

**PREPARED FOR**

Ms. Nicole Southerland  
Vice President of Lending Operations  
**Capstone Capital Partners, LLC**  
507 Denali Pass, Suite 400  
Cedar Park, Texas 78613

**APPRAISAL OF THE**

**MEDICAL CONDOMINIUM UNIT**

Within the  
Woodhill Medical Park Condominium Project

**LOCATED AT**

8355 Walnut Hill Lane,  
Unit 200  
Dallas, Dallas County, Texas 75231

**APPRAISAL DATE**

October 7, 2019

**PREPARED BY**

***DUNHAM COMMERCIAL APPRAISERS, INC.,***

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Dallas, Texas 75218

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# DUNHAM COMMERCIAL APPRAISERS, INC.

October 14, 2019

Ms. Nicole Southerland  
Vice President of Lending Operations  
**Capstone Capital Partners, LLC**  
507 Denali Pass, Suite 400  
Cedar Park, Texas 78613

RE: Appraisal of the medical office condominium located at 8355 Walnut Hill Lane, Unit 200, Dallas, Dallas County, Texas 75231

Dear Ms. Southerland:

At your request, we have estimated the "as is" market value and prospective "as complete" market of the Leasehold Condominium Interest (in Leased Fee) of the above referenced property. The effective date of value is October 7, 2019 and we estimate a three month renovation period. Thus, the prospective "as complete" market value is projected to be on January 7, 2020.

The Subject is located within the confines of the Woodhill Medical Park which is 129,949 square foot medical office condominium project that was built in 1974. Woodhill Medical Park is located on 11.229 acres of land that is encumbered by a 55 year ground lease the ends on 9/30/2027. The project appears to be comprised of seven, two story medical office buildings. **There are just under eight years (7 years 10 months) remaining on the ground lease and the condominium units will revert back to the landowner on September 30, 2027.**

The Subject of this appraisal is Unit 200 in Building F which is a 5,369 square feet in Suite. The current owner is dividing the property into two suites. Suite 1 is a 1,237 square foot suite and the other (Suite 2) will be a 4,132 square foot suite. Suite 1 was recently renovated and is occupied by Northstar Home Health Care who leases the suite for \$17.75/SF, Gross. Reportedly, \$120,000 or \$97.08/SF was recently spent on renovations for Suite 1. The remaining space, Suite 2, is currently unoccupied and will be undergoing a reported \$350,000 renovation (\$85.70/SF). The owner plans on selling the units to a single owner after the renovation is complete.

## "As Is" Market Value

Based upon our analysis of the subject and the local market, the "as is" market value of the Leasehold Condominium Estate (Leased Fee Estate), as of January 7, 2019, is considered to be:

Suite	SF	Reconciled Value
200	5,369	\$500,000

Ms. Nicole Southerland  
**Capstone Capital Partners, LLC**  
Page 2

**Prospective “As Complete” Market Value**


Based upon our analysis of the subject and the local market, the "as is" market value of the Leasehold Condominium Estate (Leased Fee Estate), as of January 7, 2020, is considered to reconciled as follows:

Suite	SF	SCA	ICA	Reconciled Value
200	5,369	\$670,000	\$560,000	\$625,000

In the accompanying report can be found the results of our investigations, together with the details on the methods used in deriving the final value estimate. This report is intended to conform to the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Foundation, as well as Capstone Capital Partners, LLC’s reporting guidelines. This is a narrative appraisal that is intended to comply with the standards set forth by FIRREA. This report remains the personal property of the signer and may not be transmitted to a third party without the signer’s written permission.

**Sincerely,**

**DUNHAM COMMERCIAL APPRAISERS, INC.,**



Ronald E. Dunham, MAI

## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

Property Type:	Medical Office Condominium Unit
City/State/Zip:	Dallas, Texas 75024
Location:	8355 Walnut Hill Lane, Unit 200
Date of Value Estimate:	October 7, 2019
Date of Property Inspection:	October 7, 2019
Date of Report:	October 14, 2019
Property Rights Appraised:	Leasehold Condominium Interest (in Leased Fee Estate)

### PHYSICAL DATA

Description: The Subject is located within the confines of the Woodhill Medical Park which is 129,949 square foot medical office condominium project that was built in 1974. Woodhill Medical Park is located on 11.229 acres of land that is encumbered by a 55 year ground lease the ends on 9/30/2027. The project appears to be comprised of seven, two story medical office buildings. **There are just under eight years (7 years 10 months) remaining on the ground lease and the condominium units will revert back to the landowner on September 30, 2027.**

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Zoning:	PD-76, Planned Development
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### VALUE INDICATION

<b>“As Is” Market Value</b>	\$500,000
<b>Prospective “As Complete” Market Value</b>	\$625,000



## TABLE OF CONTENTS

Summary of Important Facts and Conclusions	
Table of Contents	1
Photographs of Subject	2
Assumptions and Limiting Conditions	6
Appraiser's Liability Limitations	7

### PART ONE - INTRODUCTION

Purpose of the Appraisal	8
Use of the Appraisal	8
Date of the Value Estimate	8
Date of the Report	8
Competency of Appraisers	8
Property Rights Appraised	8
Scope of the Appraisal	9
Market Value Definition	12
Exposure/Marketing Time	13

### PART TWO - FACTUAL DESCRIPTIONS

Identification of the Property	15
History of Subject Property	15
Regional Analysis	16
Neighborhood Analysis	24
Subject Description	27

### PART THREE - ANALYSIS AND CONCLUSIONS

Highest and Best Use Analysis	38
Discussion of the Appraisal Process	40
Cost Approach	41
Sales Comparison Approach	42
Income Approach	48
Reconciliation	57
Certification	60

### ADDENDA

Appraisers State License	
Appraisers Qualifications	
Letter of Engagement	

**PHOTOGRAPHS OF SUBJECT**





Exterior views of Subject Building





## ASSUMPTIONS AND LIMITING CONDITIONS

The Certification of Value appearing in the appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Appraisers in the report.

1. The Appraisers assume no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor do the Appraisers render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership, competent management, and is appraised as if free and clear of any or all liens or encumbrances.
2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The Appraisers have made no survey of the property.
3. The Appraisers are not required to give testimony or appear in court because of having made the appraisal in reference to the property in question, unless arrangements have been previously made.
4. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
5. The Appraisers assume that there are no hidden or unapparent conditions of the property, subsoil, or structure, which would render it more or less valuable. The Appraisers assume no responsibility for such conditions, or for engineering, which might be required to discover such factors.
6. Information, estimates and opinions furnished to the Appraisers, and contained in the report, were obtained from sources considered reliable and are believed to be true and correct. However, no responsibility for the accuracy of such items furnished the Appraisers can be assumed by the Appraisers.
7. Disclosure of the contents of this appraisal is governed by the Bylaws and Regulations of the Appraisal Institute.
8. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected) shall be disseminated to the public through advertising media, public relations media, news media or any other public means of communication without the prior written consent and approval of the appraisers.

### Extraordinary Assumptions/Hypothetical Conditions

Though requested we were not provided with the original lease of the Woodhill Medical Park. It is reportedly encumbered by a 55 year ground lease the ends on 9/30/2027. This appraisal report makes the extraordinary assumption that the ground lease information is correct and the ground lease ends on 9/30/2017. If this assumption is incorrect it could affect our value conclusions.

Additionally, this report makes the extraordinary assumption that the renovations are completed according to the information provided by the borrower. If this assumption is incorrect it could affect our value conclusions.

**APPRAISER'S LIABILITY LIMITATIONS,  
AND SPECIAL REPORT CONDITIONS  
AND CLIENT AGREEMENTS**

The acceptance of this report and its use by the client in any manner whatsoever or for any purpose is acknowledgment by the client that his report is a satisfactory professional product, and that the client has personally read the report, and specifically agrees that the data herein is accurate to the best of the Appraiser's ability.

The report remains the personal property of the signer and may not be transmitted to the third party without the signer's written permission. (Permission is granted to transmit to third party mortgagor.)

Dunham Commercial Appraisers, Inc., or the Appraiser's personal responsibilities do not extend to a third party under any circumstances whatsoever.

As a part of the Appraiser-Client employment agreement, the Client agrees to notify the Appraiser of any error, omission, or invalid data herein within 15 days of receipt and to return the report along with all copies to the Appraiser for correction prior to any use whatsoever. Corrections will be made at the Appraiser's discretion.

Thus, by acceptance of this report, the client acknowledges that a value opinion is the product of a trained professional, but nevertheless is an opinion only and not a provable fact. As a personal opinion, valuation may vary between Appraisers based on the same facts.

Thus, Dunham Commercial Appraisers, Inc., warrants only that the value conclusion is the Appraiser's best opinion estimate as of the exact day of valuation.

### **PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to provide the "as is" market value of the Leasehold Condominium Interest of the Subject property. The effective date of value is October 7, 2019.

### **USER AND USE OF THE APPRAISAL**

The use of this appraisal is for collateral valuation purposes by Capstone Capital Partners, LLC, our client.

### **DATE OF VALUE ESTIMATE**

The effective date of the market value estimate is October 7, 2019. The appraisers conducted a physical inspection of the property on October 7, 2019.

### **DATE OF REPORT**

The date of this report is October 14, 2019.

### **COMPETENCY OF APPRAISERS**

The appraisal firm of Dunham Commercial Appraisers, Inc., is competent to appraise the subject property by having requisite abilities, qualities, knowledge, and insight to the surrounding subject area. Dunham Commercial Appraisers, Inc., combines a vast amount of appraisal experience along with continuous academics in order to remain abreast of current and future trends in the real estate market and the appraisal profession. Qualifications of the appraiser are included in the Addenda. The appraiser has valued numerous similar properties in the region.

### **PROPERTY RIGHTS APPRAISED**

Leased Fee Interest - An ownership interest held by a landlord with at the rights of use and occupancy conveyed by lease to others. The rights of the lesser (the leased fee owner) and the leased fee are specified by contract terms contained within the lease.

Leasehold Interest - Tenant's possessory interest created by a lease."

Ground Lease – A ground lease is an agreement in which a tenant is permitted to develop a piece of property during the lease period, after which the land and all improvements are turned over to the property owner. A ground lease indicates that the improvements will be owned by the property owner unless an exception is created and stipulates that all relevant taxes incurred during the lease period will be paid by the tenant. A ground lease allows the landlord to assume all improvements once the lease term expires.

## SCOPE OF THE APPRAISAL

### Scope of Work

The scope of work is defined as the type of research and analysis performed in the appraisal assignment. The Subject Property is an existing medical office condominium unit within the Woodhill Medical Park in Dallas, Texas. In compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and upon the request of the client, a narrative appraisal has been prepared utilizing the Scope of Work Rule.

The Scope of Work Rule was added to USPAP to emphasize the requirements for problem identification, determining the appropriate scope of work and disclosure of the scope of work that was performed in the appraisal.

The following is the appraiser's scope of work used to produce the appraisal.

- inspected all the interior and exterior of the Subject Property to note the characteristics of the property that are relevant to its valuation;
- investigated available market data for use in a sales comparison approach and income capitalization approaches to value, and if appropriate the cost. In this instance the client has requested the utilization of the Income Approach and Sales Comparison Approaches to value. Due to the age of the property and difficulty estimating depreciation we have omitted the Cost Approach.
- The appraiser's investigations included research of public records through the use of commercial sources of data such as printed comparable data services and computerized databases. Search parameters such as dates of sales, leases, locations, sizes, types of properties, and distances from the subject started with relatively narrow constraints and, if necessary, expanded until the appraiser had either retrieved data sufficient (in the appraiser's opinion) to estimate market value, or until the appraiser believed that he or she had reasonably exhausted the available pool of data. Researched sales and lease data was reviewed and, if found to be appropriate, efforts were made to verify the data with persons directly involved in the transactions such as buyers, seller, brokers, or agents.
- At the appraiser's discretion, some data was used without personal verification if, in the appraiser's opinion, the data appeared to be correct. In addition, the appraiser considered any appropriate listings or properties found through observation during appraiser's data collection process. The appraiser reported only the data deemed to be pertinent to the valuation problem;
- investigated and analyzed any pertinent easements or restrictions, on the ownership of the subject property. It is the client's responsibility to supply the appraiser with a title report. If a title report is not available, the appraiser will rely on a visual inspection and identify any readily apparent easements or restrictions;
- analyzed the data found and reached conclusions regarding the market value, as defined in the report, of the Subject Property as of the date of value using appropriate valuation approaches identified above;
- prepared the appraisal in compliance with the Uniform Standards of Professional Appraisal Practice as promulgated by The Appraisal Foundation and the Code of Professional Ethics and Certification Standard of the Appraisal Institute.

- the appraiser is not responsible for ascertaining the existence of any toxic waste or other contamination present on or off the site. The appraiser will, however, report any indications of toxic waste or contaminants that may affect value if they are readily apparent during appraiser's investigations. Appraiser cautions the user of the report that appraiser is not expert in such matters and that appraiser may overlook contamination that might be readily apparent to parties who are experts in such matters.

- prepared a Narrative Appraisal Report, as defined in USPAP, which included photographs of the Subject Property, descriptions of the subject neighborhood, the site, any improvements on the site, a description of the zoning, a highest and best use analysis, a summary of the most important sales used in the appraiser's valuation, a reconciliation and conclusion, a map illustrating the sales in relationship to the subject property, and other data deemed by the appraiser to be relevant to the assignment. Pertinent data and analyses not included in the report may be retained in appraiser's files.

- A summary of regional area and neighborhood characteristics.

- A physical inspection of the Subject Property as to its condition and characteristics.

- A search of public records pertaining to the Subject - i.e., zoning regulations, real estate tax and assessment information, sales history, easements, public and/or private deed restrictions, etc.

- Analysis of physically possible uses, legally permissible uses, financially practical uses and maximally productive uses of the Subject Property to estimate the Highest and Best Use.

- Research of improved sales through sources such as county deed records, conversations with local real estate brokers and appraisers in addition to the buyers and sellers of real property.

- Analysis of the Subject Property's market segment with the underlying supply and demand factors for comparable properties.

- An inspection of all sale and rent comparables, if possible. We also drove through the neighborhood.

- Produce a narrative appraisal report as described in the Appraisal Procedure.

Competency Statement

The appraiser has valued numerous medical office condominium units over the past twenty five years. In order to become more competent in the immediate area, the Subject Property and commercial market conditions were discussed with local appraisers, brokers, managers, and investors. For these reasons, the appraiser has the professional competency required to appraise the Subject Property.

Ron Dunham is a designated a Member of The Appraisal Institute (MAI) and is State Certified in the State of Texas. As a result of the experience and expertise, Mr. Dunham possesses the professional competency required to conclude a reliable opinion of value.



## MARKET VALUE DEFINITION

Market value means 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 and 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 interests;
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 sale.<sup>1</sup>

### Exposure Time

The Market Value estimate is based on the assumption that a reasonable time is allowed for exposure in the open market. A reasonable exposure time was estimated based upon market evidence including actual exposure times for office condominiums and the projected marketing time required to sell a property similar to the Subject.

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 the appraisal” (TO, Statement 6).*

The market value estimated in this appraisal specifically relates to the sale of office condominiums in the D/FW area. The preferred method for estimating exposure time is considered the actual exposure time required to market and sell similar properties. Conversations with local brokers have indicated that if properly priced and aggressively marketed vacant land will typically require a 6 to 12 month marketing period. Obviously, properties in locations where growth has occurred and where demand for property exists will command the shortest marketing periods. Other factors include the size and price of the property. There are typically fewer buyers for larger properties and thus the marketing period would need to be extended. On the other hand, a larger property in an area with proven need could have in excess of its cost, and thus a short marketing period, as it typically requires several years to plan and develop such a property. As mentioned in the area analysis, the area has experienced considerable growth during the last ten years. As more people move into the area, demand for property similar to the subject will increase. Therefore, it would appear as if a 6-12 month exposure period would be reasonable for the subject facility.

<sup>1</sup> Federal Reserve System, 12CFR, \*Subpart G Section 225.62f

## Marketing Time

The projected marketing time required to market and sell a property(s) similar to the Subject was estimated by interviews with brokers active in the market. Marketing Time is defined as:

*An estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal” (TO, Advisory Opinion G-7).*

Our research indicates the typical scenario for the sale of improved properties similar to the Subject via open market (real estate broker) or direct (per principal) transactions between organizations. Therefore, we interviewed several brokers involved in the sales of vacant properties to determine the marketing time required to sell a property similar to the subject. The brokers interviewed indicated the marketing time would primarily depend on the asking price and the price a seller would be willing to accept. Other factors obviously include demand for similar type properties, the areas future growth pattern, the marketing plan and even the planned uses possible for the facility.

For the same reasons we discussed in the previous paragraph under Exposure Time, the typical marketing time is also estimated at 6-12 months from the date of appraisal.

**PART TWO**  
**FACTUAL DESCRIPTIONS**

## HISTORY OF THE SUBJECT PROPERTY

In accordance with standard rule 1-5 (b), of the "Standards of Professional Practice" of the Appraisal Institute, a three-year sales history for the Subject property shall be included for all non-residential properties.

### Landowner

The landowner is Texas Health Resources System, who has owned the subject for a period exceeding three years. In 1974, the site was ground leased to Woodhill, Incorporated for an initial period of 55 years with a current annual ground rent of \$375,000. Upon commencement of the ground lease, Woodhill Incorporated developed the site with an office condominium development.

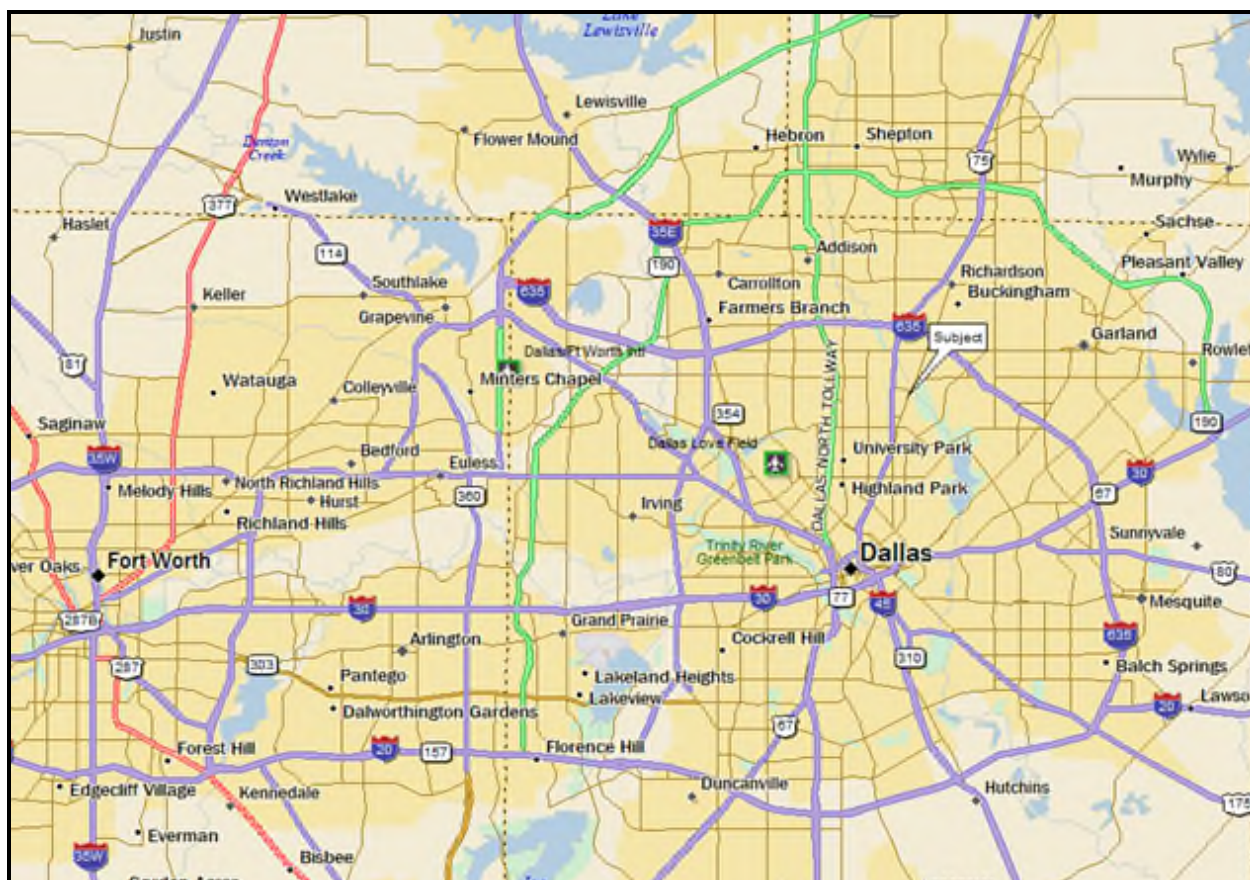
### Suite 200

According to the Contract provided Triad Joint Venture sold 8355 Walnut Hill Lane, Suite 200, Dallas, Texas 75231 to LJ and Jesus Real Estate, LLC for a reported price on \$10,000. The transaction was reportedly completed in October of 2018 but there is no date on the contract. The purchase also includes a storage space in the basement that is assigned to Suite 200. Prior to her purchasing the property, it was reported that the previous owners had owned the property in excess of three years. No other information was available. We don't know why the purchase price was so low.

## IDENTIFICATION OF PROPERTY

8355 Walnut Hill Lane, Suite 200, Dallas, Texas 75231  
(aka Building F, Floor 2, Units 1 & 2)

## Regional Analysis



The Dallas-Fort Worth-Arlington, TX MSA (colloquially known as the "Metroplex") is located in northeastern/north central Texas. The Dallas MSA is comprised of 13 counties – two of which have populations exceeding 2 million people. The Dallas Metroplex is one of the largest metropolitan areas in the United States by land area, and the largest MSA in the state by population.

### Economy

The Dallas Metroplex is the headquarters of 9 Fortune 500 companies, including ExxonMobil, J.C. Penny, and American Airlines. The Metroplex is considered an "inland port" because of its mixture of robust transportation infrastructure, which includes a massive interstate and highway system, rail lines, and two of the busiest airports in the country - Dallas Fort Worth International Airport and Dallas Love Field.

The Dallas MSA has a diverse economy which includes companies operating in defense, financial services, information technology, telecommunications, and transportation. The Dallas Telecom Corridor alone has over 5,700 companies, including Texas Instruments, Nortel Networks, Nokia, Cisco Systems, Sprint, Verizon, AT&T, and Ericson. Las Colinas in Irving is home to ExxonMobil, Fluor Engineering, Kimberly-Clark, Alliance Data Systems, Yum China Holdings, and Dr. Pepper. Fort Worth is home to American Airlines, D.R. Horton, and a large office campus for Lockheed Martin. Other notable corporations with substantial operations in the Metroplex include Neiman Marcus, Chuck E. Cheese, Mary Kay Cosmetics, Zale Corporation, Fossil, and Susan G. Komen.

In addition to a diverse economy, Dallas also possesses a strong educational base as the home to several well-ranked institutions of higher education, including Southern Methodist University (SMU), Texas Christian University (TCU), University of Dallas (UD) and one of the University of Texas' largest satellite campuses UT-Arlington. Dallas is also home to "America's Team" the Dallas Cowboys, which is the largest sports franchise in the world, valued at \$4.8 billion.

### **Growth**

In regard to the population, the MSA is the largest in Texas, and the fourth largest in the U.S. The population has been growing faster than any other MSA year-over-year since 2016, and has accounted for more than one-third of the population growth in the entire state of Texas from 2016 to 2017. According to the 2018 census, the population growth is driven primarily by the business-friendly Metroplex economy, as well as the lower cost of living and residential real estate prices vs. other MSAs in the nation.

It is not lost on many researchers that today's growth of Dallas has echoes of the growth of Los Angeles in the 1970's and 1980's. Los Angeles County remains America's most populated and is defined by its sprawl, smog and congestion, with the worst traffic on planet earth – and that's not an exaggeration. While the jury is out as to whether Dallas may experience all of the same growing pains as LA, there is an issue today with the need for public infrastructure to support the expanding population outstripping the municipal revenues to build and maintain it.

The key to future growth will be to see if the city/MSA can maintain the low taxes and cost of living/doing business to spur corporate growth and expansion in Dallas while supporting the associated increasing population with the necessary infrastructure.

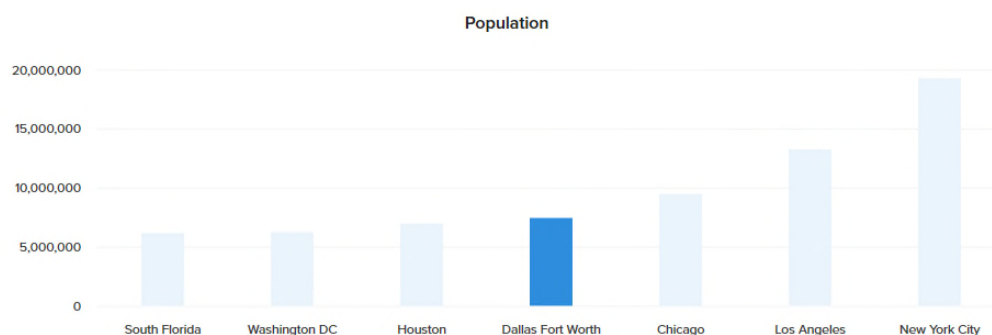
## Unique Aspects

The massive Dallas Metroplex started with humble beginnings in 1841 as a trading post on the east bank of the Trinity River in the fertile blackland prairie. The city remained a regional retail draw for the outlying rural areas, and grew to roughly 40,000 residents up to the 20th century, making it the largest city in Texas at the time. Much like today, local government and business owners pushed the city toward growth in the early 1900's, and one steel skyscraper, railroad station, Federal Reserve Bank and World War II later, Dallas grew into a manufacturing and technology hub, and has not glanced back since.

Today's Metroplex is a cosmopolitan conglomeration of urban amenities with all of the arts and cultural bells and whistles of a major MSA, juxtaposed with a truly Texas vibe of rolling prairies, barbecue and of course the omnipresent Dallas Cowboys. Congruent with the massive growth stats that are widely reported, one cannot help but notice construction EVERYWHERE when traversing the local highways and byways, as well as the massive amount of occupied suburban office supporting jobs and growth in the local economy.

Lastly, the Dallas MSA is home to the largest arts district in the U.S., the convenience store 7-Eleven, and the German chocolate cake. Eat that, Germany.

## Market Demographics



Nickname:	DFW, The Metroplex, Triple D, D-Town	Population Total:	7,470,158
Owner Occupied Housing Units:	1,974,938	Population Growth:	17.33% since 2010
Owner Occupied Housing Rate:	69.97%	Population Density:	719.236 People/Square Mile
Median Housing Value (Owner Occ.):	\$172,818	Retail Sales Total:	\$96,699,346,000
Total Housing Units (2017):	2,822,550	Retail Sales Per Capita:	\$13,090
Median Gross Rent / Month (Residential):	\$1,012	Median HH Income:	\$68,237
Closing Dinner:	Frank		

## Economic Metrics

Number Of Employees:	3,026,597	<b>Largest Industries</b>	<b>Largest Employers</b>
Payroll:	\$166,307,473,000	1. Management, Business, Science, & Arts (1,400,000)	1. AMR Corporation (24,700)
Change in Employment Rate:	2%	2. Sales & Office (876,244)	2. Bank of America Corp. (20,000)
S&P Corelogic Case-Schiller Home Price Index:	267.54	3. Service (568,330)	3. Texas Health Resources Inc. (19,230)

## Transportation

### Rail

Dallas Area Rapid Transit (DART) offers service in Dallas and 12 of the surrounding cities in the MSA. In total, DART Light Rail, Trinity Railway Express commuter rail, bus routes, and para-transit services move more than 220,000 passengers per day across our 700-square-mile service area, making it the 6th busiest light rail system in the U.S.

### Car

The INRIX Traffic Scorecard ranks Dallas traffic 10th worst in the U.S. and 22nd worst in the world. The U.S. Census ranks Dallas 14th out of the top 25 MSAs for fastest commute time, and CREXi data ranks Dallas 23rd out of the top 25 MSAs for alternative commuting methods (carpool, public trans., biking or walking, etc.)

## Counties

### Collin County

Collin County is the third most populous county in the MSA, with the 2nd fastest population growth rate by percentage (24% since 2010). The County has grown primarily due to the relocation of several corporations, due to the availability and affordability of land in Plano and Frisco, as well as high-quality local school districts. 5 of the 7 school districts serving the city placed in the top 5% in the Niche 2018 Best School Districts in America Rankings. In 2014, the Collin County seat McKinney was ranked by Money Magazine as America's "Best Place to Live".

Collin County is adjacent north of Dallas County and has a significantly higher median household income vs. the greater MSA average (\$89k vs \$64k). The largest city in the county by population is Plano. Frisco and Plano serve as the fastest growing suburbs in "Far North Dallas", and these towns are home to the corporate headquarters of JC Penny, Toyota America, and the Dallas Cowboys Practice Facility.

### Economy

Defense contractor Raytheon is the city of McKinney's primary economic driver, employing 2,600 locals, which is twice the amount of the second and third largest private employers. Collin County shares the city of Richardson with Dallas County, which is home to the telecommunications corridor which hosts major operations for AT&T, DirectTV, Verizon, Cisco Systems, Samsung, ZTE, MetroPCS, Texas Instruments, Qorvo, and Fujitsu. Despite the telecom presence in the city, the largest employment sector in Richardson is insurance, and the largest employers are Blue Cross Blue Shield, GEICO and Allstate.



Plano, the largest city and a major focal point of the county's growth has been fueled by the relocation of JC Penny to the area and the high concentration of corporate campuses, including FedEx Office, Fogo De Chao, Alliance Data, Frito Lay, Dr. Pepper, Cinemark Theatres, and National Business Research Institute. Toyota Motors North America and Liberty Mutual are the most recent relocations. Liberty Mutual's campus brought 5,000 jobs alone. Other organizations announcing the development of regional operations in Plano include JP Morgan Chase and Fannie Mae, which should create another 7,000 jobs combined. Plano's growth notwithstanding, Frisco was ranked the fastest growing city in America in part due to its proximity to Plano and to both major Metroplex airports (~25 miles). Frisco has been ground zero for the relocation of major corporate operations for T-Mobile USA, Oracle Corporation, Ikea, Kenexa and IBM Company, Randstad Technologies, HCL Technologies, Amerisource Bergen Specialty Group, and Conifer Health Solutions. Unlike other more developed cities in the County, Frisco is just beginning to tap into housing and retail development and contains large tracts of raw undeveloped land.

Major Cities:	Plano, McKinney	Total Housing Units:	377,338
Major Submarkets:	Frisco, Plano	Median Housing Value:	\$265,300
Total Population:	1,005,146	Median Gross Rent:	\$1,225
County Growth:	28.50% since 2010	County Median HH Income:	\$90,124
Owner Occupied Housing Units:	247,534	Major Corridor (E/W):	US-380/Sam Rayburn Tollway
Owner Occupied Housing Rate:	65.60%	Major Corridor (N/S):	US-57

## Dallas County

Dallas County is the home of the Dallas CBD, as well as 30 other cities in the MSA. With a population of roughly 2.57M, it is the second-most populous county in the state. While Dallas County is the largest county by population in the Metroplex, its growth has been significantly outpaced by some of the more suburban northern counties by percentage in part due to the availability of massive amounts of land in suburban areas.

As a major hub in the Metroplex, Downtown Dallas is a dense collection of government facilities, white-collar service sector office, and museums. Uptown Dallas is a dense collection of white-collar service sector jobs in banking, law, and real estate. The area also has a strong mix of luxury multifamily and retail. In the suburban areas, North Dallas is home to legacy engineering and technology corporations such as Texas Instruments. The area is also anchored by the Galleria Mall. The Las Colinas neighborhood contains the largest concentration of corporate headquarters in Dallas County.

## Economy

The largest job corridors in Dallas County are Downtown Dallas, the Technology Corridor on the northern side of the county off of Interstate 635 and Las Colinas. Las Colinas alone contains corporate operations for Citigroup (5,700 employees), Verizon (3,260 employees), Aegis Communications (2,000 employees), Allstate Insurance (2,000 employees), Nokia (1,700 employees), Microsoft (1,351 employees) and Neiman Marcus Direct (1,339 employees). It is also home to the headquarters of ExxonMobil, Gruma, Kimberly-Clark, H.D. Vest, Zale Corporation, 7-Eleven, LaQuinta Inn & Suites, Michaels, and Celanese.

The North Central portion of the county is made up primarily of affluent housing in the neighborhoods of Oaklawn, Highland Park, Preston Hollow, and Knox Henderson. Dallas County also contains both major airports: Dallas Love Field and DFW International Airport. Most growth within the county since 2010 has occurred through the development of rental housing and redevelopment of Downtown, Uptown, Deep Ellum and Knox Henderson.

Although Dallas County does not have the highest percentage growth of population versus the surrounding, more suburban counties, Dallas growth is evidenced by it having the highest number of building permits pulled in the MSA per U.S. Census data. The high cost of living for home ownership in the North Central Core of the city has forced newer residents to either rent or buy homes in suburban cities and counties and access Dallas County by using either the Dallas North Tollway or the George Bush Turnpike.

### **Denton County**

Denton County is the fastest growing county in the MSA, with an estimated 26 percent population growth since 2010. The percentage of growth is fueled in part due to the county's population size relative to Dallas and Tarrant County. It is bordered to the east by Collin County, and to the south by both Dallas and Tarrant Counties.

While a good amount of the growth in the county is coming from positive net migration from Dallas and Tarrant Counties, there has been significant business expansion happening within the Denton borders. Some of the 'unsung heroes' fueling growth are small companies flying below the radar who relocate from high tax/high cost of business states like New York, California, and Illinois and call the County of Denton their new home.

### **Economy**

Denton County touts itself as "a friendly, small-town feel paired with big-city amenities, two thriving state universities, and a commitment to sustainability." The city is actively offering businesses tax incentives to relocate and expand within its borders. Denton's proximity to employers in Collin County and North Dallas County make it an attractive area although it does not house the same number or type of corporate employers as the 3 major counties. Interstate 35-E is the major connector from Denton County to Dallas County. Major employers who do call the county home include the University of North Texas and the Peterbilt Motors headquarters, which is located in the City of Denton.

### **Tarrant County**

Tarrant County is the second largest county in the MSA by population, and home to the principal city Fort Worth. It is one of the largest Republican-leaning counties in the nation by population (2.02M people) and boasts a higher median income and a faster population growth rate than Dallas County. Arlington is known primarily as the home of Dallas sports because it is home of AT&T Stadium (Dallas Cowboys) and the Texas Rangers (Arlington Stadium). Fort Worth is also home to some of the major universities in the MSA, including Texas Christian University (TCU), Texas Wesleyan University (TWU) and Texas A&M University School of Law.

Northwest Fort Worth is the epicenter of economic activity in Tarrant County, with Navy and Marine bases and the large presence of Lockheed Martin. The area is also surrounded by dense multifamily. Downtown Fort Worth is a collection of high rise office and medical centers in close proximity to Texas Christian University (TCU). Fort Worth is also home to the Texas Motor Speedway which hosts several NASCAR and IndyCar events.

Outside of the principal city of Fort Worth, the city of Arlington is home to a dense collection of small industrial and flex warehouses. Arlington is also home to the Texas Rangers, Dallas Cowboy Stadium and Six Flags over Texas. The city of Grand Prairie is a blue-collar town, offering dense clusters of small industrial and flex office with single-family residential, multifamily and Class C retail.

### **Economy**

Major private sector corporate employers in Tarrant County include Bell Helicopter, Lockheed Martin, American Airlines, BNSF Railway, Pier 1 Imports, XTO Energy, GE Financial, Wells Fargo, AT&T Bank of America and Radio Shack. Fort Worth also has over 1,000 natural gas wells and taps into the Barnett Shale. Other major employers outside of Fort Worth include Lockheed Martin's Missiles and Fire Control plant, Bell Helicopter's Textron division and Siemens for its Energy and Automation division. Top Private Employers in Arlington excluding the very well established sports and recreation industries include Texas Health Resources (8,252), General Motor Arlington Assembly (2,900), JP Morgan Chase (1,965) and GM Financial (1,591). Arlington is also home to UT-Arlington which is one of the University of Texas' largest satellite campuses. UT Arlington employs over 5,300 individuals.

### **Dallas Fort Worth Summary**

#### **Strengths**

- The Dallas MSA is the fastest growing MSA by absolute population and the 4th fastest by population percentage in the United States.
- Dallas has the fourth largest economy by GDP dollars, anchored by a diverse and growing employer base.
- The overall cost of living and doing business in Dallas is low, supporting continued growth.
- The overall Dallas MSA economy is significantly diversified, making it more resistant to fluctuations in any one industry than other major metropolitan areas nationally and in the state of Texas.

#### **Weaknesses**

- The Dallas MSA is massive and sprawling, with much of the growth taking place in the northern suburban counties. Growth has been exceeding infrastructure in many cases, increasing congestion and affecting the quality of life.

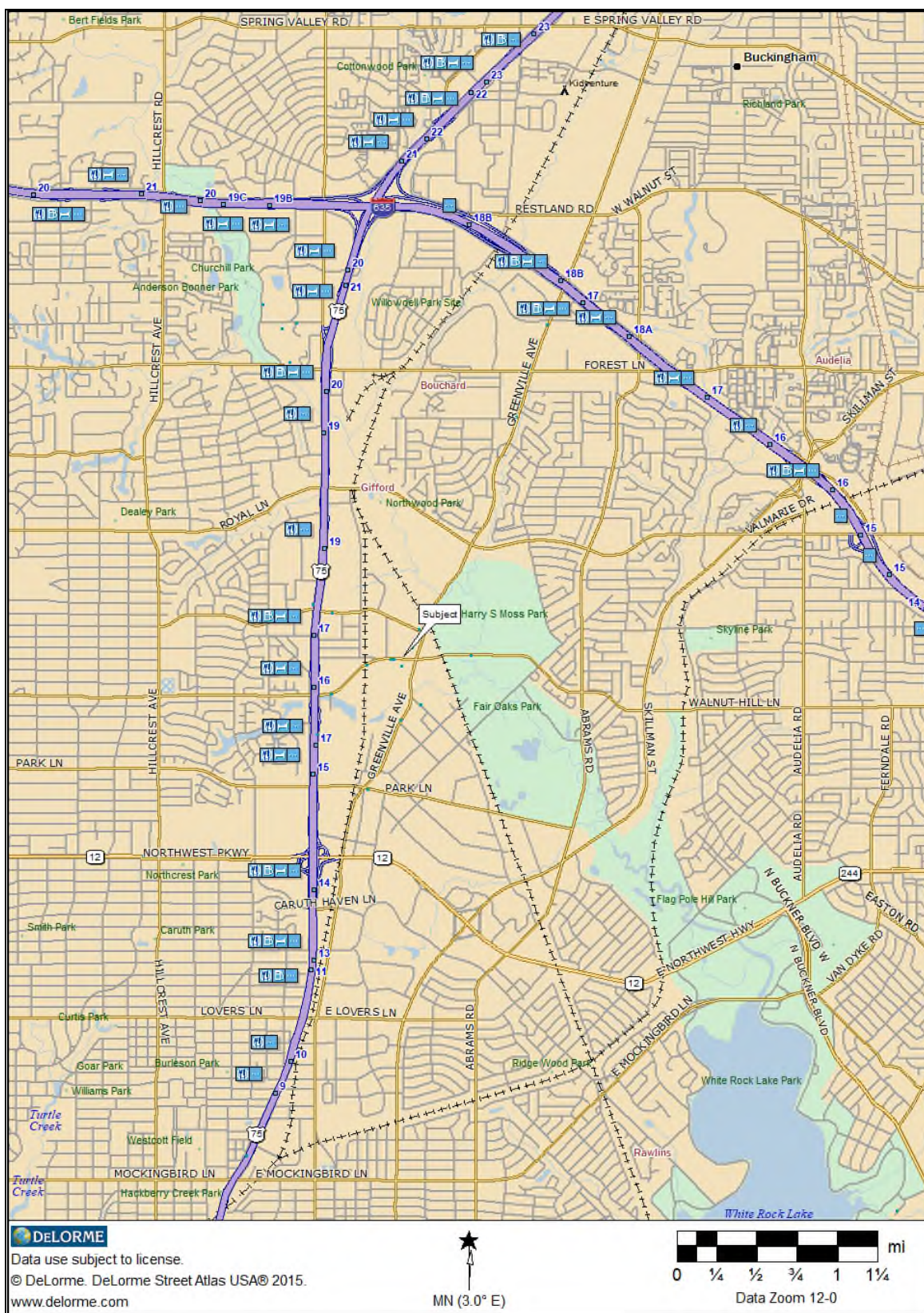
#### **Opportunities**

- There are literally opportunities far and wide within the Dallas market, particularly in the northern suburbs. The Dallas transportation infrastructure is vast and interconnected, promoting growth, and needs for residential & commercial development everywhere at once.

#### **Threats**

- In many cases and places, Dallas growth has surpassed the capabilities of current infrastructure, and these infrastructure needs have outpaced tax revenues to support them. Low costs of living and doing business have spurred rapid growth in the MSA, however as the market matures the balance of maintaining the growth incentives vs. quality of life may affect sections of the MSA in the mid-term.

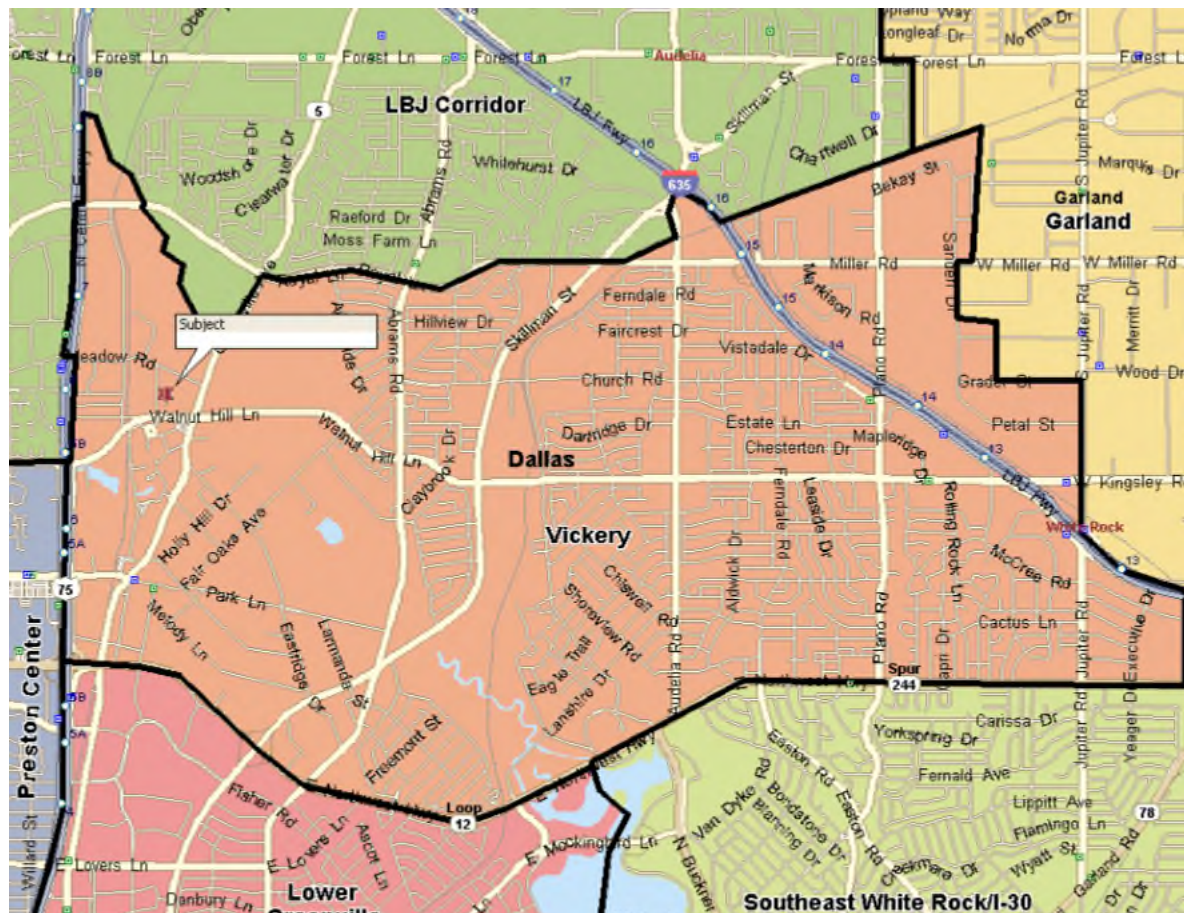






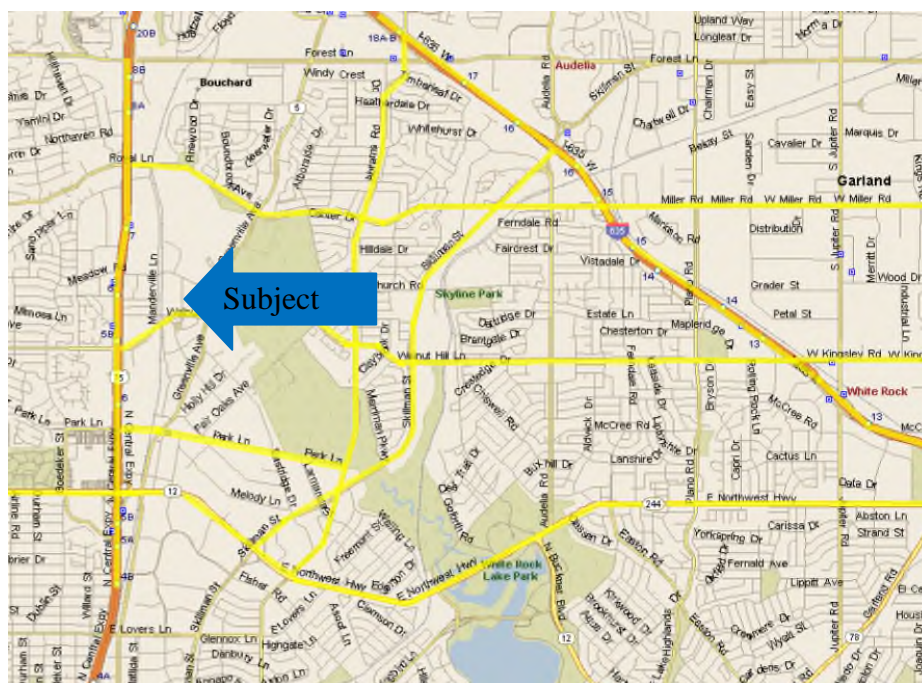
## NEIGHBORHOOD ANALYSIS

The subject is located within the Vickery surrounding area. The Vickery surrounding area is comprised of the following zip codes: 75231 and 75238. A map identifying the subject within the Vickery surrounding area is below.



## Access and Linkages

Roadways providing access to the area and major city streets are highlighted on the map below.



Public transportation is provided by Dallas Area Rapid Transit (DART). The Vickery surrounding area is served by the red and blue lines. The local market perceives public transportation as good compared to other areas in the region. However, the primary mode of transportation in this area is the automobile.

**GENERAL NEIGHBORHOOD CHARACTERISTICS**

<b>LOCATION</b>	<b>X</b>	URBAN		SUBURBAN		RURAL
<b>% DEVELOPED</b>	<b>X</b>	OVER 75%		25%-75%		UNDER 25%
<b>GROWTH RATE</b>		RAPID	<b>X</b>	STABLE		MODERATE
<b>SUPPLY</b>		SHORTAGE	<b>X</b>	IN BALANCE		OVERSUPPLY
<b>MARKETING TIME</b>		< 6 MONTHS	<b>X</b>	6-12 MONTHS		OVER 1 YEAR
<b>% MULTIFAMILY</b>		OVER 75%	<b>X</b>	25%-50%		UNDER 25%
<b>VALUES</b>		INCREASING	<b>X</b>	STABLE		DECLINING

**STAGE OF LIFE CYCLE**

<b>GROWTH</b>	
<b>STABILITY</b>	<b>X</b>
<b>DECLINE</b>	
<b>REVITALIZATION</b>	<b>X</b>

In the immediate vicinity of the subject, predominant land uses are hospital, medical office, office, retail, and multifamily. It should be noted that the immediate neighborhood is considered stable but the areas south of the Subjected along the Skillman and Abrams corridor are experience considerable gentrification. The apartment developments in the Holly Hill and Fair Oaks areas will be the next areas to experience revitalization.

**CONCLUSION**

Due to its location adjacent to Presbyterian Hospital and ease of access to IH 75, 635 and the North Dallas Tollway area the area should remain a viable commercial and residential area in the Dallas area.

## SUBJECT PROPERTY

The Subject is located within the confines of the Woodhill Medical Park which is 129,949 square foot “Class D” medical office condominium project that was built in 1974. Woodhill Medical Park is located on 11.229 acres of land that is encumbered by a 55 year ground lease the ends on 9/30/2027. The project appears to be comprised of seven, two story medical office buildings.

The subject is zoned PD-76, Planned Development, by City of Dallas. The PD-76 zone was designed specifically for the development of the Woodhill Medical Park condominiums when they were constructed in 1974 and is intended for office, medical office, and retail uses. Additionally, the property is located outside of the 500 year flood plain.

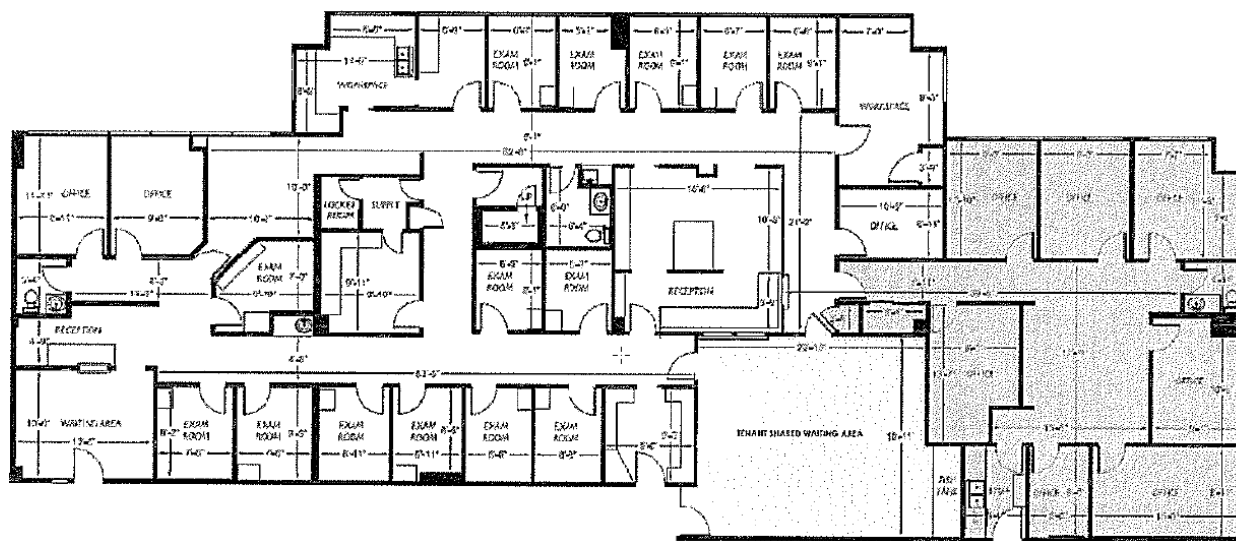
The Subject of this appraisal is Unit 200 in Building F which is a 5,369 square feet in Suite. The current owner is dividing the property into two suites. Suite 1 is a 1,237 square foot suite and the other (Suite 2) will be a 4,132 square foot suite. Suite 1 was recently renovated and is occupied by Northstar Home Health Care who leases the suite for \$17.75/SF, Gross. Reportedly, \$120,000 or \$97.08/SF was recently spent on renovations for Suite 1. The remaining space, Suite 2, is currently unoccupied and will be undergoing a reported \$350,000 renovation (\$85.70/SF). The owner plans on selling the units to a single owner after the renovation is complete. It should be noted that based on our inspection of Suite 1 the renovations did not appear to be equal to a cost of \$97.08. Additionally, the renovations for Unit 2 seem excessive, especially when considering the ground lease reportedly expires in September of 2027.

Owners in the Medical Park pay association dues which the membership owner membership restaurant, meeting space, club space with pool and gym, and post office. Additionally, it was reported that the condominium association fees include the following operating expenses: Ground lease rent, real estate taxes, insurance policies carried by association (owners are responsible for their own personal liability and for personal property), repair and maintenance for all common area spaces and buildings (including building exteriors, foundations, doors, windows, garage, parking lots, yards, gym, restaurant), common area utilities, general and administrative, management, security, and common area cleaning/janitorial.

**There are just under eight years (7 years 10 months) remaining on the ground lease and the condominium units will revert back to the landowner on September 30, 2027.**

It is likely the property will be torn down and redeveloped with some type of medical high rise taking advantage of its location near Presbyterian Hospital. Thus, it is our opinion that the remaining economic life of the Subject is just under eight years.





# Key:

Gray - Common Waiting Area Shared by Northstar Home Health Care and Other Tenants



Peach - Tenant Area Northstar Home Health Care - 1,352sqft

**Total Square Footage 5,369sqft with  
Northstar Home Health Care to Lease 1,352sqft**

Interior Views - Suite 1











Suite Two  
(to be renovated)













**PART THREE**  
**ANALYSIS AND CONCLUSIONS**

## HIGHEST AND BEST USE ANALYSIS

One of the basic elements of real estate valuation is the theory of highest, best and most profitable use.

As quoted from The Dictionary of Real Estate Appraisal, highest and best use is defined as that reasonable and probable use that supports the highest present value of vacant land or improved property, as defined, as of the effective date of the appraisal.

Or, as defined in the Appraisal of Real Estate, the reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and which results in highest land value.

These definitions recognize that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

Because the use of land can be limited by the presence of improvements, highest and best use is determined separately for the land or site as though vacant and available to be put to its highest and best use, and for the property as improved.

In appraisal practice, highest and best use analysis not only identifies the use of the property expected to produce the maximum net present value, but also helps the appraiser select comparable properties.

Four basic criteria are examined in estimating the Highest and Best Use of a property both as vacant and as improved. These stages of analysis are as follows:

- a) Possible Use - the uses to which it is physically possible to put on the site in question.
- b) Permissible Use (Legal) - the uses that are permitted by zoning and deed restrictions on the site in question.
- c) Feasible Use - the possible and permissible uses that will produce any net return to the owner of the site.
- d) Highest and Best Use - among the feasible uses, the use that will produce the highest net return on the highest present worth.

The highest and best use of a specific parcel of land is not determined through subjective analysis by the property owner, the developer, or the appraiser; rather, highest and best use is shaped by the competitive forces within the market where the property is located. Therefore, the analysis and interpretation of highest and best use is an economic study of market forces focused on the subject property.

Market forces also shape market value, so the general data that are collected and analyzed to derive an opinion of market value are also used to formulate an opinion of the property's highest and best use as of the appraisal date.

## SITE AS VACANT

Woodhill Medical Park is located on 11.229 acres of land that is encumbered by a 55 year ground lease the ends on 9/30/2027.

### Physically Possible

In arriving at our opinion of highest and best use for the improved subject site, it was first necessary to determine if the physical characteristics of the site – such as soil conditions, topography, shape, and frontage were favorable for development. No differential settlement was observed which would indicate unusually unstable soil-bearing capacities in the surrounding area. The tract is of sufficient size to be economically adaptable for development and benefits from adequate frontage and accessibility. The topography imposes no discernible problem for development. Thus, the physical characteristics impose no insurmountable limitations to permissible development.

### Legally Permissible

The subject is zoned PD-76, Planned Development, by City of Dallas. The PD-76 zone was designed specifically for the development of the Woodhill Medical Park condominiums when they were constructed in 1974 and is intended for office, medical office, and retail uses.

### Financially Feasible

Due to the Subject's location near Presbyterian Hospital rental rates for new medical office development are nearing or are at levels which justify new construction. Therefore, upon inclusion of the land cost, it appears that an average to good quality multi tenant medical office building is feasible.

### Maximally Productive

The financially feasible use of the Subject site would be for development of an office use similar to the current use. Therefore, it is our opinion that the maximally productive use of the Subject site as vacant is for *medical office development*.

### Highest and Best Use – As Vacant

The highest and best use of the subject site, *as vacant*, is for development of a medical office building.

## SITE AS IMPROVED

It is concluded that the maximally productive use of the Subject as improved is the current use. **There are just under eight years (7 years 10 months) remaining on the ground lease and the condominium units will revert back to the landowner on September 30, 2027.** Thus it is likely the property will be torn down and redeveloped with some type of medical high rise taking advantage of its location near Presbyterian Hospital. Thus, it is our opinion that the remaining economic life of the Subject is just under eight years.

## **DISCUSSION OF THE APPRAISAL PROCESS**

For the purpose of estimating the market value of the property, the appraisers will employ three traditional approaches in the valuation process: the Cost Approach, the Income Capitalization Approach, and the Sales Comparison Approach.

In the Cost Approach, the cost to replace the improvements is estimated. A deduction is made for any depreciation, and the result is combined with the estimated value of the underlying land. The approach is applicable when each component is independently measurable, and then the sum of all components is believed to reflect market value.

The Sales Comparison Approach will be the second approach employed in the valuation process. A search of the local market will be conducted by the appraisers for recent sales of comparable commercial condominiums. Upon gathering such information, an analysis of the data will be made to relate the subject's unique characteristics to those of the comparable sales. A reconciliation of the data will direct the appraisers to an estimate of value via the Sales Comparison Approach.

In the Income Capitalization Approach, the appraisers will ascertain, the property's capability of producing income and analyze fixed and variable operating expenses to estimate the net operating income. The potential income and expenses will be projected.

The appraisers will then consider the importance and influence of each approach in relation to the reactions of typical users and investors in the medical office market. The approaches will then be reconciled into a final value conclusion.

## THE COST APPROACH

The cost approach is primarily based on the principle of substitution. The principle of substitution states that a person is not justified in paying more for a property than that amount by which an investor can obtain, by purchase of a site and construction of a structure, without undue delay, a property of equal desirability and utility.

When the property represents a proper improvement, meeting the definition of Highest and Best Use, then this approach is based upon the assumption that the replacement cost is the upper limit of value.

The cost approach consists of four distinct steps:

1. Valuation of the site as if vacant.
2. Estimation of replacement cost new of the existing structures and/or improvements.
3. An estimate of accrued depreciation found in the improvements. The various types of depreciation and how each relates to the subject will be accounted for in this section. The total depreciation present in the improvements is deducted from its replacement cost new to indicate a depreciated value of the improvements.
4. The addition of the site value and the depreciated cost of the structures and improvements to a value estimate.

The technique involved in estimating the value of the site utilizes the principle of substitution as the basis for analysis, and the methodology includes an analysis of properties in the area that have sold. The value of the site, therefore, is derived from sales of comparable properties in the area. It is necessary to evaluate such factors as conditions of sale, financing, market conditions (time), location, physical characteristics, and other items when making adjustments.

Since the property is a condo unit we have omitted the Cost Approach. The omission of the Cost Approach does not lessen the credibility of this report.

### **SALES COMPARISON APPROACH**

The sales comparison approach involves a direct comparison of the Property being appraised to similar properties for which value indications are available in similar markets in order to derive a value indication for the Property. Carefully verified and analyzed market data is considered to be a good reflection of value when it represents typical actions and reactions of buyers, sellers, users, and investors. While all approaches are market oriented with respect to the information utilized in each, this approach involves the comparison of the Property with other similar properties. As a result, this approach is considered to be an interpretation of what is taking place within the market.

This approach, like the cost approach, is based on the principle of substitution, which implies that a prudent person will not pay more to buy a property than it would cost to buy a comparable substitute property. One method of valuation by this approach is a comparison based on the sales price per square foot of building area. This is a simplistic comparison, and it can be affected by numerous characteristics of each property, such as age, condition, construction quality, and deferred maintenance, as well as the basic dissimilarities between the properties. Another method of valuation is the Potential Gross Income Multiplier (PGIM) technique. A PGIM is a number that expresses the ratio between the sales price of a property and its potential gross income. We will use sales price per square foot of building area method.

The improved comparables are presented on the following pages.



**IMPROVED SALE 1**

Name:	Woodhill Medical Park
Address:	8325 Walnut Hill Lane, Suite 125, Dallas
Grantor:	HK Realty, LLC
Grantee:	Walnut Investments, Ltd
Date of Sale:	September 1, 2012
Consideration:	\$156,000
Financing:	Cash to Seller
YOC:	1974
Construction:	Two Story Class D
Net Rentable Area:	1,360 SF
Number of Stories:	1 Stories
Condition:	Average
Price/SF:	\$114.71
Comments:	Similar condo in building next door from Subject

## IMPROVED SALE TWO



Name:	Woodhill Medical Park
Address:	8305 Walnut Hill Lane Suite 120 , Dallas, Texas
Grantor:	Laboratory Corporation Of American
Grantee:	American Institute Of Plastic Surgery
Date of Sale:	July 15, 2015
Consideration:	\$85,000
Financing:	Cash to Seller
YOC:	1974
Construction:	Class D
Net Rentable Area:	1,380 SF
Number of Stories:	1 Stories
Price/SF:	\$61.59
Comments:	This condominium is near the Subject. The interior was worn and dated. The new owners reportedly gutted the property and started over.

### IMPROVED SALE THREE



Name:	Woodhill Medical Park
Address:	8345 Walnut Hill Lane, Dallas, Suite 220
Date of Sale:	Listing
Consideration:	\$995,000
Financing:	Cash to Seller
YOC:	1974
Construction:	Class D
Rentable Area:	11,000 SF
Condition:	Average
Price/SF:	\$90.45
Comments:	This is a listing of a larger second floor unit. The finishes were average quality and dated.

Sale	Property	YOC	Date	Price/SF
1	8325 Walnut Hill Lane, Suite 125	1974	9/1/2012	\$114.71
2	8305 Walnut Hill Lane, Suite 120	1974	7/15/2015	\$61.59
3	8345 Walnut Hill Lane, Suite 220	1974	Listing	\$90.45
Subject	8355 Walnut Hill Lane, Suite 200 & 200A	1974		

### Physical Comparisons - Price Per Unit

From the previous discussions, it is evident that the variance in sale prices warrant some considerations in order to better reflect the attributes of the subject property. These adjustments are derived from paired comparisons wherever possible in order to get market derived indications of adjustment. Ideally, a pure pairing of sales that are similar in all but one respect can be compared to isolate how that one difference affects price. In actual practice however, secondary pairing where several differences are adjusted to isolate the effect of a single characteristic are often necessary. In cases where this technique was not viable, we must rely on historical data and judgment from past experience.

**Terms:** All of the sales indicated a cash equivalent sales price. Thus, no adjustments were required for terms of sale.

**Conditions of Sale:** This adjustment category represents the circumstances surrounding the purchase of the comparable sales. If the comparable sales utilized did not meet the requirements of an arm's length transaction, adjustments would be appropriate in this category. All of the sales were considered to be arm's length transactions, thus no adjustments were required for conditions of sale. Sale 3 received a downward adjustment for its listing status.

**Market Conditions:** The comparable sales occurred between September 2012 and a listing. No adjustments were made..

**Location:** The Subject and the sales all have generally similar locations. No adjustments were required.

**Age:** The Subject and the sales are the same age. No adjustments were required. .

**Size:** In this instance no adjustments were applied.

**Interior Finishes:** Sale 1 has similar interior finishes requiring no adjustments. Sales 2 and 3 required varying upward adjustments. See chart for adjustments.

The following chart outlines the adjusted sales.

<b>ADJUSTMENT GRID</b>			
<b>Sale</b>	<b>1</b>	<b>2</b>	<b>3</b>
Price/SF	\$114.71	\$61.59	\$90.45
Property Rights	0%	0%	0%
Financing	0%	0%	0%
Sale Conditions	0%	0%	0%
Market Conditions	0%	6%	0%
Adjusted Price/SF	\$114.71	\$65.29	\$90.45
Location	0%	0%	0%
Age	0%	0%	0%
Size	0%	0%	0%
Interior Finishes	10%	40%	10%
Net Adjustment	0%	40%	10%
<b>Adjusted Price/SF</b>	<b>\$126.81</b>	<b>\$91.41</b>	<b>\$104.02</b>

The adjusted sales prices range from \$91.41 to \$126.91/SF. Placing emphasis on the upper end of the range it is our opinion that a value estimate for the Subject is considered reasonable at \$125.00 per square foot of rentable area. The market value via Direct Sales Comparison is as follows:

#### **\$/SF CONCLUSIONS**

Suite	SF	MV/SF	Total	<b>Rounded</b>
200	5,369	\$125	\$671,125	<b>\$670,000</b>

### **INCOME CAPITALIZATION APPROACH**

The valuation technique utilized in this portion of the Appraisal is referred to as direct capitalization. Direct capitalization is a technique whereby the stabilized net annual income estimate is divided by an overall rate. When occupancies are at or near stabilization, and a project has normal wear and tear, this technique can be very useful. This capitalization method will be utilized in the valuation of the Property and will be presented following the estimation of market rent and expenses.

Income-producing property is typically purchased for investment purposes. Estimating and valuing the projected income stream is the critical factor affecting a property's market value. An investor purchasing income-producing real estate is, in effect, spending a sum of present dollars for the right to a stream of future dollars. There is a relationship between the two, and the connecting link is a rate (overall), which reflects the necessary return to attract investment capital. This process is called direct capitalization.

## RENTAL ONE



Name:	Baylor Medical Pavillion
Address:	3900 Junius Street, Dallas
Building Description:	
YOC:	2007
Construction:	Class B
Size:	171,033
Number of Stories:	Seven
Occupancy:	90%
Lease Data:	
Term:	Negotiable
Rate:	\$32.50/SF to \$35.00/SF
Concessions:	None
Lease Type:	Full Service
Comments:	This is a multi tenant medical office building serving the Baylor Medical Office area.



**RENTAL TWO**

Name: Barnett Tower/Wadley Tower

Address: 3600 Gaston Avenue, Dallas

**Building Description:**

YOC: 1975  
Construction: Class B  
Size: 353,101 SF  
Number of Stories: Twelve  
Occupancy: 80%

**Lease Data:**

Term: Negotiable  
Rate: \$25.00/SF - \$30.00/SF  
Concessions: None  
Lease Type: Full Service

Comments: Property is at the primary entrance to Baylor University Medical Center and is on campus. Property also consists of a hotel, pharmacy, cafe, and gift shop.

### RENTAL THREE



Name:	Worth Street Tower
Address:	3409 Worth Street, Dallas
Building Description:	
YOC:	1984
Construction:	Class B
NRA:	123,148 SF
Occupancy:	90%
Lease Data:	
Term:	Negotiable
Rate:	\$33.00/SF - \$35.00/SF
Lease Type:	Full Service
Comments:	Property is located on the campus of Baylor University Medical Center and connected to the Baylor Charles A. Sammons Cancer Center.

## RENTAL FOUR



Name:	Landry Tower
Address:	411 N. Washington Avenue, Dallas
Building Description:	
YOC:	1989
Construction:	Class B
NRA:	215,144 SF
Occupancy:	89%
Lease Data:	
Term:	Negotiable
Rate:	\$25.00/SF - \$30.00/SF
Lease Type:	Full Service
Comments:	Property is located on the campus of Baylor University Medical Center



Tribune, Kansas

Rental #	Address	Building Area	Year Built	Occupancy	Rate/ SF
1	3900 Junius Street, Dallas	171,033 SF	2007	90%	\$32.50 to \$35.00.SF FS
2	3600 Gaston Avenue, Dallas	353,101 SF	1975	80%	\$25.00 to \$30.00.SF FS
3	3409 Worth Street, Dallas	123,148 SF	1984	90%	\$33.00- \$35.00 FS
4	411 N. Washington Avenue	215,144 SF	1989	89%	\$33.00- \$35.00 FS

The Rent Comparables range from \$25.00 to \$35.00/SF, Full Service and they are all located in close proximity to Baylor Medical Center. The Subject is located in close proximity to Presbyterian Hospital. There is less medical office space in proximity to Presbyterian and as a consequence there is more demand and the rental rates would obviously be higher, though we were unable confirm any rental data. We were, however, able to verify one suite that is rented at \$20.77/Gross. This also tends to help support our the rental rates below.

Suite 1 at the Subject is currently leased for \$19.40/SF, Gross, until March 1, 2022 and then the rental rate is renegotiated. Currently we believe the Subject's rental rate is at market but the expense structure appears to be below market. It is our opinion that the lease should be a NNN lease with all expenses being reimbursed by the tenant. For this appraisal we will use the current rent structure until the lease is renegotiated in March of 2022. At that time will adjust the rental rate upward by 3% annually and will change the expense structure to NNN.

Suite 2 we will estimate the market rent at \$19.40/SF with the expenses being reimbursed by the tenant. If you include the Association Dues (expenses) at \$21.68 the total rent is \$41.08/SF. This is slightly higher than the Comparables but appears to be adequately supported considering the amount being spent on interior renovations.

### **Vacancy and Credit Loss**

Vacancy loss and loss due to lease defaults are typically expressed as a percentage of potential gross income and then converted into a dollar amount. In order to estimate anticipated vacancy and credit loss for the subject, relevant market data sources have been researched and the operating experience of the subject and comparable properties have been analyzed. The specific characteristics of the subject are taken into consideration regarding its competitive position in the marketplace. There are very few decent reasonable price commercial buildings for sale or lease in the region. Thus, we have estimated vacancy at a minimal 5%.

## EXPENSE ANALYSIS

### Expenses

The Association dues cover all of the expenses at the Subject. In 2015 the association dues were reported \$21.07/SF, in 2016 they were also reported at \$21.07/SF and the 2017 expenses were also reported to be about \$21.00/SF. According to the borrower the current Association dues are \$21.68/SF which is in line with historical dues. We will utilize \$21.68/SF in the upcoming cash flow analysis.

### Cash Flow Analysis

As stated previously, the Subject property is located on a ground lease with just under nine years remaining on the lease and the condominium units will revert back to the landowner (Sept. 30, 2027). Therefore, for this appraisal we will run a cash flow for the remaining term of the ground lease. There will be no reversion value since the property will revert back to the land owner at the end of the ground lease.

We used a 3% income and expense growth rate, \$21.68/SF for the Association dues and an 6% discount rate. According to Korpacz the discount rate range is from 5.50% to 11.00% for investment grade medical office buildings. The average is 7.73%.

Inflation	3%							
NRA (SF)	5,369			3				
Suite 1	1,237							
Suite 2	4,132	5,369						
Discount Rate Cash Flow	6.00%			9				
Association Dues	\$21.68							
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>
	<b>Oct-19</b>	<b>Oct-20</b>	<b>Oct-21</b>	<b>Oct-22</b>	<b>Oct-23</b>	<b>Oct-24</b>	<b>Oct-25</b>	<b>Oct-26</b>
Suite 1	\$19.40	\$19.40	\$19.40	\$20.75	\$21.84	\$22.49	\$23.17	\$23.86
Income	\$24,000	\$23,998	\$23,998	\$25,667	\$27,012	\$27,823	\$28,657	\$29,517
Suite 2	\$19.40	\$19.98	\$20.58	\$21.20	\$21.84	\$22.49	\$23.17	\$23.86
Income	\$80,168	\$82,573	\$85,050	\$87,602	\$90,230	\$92,937	\$95,725	\$98,597
Potential Gross Rent	\$104,168	\$104,159	\$109,048	\$113,269	\$117,242	\$120,759	\$124,382	\$128,114
Expense Reimbursement	\$89,582	\$92,269	\$95,037	\$120,776	\$131,009	\$134,940	\$138,988	\$143,157
Potential Gross Income	\$193,750	\$196,428	\$204,086	\$234,045	\$248,251	\$255,699	\$263,370	\$271,271
Occupancy	95%	95%	95%	95%	95%	95%	95%	95%
Effective Gross Income	\$184,062	\$186,606	\$193,881	\$222,343	\$235,839	\$242,914	\$250,201	\$257,707
<b>Total Expenses</b>	<b>\$116,400</b>	<b>\$119,892</b>	<b>\$123,489</b>	<b>\$127,193</b>	<b>\$131,009</b>	<b>\$134,940</b>	<b>\$138,988</b>	<b>\$143,157</b>
% Expenses	63.24%	64.25%	63.69%	57.21%	55.55%	55.55%	55.55%	55.55%
<b>NOI</b>	<b>\$67,662</b>	<b>\$66,714</b>	<b>\$70,393</b>	<b>\$95,149</b>	<b>\$104,830</b>	<b>\$107,974</b>	<b>\$111,214</b>	<b>\$114,550</b>
<b>NPV Cash Flow</b>	<b>\$557,965</b>							
<b>Prospective "As Renovated"</b>	<b>\$560,000</b>	rd						

Based on the previous the prospective “as complete” market value of the Leasehold Estate of the condominium unit in Leased Fee as of January 7, 2020 is as follows.

Suite	SF	MV	<b>Rounded</b>
200	5,369	\$557,965	<b>\$560,000</b>



## RECONCILIATION

In the preceding sections of this Appraisal, value estimates have been derived based upon three separate appraisal approaches. As a result of our analysis of the Property, the indications of value for each approach are:

The cost approach is considered a fairly reliable indicator of value for properties upon which the improvements are new. This is especially true when the improvements represent the highest and best use of the site. However, variations in construction techniques, construction specifications, construction management ability, materials prices, and weather conditions play an important role in the costs of improvement construction. Further, estimating depreciation is generally unreliable. It is recognized that cost is not equivalent to market value and that market prices do not follow the costs of reproduction or replacement. In this instance, we have omitted the cost approach since it is a condo unit.

In using the sales comparison approach, care was exercised to locate data on the sales of condominiums as comparable as possible to the Property. Of the sales discovered, research was conducted regarding underlying motivations of buyer and seller and details of the property history and physical characteristics in order to obtain a more precise translation of the indication evident for the Property. Market data is the best way to interpret investor behavior, although the complexity of current sales data makes direct sales comparisons more difficult than in the past. However, the comparables are recent sales of similar properties. Because the market is typically owner occupied we have given the sales comparison approach most weight.

Investments such as the subject compete in the market not only among other real estate investments, but with alternative investment vehicles. As most of the properties similar to the subject are also owner-occupied, we have placed less emphasis on the Income Capitalization Approach.

### Prospective “As Complete” Market Value

Based upon our analysis of the Subject the prospective "as complete" market value of the Leasehold Condominium Estate (Leased Fee Estate), as of January 7, 2020, is considered to reconciled as follows:

				<b>Reconciled Value</b>
Suite	SF	SCA	ICA	
200	5,369	\$670,000	\$560,000	\$625,000

**"AS IS" MARKET VALUE**

At our clients request we have also estimated the "as is" market value of the Subject property. Suite 1 is currently leased as stated previously and Suite 2 is vacant. We estimate three months to find a tenant. Additionally, we estimate market rent at \$15.00/SF, NNN and considering the three vacant month's rent for Year 1 is \$11.25/SF, NNN. The expenses (HOA dues) will be estimated at \$21.68/SF. All other assumptions are similar to the previous prospective "as complete" market value.

Inflation	3%							
NRA (SF)	5,369							
Suite 1	1,237							
Suite 2	4,132	5,369						
Discount Rate Cash Flow	6.00%							
Association Dues	\$21.68							
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>
	<b>Oct-19</b>	<b>Oct-20</b>	<b>Oct-21</b>	<b>Oct-22</b>	<b>Oct-23</b>	<b>Oct-24</b>	<b>Oct-25</b>	<b>Oct-26</b>
Suite 1	\$19.40	\$19.40	\$19.40	\$20.75	\$16.88	\$17.39	\$17.91	\$18.45
Incoem	\$24,000	\$23,998	\$23,998	\$25,667	\$20,884	\$21,510	\$22,156	\$22,820
Suite 2	\$11.25	\$15.45	\$15.91	\$16.39	\$16.88	\$17.39	\$17.91	\$18.45
Income	\$46,485	\$63,839	\$65,755	\$67,727	\$69,759	\$71,852	\$74,007	\$76,228
Potential Gross Rent	\$70,485	\$104,159	\$89,752	\$93,394	\$90,643	\$93,362	\$96,163	\$99,048
Expense Reimbursement	\$89,582	\$92,269	\$95,037	\$120,776	\$131,009	\$134,940	\$138,988	\$143,157
Potential Gross Income	\$160,067	\$196,428	\$184,790	\$214,170	\$221,652	\$228,302	\$235,151	\$242,205
Occupancy	95%	95%	95%	95%	95%	95%	95%	95%
Effective Gross Income	\$152,063	\$186,606	\$175,550	\$203,462	\$210,569	\$216,887	\$223,393	\$230,095
<b>Total Expenses</b>	<b>\$116,400</b>	<b>\$119,892</b>	<b>\$123,489</b>	<b>\$127,193</b>	<b>\$131,009</b>	<b>\$134,940</b>	<b>\$138,988</b>	<b>\$143,157</b>
% Expenses	76.55%	64.25%	70.34%	62.51%	62.22%	62.22%	62.22%	62.22%
<b>NOI</b>	<b>\$35,663</b>	<b>\$66,714</b>	<b>\$52,061</b>	<b>\$76,268</b>	<b>\$79,560</b>	<b>\$81,947</b>	<b>\$84,405</b>	<b>\$86,938</b>
<b>NPV Cash Flow</b>	<b>\$425,046</b>							
<b>"As Is"</b>	<b>\$425,000</b>	rd						

## Sales Comparison Approach

We utilized the same sales to determine the "as is" market value. The following chart outlines the adjusted sales.

<b>ADJUSTMENT GRID</b>			
<b>Sale</b>	<b>1</b>	<b>2</b>	<b>3</b>
Price/SF	\$114.71	\$61.59	\$90.45
Property Rights	0%	0%	0%
Financing	0%	0%	0%
Sale Conditions	0%	0%	0%
Market Conditions	0%	6%	0%
Adjusted Price/SF	\$114.71	\$65.29	\$90.45
Location	0%	0%	0%
Age	0%	0%	0%
Size	0%	0%	0%
Interior Finishes	10%	40%	10%
Net Adjustment	0%	40%	10%
<b>Adjusted Price/SF</b>	<b>\$126.81</b>	<b>\$91.41</b>	<b>\$104.02</b>

The adjusted sales prices range from \$91.41 to \$126.91/SF. Placing emphasis on the lower end of the range it is our opinion that a value estimate for the Subject is considered reasonable at \$100.00 per square foot of rentable area. The market value via Direct Sales Comparison is as follows:

### \$/SF CONCLUSIONS

Suite	SF	MV/SF	Total	<b>Rounded</b>
200	5,369	\$100.00	\$536,900	<b>\$535,000</b>

## CONCLUSION

Based upon our analysis of the subject and the local market, the "as is" market value of the Leasehold Condominium Estate (Leased Fee Estate), as of October 7, 2019, is considered to reconciled as follows:

Suite	SF	SCA	ICA	<b>Reconciled Value</b>
200	5,369	\$535,000	\$425,000	\$500,000

## CERTIFICATION OF VALUE

Per SR 2-3

We certify that, to the best of our knowledge and belief:

- \* The statements of fact contained in this report are true and correct.
- \* The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analysis, opinions, and conclusions.
- \* We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- \* 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 Uniform Standards of Professional Appraisal Practice.
- \* Ronald E. Dunham has made a personal inspection of the property that is the subject of this report. No person other than Krista Thorson, provided significant professional assistance in preparing this report. Ms. Thorson made the initial inspection and Mr. Dunham made an inspection at a later date.
- \* This appraisal report has been made in conformity with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.
- \* No pertinent information has knowingly been withheld. No single item of information was reportedly relied upon to the exclusion of the other information and all data was analyzed within the framework of our judgment, knowledge, and experience.
- \* This appraisal was not based upon a requested minimum value, a specific valuation, or the approval of a loan.

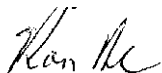
DUNHAM COMMERCIAL APPRAISERS, INC.

Dallas, Texas

Real Estate Appraisers and Consultants

Tribune, Kansas

- \* This appraisal is subject to peer review by an authorized committee of the Appraisal Institute. The Appraisal Institute conducts a program of continuing education for its designated members. As of the date of this report, Ronald E. Dunham has completed the requirements of the continuing education program of the Appraisal Institute.
- \* We have not previously appraised in December of 2019, other than that appraisal we have not done any other work on it.



Ronald E. Dunham, MAI  
Appraisal Institute Membership #12265  
Texas Appraiser License 1327681 G

## ADDENDA

**APPRAISERS LICENSE**

*You may wish to laminate the pocket identification card to preserve it.*

RONALD EDWARD DUNHAM  
8230 SANTA CLARA DRIVE  
DALLAS, TX 75218

The person named on the reverse is licensed by the Texas Appraiser Licensing and Certification Board.

Inquiry as to the status of this license may be made to:

Texas Appraiser Licensing and Certification Board  
P.O. Box 12188  
Austin, Tx 78711-2188  
[www.talcb.texas.gov](http://www.talcb.texas.gov)  
(512) 936-3001  
Fax: (512) 936-3899

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

**Certified General Real Estate Appraiser**

Number#: **TX 1327681 G**

Issued: **04/30/2018**

Expires: **04/30/2020**

Appraiser: **RONALD EDWARD DUNHAM**

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

**Certified General Real Estate Appraiser**

Number: **TX 1327681 G**

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Appraiser: **RONALD EDWARD DUNHAM**

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Douglas E. Oldmixon  
Commissioner



**APPRAISERS QUALIFICATIONS**

**SUMMARY OF QUALIFICATIONS - Ron Dunham**

*Phone:* 214-793-0143

*Fax:* 866-267-2444

**PROFESSIONAL LICENSES:**

State Certified General Real Estate Appraiser

Cert. No. TX-1327681 - G (Texas)

Cert. No. CO-CG40014921-(Colorado)

Cert. No KS- G 106 (Kansas)

*Email:*

dunham@airmail.net

**APPRAISAL INSTITUTE:**

Member of the Appraisal Institute, MAI 122656

**APPRAISAL EXPERIENCE:**

The Dunham Company -(1998-Present)

Experience includes the appraisal of existing and proposed congregate care centers, assisted living facilities, nursing homes, hospitality (motel), apartments, retail, light industrial, 10 minute oil change centers, fast food restaurant, vacant land, ranch land, quad plexes, duplexes and SFR's located throughout Colorado, Kansas, and Texas.

Joseph J. Blake and Associates, Dallas (1994 / 1998)

Experience includes the appraisal of existing and proposed congregate care centers, assisted living facilities, nursing homes, hospitality (motel), apartments, retail, light industrial, 10 minute oil change centers, and fast food restaurants located throughout the United States .

Valuation Counselors Group, Inc., Dallas, Texas (1992 / 1994)

Valuation of acute care hospitals, psychiatric hospitals, nursing homes and congregate care facilities throughout the United States.

M/PF Research, Inc, Dallas, Texas (1991)

M/PF is a real estate information services company which tracks and maintains real estate occupancy, lease rate, and real estate trend information for the Dallas/Fort Worth office, industrial and retail markets. My primary focus was updating lease rate, occupancy and client contact information for the database.

Clayton-Fillmore, LTD., Denver, Colorado (1990/1991)

Clayton-Fillmore (CF) is a research and publishing company that tracks real estate, demographic, and economic trends throughout the major metropolitan areas of the United States. Clayton-Fillmore follows the office, residential, apartment, retail, and industrial markets. My primary focus at CF was marketing and research.

Hello Krista,

Below is the initial appraisal order for 8355 Walnut Hill Lane #200, Dallas Texas 75231.

We, the client (Capstone Capital Partners, LLC), request an appraisal be completed to be delivered to us as soon as possible.

This property is a commercial medical office condo refinance.

**Please complete an appraisal report for this property reflecting an "After Renovation" or "Subject to Completion" value and send it to us once completed.**

**The borrower name on this appraisal should be reflected as LJ and Jesus Real Estate, LLC.**

Please contact the borrower, Lopa Jagatdeo, (copied on this email) for payment arrangements at the time of appraisal as we require all our borrowers to handle this out of pocket expense up front. Please also contact the borrower for any required documentation or further questions you might have as well as access to this property. I have provided her contact information for you below:

- Contact Name: Lopa Jagatdeo
- Contact Number: (214) 846-2078
- Contact Email: [lopa@ljandjesusrealestate.com](mailto:lopa@ljandjesusrealestate.com)

**Please confirm once you have connected with the borrower and payment has been received.**

**\*\*\* Lopa- Please provide any CONTRACTS, PLANS, SPECS and DOCS that will assist the appraiser in expediting this report\*\*\***

Thank you and we look forward to working with you,

Nicole

Nicole Southerland

VP of Lending Operations

Capstone Capital Partners, LLC

507 Denali Pass | Suite 401 | Cedar Park, TX | 78613

[512.686.5478](tel:512.686.5478) (Direct) | [512.257.1330](tel:512.257.1330) (Capital)

[512.257.3278](tel:512.257.3278) (Servicing) | [512.498.0904](tel:512.498.0904) (Fax)

For Borrowers: <http://capstonelending.com>

Loan Submission: <http://capstoneloan.com>

For Investors: <http://capstoneinvesting.com>