SHENEHON
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Valuation Viewpoint

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Outdoor Recreation Industry Exhibits Positive Outlook

by Mark Thomas Jude

Rising interest rates, inflation, trade wars, tariffs, increasing debt levels, recession. Each day in the news it seems that there is a new take on how negative the economic outlook is. Yet, one must ask what the best source is to base one's economic expectations on. Is it the news? Economists? The federal reserve? Financial institutions? Technical analysis of stock charts? One place to watch is the M&A market. Looking at the size and number of transactions, along with the industries in which deals are taking place, may give some indication of future expectations from the buyer's perspective.

Recently, three acquisitions have been announced in the outdoor recreation industry. On May 30, 2018, Polaris Industries, Inc. announced its agreement to acquire Boat Holdings, LLC. Polaris Industries is a powersports vehicle manufacturer headquartered in Medina, Minnesota. Boat Holdings is a leading manufacturer of pontoon boats in the United States with four recognizable brands: Bennington, Godfrey, Hurricane and Rinker. Boat Holdings is based in Elkhart, Indiana. The following week, on June 4, 2018, Winnebago Industries, Inc. announced that it had acquired Chris Craft Corporation. Winnebago is a leading U.S. manufacturer of motorhomes, travel trailers and fifth wheel products and is based in Forest City, Iowa with corporate offices in Eden Prairie, Minnesota. Chris Craft is a boat maker renowned for its classic designs, craftsmanship and use of premium materials. Later in the month, on June 28, 2018, BRP (Bombardier Recreational Products), a Canadian company, announced that it had purchased Alumacraft, a Minnesota fishing boat manufacturer. BRP is known for its Ski-Doo and Sea-Doo product lines, and also makes Evinrude motors. Alumacraft and Evinrude will be a part of BRP's newly formed marine group.

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Market Trends and Value Indicators

Office Buildings—Downtown	→	0.0%
Office Buildings—Suburban	→	0.0%
Retail Centers	→	2.0%
Industrial Buildings	→	2.0%
Apartments	→	2.0%
New Housing Starts—Midwest*	↓	–1.6%
Productivity**	↑	1.3%
US Unemployment***	↓	4.0%
Consumer Confidence Index****	↓	126.4%

Statistics reflect year-over-year value change from:
*Full year 2016 to 2017
**YoY 1Q 2018
***June 2018
****June 2018

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Market Trends and Indicators

Economic Indicator

New Housing Starts— Midwest Yearly Totals	2012	2013	2014	2015	2016	2017	YTD June 2018
	127,900	149,600	165,200	152,600	182,300	179,600	83,300

P/E Ratios in Select Industries

Industry (by year)	2011	2012	2013	2014	2015	2016	2017	2018
Basic Materials	16.0	10.7	10.4	11.87	*	*	*	*
Construction	5.8	6.5	7.1	6.0	5.2	3.7	4.8	3.7
Manufacturing	10.4	10.2	9.4	9.8	16.4	7.1	7.93	11.9
Wholesale Trade	8.3	7.4	9.6	8.5	7.1	6.1	6.8	9.7
Retail Trade	4.9	5.1	6.2	6.3	5.0	4.0	6.9	6.2
Transportation & Warehousing	5.9	5.6	5.6	5.8	5.2	3.4	6.3	*
Information	11.5	11.3	6.8	15.2	6.1	7.1	21.11	*
Finance & Insurance	7.2	6.4	7.1	8.1	5.2	16.5	8	15.4
Professional Services	10.2	7.3	7.9	9.9	5.9	5.2	13.2	8.5
Healthcare	9.3	5.2	6.9	6.6	7.1	6.9	5.78	3.9

Data Current as of August 1, 2018 *Insufficient data

Economic Indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.9%
Labor Productivity	3.3%	0.1%	0.9%	0.3%	1.0%	1.3%	-0.1%	1.2%	1.3%
GDP	3.0%	1.7%	2.2%	1.9%	2.4%	2.4%	1.6%	2.9%	2.2%
Consumer Confidence	62.0	70.8	72.2	78.1	92.6	115.3	113.7	122.1	126.4

Data shows year-over-year growth of annual figures from June 2018, 4Q 2017, 1Q 2018, and June 2018, respectively

Unemployment

	2005	2010	2011	2012	2013	2014	2015	2016	2017	June 2018
US	**5.1%**	**9.6%**	**8.9%**	**8.1%**	**7.4%**	**6.2%**	**5.3%**	**4.9%**	**4.4%**	**4.0%**
Northeast	4.8%	8.7%	8.2%	8.1%	7.5%	6.2%	5.3%	4.8%	4.5%	4.1%
Midwest	5.4%	9.5%	8.4%	7.4%	7.2%	5.8%	4.8%	4.7%	4.1%	4.0%
South	5.0%	9.3%	8.8%	7.7%	7.0%	6.0%	5.3%	4.9%	4.3%	4.2%
West	5.2%	11.0%	10.3%	9.2%	8.0%	6.7%	4.7%	5.1%	4.5%	4.3%
Minnesota	**4.1%**	**7.4%**	**6.5%**	**5.6%**	**5.0%**	**4.2%**	**3.7%**	**3.9%**	**3.5%**	**2.9%**

Rates of Return and Risk Hierarchy

Investment	
30 Year Treasury	3.11%
Aaa Bond	3.91%
Bbb Bond	4.36%
Commercial Mortgage	4.75–5.5%
Institutional Real Estate	5.75–7.0%
Non-Institutional Real Estate	8.0–10.0%

Investment	
S & P Equity (Duff & Phelps)	10.03%
Equipment Finance Rates	10.0–12.0%
Speculative Real Estate	11.0–16.0%
NYSE/OTC Equity (Duff & Phelps)	13.70%
Land Development	12.0–25.0%
NYSE Sm Cap. Equity (Duff & Phelps)	16.73%

As of August 1, 2018

Sources: United States Census Bureau, Pratt's Stats®, Bureau of Labor Statistics, Bureau of Economic Analysis, The Conference Board, Yahoo Finance, Duff & Phelps. Shenehon Company makes every effort to ensure the accuracy of the information published in *Valuation Viewpoint*. Shenehon Company uses only those sources it determines are accurate and reliable, but makes no guarantee with regard to the information presented.

Outdoor Recreation Industry *continued from page 1*

The first two acquisitions reflect expansion strategies into the recreational marine market from the powersport vehicles and recreational vehicles markets, respectively. The third acquisition reflects an expansion within the recreational marine market, which combines two well-known brands: Evinrude and Alumacraft. Polaris, Winnebago and BRP cite diversification and expansion within the outdoor lifestyle market. Polaris Chairman and CEO Scott W. Wine stated in a press release that "in addition to market share leadership, Boat Holdings expands Polaris' footprint in the recreational outdoors market, commanding more of consumers' discretionary spending."

Purchasing these manufacturers just before the bottom falls out of the economy is a recipe for destroying shareholder value. This leads one to believe that the outdoor recreation market sees something different than what is being projected from other outlets.

The recreational marine market has increased substantially over the past five years as it continues to recover from the recession. As Mr. Wine alludes to, boat purchases are in the discretionary category with the boat manufacturing industry depending heavily on consumer spending. Consumer spending in turn is dependent on the overall health of the economy, job market and consumer outlook going forward. As such, the recreational marine market was hit especially hard during the recession. Boat manufacturer revenue and earnings have increased over the past five years, pushing multiples and values upwards, indicating an improving economy. The entrance of Polaris and Winnebago into the boat manufacturing industry demonstrates confidence in the economy and consumer outlook going forward.

Recreational boats are considered luxury goods that are commonly financed, which also ties demand to interest rates. It is expected that the Federal Reserve will raise short-term interest rates three or four times during 2018. This may negatively impact sales as it would increase the total cost of boat purchases. The Federal Reserve has been raising rates slowly since December of 2015, however, boat sales continue to rise. This suggests that consumer confidence has risen at a faster rate than interest rates.

These transactions make sense from a strategic perspective, but let's now examine these investments from a timing perspective. During 2009, the boat building industry shrunk by 42.5% and nearly a decade later the industry is still below 2008 levels. Since the recession, and particularly over the past five years, the boat manufacturing industry as well as the overall market has improved significantly, pushing prices up across all industries for both private and public companies. Malibu, a performance boat manufacturer, went public in January of 2014 and as of June 30, 2018 is trading up 140% above the IPO price. MasterCraft, another performance boat manufacturer, went public in July of 2015, and as of June 30, 2018 is trading at 80% above its IPO price.

These previously cited acquisitions were made with the expectations of cost savings, tax savings, synergies and expansion into new markets. However, with prices at their current levels, it will be difficult to generate positive returns if the economy softens, especially since boating purchases are highly discretionary. Purchasing these manufacturers just before the bottom falls out of the economy is a recipe for destroying shareholder value. This leads one to believe that the outdoor recreation market sees something different than what is being projected from other outlets. While this indicator is not infallible, it is another datapoint to consider when forming future expectations.

Storm Clouds Ahead: Navigating Real Estate through the Southwest Light Rail Line

by Chris Stockness

In May 26, 2010, the Metropolitan Council approved the long anticipated Southwest Light Rail Transit (LRT) project, which will be the third extension of the light rail transit system in the Minneapolis-St. Paul area. Though obstacles still exist, it appears that the project will most likely begin to move forward. In preparation for the start of the project, the Met Council has initiated condemning properties through eminent domain to create the corridor that will run between Eden Prairie and downtown Minneapolis. The exact costs of the project and the details of its design are still taking shape, but the current plan for the project is expected to require funding in the neighborhood of $2 billion, with light rail operations currently scheduled to commence in 2023. What happens over the course of the next five years and beyond has many owners of light rail adjacent properties very concerned.

Primary concerns for properties located along the line range from loss of land, changes to the shape or grade of the site, loss of site or building improvements, loss of critical parking, effects of noise and vibration, changes to access and visibility, and construction interference. In the case of the Southwest LRT, the magnitude and timing for the project, coupled with the potential for funding issues and/or project delays, creates substantial uncertainty for the owners of the real estate and the businesses that operate along the proposed LRT route. These impacts have the potential to impact the quiet use and enjoyment for the occupants and visitors of the properties along the line. The takings may also impact the development of vacant land parcels or the expansion potential of improved sites that could possibly expand on excess or surplus land.

By law, property owners are entitled to receive just compensation for the land being taken, which may often include compensation for severance damages or costs to cure that could mitigate the impact of the taking on the site. Severance damages are the diminution of the market value of the remaining property after the taking. For example, if the taking of a retail property creates a permanent loss of parking stalls and the remaining stalls will not be adequate for a retail use, the owner can be compensated for this impact on the property. Cost to cure is often used when the taking property has suffered damage that can be physically and economically corrected, e.g., through correction of drainage, replacement of fencing, or reestablishment of a physical access.

A partial taking can create damages that go beyond the simple calculation of the market value of the land taken. It is not uncommon for a taking to create a change in the highest and best use (HBU) of the property. The change in HBU can be subtle, such as a first-tier retail property that, as a result of the taking, is now viewed by the market as a second or third-tier retail property. A taking can also be more severe and could completely change the highest and best use (e.g. retail to office) or could potentially render the site improvements obsolete. Each instance of a partial taking can be vastly different, but the impact of a taking for a transit line can negatively impact the property in both the short term and the long term. To accurately assess the damages that result from the taking, it is necessary for a property owner to perform due diligence so that they can determine the appropriate process for resolving the taking.

A major issue for the Southwest LRT project is the length of time before completion. Most transit projects that occur are completed in a relatively short time period. With a smaller scale project, a property may lose a small portion of land and the project may be scheduled for completion within a period of one construction season or less. This allows the property to quickly begin the re-stabilization period that is often required after a disruption to the property. In the case of the Southwest LRT project, the timeline for completion is approximately five years (2023). Thus,

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Marketview

According to the July 2018 edition of the Federal Reserve's Beige Book, the economy of the United States continued to expand in the first quarter of 2018 at a modest to moderate pace. Growth was stronger in the Dallas district, but lagged in the St. Louis district. Manufacturers in all districts expressed concern about new tariffs and reported higher prices and supply disruptions due to tariffs across most areas. At the same time, consumer spending was up across all districts.

Nationally, employment rose slowly in the second quarter of 2018, though the slow pace in job growth has been mostly due to tight labor markets in numerous industries. The trend of high-skill jobs struggling to fill openings continued in some districts, with the problem of finding qualified labor extending into lower-skilled positions in some locations as well. This tightness in the labor market drove wage increases, a trend expected to continue through 2018.

Overall, the economic health of the State of Minnesota in coming years is projected to remain strong, though considerable uncertainty remains.

The Federal Reserve Bank of Minneapolis covers the Ninth District of the Federal Reserve, which includes the states of Minnesota, North Dakota, South Dakota, Montana, and western Wisconsin. Economic projections for the Ninth District in mid-2018 are generally strong, with wage growth throughout the district building off the momentum of a tightening employment market.

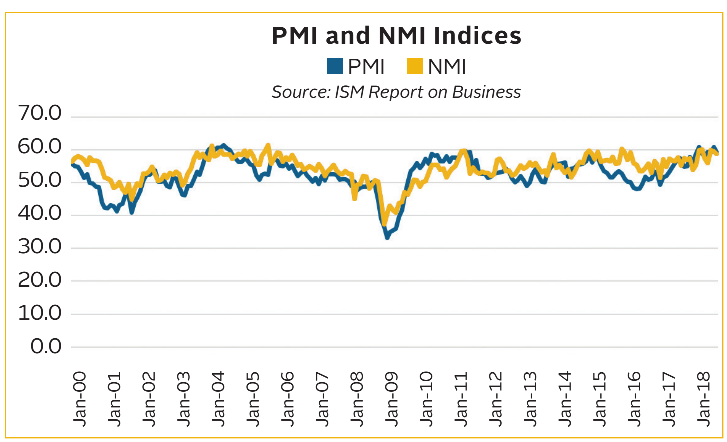
Consumer spending in the district has been mixed since the last Beige Book release, with official data showing a slowing, especially in Minnesota where sales tax collection was down five percent from the same period in 2017. Still, tourism was up moderately across multiple states, including Montana, South Dakota, and Minnesota.

With the overall economy preforming well, commercial construction was relatively strong across the District, especially in the larger cities, though residential construction fell. Overall, economic conditions have generally been better in Minneapolis-St. Paul than the surrounding district.

In the most recent economic outlook provided by the Minnesota Office of Management and Budget (released February 2018), total wage and salary growth of 4.8% is projected to occur in 2018, rising to 5.5% in 2019, as a strong demand for employees combined with a tight labor market continues to coax wages upward. Wage growth is anticipated to outpace inflation over that period. The population of the state is anticipated to rise by 0.7% over the course of 2018, while housing permits issued rise by 1.4%. Overall, the economic health of the State of Minnesota in coming years is projected to remain strong, though considerable uncertainty remains, mostly due to national economic factors.

In the first six months of 2018, the national manufacturing sector has fluctuated, due in part to poor performance from some industries within the sector. According to the ISM Report on Business, the PMI (Purchasing Managers' Index) was recorded at 58.1% in July 2018, down slightly from 60.2% recorded in June 2018, and up from the 56.3% recorded in July 2017.

Economic activity in the non-manufacturing sectors (NMI) was 55.7% in July 2018, down from the 59.1% recorded in June 2018, but up from the July 2017 figure of 53.9%. The following graph presents the PMI and NMI index readings since the start of 2000.



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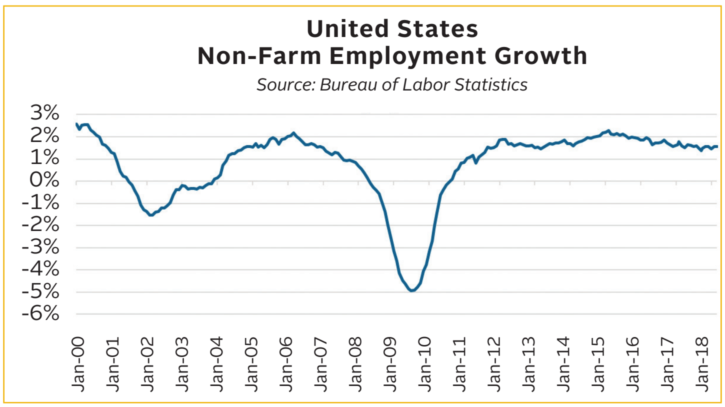
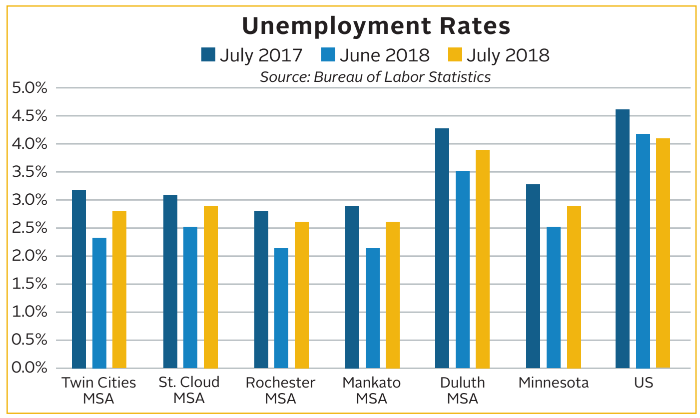
Marketview *continued from page 5*

Data from the Bureau of Labor Statistics show that non-farm employment at the national level increased by roughly 1.65% in the year that ended in July 2018, on the net addition of roughly 2.42 million jobs. Job growth by percentage was the largest in the Mining and Logging sector, which added 56,000 jobs, a year-over-year gain of 8.1%. The Construction sector added far more jobs overall (303,000 jobs), but showed a smaller percentage gain, at 4.2%. The Transportation and Warehousing sector showed a gain of 3.1% (156,600 jobs). Year-over-year losses were observed in the Information sector, which saw a loss of 19,000 jobs, or 0.7%, while the Utilities sector saw the loss of 3,700 jobs, also 0.7%. The following graph presents overall national non-farm employment growth by percentage in the United States from 2000 through July 2018.



Employment gains noted across nearly all major sectors continue to put downward pressure on national, statewide, and local unemployment rates. Nationally, the non-seasonally adjusted unemployment rate decreased to 4.1% in July 2018, down 50 basis points from the 4.6% rate recorded 12 months prior. The non-seasonally adjusted unemployment rate in the State of Minnesota stood at 2.9% in July 2018, down 40 basis points from the 3.3% rate recorded in July 2017.

Within the state, unemployment rates in July 2018 fell in every metropolitan area when compared to their rates in July 2017. In the Minneapolis-St. Paul MSA, the year-over-year unemployment rate fell 40 basis points, from 3.2% to 2.8%. Smaller metropolitan areas posted similar improvements in unemployment rates, with the rate falling by 20 basis points in the St. Cloud MSA (to a July 2018 rate of 2.9%), by 30 basis points in the Mankato MSA (2.6%), and by 20 basis points in the Rochester MSA (2.6%). The Duluth MSA, which has generally had the highest unemployment rate of the Minnesota metropolitan areas over the past several decades, saw the unemployment rate fall by 40 basis points, to 3.9%. The following graph presents non-seasonally adjusted unemployment rates at the national, state, and local levels.



Retail sales and real estate markets remain healthy nationally, aiding economic growth. According to the U.S. Census Bureau, retail sales at the national level grew by 5.28% through the first five months of 2018 when compared to the same period in 2017. Consumer confidence was measured at 127.4 in July 2018, up from 127.1 in June 2018. The University of Michigan Consumer Sentiment Index stood at 97.9 in July 2018, in line with rates observed throughout the year. Still, the July 2018 rate was 4.8% higher than the July 2017 rate.

Meanwhile, transaction volume in the real estate markets continues to drive further growth. According to the National Association of Realtors, existing home sales in the nation rose by 1.1% in 2017 when compared to 2016. When comparing June 2018 to the previous year, sales fell by 2.2%, and median home sales prices rose by 5.2%, to

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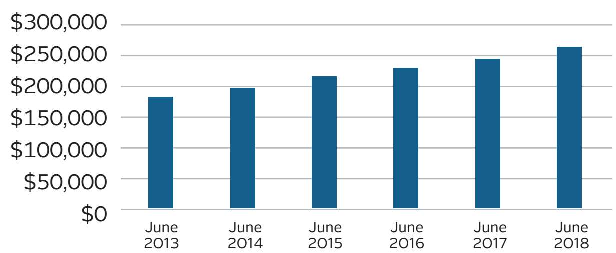
Marketview *continued from page 6*

$276,900. From 2016 to 2017, all four regions of the United States saw median existing home prices increase. In the commercial sector, fundamentals across all four major property types at the national level remain healthy to improving.

Conditions in the residential and commercial real estate markets within the Twin Cities market mirror national trends. According to data released by the Minneapolis Area Association of Realtors, in the 13-county Twin Cities for-sale residential market, the number of year-to-date closed home sales fell by 7.1% in June 2018 when compared to YTD June 2017 figures. Due to a falling supply, year-to-date median home sale prices in the region increased by 8.2% from June 2017 to June 2018, rising from $245,000 to $265,000. Further indicating healthy demand, the average days on market decreased by 13.3% and the percentage of original list price received increased by 0.9% during this same period to 99.5%, as available inventory remains extremely tight. The following graph presents historical median home sale prices in the Twin Cities market.

Twin Cities Metropolitan Region
Year-to-Date Median Home Prices

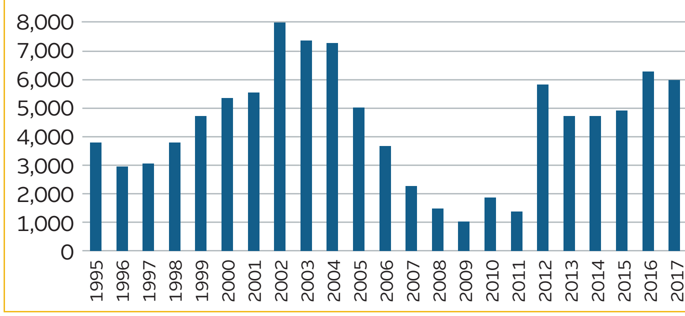
Source: Minneapolis Area Association of Realtors



The local apartment market is strong, with underlying fundamentals in the Twin Cities apartment market among the strongest in the nation. New construction activity in the Twin Cities market from the first quarter of 2017 through the first quarter of 2018 saw 3,600 apartment units added, and demand continued to meet the pace of new additions to the existing apartment inventory, keeping vacancy rates at 2.9%, up slightly from the previous year but still well-below the market equilibrium of 5.0%. According to Marcus and Millichap, the average effective rate in the first quarter 2018 rose to $1,263, up 6.3% over the previous year. In 2018, 4,000 new units are projected to be completed, pushing vacancy up to 3.0% as those units are absorbed. Effective rent is anticipated to rise another 6.1%, to $1,315 a month. At the same time, demographic trends are in place to suggest demand for apartment units will remain healthy over the long term.

Twin Cities Metropolitan Area
Multifamily Permitting Activity

Source: United States Census Bureau



The region's broad-based economy and employment growth continue to facilitate healthy demand within both the local for-sale residential and apartment markets. Non-farm employment in the Twin Cities metropolitan area increased by 2.02% over the year ended in June 2018 on the net addition of about 40,500 jobs. Growth in the Twin Cities market was strongest within the Mining, Logging, and Construction sector, which saw a 3.7% year-over-year increase (on the strength of 3,200 new jobs), the Manufacturing sector (3.3% growth with 6,500 jobs added), and the Trade, Transportation, and Utilities sector (2.3% growth, 8,200 new jobs). Two employment sectors in the Minneapolis-St. Paul MSA recorded losses from June 2017 through June 2018, the Professional and Business Services sector contracted by 2.4% (4,100 jobs lost) and the Information sector contracted by 1.3% (900 jobs lost). The following graph presents overall non-farm employment growth in the Twin Cities metropolitan area.

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Storm Clouds Ahead *continued from page 4*

the length of the LRT project creates a heightened level of uncertainty, which makes it more difficult for property owners to assess and quantify the impact that the project will have on their property.

For instance, assume a vacant office building located along the line that will be impacted by a permanent and temporary taking. If the impacts of the taking are expected to disrupt the property during the construction period and beyond, it will be difficult for the landlord to attract a tenant for the space because prospective tenants will prefer options that will not have this disruption. Tenants interested in leasing the space may look for some combination of increased tenant concessions (e.g. free rent), a reduced rental rate, or shorter lease term commitments, for the space to be appealing to them. As a result, landlords may have to deal with prolonged vacancy and reduced cash flow over the course of four to five years. In addition, there is the potential for long term impacts that will continue to affect the property after the project is completed. This leaves property owners with the challenge of navigating the properties through a four to five-year construction period followed by a re-stabilization period that may not return the value of the asset back to its original value prior to the taking and the project.

The most sought-after real estate investments in the marketplace involve properties that can produce a steady and reliable income stream with little risk.

Uncertainty is a major concern for real estate investors. The most sought-after real estate investments in the marketplace involve properties that can produce a steady and reliable income stream with little risk. In the marketplace there are many examples of two similar properties that sell for substantially different pricing because of how the market assessed risk of one asset versus another. It is not uncommon to see a small single-tenant retail property with a long-term lease to a strong credit tenant sell for a substantially higher price compared to a nearly identical property with a short-term lease to a non-credit tenant. This same concept applies to properties that are impacted by a taking.

As an example, consider two identical apartment projects that are located across the street from each other. If properly managed, the two properties should sell for a similar price. Now assume that apartment A has been identified for a taking and the light rail will now pass along the front property line. Apartment B, which is situated across the road from Apartment A will not be directly impacted by the taking. Under this scenario, real estate investors would not be willing to pay the same price for the two properties, and the market would clearly prefer to invest in Apartment B because it is not directly impacted by the light rail line. In contrast, a buyer interested in Apartment A would factor into the price, the burden of having to manage the property through the light rail project, along with any long-term impacts that could affect the property in the future.

The buyer of Apartment A would need to look at the lost site area to understand how it will impact the remaining site. They would need to study the taking to see if it reduces or eliminates site improvements, such as parking, or creates changes to the grade or landscaping. It would also be important to quantify how close the light rail line will be from the residential units being leased and how noise or vibration might affect the occupancy and performance of the property. Other issues to be aware of include changes in the ingress/egress of the subject property and construction interference. As the number of potential issues are identified the uncertainty in forecasting the future performance of the property increases the risk and the buyer profile changes to a speculative investor.

While Apartment B could experience an average annual increase in net operating income of two to three percent per year over a ten-year period. Apartment A might see an initial decrease in net operating income while the project is under

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Storm Clouds Ahead *continued from page 8*

construction, followed by a further reduction in net operating income once the project is operational. After the light rail line is operational in 2023, Apartment A can begin to re-stabilize, but it may be several more years before the net operating income level of the property returns to its pre-taking levels and it could take substantially longer, if ever, for the net operating income to catch up to Apartment B.

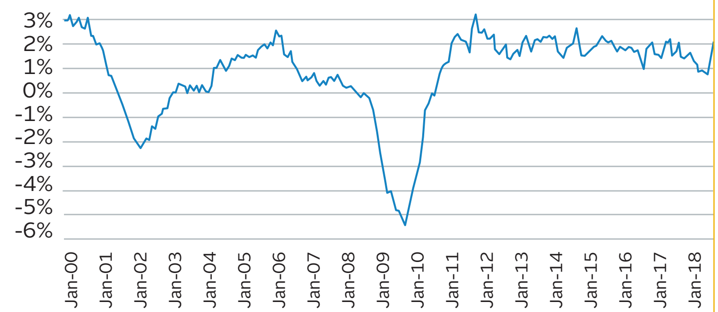
These issues are difficult to quantify, and as a result, it is important for property owners to be diligent in understanding the ramifications of the taking. Measuring these impacts often requires a team of experts that involves engineers, architects, land planners, appraisers, and brokers. The input from these experts will aid in properly assessing the impacts and ultimately the damage to the property from the taking. It is also important to retain a real estate attorney with expertise in condemnation. A seasoned condemnation attorney will manage the condemnation process and aide in resolving the taking in a prudent matter.

The Southwest LRT is a major infrastructure project that provides a substantial benefit for the Twin Cities area, but a project of this scale is complex, lengthy, and can negatively affect properties that are located along the rail line. Most property owners are fortunate enough to have not been involved in a taking. Unfortunately for land owners along the light rail line, this has become a reality. While in many instances the compensation offered to property owners by the Met Council is fair, there are also occurrences where the taking offer proposed to the property is not considered just compensation. The burden of proof, particularly when there are severance or cost to cure issues, often falls back on the property owner. In a taking, it is important to fully understand all the short and long-term issues that could impact the property because, once a damage offer is accepted, negotiated, or litigated; the property owner no longer has the ability to make additional claims in the future, should the impacts to the property from the taking exceed their initial expectations.

Marketview *continued from page 7*

Twin Cities Metropolitan Area
Non-Farm Employment Growth

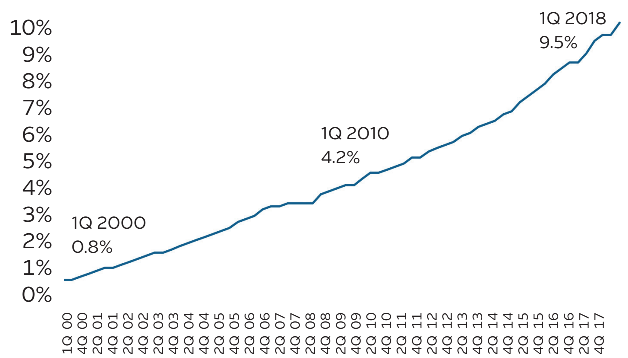
Source: Bureau of Labor Statistics



The rise of e-commerce is driving much of the demand for warehouse and distribution space. Now accounting for 9.5% of total retail sales (more than double the market share posted in 2010), e-commerce is anticipated to continue rising at a steady pace, and will continue to foster strong demand for warehouse and distribution space in the local, regional, and national industrial markets into the long term, while possibly hurting brick-and-mortar retail locations. The following graph presents historical e-commerce retail sales as a percent of total retail sales.

E-Commerce Retail Sales as
a Percent of Total Retail Sales

Source: Federal Reserve Bank St. Louis



Data referenced in this report was current as of August 2018, and includes preliminary figures, which are subject to revision.

Market Transaction: Real Estate

Most Expensive Minnesota House of 2018 Bought, Expected to be Torn Down

Property: The "Meadow Knoll" estate in Wayzata, comprised of four parcels of land on the eastern shore of Wayzata Bay of Lake Minnetonka, encompassing a total of 6.973 acres of land, with 538 feet of west-facing shoreline.

Closing: June 22, 2018

Zoning: All parcels zoned R-1A Low Density Single Family Estate District

Buyer: Lake Properties, LLC

Remarks: On June 22, 2018, Lake Properties, LLC closed on the four parcels that include and surround the house at 555 Bushaway Road in Wayzata, Minnesota.

The property was being marketed in several different configurations, either as one parcel for $12 million or split into a three-lot subdivision for $4 million each. The purchase was eventually made for the entirely of the acreage, for $10,030,000.

It is planned that the house on the site, a 1926-built Nantucket-style cottage with seven bedrooms and nine bathrooms will be torn down. The buyers are homeowners intending to construct a new home. Additionally, the buyers are planning an environmentally sensitive landscape that will be unparalleled by any other homesite on the lake.

Market Transaction: Business Valuation

Billboard Near Intersection of Interstate 694 and 50th Street Sells

Synopsis: Landmark Infrastructure Holding Company, LLC purchases a billboard located at the northeast corner of the intersection of Interstate Highway 694 and 50th Street North in Oakdale, Minnesota.

Seller: Shamrock Development, Incorporated

Buyer: Landmark Infrastructure Holding Company LLC

Date of Sale: June 12, 2018

Sale price: $150,000

Remarks: On June 12, 2018, Landmark Infrastructure Holding Company, LLC closed on the sale of a billboard located at the northeast corner of Interstate 694 and 50th Street North in Oakdale, Minnesota.

The sale is unique in that the parcel the billboard sits on was re-zoned residential and the billboard is now considered non-conforming use, meaning that it is "grandfathered" and can no longer be improved, enhanced, updated, moved, or removed, meaning that the billboard will gradually lose market value.

On the date of sale, a new lease was signed between Landmark Infrastructure Holding Company and Outfront Media LLC (formally CBS Outdoor) for use of the billboard. The terms of the lease were for ten years at $2,000 a month ($24,000 annually), with no rent escalations. This represented a decrease of 33% from the previous lease CBS Outdoor signed, a ten-year lease for $3,000 a month ($36,000 a year).

Considering the sales price, and deducting for real estate tax costs, this new lease drove the cap rate to 12.66%, above what the market traditionally applies to a purchase in this sector.

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