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Fax 603 226-4391

November 10, 2008

William H. Sheehan III
MacLean Halloway Doherty Ardiff & Morse P.C.
8 Essex Center Drive
Peabody, MA 01960

Re: ***<u>Real Estate Advisory Letter</u>***
Little Neck Estate – Ipswich

Dear Bill:

At your request, I have prepared the following Real Estate Advisory Letter regarding updated opinions of value for the 35± acre *Little Neck Estate Property* in Ipswich, Massachusetts. It is my understanding that this letter will be used by you and authorized representatives of the *Feoffees of the Grammar School in Ipswich* in the context of on-going rental and possible purchase and sales negotiations with the *Little Neck Action Committee*.

Specifically, this letter sets forth updated opinions of the market value of the property assuming both a sale to the current tenancy and, alternately, to a third party buyer. These opinions were requested as a means of facilitating an informed evaluation of a recently negotiated purchase of the *Little Neck* property by the current tenancy for a reported purchase price of $26,500,000. I understand that the purchase contract has not yet been drafted, but the following assumptions have been incorporated in this value update:

- The "subject property" consists of approximately 167 leasehold parcels and 39 additional parcels leasehold parcels held by the Feoffees. All but one of these 39 parcels is vacant;

- The assumed form of ownership following the proposed purchase is a legal condominium wherein the improved leasehold parcels will be owned by the various tenants and the remaining land and improvements comprising the balance of the property (including private roads) will be held as common property for use by the home owner's association, Hence, common elements are not assigned independent value;

TELEPHONE: 617 723-1800
FAX: 617-482-5376
WEB: www.landvest.com

EXHIBIT

- It is specifically assumed that a tenancy or third party buyout of the property would lift the current seasonal use restrictions on the property but existing cottages would be subject to certain restrictions on footprint expansion and bedroom additions resulting in increased sewage flow.

This letter constitutes a re-appraisal of the subject property. LandVest's previous reports effective as of April 15, 1997, December 1, 2000, February 13, 2004 and January 6, 2006 are included herein by reference. Additional documents incorporated in this analysis include an opinion of market rental rates (both seasonal and year-round) outlined in an *Advisory Letter* dated February 21, 2006 and a *Memorandum* dated October 7, 2008 which provided clarification of several questions regarding previous valuations.

As a note of background, the valuation methodology employed in the previous appraisal of the property's fee simple value under an assumed condominium declaration included a two-part process whereby the individual and aggregate value of the condominium lots or "occupancy envelopes" were valued based on a review of comparable sales and an allocation of land/building value from recent sales within the *Little Neck* sub-market. We then employed what's known as a "cost of development" appraisal methodology whereby all costs to be incurred by the current tenancy or third party buyer are accounted for and a lot takedown schedule then projected individual sales over a projected absorption period. Assuming an "as is " sale of the property, basic costs include legal fees for preparation of the condominium declaration and closings, survey and preparation of a master plat plan (including metes and bounds of each envelope and building footprints), minor road/utility improvements, real estate taxes for unsold lots over the absorption period and some provision for project profit (third party buyer assumption only). Finally, lots sales revenue over a projected 3-4 year absorption period was discounted to present value using a safe rate of return. The resulting value represented the "as is" value of the property under an assumed post-closing condominium conversion.

In all of our previous appraisals of a condominium conversion, lot values were assigned based on the 6-tier value system devised and employed in our original appraisal in 1997. In our 2006 appraisal, lot values ranged from $80,000 for an inland, non-view, road-impacted lot to $255,000 for an exceptional view, front row lot. It should be noted that higher quality lots, ranging from top tier waterfront to interior/excellent view totaled 43 – or approximately 26% of the total leasehold property. By our estimation, nearly 75% of the leasehold property consists of lesser quality, interior lots with average views which are generally obstructed by adjoining cottages in the dense development pattern of 3,000± s.f. lots.

The aggregate lot value per our 2006 report totaled just under $20M prior to accounting for the aforementioned legal and resale expenses. This value as of January 2006 provides a useful benchmark or departure point in the current valuation of the subject property.

The median residential sale price in Ipswich (source: *The Warren Group*) for 2005 was $487,500 and the median value for 2008 (January through September) was $399,500. This indicates a total Town-wide value decline of approximately 18.1%. As outlined in my Memo of October 7, 2008, there have been three sales in the past 12 months on *Little Neck* and there are currently 10 active listings indicating an average list price of $398,370. The average value indicated by the three closed sales is $358,000. The average land/building ratio from the three sales is roughly 56%, indicating an average underlying lot/land value of approximately $200,000. All three sales are classified as front-Ipswich River/Plum island Sound lots with average-prime view per LandVest's tiered valuation system. We had valued that lot type at approximately $190,000 at the end of 2005 so the ensuing market decline of 18% cited above does not appear to be warranted in the current valuation. In fact, the average value from this somewhat limited sale sample is just over 5% higher than LandVest's end-of-2005 estimate for that lot type.

The application of a 5% value increase to our previous aggregate lot value of $19,870,000 results in a current aggregate lot value of approximately $20,863,000 ($124,928/leasehold lot) prior to cost accounting. This total is $5,637,000 *lower than* the proposed purchase price of $26,500,000 negotiated by the Feoffees. Assuming an "as is" sale where the tenancy is responsible for all related legal and engineering costs and subsequent coordination of intra-tenancy lot sales, the $26,500,000 ($158,682/leasehold lot) purchase price is *well above* the supportable value indicated by time-adjusted prior appraisals and the application of accepted appraisal methodology to recent sales data.

In LandVest's 2006 appraisal, hard and soft costs to be borne by the existing tenancy in affecting a successful purchase and resale of the 167 lots to willing and capable tenant buyers over a 4-year sellout period totaled roughly 30% of projected lot sales revenue. As a basic test of "reasonableness", if one were to impute an average (though highly aggressive, in my opinion) lot value of $200,000, the resulting aggregate lot value totals $33,400,000. The application of even a 20% cost margin (highly conservative, in my opinion) results in an "as is" value of $26,720,000 – essentially in line with the proposed purchase price. Again, this equation is neither accurate nor technically appropriate as the assumed revenue and costs figures are faulty, but it does add credence to the assertion that the $26,500,000 buyout price is above appraisable value to a single buyer.

As an additional check from the viewpoint of the tenant/buyer, the average proposed purchase price of $158,682 implies annual debt service of roughly $10,274 (assuming 10% down, 30-year fixed mortgage at 6%). When coupled with taxes, insurance, sewer betterments and association fees, the annual debt load will readily exceed $15,000. This total debt load (again amortized over 30 years) implies a present value of approximately $208,500 – again, notably above an aggressive $200,000 average lot value.

The property's current market value to a third party buyer, due in part to the current credit crisis and the scarcity of viable financing, would range between $10M-$15M depending upon equity yield (all cash) assumptions. It is clear that the existing tenancy is the most motivated and self interested buyer for the subject property.

Based on this analysis, it is my opinion that the proposed purchase price of $26,500,000 for the Little Neck leasehold exceeds the property's appraised value under a condominium conversion by the current tenancy.

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Please do not hesitate to call with any questions regarding this value update or if we can be of additional assistance.

Respectfully submitted,

James E. Monahan
Senior Advisor
LandVest, Inc. – Real Estate Consulting Group
(Massachusetts Gen. Cert. #3481)

Appendix

Appraiser Certification
Survey Plan
4-Lot Schematic Division Plan
Exhibit A – Lot Sales Overview

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CERTIFICATION OF VALUE

I hereby certify that:

1. I have made a personal inspection of the property that is the subject of this report.

2. To the best of my knowledge and belief, the statements of fact and the opinions contained in this report are true and correct.

3. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and my personal, unbiased professional analyses, opinions, and conclusions.

4. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.

5. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

6. This appraisal was not based on a requested minimum valuation, specific valuation or approval of a loan.

7. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Practice of The Appraisal Institute, as well as the Uniform Standards of Professional Appraisal Practice of the Appraisal Institute. I am currently licensed as a Certified General Appraiser in Massachusetts (CG #3481), Vermont (C.G.#0000212), New Hampshire (C.G.#669), and Virginia (C.G.#008676).

8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

9. No one provided significant professional assistance to the person(s) signing this report.

Appraiser: ______________________ Date: November 11, 2008

James E. Monahan