ratios; The Real Estate Economy; Making Sense of the Changing Landscape of Value; Office Building Valuation; Analyzing Distressed Real Estate; Introduction to GIS Applications for Real Estate Appraisal; Advanced Sales Skills, Negotiation for the Commercial Broker.

**INSTRUCTOR, UNIVERSITY OF RHODE ISLAND**

Introduction to Real Estate Appraisal, Fundamentals of Real Estate, Income Property Appraisal

**GUEST LECTURER, JOHNSON & WALES UNIVERSITY**

Fundamentals of Real Estate