

### **Identification of Assumptions and Limiting Conditions:**

The following Assumptions and Limiting Conditions apply only to the sale data utilized to complete the sales analysis, and/or establish the basis for the statistical benchmarks incorporated into the analysis. Any exceptions to the following Assumptions and Limiting Conditions will be documented on the individual property record cards, when applicable.

- 1) We have not been provided deeds to the assessed properties. Therefore, no responsibility is assumed for the legal description provided or for matters pertaining to legal issues and/or title.
- 2) We have not been provided deeds to the assessed properties. Therefore, the properties were assumed to be free of any and all liens and encumbrances, unless noted within this report. Each property has also been appraised as though under responsible ownership and competent management.
- 3) We have not been provided surveys of the assessed properties. Therefore, we have relied upon tax maps and other materials provided by the city in the course of estimating physical dimensions and the acreage associated with assessed properties.
- 4) We have not been provided surveys of the assessed properties. Therefore, we have assumed that the utilization of the land and any improvements is located within the boundaries of the property described, and there is no encroachment on adjoining properties unless noted within the report.
- 5) We assume that there are no hidden or unapparent conditions associated with the properties, subsoil, or structures, which would render the properties (land and/or improvements) more or less valuable.
- 6) We assume that the properties and/or the landowners are in full compliance with all applicable federal, state, and local environmental regulations and laws, unless specific noncompliance is established, defined, and considered in the appraisal report.
- 7) We assume that all applicable zoning and use regulations have been complied with, unless specific noncompliance is established, defined, and considered in the appraisal report.

- 8) We assume that all required licenses, certificates of occupancy, consents, or other instruments of legislative or administrative authority from any private, local, state, or national government entity have been obtained for any use on which the value opinions contained within this report are based.
- 9) We have not been provided a hazardous condition's report, nor are we qualified to detect hazardous materials. Therefore, unless otherwise stated within this report, evidence of hazardous materials, which may or may not be present on a property, was not observed. As a result, the final opinion of value is predicated upon the assumption that there is no such material on any of the properties that might result in a loss, or change in value.
- 10) Information, estimates and opinions furnished to the appraisers and incorporated into the analysis and final report, was obtained from sources assumed to be reliable and a reasonable effort has been made to verify such information. However, no warranty is given for the reliability of this information.
- 11) The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made compliance surveys nor conducted a specific analysis of any property to determine if it conforms to the various detailed requirements identified in the ADA. It is possible that such a survey might identify non-conformity with one or more ADA requirements, which could lead to a negative impact on the value of the property(s). Because such a survey has not been requested and is beyond the scope of this appraisal assignment, we did not take into consideration adherence or non-adherence to ADA in the valuation of the properties addressed in this report.
- 12) The market forecasts, projections and operating estimates contained within the report are predicated upon current market conditions, and forecasts of short-term supply and demand factors. This information was obtained in the course of interviews with knowledgeable parties, and in published public and private resources. While this information was assumed to be credible, these forecasts are subject to change due to unexpected conditions both local, regional and national.
- 13) Any opinions of value in this report apply to an entire property, and any allocation or division of the value into separate fractional interests will invalidate the opinion of value reflected in this report.

- 14) Information pertaining to the sales of properties utilized in the analysis and subsequent report has been confirmed with either the buyer, seller, or a third party when ever possible, and is assumed to be reliable.
- 15) Possession of this report does not carry with it the right of reproduction, and disclosure of this report is governed by the rules and regulations of the IAAO, and is subject to jurisdictional exception and the laws of New Hampshire.

**Scope of Work as Identified in Contract:** In accordance with the contract located in Appendix “A” of this report, the process of developing and completing the opinion of values and this report comprised the following steps:

- 1) The City previously Measured and Listed all Commercial Industrial and Apartment Properties (four units or greater) and such qualified sale properties that took place from 4/1/12 through 4/1/15 as taxable in the City of Portsmouth. This included interior inspections whenever possible. PVA drove by/field reviewed each of these properties that had sold from 4/1/12 through 4/1/15 as taxable in the City in an effort to ensure the exterior data appeared reasonable relative to the exterior drive-by view of the property as well as that the interior data also appeared reasonable based on the exterior design, size, quality, and condition, etc. Sales questionnaires put together by PVA were sent out by the Town to property owner’s who had recently purchased property to further screen (qualify or unqualify) these sales.
  
- 2) Using the City’s own CAMA system the City updated existing data with the information obtained in the field by their staff appraisers. Data Entry was primarily performed by City personnel and only to a minor extent by Property Valuation Advisors. The City performed Data Entry changes found by PVA in their field review of the sales as well as their overall field review. The date of the field review of each such property reviewed by Stephen Traub of PVA was noted within the CAMA system and displayed on the property record card.
  
- 3) All improved sales and those of vacant land were collected, verified, and inspected in accordance with the DRA’s “600 Rules” by the City and exterior field reviewed by Property Valuation Advisors. In addition to validating and screening recent sales, other market-related information was garnered from many sources. This information included economic trends for real estate of these use types by checking for properties that were on the market and their asking prices, broker’s reports regarding sales trends, rental trends and information, cap rate information and trends, etc. In addition PVA had the Town mail a questionnaire asking for recent rental/income information and terms and expense information and terms of such expense, etc. to each property owner of such property in Portsmouth. Income and expenses from commercial property owners, property managers, brokers and/or other sources were used to develop Citywide market rents and expenses and cap rates for each major property type. These developed market rents and expenses and cap rates were entered into the CAMA

tables for development into values via the Income Approach to Value for each such property that is typically bought in this manner.

4) Market-related information was extracted from private and public sources. This information included economic trends for real estate of all use types, zoning and flood plain data, as well as income and expenses from commercial properties from the owners, property managers, and/or brokers. Building Costs estimates were developed from MVS with local factors applied and by checking against new local permit information and stated costs. Property use strata were derived from an analysis of the market data.

5) Depreciation factors were extracted from sources such as MVS and from local market data sales. Tables were then developed and entered into to the town's CAMA system for application to the property inventory.

6) Neighborhood boundaries were derived and established from an analysis of the market data based upon desirability of location as indicated in the market and delineated by Neighborhood Codes. For each locational strata, value parameters were analyzed from recent sales activity and applied.

7) This information was analyzed, the highest and best use of each property identified (as described within this section), and opinions of value were developed utilizing at least one of the three possible approaches to value (Sales Approach, Cost Approach, and/or Income Approach to value). All pertinent factors, including physical, legal, and economic considerations were considered and recognized, subject to the assumptions and limiting conditions referenced above.

8) Starting with new preliminary values on each property record card, a full field review ensued and physical and value information and results were adjusted to create a preliminary value indication using the Vision Market Adjusted Cost System. Next, using the Vision CAMA system income tables were updated reflecting local data and a preliminary income approach to value was produced. Lastly income values, cost values and local sales were reconciled and final values were produced and stored electronically in the Vision mass appraisal system as would be shown on the Vision property record cards.

**Brief Description of the Assessed Properties:** In accordance with the contract located in Appendix "A" of this report, the City of Portsmouth required all taxable Commercial Industrial and Apartment Properties four units or greater real property in its respective municipal boundaries to be valued.

A final breakdown of the city's real property by "use type" follows:

|                              |              |
|------------------------------|--------------|
| Apartments (4 units or more) | 155          |
| Commercial Improved          | 1,085        |
| Commercial Vacant            | 56           |
| Industrial Improved          | 151          |
| Industrial Vacant            | 20           |
| <b>Total Taxable</b>         | <b>1,467</b> |
| Exempt                       | 380          |
| <b>Total</b>                 | <b>1,847</b> |

Most multi-story commercial retail, restaurant, hotels, and mixed use properties are in the downtown area which includes a significant amount of mixed use waterfront property. This area continues to be developed and redeveloped with many new facilities built over the past five years.

Another significant retail area is along and near Woodbury Ave. which is mostly retail strip/shopping centers and big box retail. This area houses two supermarkets, a wholesale club store, gas stations, national chain and fast food restaurants, a Home Depot, Christmas Tree Shops, as well as national chain motels.

Another significant retail area is along Lafayette Rd aka Rte. 1. This also houses a number of retail strip/shopping centers, auto dealers, stand-alone retail, gas stations, and national and local restaurants. In three distinct strip centers, a full size supermarket exists in one with specialty boutique markets in the other two. With the closing of one older cinema, a new one has just opened further south in a newly renovated, expanded, and expanding shopping center.

In and around the rotary at the Rte. 1 bypass and Woodbury Ave. a number of national chain lodging facilities exist.

Along Borthwick with visibility along I-95 is a large regional hospital, abutting large “on campus” medical office buildings, nearby medical office condos, a large fish processing plant as well as across the street a large national insurance company office facility.

Another significant area is Pease. This area contains a very large number of office buildings, R&D facilities, airport-related facilities and high-tech manufacturing, with Lonza the highest valued facility. This area continues to be developed and redeveloped with many new facilities built during the past five years.

**Determination of Highest and Best Use:** Highest and Best Use is defined as:

The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are: legal permissibility, physical possibility, financial feasibility, and maximum profitability" <sup>3</sup>  
(The Dictionary of Real Estate Appraisal, Third Edition, 1993, Page 171)

In most cases the "existing" use is already at its highest and best use, and will be evaluated and assessed accordingly.

Importantly, however, in the case of "transitional" uses (a "transitional" use is a property with a highest and best use that is no longer "maximally profitable"...and the existing use is likely to change due to market and economic forces) the assessor may evaluate the property on the basis of its projected highest and best use. In these circumstances, the projected highest and best use is determined by a market analysis that references the four criteria referenced above (legal permissibility, physical possibility, financial feasibility, and maximum profitability). A common example of this would be a vacant tract of residential land (not in current use), that is surrounded by significant numbers of residential homes and/or lots, and the market conditions indicate a favorable housing market. In this case, the assessor may justifiably assess the raw land on the basis of its legitimate development potential.



**Process of Collecting, Validating and Reporting Data:** The valuation report that follows is predicated upon the contract, dated 8/11/14, and signed between the City of Portsmouth and Property Valuation Advisors (PVA).

All commercial industrial and apartment property data was attempted to be reinspected by the City prior to the commencement of the 2015 revaluation. This also included updating of building permit changes that took place through 4/1/15 by City personnel.

Transfers within the City of Portsmouth spanning a three year period up to April 1, 2015 were reviewed, and analyzed by the City to determine if the transfer was an "arm's-length transaction. This was accomplished by interviewing the buyer, seller, or the representative sales agent when possible. The interview also identified the sales price, and any terms or conditions surrounding the sale that might have influenced the negotiated price. An attempt was then made to inspect each sale property by the City, and the property record card was updated to reflect the most accurate data available. Subsequently sales questionnaires put together by PVA were sent out by the City to property owner's who had recently purchased property to further screen (qualify or unqualify sales).

Since the City already had completed interior inspections, the contract stipulated that only an exterior field review by PVA was required of the three years of sales. PVA met this contractual obligation across 100% of the city's C/I/A sales parcels. Subsequently this was followed by a final exterior field review of all properties (not just sale parcels). Although PVA performed an exterior field review of every such parcel, PVA was not responsible for onsite measurement of the property or completing an interior inspection – that was the responsibility of the City.

As part of PVAs field review, PVA drove by/field reviewed each of the properties that had sold from 4/1/12 through 4/1/15 as well as subsequently non-sale properties in an effort to ensure the exterior data appeared reasonable relative to the exterior drive-by view of the property as well as that the interior data also appeared reasonable based on the exterior design, size, quality, and condition, etc. In particular, use/style and model classifications, number of stories, and quality grades were checked and finalized as well as judgments made with consideration to all forms of depreciation and final adjustments were made. Lastly, any overall or individual internal and external influences on land were considered and final adjustments were made.

The qualified sale data was "stratified" by use type, such as retail, office, industrial, etc. and also stratified by neighborhood, to isolate more discrete "locational" differences and/or influences. The verified sale data was then utilized to extract meaningful adjustments and/or benchmarks that became the basis for various tables, such as time (market conditions), cost, depreciation, view influence, water influence, etc.

Building Costs estimates were developed from MVS with local factors applied and by checking against new local permit information and stated costs. Depreciation factors were extracted from sources such as MVS and from local market sales data. Tables were then developed and entered into to the City's CAMA system for application to the property inventory.

Neighborhood boundaries were established based upon desirability of location and delineated primarily via Neighborhood Codes and these were applied to updated base prices per SF or per acre emulating recent sales activity. For each locational strata, value parameters were analyzed from recent sales activity and applied.

In addition to validating and screening recent sales, other market-related information was garnered from many sources. This information included economic trends for real estate for these use types by checking for properties that were on the market and their asking prices, broker's reports regarding sales trends, rental trends and information, vacancy levels, and cap rate information and trends, etc.

In addition PVA had the City mail a questionnaire asking for recent rental/income information and terms and expense information and terms of such expense, etc. to each property owner of such property type in Portsmouth. Income and expenses from commercial property owners, property managers, brokers and/or other sources were used to develop City-wide market rents and expenses and cap rates for each major property type. These developed market rents and expenses and cap rates were entered into the CAMA tables for development into values via the Income Approach to Value for each such property that is typically bought in this manner.

Once the preliminary benchmarks were established, “data calibration” was required in order to bring the computerized mass appraisal formulas and tables into conformity with the market. To do so, field reviews and further analysis utilizing “ratios” (a comparison of the assessed value to its sale price) and the CAMA (Computer Assisted Mass Appraisal) software was conducted in order to refine the base tables, and verify the alignment and consistency of the base tables.

Finally, these benchmarks became the basis for a statistical analysis of similar properties, and new property values were generated. Starting with these preliminary values on each property record card, a full field review ensued and physical and value information and results adjusted to create a preliminary value indication using the Vision Market Adjusted Cost System. Next, using the Vision CAMA system income tables were updated reflecting local data and a preliminary income approach to value was produced. Lastly income values, cost values and local sales were reconciled and final values were produced as would be shown on the Vision property record cards and stored electronically in the Vision mass appraisal system.

Overall, every effort was made to help ensure that the final values were uniform and equitable.

This report was then prepared in conformity with Standard 6 of the Uniform Standards of Professional Appraisal Practice (USPAP 2014-2015), as well as the contract, dated 8/11/15, signed between the City of Portsmouth and Property Valuation Advisors.

Upon completion of the final review and approval of the city’s values by the City Assessor, notices of value were then mailed to each taxpayer. These notices also included sufficient information (timing and location) to enable a taxpayer to attend an informal hearing to “appeal” the new assessed value,

Hearings were then held at a time and location scheduled by the City. Any changes that arise from the appeal and hearings process will be reflected in the final tax bill for 2015.

**Approaches to Value Considered and/or Utilized:** Commercial properties were valued primarily by the Cost and Income approaches to value. On typically non-income-producing i.e., properties more typically owner-occupied such as small commercials or small condos no larger than a large single family house of say less than 3,500 SF, these often were not capitalized based on potential income. In addition to the cost approach on these, however, a comparable sales range per unit was established from sales of similar properties and the cost approach value was compared on a per unit basis such as value per SF to this range as a check of reasonableness. Therefore via ratio analysis and via the development of units of measure from the sales, to some extent the Comparable Sales Approach was utilized on property types with an adequate sales base.