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**AN APPRAISAL OF
THE COLLIN COUNTY COURT ANNEX
A 174,978 SQUARE FOOT OFFICE BUILDING
LOCATED AT 1800 NORTH GRAVES STREET
MCKINNEY, COLLIN COUNTY, TEXAS**

AS OF JANUARY 7, 2009

Prepared for:

**Mr. Tom Crowe, Superintendent
McKinney Independent School District
1 Duvall Street
McKinney, Texas 75069**

Prepared by:

**PETER MALIN, MAI
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January 16, 2009

Mr. Tom Crowe, Superintendent
McKinney ISD
1 Duvall Street
McKinney, Texas 75069

RE: The valuation of the Collin County Court Annex, located at 1800 North Graves Street in McKinney, Collin County, Texas

Dear Mr. Crowe:

In accordance with the engagement letter dated December 9, 2008, we have appraised the property captioned above. The purpose of this appraisal report is to estimate the market value, as defined herein, of the fee simple estate of the above-referenced property. We understand the appraisal will be used by the McKinney ISD in order to analyze the potential purchase of the property from Collin County. Accordingly, the intended user of this report is the McKinney ISD and their representatives. The valuation date is January 7, 2009.

A complete description of the subject property, together with the sources of information and basis of estimates, are stated in the accompanying sections of this report. This report was prepared in accordance to the Uniform Standards of Professional Appraisal Practice (USPAP). This is appraisal communicated in a Summary Report. Your attention is called to the relevant assumptions, limiting conditions, and certification on the following pages.

It is our opinion that the market value of the subject property, as of January 7, 2009, is:

EIGHT MILLION EIGHT HUNDRED THOUSAND DOLLARS
\$8,800,000

Mr. Tom Crowe
January 16, 2009
Page 2

Neither the whole, nor any part of this appraisal or any reference thereto may be included in any document, statement, appraisal or circular without The Malin Group's prior written approval of the form and context in which it appears.

Respectfully submitted,

THE MALIN GROUP



PETER MALIN, MAI
Managing Director

Reasonable Exposure Time

Reasonable exposure time is defined by USPAP as follows:

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; a retrospective opinion based upon an analysis of past events assuming a competitive and open market.¹

The reasonable exposure time is generally based on the property's location, the exposure time of other similar properties and the amount of market activity. A reasonable exposure time for the subject property, assuming it was marketed at the appraised value is estimated as twelve months.

¹*Uniform Standards of Professional Appraisal Practice*, 2008-2009 Edition, Statement of Appraisal Standards No. 6, Page U-87.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Identification

The Collin County Court Annex, a 174,978 square foot office facility situated on 11.817 acres of land. The facility was originally built in 1957 and was gutted and completely renovated in 1999.

Property Location

The subject property is located on the tract of land bounded by University Drive (US 380) on the north, Graves Street on the west, Waddill Street on the east and Harroun Avenue on the south. This location is approximately four-tenths of a mile east of US 75, in the city of McKinney, Collin County, Texas.

Legal Description

County records show the legal description as Abstract AO837, B.F. Stapp Survey, Tract 18, 11.817 acres, City of McKinney, Collin County, Texas

Date of Valuation

January 7, 2009

Legal Interests Appraised

Fee Simple Estate

Property Data:

Net Rentable Area

Office Building

174,978 SF

Land Area

11.817 acres or 514,748 SF

Land-to-Building Ratio

2.94:1

Year Built/Renovated

1957/1999

Current Occupancy Rate

100% (Currently Owner Occupied)

Zoning

PD 08-07-067, 10.317 acres of BG General Business and 1.5 acres of Office I

Value Conclusions

Income Approach

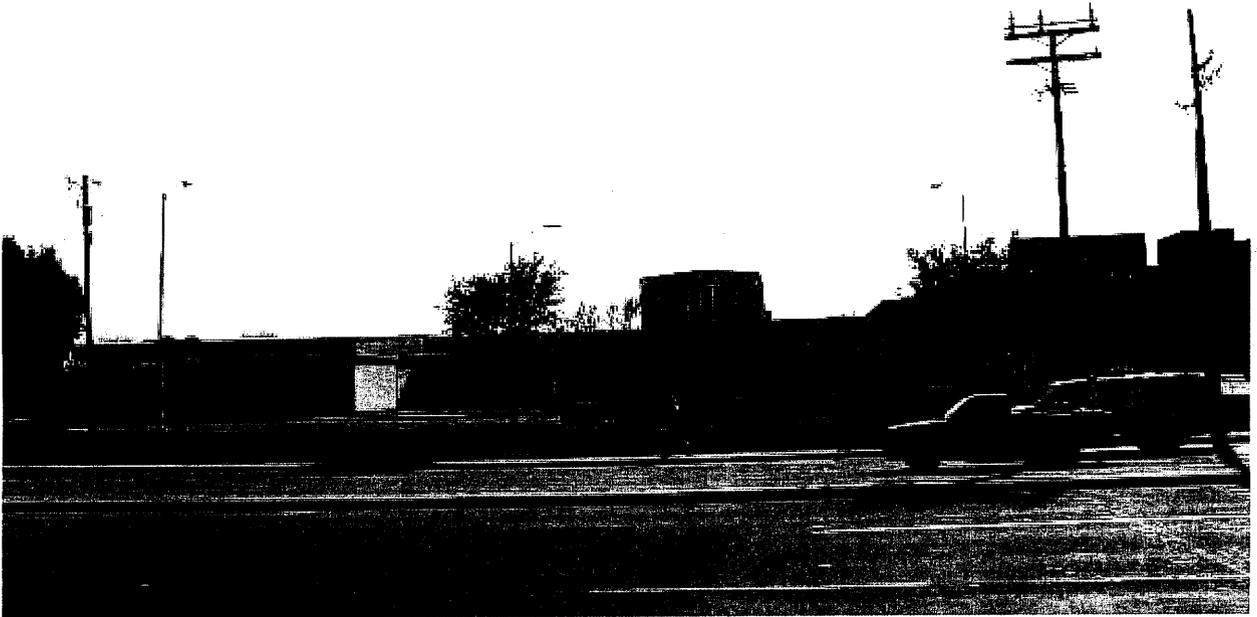
\$8,600,000

Sales Comparison Approach

\$9,000,000

Final Value Conclusion

\$8,800,000



The view of the subject property from across University Drive

HISTORY OF THE SUBJECT PROPERTY

The subject property is owned by Collin County. According to county records, the facility was acquired in February 1999 from McKinney Hospital Venture. We understand that the acquisition price was \$1,350,000. Subsequently, the hospital was gutted and the county renovated the facility at a cost of about \$10,000,000, turning it into court rooms, judge's chambers, related support offices, a county clerk's office, adult and juvenile probation offices, and various other related uses.

We understand that the property is currently offered for sale by the county for a price of \$17,000,000.

REGIONAL ANALYSIS

The subject property is in the northern portion of the Dallas/Fort Worth region, within the city of McKinney. General information regarding the economic and demographic conditions of the metropolitan area is presented in the addenda of this report.

NEIGHBORHOOD ANALYSIS

A property is an integral part of its surroundings and must not be treated as an entity separate and apart from its surroundings. Therefore, in order to determine the value of a property, a careful and thorough analysis must be made of the area in which the property under study is found. This area is commonly referred to as a neighborhood.

A neighborhood can be a section of a community or an entire community. It is a more or less unified area with definite boundaries which exhibit a fairly high degree of homogeneous uses. In essence, it is a group of complimentary land uses that exhibit a greater degree of commonality than the larger area.

The value of a property is not found exclusively in its physical attributes. Economic, political, social and environmental forces found in the area interact to influence real estate values. In order to determine the degree of influence extended by these forces on a property, their past, present and probable future trends must be studied in depth.

The subject's neighborhood is generally defined as the area along the US 380 corridor through the northern part of the city of McKinney. McKinney is the county seat of Collin County, one of the most affluent and fast growing counties in the state of Texas.

Land Uses

US 380, which through McKinney is also known as University Drive, is one of the main east-west roads through the city of McKinney. It is a six-lane divided roadway which intersects with US 75 approximately four-tenths of a mile west of the subject property. The area is generally comprised of commercial properties along the highway frontage and at intersections, and older residential areas on most of the surrounding secondary streets. Strip centers, fast food establishments as well as various other retail and office properties are found all along University Drive in this area.

On the north side of University Drive, across the subject property is an older strip center, a café, and an auto alignment business. Just to the west of these businesses, there is a Sam's, a Chase Bank, and numerous fast food restaurants line the road all the way to US 75. On the south side, to the west of the subject property is Northside Medical Building, Walgreens, and the Heritage Square Shopping Center. On the streets to the south of the subject are several medical office properties as well as law offices and other small businesses. To the east of the subject property, most of the land uses in the immediate area are single family residential land uses.

An area map and aerial photos of the neighborhood are presented on the following pages.

The exhibit below presents demographic trends for the one, three, and five mile radii around the subject property. McKinney has been one of the fastest growing cities in the state over the last several years. This is clearly reflected in the population trends shown below. The population within a three-mile radius of the subject property increased 122% between 1990 and 2008. The trend is projected to continue over the next five years with growth of another 17.35% by 2013. Growth within a five-mile radius was even more dramatic, 338% since 1990. Growth was more modest within one mile since much of the area has been built out for many years. The average household income within three miles of the subject property is reported as \$64,701, which is considerably lower than the average of \$99,516 for the five-mile radius. This is indicative of the older neighborhood with many small wood-frame homes built prior to the 1960's.

Demographic Profile						
One, Three, and Five Mile Radii						
Description	1-Mile	%	3-Mile	%	5- Mile	%
Population						
2013 Projection	6,858		47,806		135,196	
2008 Estimate	6,640		40,738		104,052	
2000 Census	6,866		31,171		55,405	
1990 Census	5,786		18,356		23,761	
Growth 1990-2000	18.7%		69.8%		133.2%	
Households						
2013 Projection	2,274		16,756		44,682	
2008 Estimate	2,213		14,209		34,716	
2000 Census	2,320		10,672		18,590	
1990 Census	2,187		6,575		8,467	
Growth 1990-2000	6.1%		62.3%		119.6%	
2008 Housing Units						
Owner Occupied	1,189	53.7%	8,002	56.3%	26,964	77.7%
Renter Occupied	1,024	46.3%	6,208	43.7%	7,753	22.3%
2008 Average Household Size						
	2.57		2.73		2.94	
2008 Est. Households by Household Income						
Income Less than \$15,000	309	13.96%	1,573	11.07%	1,923	5.54%
Income \$15,000 - \$24,999	332	15.00%	1,649	11.61%	2,064	5.95%
Income \$25,000 - \$34,999	332	15.00%	1,788	12.58%	2,469	7.11%
Income \$35,000 - \$49,999	408	18.44%	2,224	15.65%	3,739	10.77%
Income \$50,000 - \$74,999	437	19.75%	2,931	20.63%	6,536	18.83%
Income \$75,000 - \$99,999	155	7.00%	1,800	12.67%	5,709	16.44%
Income \$100,000 - \$149,999	158	7.14%	1,355	9.54%	6,830	19.67%
Income \$150,000 - \$249,999	61	2.76%	648	4.56%	3,761	10.83%
Income \$250,000 - \$499,999	19	0.86%	189	1.33%	1,264	3.64%
Income \$500,000 and over	2	0.09%	53	0.37%	421	1.21%
2008 Est. Average Household Income						
	\$52,372		\$64,701		\$99,516	
2008 Est. Median Household Income						
	\$39,914		\$49,127		\$77,747	
2008 Est. Per Capita Income						
	\$18,360		\$23,160		\$33,462	

Access Facilities

The neighborhood is at the northern fringe of the city of McKinney. The subject property is located about four-tenths of a mile east of US 75 on University Drive. University Drive is US 380, a major east-west corridor between Greenville to the east and Decatur to the west. US 75 is a major north-south freeway that connects Dallas with Richardson, Plano, Allen, and McKinney and extends northward into Oklahoma. SH 121 splits off from US 75 on the south side of McKinney and provides the most direct access to D/FW Airport. Other major roadways in McKinney include SH 5, which runs parallel to and a short distance east of US 75, and Eldorado Parkway and Virginia Parkway, which are both east-west roadways.

Neighborhood Services and Conveniences

All of the typical city utilities and services are available to the neighborhood. The neighborhood is served by the McKinney Independent School District. Water and wastewater services, as well as police and fire protection are provided by the city of McKinney. Electricity is provided by a variety of companies as is telephone service. Natural gas is provided by Atmos Energy.

Neighborhood Life Cycle

According to *The Appraisal of Real Estate*, "the complementary land uses that make up neighborhoods and the homogeneous land uses within districts typically evolve through four stages." The stages are growth, stability, decline and revitalization. The subject neighborhood is currently in a period of decline, which essentially means a period of diminished demand which occurs prior to revitalization and renewal. Transition to renewal typically occurs when a land used that is no longer financially feasible is discontinued in favor of a more productive use.

There are some signs of any one of the four stages in the subject neighborhood; however, many properties in the area, including the subject property, are nearing the end of their economic life.

Conclusion

In summary, the neighborhood is generally the area along the US 380 corridor through the northern part of McKinney, east of US 75, and including much of the old McKinney. The immediate area is a mix of commercial uses all along and around US 380 to the west of the subject property and is mostly residential uses to the east. The old McKinney is located to the south between US 380 and Eldorado Parkway. The area is influenced by the close proximity to US 75 and all of the commercial activity around this major intersection.

The neighborhood is an older part of McKinney, a few miles east of the areas that have experienced the explosive growth, such as Stonebridge Ranch and Craig Ranch. Most of the surrounding improvements are decades old, although to the west near US 75 there has been retail or fast food development. The life cycle of the neighborhood appears to be either stable or declining.

SUBJECT PROPERTY DESCRIPTION

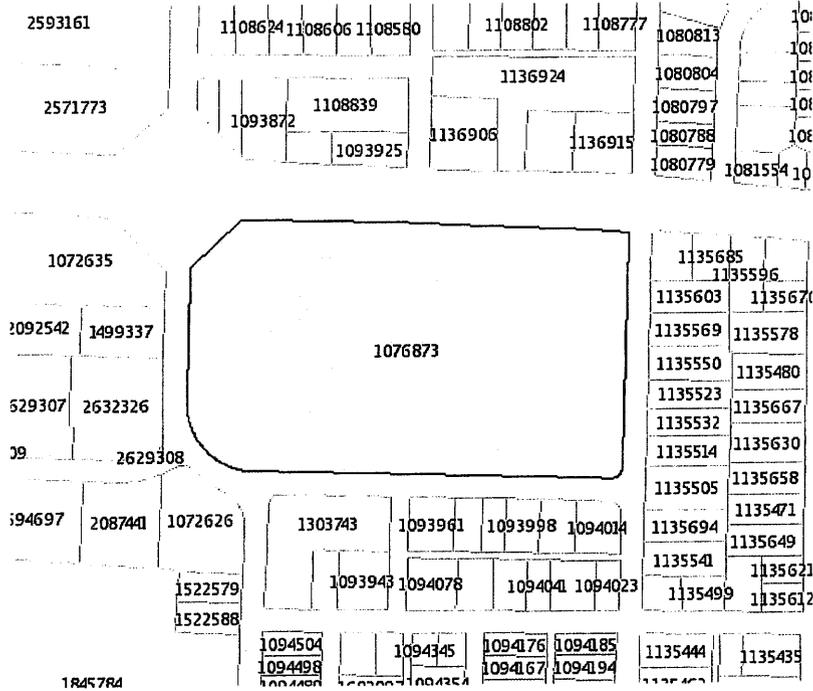
Site Analysis

Location

The subject is located on the south side of University Drive between Graves Street and Waddill Street, with Harroun Avenue running across the south side. The location is four-tenths of a mile east of US 75, in the northern part of McKinney.

Size and Shape

The subject site is irregular in shape and consists of 514,748 SF or 11.817 acres. According to the survey, the subject has about 830 feet of frontage along the University Drive and it has a depth of approximately 644.48 feet along Waddill Street.



Access and Visibility

The site is surrounded by streets on four sides and therefore has excellent access and visibility from all directions. As noted, the property is only four-tenths of a mile east of US 75.

Site Conditions

The site is level and at grade with the street. According to the FEMA Flood Insurance Rate Map, Community Panel 48085C 0825G, dated January 19, 1996, the subject property is in an area designated Zone X, indicating that no part of the property is within the 100-year flood plain.

Surrounding Land Uses

North	University Drive, strip center, café, Sam's
South	Various medical office, legal office, and residential properties
East	Residential properties
West	Florist, medical office

Easements/Encroachments

We have assumed that the site has typical utility and/or access easements that would not negatively affect the value.

Deed Restrictions

We are unaware of any deed restrictions or limitations that would unduly inhibit or restrict development of any proposed improvements. This should not be taken as a guarantee or warranty that no such restrictions exist. Only a title search would uncover restrictive covenants, and therefore, such a search is recommended before any final conclusion is reached. It is recommended that an attorney or title company be contacted should any questions regarding deed restrictions arise.

Zoning

The subject property is zoned PD 08-07-067. The property had previously been zoned RG 18; however the zoning was changed in July 2008. The new PD specifies that all of the site with the exception of 1.5 acres at the northwest corner of Harroun Avenue and Waddill Street is zoned BG General Business District. The BG district is intended to "permit the development of unified shopping centers, whether in single or multiple ownership. It is not intended for extensive parceling-off of tracts or creation of pad sites, especially along the frontage of an arterial street, not extending the full depth of the district." Development guidelines for the BG district are shown below:

BG General Business District	
Minimum lot width	None for a business
Minimum lot depth	None for a business
Maximum building height	35 feet
Minimum front yard	None for a business
Minimum rear yard	10 feet
Minimum side yard	5 feet when abutting any zone requiring a side yard; none abutting a business
Minimum side yard at corner	15 feet
Maximum lot coverage	95%, including accessory buildings, loading docks, incinerators and vending devices
Maximum floor area ratio (FAR)	2.0:1

Any use permitted in the BN, Neighborhood Business Zone, is also permitted in BG, with the exception of multi-family and single-family attached units. Since zoning in McKinney is cumulative, other permitted uses include offices for one or more professional persons which generate limited contact with the public, and office buildings for the administrative business of one company.

The 1.5 acres at the northwest corner of Harroun Avenue and Waddill Street is zoned O-1, Neighborhood Office District. This zone is designed to provide for low intensity office uses, which are appropriately located at intersections of thoroughfares and which can be in close proximity to adjacent residential neighborhood areas.

O-1 Neighborhood Office District	
Minimum lot area	7,000 square feet
Minimum lot width	60 feet
Minimum lot depth	100 feet
Maximum building height	25 feet
Minimum front yard	25 feet
Minimum rear yard	10 feet, 25 feet adjacent to residential
Minimum side yard	10 feet, 25 feet adjacent to residential
Minimum side yard at corner	25 feet
Maximum lot coverage	50%
Maximum floor area ratio (FAR)	0.5:1

Off-Street Parking

Parking requirements depend on the specific use. For example, office, business or professional uses require one space per 300 square feet. Medical office, dental, or similar health services require a minimum of one space per 200 square feet. A hospital requires one space per bed. Assuming that the existing court facilities would be classified as office space, then approximately 583 spaces would be required (1 per 300 SF). The existing facility has only 333 parking spaces. Accordingly, it appears that the existing improvements are non-conforming.

Utilities

Typical city water and wastewater utilities as well as police and fire protection services are provided by the City of McKinney. Electricity is available in the city from various providers. Gas is provided by Atmos Energy

Real Estate Taxes

The subject property is assessed by the Collin Central Appraisal District for \$17,661,236. This includes \$14,572,742 for the improvements, and \$3,088,494 for the land. With the 2008 tax rates of \$2.434484 per \$100 of assessed value, the 2008 taxes were \$429,960. Based on this appraisal, it is our opinion that the current assessed value is substantially higher than the actual market value of the property. Since the property is owned by the county government, it is exempt from taxation and there is no purpose in disputing the assessment.

Property Taxes	
Assessment	2008 Certified
Improvements	\$14,572,742
Land	<u>3,088,494</u>
Total	\$17,661,236
Taxing Entities:	Rate/\$100
City of McKinney	\$0.585500
Collin County	0.245000
Collin County Community College	0.086984
McKinney ISD	<u>1.517000</u>
Total	\$2.434484
Property Taxes	\$429,960

Physical Hazards/Nuisances

Based upon a visual inspection of the subject property, no physical hazards or nuisances were noted by the appraisers.

Conclusion

The subject property is 11.817 acres of land that is in a Planned Development zoning district. The land is basically level with approximately 830 feet of frontage on University Drive. The general area is a mix of retail, medical office, other commercial uses and residential land uses. There are no factors that would appear to hinder any development of the land so long as such development was economically feasible. The land is not within a flood zone. It enjoys good access and visibility from all sides and all utilities and normal community services are available. There are no known conditions that would adversely impact the value of the site.

Improvement Analysis

The subject property is a three-story courthouse facility which was originally built as a hospital in 1957. In 1999, the property was acquired by Collin County and was completely gutted and renovated into the existing court annex facility. The building is comprised of four contiguous sections, Sections A, B, C, and D. Section A is three stories plus a basement, located on the western side of the facility. It is primarily administrative offices, probation offices, and storage on the basement level. The County Clerk is in this section as well. Section B is on the first floor and has four courtrooms as well as judges' chambers and other support offices. Section C is also located on the first floor and has four courtrooms as well as various other support offices. Section D is comprised of three one-story wings that extend outward on the east side of the facility. These are used as offices for judges and other support personnel.

The key features of the property are presented below:

Year Built	1957, gutted and renovated in 1999
Building Class	B or C
Stories	Section A is 3 stories, the rest is one story
Foundation	Reinforced concrete piers
Frame	Concrete block load-bearing walls, steel joists and trusses
HVAC	Two 300 ton chillers, five air handlers, and two 4,000,000 BTU boilers, all installed in 1999
Roof	Built up over a steel deck
Exterior	Masonry, brick, concrete
Parking Lot	Asphalt, 333 spaces
Interior walls	Sheetrock, painted
Ceilings	Suspended grid
Floor	Carpet and vinyl tile
Lighting	Florescent and incandescent lighting
Fire safety	The entire facility equipped with sprinklers
Plumbing	Assumed to conform with existing codes
Electrical	Assumed to conform with existing codes
Overall Condition	Good
Functionality	Not well suited for typical office space due to the configuration of the various courtrooms and the wings. The design is that of a hospital, which is not particularly suitable for typical office tenants.
	The facility also lacks sufficient parking for a building of this size.