



REAL PROPERTY SERVICES, INC.

PROFESSIONAL REAL ESTATE ANALYSIS, VALUATION & COUNSELING

APPRAISAL REPORT (COMPLETE, SELF-CONTAINED REPORT)

PROPERTY
American Trust Building
1612-1614 3rd Avenue North
Birmingham, AL
RPS File #99-066

FOR

Mr. Ken Kellner
Committee on Standards of Official Conduct
HT 2 – The Capital
Washington D.C. 20515-6328

REPORT DATE

June 9, 2000

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REAL PROPERTY SERVICES, INC.

PROFESSIONAL REAL ESTATE ANALYSIS, VALUATION & COUNSELING

June 9, 2000

Mr. Ken Kellner
Committee on Standards of Official Conduct
HT 2 - The Capital
Washington D.C. 20515-6328

RE: Investigative Subcommittee Confidential Report
1812-1614 3rd Avenue North
Birmingham, AL
RPS File #99-066

Dear Mr. Kellner

In accordance with your request, we have made an appraisal of the above-referenced property for the purpose of estimating the fair market rent and the fair market value of the subject facility at various dates as discussed herein. The effective dates of the valuation are September 29, 1993 and April 27, 1995. The fair market rents are for the years 1992 to 1997. It is the writers' understanding that the function of the appraisal is to assist with internal decisions making purposes related the subject property. The property was valued based on the Market Value definition reproduced in this report. Under Standards Rule 2-2 of the Uniform Standards of Professional Appraisal Practice of the Appraisal Standards Board, this report is classified as a *Complete, Self-Contained Appraisal Report*.

The reader's attention is directed to the general Assumptions and Limiting Conditions contained within the attached report. In addition, the special Assumptions and Limiting Conditions are detailed as follows:

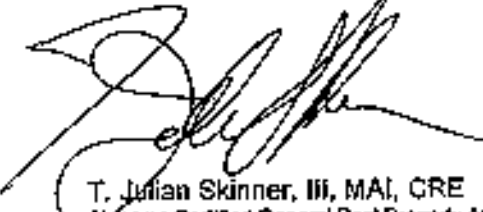
1. A current survey of the subject was not provided to the writers. The size estimates for the site and building have been based on calculations from tax maps and records. If a survey indicates a significant different size estimates than indicated within this report, the value conclusions found herein may need be changed accordingly.
2. As stated in the Assumptions and Limiting Condition in this analysis, the writers are not experts in environmental hazards. No environmental studies were provided to the writers for the subject parcel, therefore the sites were valued "as if environmentally clean." The writers are aware that the subject facility has been a paint manufacturing operation for many years and that the site possible may be contaminated. However, no environmental studies were provided to the writers for the subject parcel, therefore the sites were valued "as if environmentally clean." The readers' attention is directed to general Assumptions and Limiting Conditions 13-15 which relate to environmental hazards.
3. The writers were requested to value only the real estate. No equipment has been included in this analysis or final indicated value.

This appraisal was developed as a "complete" appraisal in accordance with Standards Rule 1 of the Uniform Standards of Professional Appraisal Practice (USPAP). This appraisal is being reported as a "self-contained" report in accordance with Standard Rule 2-2(a) of USPAP. This assignment was made subject to regulations of the State of Alabama Real Estate Appraisers Board. The undersigned state certified appraisers have met the requirements of the board that allow this report to be regarded as a "certified appraisal."

This appraisal has been prepared by Real Property Services, Inc. for our client, Mr. Ken Kellner, Committee on Standards of Official Conduct. It is our understanding that the purpose of the appraisal is to establish the value of the property for internal decision making related to the property. This appraisal may not be used or relied upon by anyone other than the client without the express written consent of Real Property Services, Inc.

We trust you will find the attached appraisal report satisfactory; however, if any further assistance is needed, please notify us accordingly.

Very truly yours,
REAL PROPERTY SERVICES, INC.



T. Julian Skinner, III, MAI, CRE
Alabama Certified General Real Property Appraiser #GD0070

JRS/TJS:jrs

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SUMMARY OF FACTS AND CONCLUSIONS

PROPERTY IDENTIFICATION: American Trust Building
1612-1614 3rd Avenue North
Birmingham, AL
RPS File #99-066

CLIENT: Mr. Ken Kellner
Committee of Standards of Official Conduct
HT 2 – The Capitol
Washington D.C. 20515-6328

LAND SIZE: 7,000+/- Square Feet

GROSS BUILDING AREA: 14,000± Square Feet GBA
7,000± Square Feet Finished Area all of which
is on the Ground or First Floor
7,000± Square Feet Unfinished on Second Floor.

ESTIMATED MARKET VALUE: September 29, 1993 = \$150,000
April 27, 1996 = \$150,000

ESTIMATED FAIR MARKET RENT: 1992 – 1997 = \$1.70/SF
Unit 1612 - \$1.20 x 3,500 = \$4,200 (\$350/Month)
Unit 1613 - \$4.00 x 3,500 = \$14,000 (\$1,167/Month)
Upstairs - \$0.40 x 7,000 = \$2,800 (\$233/Month)
" " " " \$21,000

DATE OF VALUATION: September 29, 1993
April 27, 1996

DATE OF REPORT: June 9, 2000

APPRAISER: T. Julian Skinner, III, MAI, CRE
Alabama Certified General Real Property Appraiser #G00070

ASSUMPTIONS AND LIMITING CONDITIONS

1. This appraisal covers the property as described in this report, and the areas and dimensions as shown herein are assumed to be correct.
2. The appraisers have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
3. Responsible ownership and competent management are assumed.
4. No responsibility is assumed for matters involving legal or title considerations.
5. The information identified in this report as being furnished by others is believed to be reliable, but no responsibility for its accuracy is assumed.
6. The contract for appraisal, consultation or analytical service is fulfilled and the total fee payable upon completion of the report. The appraisers are not required to engage in post appraisal consultation, give testimony or attendance in court by reason of this appraisal unless arrangement has previously been made therefore for an additional fee.
7. The allocation of total value to land or to buildings, as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
8. Disclosure of the contents of this appraisal report is governed by the by-laws and regulations of the Appraisal Institute.
9. The attached plats and other exhibits are provided to help the reader understand the writer's conclusions. Any plats or drawings are generally approximations and taken from sources deemed to be reliable. However, this is not guaranteed.
10. The writers have made no study as to the conditions and strengths of the soil and are in no way certifying that the soils are suitable for a certain type of development without a complete engineering study being provided. The writers make no statement or certification as to the suitability of the subject property for construction of any buildings or development of the property with regard to subsurface conditions including the presence or absence of sinkholes, mining activities, wells, or buried tanks, and other objects including potentially hazardous gases such as radon. The client is urged to retain an expert in this field if desired.

The appraiser has inspected as far as possible by observation the land and the improvements thereon; however, it was not possible to personally observe conditions beneath the soil or hidden structural or other components. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The value estimate considers there being no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm, however, subsidence in the area is unknown. The appraisers do not warrant against this condition or occurrence of problems arising from soil conditions.

11. The liability of the appraisers, Real Property Services, Inc., and employees is limited to the fee collected for the work done. There is no accountability, obligation, or liability to any third party.

The fee for this appraisal or study is for the services rendered and not for the time spent on the physical report.

12. Acceptance of, and/or use of, this appraisal report constitutes acceptance of all of the assumptions and limiting conditions.
13. The writers have not considered the impact of any environmental studies that would limit the use of the subject property. If any environmental studies affect the utilization of the subject property, the value should be amended accordingly. It is the reader's responsibility to ascertain any limitations by environmental studies that may be conducted in the future.
14. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

15. It should be understood that:

- (a) The appraiser is not an expert in the field of hazardous materials;
- (b) The appraisal was prepared for purposes as stated in the appraisal and does not constitute an expert inspection of the property;
- (c) The only way to be certain as to the condition of the property with respect to "environmental hazards" is to have an expert in the field inspect the property;
- (d) The appraisal should not be relied upon as to whether or not environmental hazards actually exist on the property.

The value(s) estimated herein is based on the assumption that no such "environmental hazards" are associated with the subject property. If an environmental audit is performed on the subject property after the effective date of the appraisal and a negative environmental audit is the result, this firm reserves the right to review and revise this appraisal report and the value conclusions. Additional charges based on this firm's then prevailing hourly rates will be made for such services.

16. This firm assumes no responsibility for hidden or unapparent conditions of the property, subsoll or structures, or the correction of any defects now existing or that may develop in the future. Equipment components are assumed in good working conditions unless otherwise stated in this report.

17. The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

18. Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report (s) remain the property of the appraiser for the use of the client, the fee being for the analytical services only. The report may not be used for any purpose by any person or corporation other than the client or the party to whom it is addressed or copied without the written consent of an officer of the appraisal firm (Real Property Services, Inc.) and then only in its entirety.

Neither all nor any part of the contents of this report should be conveyed to the public through advertising, public relations efforts, news, sales or other media without the written consent and approval of an officer of Real Property Services, Inc., nor may any reference be made in such a public communication to the Appraisal Institute or the SRA, SRPA, or MAI designations.

19. The appraiser may not divulge the material "evaluation" contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or as designated or specified in writing except as may be required by the Appraisal Institute as they may request in confidence for ethics enforcement or by court of law or body with the power of subpoena.

This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis are set forth in the report were prepared by the appraisers whose signatures appear on the appraisal report unless indicates as "review appraiser". No change of any item in the report shall be made by anyone other than the appraiser and/or officer of the firm. The appraiser and firm shall have no responsibility if any unauthorized change is made.

20. This appraisal was obtained from Real Property Services, Inc. or related companies and/or its individuals or related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 USC 552(b)(4). Notify the appraisers signing the report or an officer of Real Property Services, Inc. of any request to reproduce this appraisal in whole or in part.

21. The authentic copies of this report are signed in ink. Any copy that does not have an original signature is unauthorized and may have been altered. Furthermore, this report includes a cover letter which is integral to it. Without this cover letter, this report is incomplete and cannot be relied upon.

22. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. I (we) have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since I (we) have no direct evidence relating to this issue, I (we) did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.

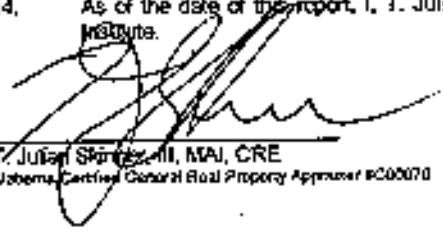
SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. A current survey of the subject was not provided to the writers. The size estimates for the site and building have been based on calculations from tax maps and records and measurements made upon the physical inspection of the site. If a survey indicates a significant different size estimates than indicated within this report, the value conclusions found herein may need be changed accordingly.
2. As stated in the Assumptions and Limiting Condition in this analysis, the writers are not experts in environmental hazards. No environmental studies were provided to the writers for the subject parcel, therefore the sites were valued "as if environmentally clean." The writers are aware that the subject facility has been a paint manufacturing operation for many years and that the site possible may be contaminated. However, no environmental studies were provided to the writers for the subject parcel, therefore the sites were valued "as if environmentally clean." The readers' attention is directed to general Assumptions and Limiting Conditions 13-15 which relate to environmental hazards.
3. The writers were requested to value only the real estate. No equipment has been included in this analysis or final indicated value.

**APPRAISERS' CERTIFICATION AND
RESTRICTION UPON DISCLOSURE AND USE OF THIS REPORT**

The undersigned do hereby certify that, to the best of our knowledge and belief,

1. The statements of fact contained in this appraisal report, upon which the analysis, opinions and conclusions expressed herein are based, are true and correct.
2. The report and analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.
3. The undersigned 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.
4. Our 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. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
5. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of Uniform Standards of Professional Appraisal Practice.
6. We certify that, to the best of our knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
7. We certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
8. I have made a personal inspection of the property that is the subject of this report.
9. Joseph Reid Skinner (Alabama Certified General Real Property Appraiser #000444) and Corey S. Kease (Alabama Trainee Real Property Appraiser #100007) provided a significant professional assistance to the persons signing this report. These are our personal, unbiased, professional analyses and opinion.
10. Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report (s) remain the property of the appraiser for the use of the client, the fee being for the analytical services only. The report may not be used for any purpose by any person or corporation other than the client or the party to whom it is addressed or copied without the written consent of an officer of the appraisal firm (Real Property Services, Inc.) and then only in its entirety. Neither all nor any part of the contents of this report should be conveyed to the public through advertising, public relations efforts, news, sales or other media without the written consent and approval of an officer of Real Property Services, Inc., nor may any reference be made in such a public communication to the Appraisal Institute or the SRA, SRPA, or MAI designations.
11. This assignment was made subject to regulations of the State of Alabama Real Estate Appraisers Board. The undersigned state certified appraisers have met the requirements of the board that allow this report to be regarded as a "certified appraisal".
12. The Assumptions and Limiting Conditions, in their entirety, are made a part of this report.
13. The appraisers have performed within the context of the competency provisions of the Uniform Standards of Professional Appraisal Practice.
14. As of the date of this report, I, T. Julian Skinner, III, have completed the requirements of the continuing education program of the Appraisal Institute.


T. Julian Skinner, III, MAI, CRE
Alabama Certified General Real Property Appraiser #000070

PROFESSIONAL QUALIFICATIONS**T. JULIAN SKINNER, III, MAI, SRA, CRE****Real Estate Appraiser-Consultant**

Alabama Certified General Real Property Appraiser #G00070

EDUCATION

University of Alabama, BS Degree, School of Commerce and Business Administration - 1964. Various appraisal courses and seminars on the Appraisal of Real Estate, Leases, Urban Properties, Condemnation, Capitalization, Real Estate Investment Analysis, Appraisal of Abandoned Mine Lands, Federal Income Tax and Real Estate, Condominium Conversion, Uniform Standards of Professional Practice, and others.

PROFESSIONAL DESIGNATIONS

MAI Member, Appraisal Institute - Appraisal Institute, Certificate #6727

SRPA Senior Real Property Appraiser - Appraisal Institute

SRA Senior Residential Appraiser - Appraisal Institute

CRE Counselor of Real Estate - American Society of Real Estate Counselors

CONTINUING EDUCATION CURRENT

The Appraisal Institute conducts a mandatory program of continuing education for its designated members. MAIs meeting the minimum standards of this program are awarded periodic educational certification. I have completed the requirements of the continuing education under this program.

EXPERIENCE

Experience in appraising commercial, industrial, special purpose, residential, acreage and other properties. Clients include:

Federal Asset Disposition Association
Banks and Savings & Loan Associations
Insurance Companies
Various Corporations
Alabama Power Company
Veterans Administration
Various Municipalities
U.S. Small Business Administration
Metropolitan Life Insurance

Industrial Plant Owners
Attorney & Accountants
Mortgage Companies
Transfer Companies
Various Individuals
Alabama Highway Department
Jefferson County
U.S. Office of Surface Mining
Resolution Trust Corporation

ORGANIZATIONS

Appraisal Institute
Society of Real Estate Counselors
Alabama Association of Realtors
Birmingham Association of Realtors
National Association of Realtors
Mortgage Bankers Association of Alabama
Licensed Real Estate Broker - State of Alabama
Qualified Expert Witness, Circuit Courts of Alabama



PURPOSE AND DEFINITION OF VALUE

The purpose of this appraisal is to estimate the fair market value and the fair market rent of the subject property as of the dates indicated in this appraisal.

It is the writers' understanding that the function of the appraisal is to assist with internal decision making purposes related to the subject property. The definition of market value under which the subject property was appraised is from federal regulations and is as follows:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to fair sale, the buyer and seller, each acting prudently, 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:

- (A) Buyer and seller are typically motivated;
- (B) Both parties are well informed or well advised, and each acting in what he considers his own best interest;
- (C) A reasonable time is allowed for exposure in the open market;
- (D) Payment is made in cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- (E) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

PROPERTY RIGHTS APPRAISED

The property rights appraised are the fee simple and leased fee interests in the real property as though unencumbered. This interest excludes any interest in mineral rights which might exist: this has not been considered in this analysis, as it is considered beyond the scope of this assignment. The property rights appraised are subject to the existing leases, which currently encumber the properties.

The fee simple interest is defined on page 140 of *The Dictionary of Real Estate Appraisal, Third Edition* by the Appraisal Institute as "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat." The value of the property has been estimated subject to the existing leases, which currently encumber it. Due to the existence of these leases, it is also appropriate to consider the leased fee estate. The leased fee estate is defined on page 204 of the same dictionary as "an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease."

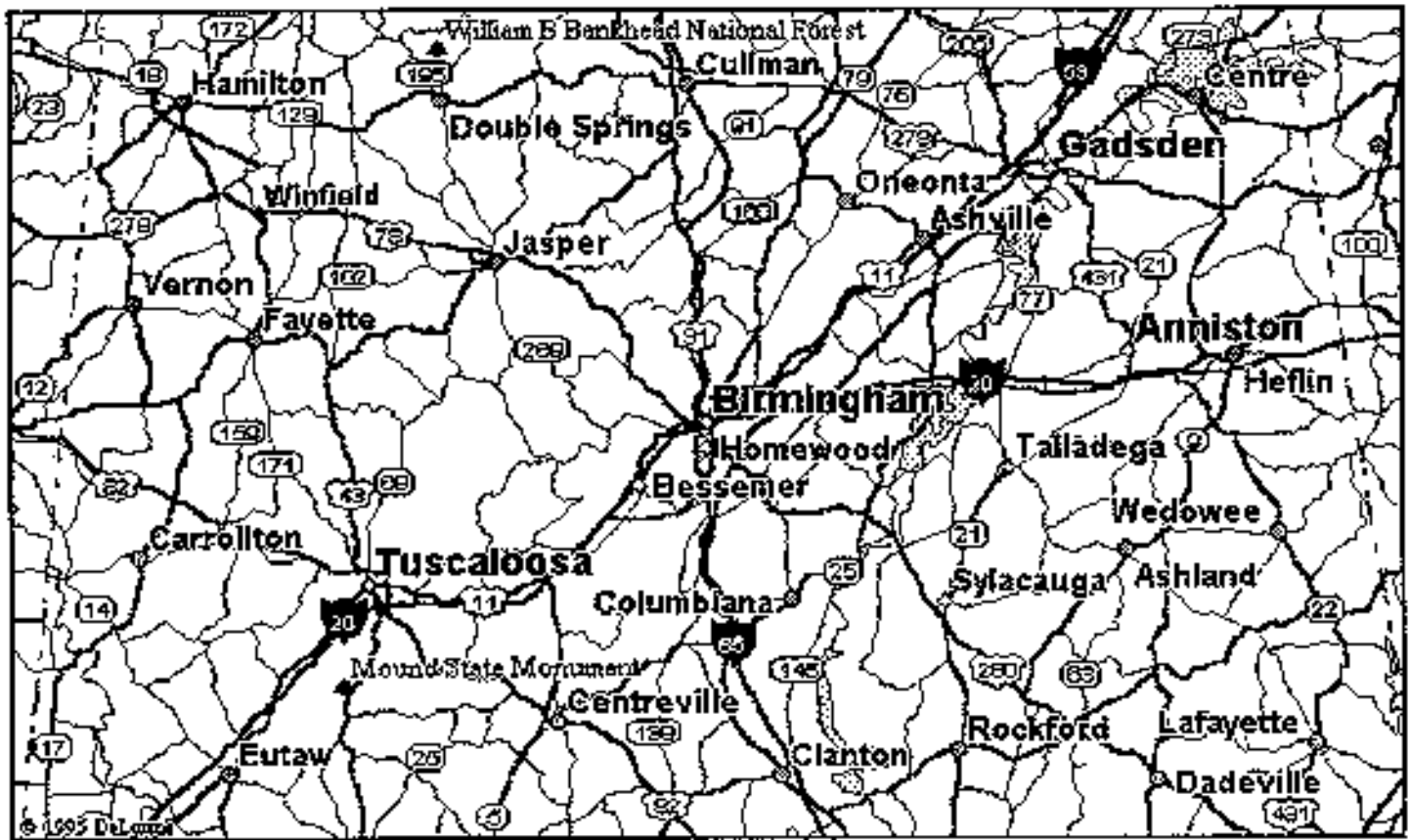
When the terms of a lease are equivalent to those which could be obtained in the open market, the leased fee and fee simple estate are generally considered to be equivalent. If the terms are more favorable to the tenant than the market would indicate, then a situation arises in which the leasehold interest in the property has some positive value.

In cases where the landlord can exact more favorable terms than would otherwise be available in the market, the leased fee estate may have a higher value than the fee simple estate, provided these superior terms can be enforced.

AREA ANALYSIS: METROPOLITAN BIRMINGHAM**SOUTH CENTRAL REGION**

Location: The Metropolitan Birmingham area is defined primarily by the Birmingham MSA (Metropolitan Statistical Area), which consists of four counties - Jefferson, St. Clair, Blount, and Shelby. Up until the 1990 Census, Walker County was also included, but was dropped because of changing patterns in commuting. However, there is some indication that it may be re-included in the MSA by the year 2000, and it is considered to be a part of Metropolitan Birmingham, or the Birmingham Region. The City of Birmingham is the largest city in the area and the state and an analysis of the subject's environment should begin with the City of Birmingham and the survey area in general. The Birmingham area is situated in the north central portion of Alabama, and is bound on the north by areas surrounding Huntsville, on the east by the Anniston-Gadsden area, on the south by the Central Alabama and Montgomery area, and on the west by the Tuscaloosa area, all of which are considered to be distinct areas influenced by varying factors.

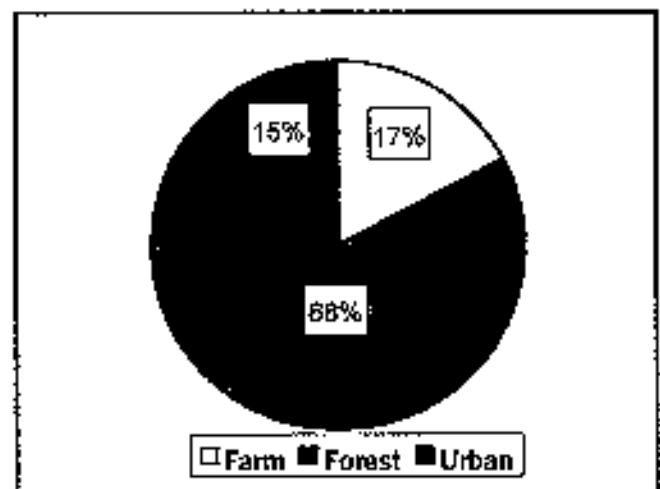
As shown in the map above, the Birmingham area enjoys central positioning in the South Central Region of the United States, and is also fairly centrally located within Alabama. This geographic position has played an important role in the development of the area, and it is anticipated that this will likely continue in the future.



NORTH CENTRAL ALABAMA

Physical Characteristics

Birmingham is centrally located in Jefferson County, and is in the southwesterly portion of the metropolitan area. The Birmingham MSA contains 3,221 square miles of land area (4,034 square miles if Walker County is included). The City of Birmingham itself contains 151 square miles of land area, having grown dramatically through a series of annexations in the early to mid-1980's, primarily involving commercial or undeveloped properties in south Jefferson and north Shelby Counties. In addition to Birmingham, there are approximately 31 satellite municipalities in Jefferson County, and 32 additional incorporated areas in Blount, St. Clair, and Shelby Counties. While the area is the largest urban area in the state, the bulk of the land within it is largely undeveloped, as shown in the chart at the right. Only about 15% of the land area is heavily developed, with a similar amount actively farmed, while the bulk of the land area consists of forestland. Much of Blount and St. Clair Counties, south Shelby County, and west Jefferson County tend to be rural in character.



DISTRIBUTION OF LAND USES

Birmingham is located near the southern terminus of the Appalachian Mountains, which creates a great diversity in topography, varying from nearly level to very steep.

This topography has played a role in the development of the area as well as influencing land utility and values. On average, the area lies at about 620 feet above sea level, with elevations varying from about 583 to 1,200 feet. The area is situated in a geologic zone known as the "Valley and Rift" district, which is generally an accurate description of the prevailing topography in the area. The thin ridges of several mountains run through the area, generally in a northeast-southwest manner, with the ridges paralleling one another, and broad, rolling valleys in between. Of particular note are Red Mountain, Shades Mountain, Sand Mountain, and Oak Mountain, which have played a major role in the history of the region, and have been a major influence on the pattern of development. These prominent ridgelines divide the area into several watersheds, with the northerly portion lying in the Warrior River watershed, the eastern portion drained by the Coosa River, and the southerly portion by the Cahaba. The Coosa has been dammed in numerous locations, existing now as a series of interconnected reservoirs. The Warrior basin serves as an inland waterway, draining to the Tombigbee in western Alabama, and then to the Gulf. The Cahaba is largely free-flowing, and serves as the primary source of drinking water for much of the region.

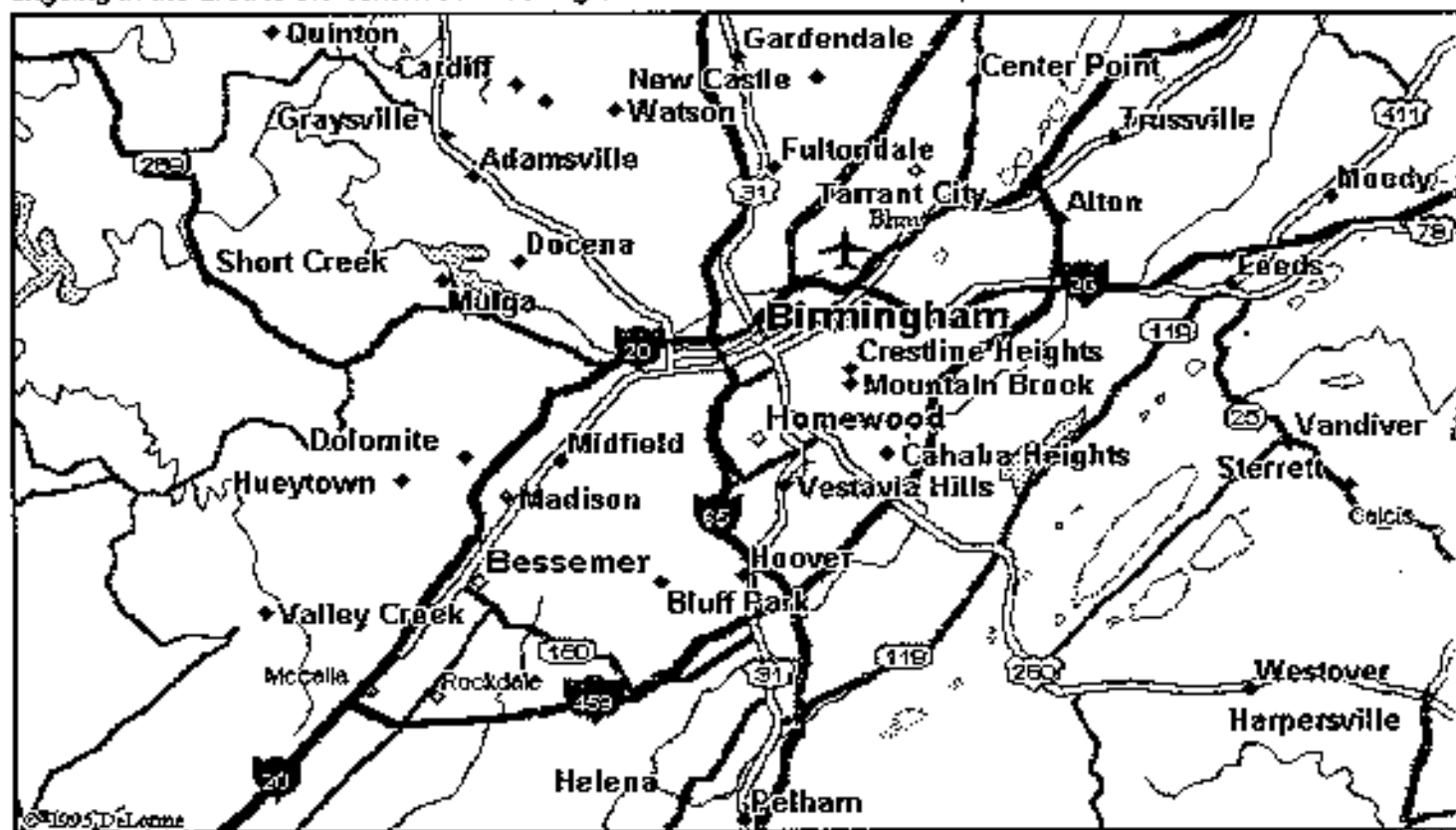
The area is noted for its mineral wealth, which was the source of its initial development in the late 1800's. Iron ore, coal, and limestone are all prevalent in many portions of the area: all of the basic ingredients required for iron production, the region's first major industry. In addition, oil and gas reserves have been found in some areas, particularly in the coal fields of the Black Warrior River basin lying in Walker and west Jefferson Counties. Historically, mining (strip, shaft, and long-wall) has played an important role in the economy of the area. As a result, there are a number of old mining shafts, which, along with natural underground streams and limestone sinkholes, have caused some problems and must be addressed before heavy construction is considered for a site. Soils in the area are predominantly loam clay formed in a sandstone and shale residuum. This soil is appropriate for most types of construction with little heaving problems. While much of the terrain is rolling, it is supportive of some agricultural uses, with active farming ongoing in all counties (Blount County is the most active agriculturally and has the bulk of the area's cultivated land). Much of the area surrounding Birmingham itself consists of timberland, with large tracts of forested slopes located throughout the area.

The climate in the area is fairly typical for the southeastern United States. Average temperature for the year is about 62° F, although average temperatures through the year generally range from the low-30's to the low-90's, with a record low of 8° and high of 106°. Days with high temperatures above 90°, or lows below 32° are about equal, with 52 and 53 reported, respectively. Average rainfall for the year is about 52", with the early spring experiencing the most. Snowfall is generally infrequent, but averages about 2.1". Given the general lack of snowfall, area governments are not fully equipped to handle winter weather situations, and road closings and power outages are not unheard of in the winter. However these generally cause less than a week of slow downs or loss of business in a year. As with much of the Sunbelt, though, the relatively mild climate in the area is attractive, and generally results in lower energy costs and less workdays lost than for many businesses in other areas of the nation.

Access and Transportation

Access to the region is considered to be excellent, with an extensive network of highways and railways, an international airport and several commuter airports, and barge access by way of the Ten-Tom waterway to the

Gulf of Mexico and the central United States. The metropolitan Birmingham area is served by four interstate highways (I-20, I-59, I-65, and I-459), six principal federal highways (US 11, US 31, US 231, US 411, US 280, and US 79) and numerous state highways. In addition, the long-anticipated "Corridor X," an as yet undesignated federal restricted access highway between Birmingham and Memphis is finally approaching Birmingham, with construction ongoing in adjacent Walker County. Completion of this route, which is to tie into I-65 just north of Birmingham, will significantly enhance the area's access to this important regional city. There has been extensive planning related to the development of the northerly extension of I-459 to complete a beltway around the city, but the actual development of such a highway is not likely in the near future. Existing interstates through Birmingham have been enhanced in the past several years, primarily in terms of safety with the addition of protective barriers through most medians. The only other major highway project ongoing in the area is the continued widening of U.S. 280 within the I-459 perimeter.



METROPOLITAN BIRMINGHAM

The following chart lists highway mileage's from Birmingham to several regional cities.

	Atlanta, GA	Mobile, AL	Jackson, MS	Nashville, TN	Memphis, TN	Montgomery, AL
Distance	142	241	241	185	247	90

Almost since its founding at two railroad crossings in the late 1800's, Birmingham has served as a key transportation hub in the Southeastern United States. This remains the case today, with the excellent transportation infrastructure currently in place serving as an important local benefit. While this infrastructure has expanded beyond rail, Birmingham remains among the best served cities in the South by railways. There

are currently four interstate railways serving Birmingham (CSX, Burlington Northern, Norfolk Southern, and Amtrak), two of these have intermodal cargo facilities. Rail service is also available to most municipalities throughout the area. Much freight today is carried "over-the-road," and there are over 100 truck transit companies operating in the Birmingham area from dozens of terminal facilities. While Birmingham lies some 250 miles north of the Gulf, water-based transportation of freight is also available. Barge service is provided by seven lines, operating primarily out of Port Birmingham on the Warrior River in northwest Jefferson County.

These lines carry general commodities throughout much of mid-America on 16,000 miles of inland waterways, and to the world by way of the Port of Mobile. These barges carry primarily bulk resources to and from the surrounding area (coal, oil, lime, etc.), or processed goods such as steel and iron products.

Birmingham is the site of Alabama's principal airport, recently redesignated from a regional airport to an international airport, complete with its own U.S. Customs office. The facility has been expanded and enhanced considerably in the past ten years, with work substantially complete on a \$125 million renovation project which included redevelopment of the passenger terminal, expansion of the runways, expansion of the parking facilities, and increased cargo capacity. In addition, the federal government is to begin construction of a new FAA tower at the facility which will double the height of the existing tower to 200+ feet. These improvements have had a major impact on the utility and convenience of the facility. The airport serves as a major aircraft maintenance destination with the presence of Pemco Aeroplex, a large international contract maintenance firm located on an adjacent site. Currently, eight major commercial carriers serve the area, with six regional carriers. These combine to offer non-stop and connecting service to over 70 cities with 160 daily flights. Almost 50,000 tons of cargo were handled through the facility in 1995, with over 2.5 million passengers served in the same period. These both represent substantial increases, attributable at least in part to the much improved facilities at the airport. There has been discussion in the past few years of the possible development of a new airport for north Alabama. While a site northeast of the area has been mentioned as the primary choice for such a facility, politics, financing, and the extensive planning and development required for such a facility would indicate that it would not be on line anytime in the foreseeable future to serve as competition for the existing airport.

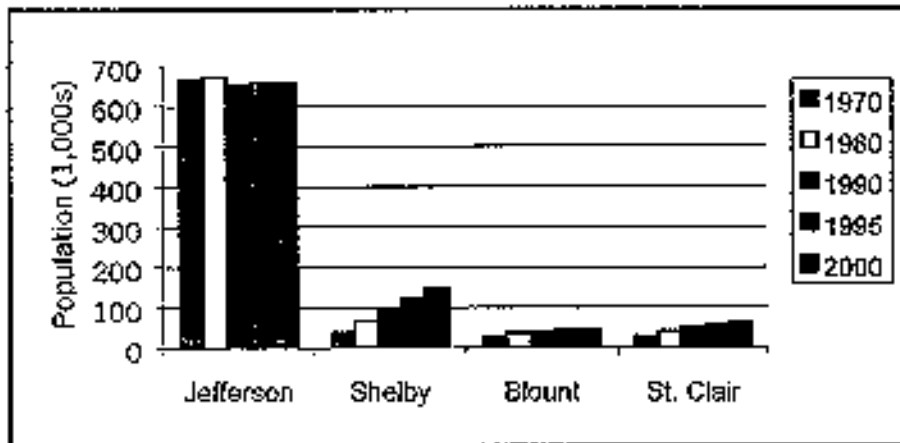
Demographics

According to figures from the U.S. Census Bureau, population trends in Birmingham have been:

<u>Year</u>	<u>Birmingham</u>	<u>% Change</u>	<u>MSA</u>	<u>% Change</u>
1960	340,887	+ 5%	717,883	+ 11.3%
1970	300,910	- 12%	757,837	+ 5.6%
1980	286,068	- 5%	815,286	+ 7.6%
1990	265,968	- 7%	840,140	+ 3.0%

As noted in the population chart, the City of Birmingham has experienced a decline in population since the 1960's. This trend has been witnessed in the central city areas of other large cities and is due to a combination of factors. Locally, this outmigration was originally caused by factors such as air pollution and relatively low land costs in nearby suburban areas. The pollution problems have been dealt with rather effectively, and as suburban sprawl has continued, the conveniently located suburban property has greatly increased in price. With these conditions improving the desirability of the central city, a trend toward renovation of homes in the southern portions of the city has been evident. In short, it appears that the trend toward decentralization will continue, but at a slower pace than evident over the past 30 years.

This shift in population growth from Jefferson County to the surrounding counties in the MSA is illustrated in the chart at the left. As shown, the overall population in the MSA has been increasing, but the bulk of this increase has occurred in suburban Shelby County, with Jefferson County having a generally level or slightly declining overall population. The Birmingham MSA ranked 66th in terms of overall population of the 316 MSAs classified in the United States in 1995 according to statistics from



POPULATION GROWTH PATTERNS (Birmingham MSA)

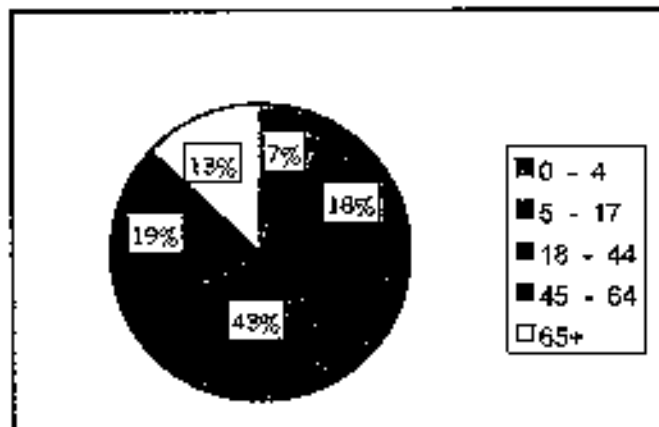
Demographics USA. This population represents over 20% of the total population in the state of Alabama. The MSA is part of a larger, 19 county area considered to be the Direct Market Area, which had a 1992 population of over 1.4 million.

In July, 1994, the population was estimated to have increased to about 872,246 in the MSA, or about a 3.8% increase over 1990. Much of this growth has been in Shelby County, posting a 19% growth rate over this period, compared to Jefferson County at only a .8% rate. Blount and St. Clair counties also posted greater relative gains, but this is in large part attributable to their much lower existing population bases. Growth projections would place the MSA population at over 900,000 by the year 2,000, with a relatively modest overall 3.3% growth rate, but almost a 20% rate projected for Shelby County. The fastest growing cities in the MSA between 1980 and 1992 (with a base population over 10,000) are in southern Jefferson and northern Shelby County. Blount and St. Clair Counties have no communities with this size base population. Leading the list in terms of growth are Alabaster and Pelham in Shelby County, Hoover (which lies partially in Shelby and

Jefferson), and Vestavia Hills in Jefferson. Unincorporated Shelby County has also experienced strong growth. While not yet having over 10,000 residents, Irondale and Trussville in eastern Jefferson County have also experienced strong growth. According to the *Wall Street Journal* in a recent article, Shelby County is the sixth fastest growing, wealthiest, and most educated county in the country.

In 1995, there were an estimated 877,500 residents of the MSA according to *Demographics USA*. These residents formed 334,200 households, for an average household size of 2.63 persons. This household size is projected to decline slightly in the next five years. It is already below the national and state averages reported at about 2.71 and 2.67, respectively.

The population of Birmingham is relatively young compared to many other Sunbelt areas, with over 66% of the residents under 45. The chart at the right illustrates the age composition of the population in the MSA. As shown, there is a greater proportion of school aged children than seniors, and it is anticipated that this trend will continue as the proportion of children that are younger than school age is quite high. The bulk of the population is in the younger adult sector, with a lower proportion of middle-aged residents that would be in their highest income producing years.



AGE DISTRIBUTION

Income, measured by various statistics, is generally lower in the Birmingham MSA than in the U.S. as a whole, but higher than the state of Alabama as a whole. In 1990, the per capita personal income for the MSA was about \$17,500, which is only 94% of the U.S. average, but 117% of the Alabama average. Jefferson County posted the highest income in this category at 100% of the U.S. average. In terms of average household income, which provides a more accurate picture of potential buying power, Shelby county ranked the highest in the area with an average of almost \$45,000 per year, followed by Jefferson at \$35,000. According to *Demographics USA*, the average household effective buying income, which is roughly analogous to disposable income was almost \$41,000 in 1994 for the MSA as a whole, ranging from \$52,000 in Shelby County to \$30,000 in Blount. A 24% increase is projected by 1999 for this figure. Income in the area, while below national averages in many respects, has been increasing over the past 40 years relative to overall national average increases, and is approaching the national average in many categories. The total Effective Buying Income for the MSA ranks 68th in the nation, somewhat below its population rank of 66th. However, this income is not proportionately spread among households, with significant pockets of wealth and poverty geographically located throughout the area. The most significant disproportion is in households with very high incomes. The MSA ranks 85th in total number of households, but 54th in households with \$100,000 to \$150,000 per year, and 45th in households with greater than this amount.

Government and Services

The City of Birmingham is governed by a mayor-council government. The surrounding cities each have their own governments, as do each of the counties. Each municipality provides police and fire protection with most

rated from average to good. In addition, there are fifteen separate public school systems in the area. Cooperation among these various units of government is not always characterized as good, and limited efforts to coordinate some common services among the government units have generally not met with success, particularly when the City of Birmingham finds itself at odds with the smaller, wealthier communities to the south. The governments do not operate together under any coordinated system leading to some overall inefficiency, but each does generally perform well in providing necessary services for its own citizens.

The Birmingham area has the services of the Birmingham Regional Planning Commission, a locally and federally funded commission which assists in the long range planning for the area as well as studying population, employment, and other factors within the area. This commission has met with a mixed success in its acceptance by the municipalities. Each municipality has its own zoning controls, as do Jefferson and Shelby Counties in their unincorporated areas. To date, there have been no inordinately restrictive policies implemented in the area.

Government services are primarily funded through sales taxes, property taxes, and occupational taxes levied through some of the government units. Each local government generally sets their own rates, so there is a somewhat confusing array of property tax rates, sales tax rates, and occupational tax rates throughout the county. This inconsistent tax structure throughout the area is frequently considered by businesses when making location decisions in the area. The imposition of an occupational payroll tax by the City of Birmingham several years ago was named as a factor in the relocation of many business from the city center to other locations in the area. In addition, consumers frequently choose where to make large ticket purchase decisions with consideration of the tax rates in effect at a given location. Homebuyers consider property tax rates, but variances in these across the area are generally attributable to increased school expenditures, with higher tax rates generally going to fund better quality schools, which offsets some tax concerns.

The various utilities available throughout the area include electricity, natural gas, telephone, public water, public sewer, and cable television. Alabama Power Company provides most of the electrical power to the area with TVA Power available in a few areas through municipal systems. Telephone service has historically been provided by South Central Bell (now BellSouth), although changes in the telecommunications industry are likely to introduce competition for local service in the future. Cable television is provided through most of the area (except for outlying areas) by a variety of vendors. Alabama Gas is the largest provider of natural gas. Public water and sewer are available in most urban areas, with at least water available to many rural areas. These services are provided generally either at the municipal or county level. Recent lawsuits relating to the amount of sewer discharge into the Cahaba River are anticipated to require significant upgrades in county systems in the near future. While this has not resulted in any moratoriums on construction at this time, the possibility of this does exist in the future, although this is considered remote at the moment. There are some 24 licensed radio stations, and six broadcast television stations (representing all major networks) in the area. In addition, there are two daily newspapers and a number of weekly or monthly publications.

There are 150,000 students registered at over 300 public schools (in 15 separate systems) and 50 private schools in the area. The quality of these schools varies considerably, but includes some of the highest ranking school systems in the state represented by Mountain Brook, Vestavia Hills, Hoover, and Homewood. Several

of the schools in the area have been past winners as Blue Ribbon Schools for Excellence by the U.S. Department of Education. There are special purpose schools including the Alabama School of Fine Arts (one of only three schools of its type in the nation), and a school offering an International Baccalaureate degree. In addition to primary and secondary education, higher education is well represented in the area with seven universities and colleges, seven community colleges, and five technical colleges. The center of education is the University of Alabama at Birmingham (UAB), which is home to one of two medical schools in the state, and is recognized as a premier facility in terms of healthcare provision and training. It offers over 140 degree options for its 16,000+ undergraduate and graduate students. It employs 15,000+ people in its educational and medical endeavors, and has an annual budget approaching \$1 billion.

Healthcare has become one of Birmingham's major economic forces. There are 21 hospitals in the area with a total bed capacity of over 6,400. These facilities provide all levels of care to patients from throughout the local area, the region, and many parts of the world. Birmingham is home to the UAB medical complex, featuring a comprehensive cancer center, and the recently completed Kirklin Clinic (ranked third in the nation behind Mayo and Johns Hopkins). Birmingham is also home of HealthSouth, which has grown to be the largest rehabilitative healthcare firm in the nation, anchored locally by a sports medicine institute which attracts athletes from around the world.

Birmingham has extensive cultural and recreational outlets. Included among these are the Birmingham-Jefferson Civic Center Complex (BJCC) which recently underwent a \$139 million renovation and expansion and currently features a 700+ room hotel, 220,000 square feet of exhibition space, a 3,000-seat concert hall, a 1,000-seat theater and a 19,000-seat capacity coliseum. The facility is home to the Birmingham Bulls, a minor league hockey franchise, and will be a host site for the 1996 NCAA regional basketball tournament. Legion Field is located in western Birmingham, and was recently expanded and changed to a natural turf field in time to serve as a venue for soccer competition in the Centennial Olympic Games. Legion Field has been the historic site of the traditional Alabama-Auburn football rivalry, the Iron Bowl, and has frequently been used by Alabama for home games. The UAB Blazers recently moved up to division I-A in NCAA football, and currently use the facility as their home field. Birmingham has the oldest professional baseball stadium in the country, Rickwood Field, which has recently been featured in several movies, and is actively being restored and preserved. It was formerly home to the Birmingham Barons, a minor league franchise which now plays at a modern facility in Hoover. While there has been some talk of building a new stadium to replace Legion Field, it is not anticipated that this would be undertaken without a major commitment for regular use. Birmingham has been home to several start-up professional football teams in the past decade, all of which have failed. Rounding out spectator sports in the area are the annual Bruno's Memorial Classic, a Senior PGA event held at Greystone that has grown to be a favorite stop on the tour, drawing 150,000 spectators.

The area has a thriving entertainment district centered around Five Points South in the Highlands neighborhood of Birmingham. This area was a street-car suburb at the turn of the century, and many of the historic commercial structures have been renovated for use by numerous restaurants, bars, brewpubs, and nightclubs. It is the primary destination for weekend revelers in the area.

A wide variety of cultural and special events are scheduled in the city throughout the year, headlined by City

Stages, a music festival held downtown each summer that has grown to draw 250,000 spectators, and over 200 performers over a three day period. The Alabama State Fair is held at fairgrounds in Birmingham, although there has been talk of relocating it within the area in recent years. The most notable cultural and recreational facilities include the area's 15+ museums including the Birmingham Museum of Art, which is in the Cultural District. This district has recently been enhanced by the completion of a new Alabama School of Fine Arts and the \$20 million expansion and renovation of the Birmingham Museum of Art, making the museum the largest municipally owned museum in the South. The Civil Rights District, featuring the Birmingham Civil Rights Institute is another recent amenity added to the downtown area. Work has finally begun on Discovery 2000, a \$50 million science-oriented museum being developed in a former department store downtown. An adjacent store has been razed to make way for an attached Omnimax theater. The Birmingham Zoo and separate Botanical Gardens are located at Lane Park south of the city. Plans are underway to raise money to either upgrade the zoo, or relocate it in the near future. A planned "Ecoplex" that would have been located south of I-459 and feature large natural habitat areas for the animals appears to have lost favor and is not likely to be developed.

Participatory recreational facilities include an extensive park system that allows passive and active recreational uses. There has been extensive development of new playing fields for community sports, particularly in Hoover and Vestavia Hills, which are each completing multi-million dollar multiple use parks with baseball, softball, football and soccer fields. There are numerous golf courses (daily-fee and private) in the area, and play is generally possible year-round. The public courses include a 54-hole stop at Oxmoor Valley on Alabama's world-renowned Robert Trent Jones Golf Trail. Oak Mountain State Park lies only 20 miles south of downtown Birmingham, and is a 10,000 acre multi-use park with golf, hiking, fishing, boating, tennis, and other recreational opportunities.

Employment and Economy

The metropolitan Birmingham area has long outgrown its industrial heritage and today has a highly diversified economic base. The service sector has grown in importance, particularly healthcare, which accounted for over 9% of the total MSA employment of over 425,000 (in 1994). Manufacturing does remain a vital component in the local economy, however, with durable goods industries (primarily metal-related) employing almost 8% of the workforce. General service employment accounts for the highest share of the workforce, with 18%. This is followed closely by retail trade (17%), and government (16%). The workforce is employed by over 20,000 individual businesses (including nearly half of the nation's Fortune 500 companies which have a presence in the area), and unemployment in the 1990's has been consistently below both state and national averages, with a rate of 4.3% posted for 1994, and incomplete 1995 figures showing a lower rate around 4%. The diversified employment base allowed Birmingham to escape some of the deep recessionary pressures that affected much of the country in the late 1980's. A list of the 25 largest area employers illustrates the diversity that has been achieved in the local economy. Eight of these are government-related, six are service businesses (all healthcare providers), three are retailers, three are financial institutions, three are manufacturers, and two are utilities. Trends in various employment segments and industries that are likely to have a significant influence in the economy of the area are outlined in the paragraphs below.

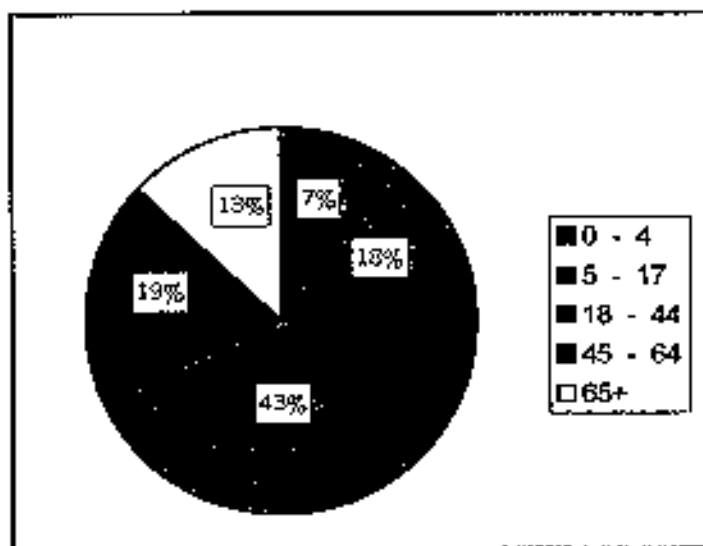
Manufacturing: Birmingham left its reliance on iron and steel-making in the 1970's, but these industries still

remain an important component in the manufacturing segment of the economy. USX leads the local manufacturers, having made recent significant commitments to expand operations at its Fairfield Works, having spent \$1 billion in capital improvements in the last ten years. ACIPCO has recently spent over \$20 million upgrading its facilities, and is one of the leading cast iron pipe manufacturers in the nation. A spin-off industry from this has been the manufacture of wrought-iron furniture. Meadowcraft, a local manufacturer is expanding its existing plant by 350,000 square feet and adding a 660,000 square foot distribution center. While the metals industries remain important in the area, the biggest change in the manufacturing picture has begun with the development of the first North American assembly plant for Mercedes-Benz in Vance, which lies only thirty minutes southwest of Birmingham in Tuscaloosa. The \$300 million facility began projected annual production of 67,000 sport utility vehicles in 1997. To serve the facility, six additional suppliers (and likely more in the future) have located within an hour of the plant. The largest to of these in Birmingham is Ogihara America, which is constructing a \$70 million body panel plant. The area is reported to have over 80 million square feet of free-standing industrial space, and this is about 97% occupied. The decision by Mercedes to locate near Birmingham has drawn substantial interest from other international manufacturers, and it is anticipated that spin-off manufacturers and the positive image this location decision creates for the area will lead to continued growth in the manufacturing segment.

Healthcare: One of the leading services provided in Birmingham is healthcare. The facilities at UAB have given the area an international reputation in providing highly specialized services. In addition, the numerous hospitals in the area provide a high level of general service to the region. The growth of HealthSouth to become the largest provider of rehabilitative healthcare in the nation has received widespread attention. In addition, there are a growing number of healthcare servicing firms in the area including numerous growing national physician practice management firms, and one of the country's first REITs specializing in healthcare properties. The direct and indirect economic impact of healthcare in the local economy is profound, and is anticipated to continue to grow in importance in the future.

Services: Firms in the Birmingham area employ an estimated 6,000 engineers, many engaged in design and construction of process facilities. Locally based Rust International, an industry leader in this field, was recently acquired by Raytheon, and there was initial concern that this would lead to drastic changes at the company. However, initial indications are that the company will remain an important employer in Birmingham. Competitor BE&K is based in Birmingham and is a world-leader in the field as well. It is also considered to be one of the leading employers in the country in terms of creating a positive environment for its workers, consistently named in the top 100 companies in the nation in this respect. Other engineers and skilled professionals are employed by utilities such as Energen, BellSouth, and Southern Company Services, active in the natural gas, telecommunications, and electrical service industries, respectively. The significance of these high-wage skilled positions in the local economy is tremendous. In addition to these services, Birmingham is also home of Southern Progress Corporation, which is a publishing subsidiary of Time-Warner, producing a number of nationally known publications and providing a notable positive impact on the local economy. It is anticipated that the economic importance of these companies will be considerable in the future. While downsizing at many of the larger utilities continues, this has frequently produced opportunities for out-source providers of services to the companies, and little net loss of employment in the area.

Finance and Insurance: Birmingham is the center of finance in the state of Alabama, and is growing in importance as a regional financial center. AmSouth, SouthTrust, Regions, and Compass Bank are all headquartered in Birmingham where they began, and have used this base to expand operations throughout the rest of the Southeast. While these all remain locally based, independent institutions, they are frequently named near the top of the list of takeover targets for larger banks from outside the region. A generally conservative fiscal approach has allowed all of these institutions to remain profitable and attractive for takeover. This approach also has contributed to the general stability of the local economy, with the banks resisting urges in the 1980's to fund massive over-building in commercial real estate markets that plagued many other areas for years. This local restraint shown in the past is anticipated to fuel continued steady growth in the area, with less potential for the extreme cycles that have been experienced in commercial real estate in areas with more liberal financial institutions. While the largest of Alabama's banks have expanded throughout the region with acquisition, a number of small, local independent banks have been increasing their presence, offering additional capital options. Birmingham is home to Torchmark (Liberty National) and Protective Life, two large insurance providers with a national presence. With its established healthcare base, there has also been growth in healthcare insurers and alternative providers that now have a regional presence. It is anticipated that the finance and insurance industries will continue to play an important role in Birmingham's economy.

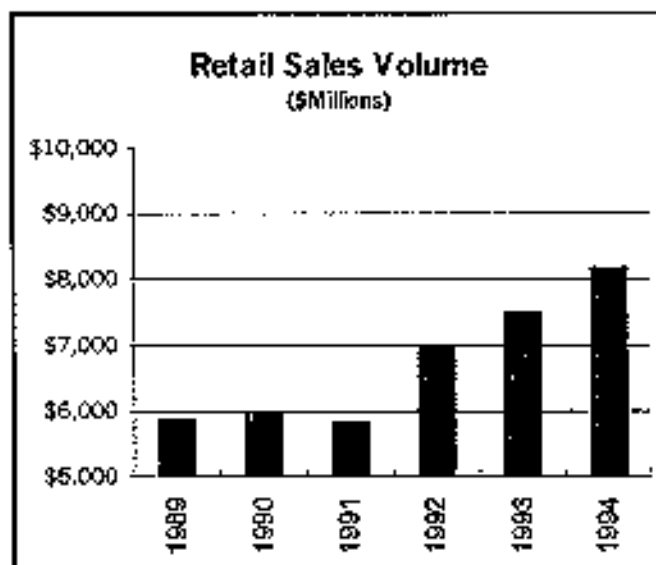


BIRMINGHAM AREA CONSTRUCTION ACTIVITY

Construction: The construction industry in Birmingham is active with firms busy with projects both locally and throughout the world. Several notable construction companies are head-quartered in Birmingham with a significant presence in the regional, national, and international construction field. These firms accept general building contracts, or are specialized in areas such as healthcare construction and process industrial construction. In 1994, construction employed about 22,000 people, or 5% of the total workforce. It has a greater impact on the economy however, as these higher-wage skilled positions accounted for almost 8% of the total payroll in the area. There are almost 2,000 construction firms in the area, and while many are active outside of the area, there has been significant construction activity in the area in each of the past several years. The chart at the left illustrates the value of building products undertaken in the area. As shown,

residential construction increased in importance in 1990, and has grown steadily since that time, primarily driven by record-low interest rates which significantly enhanced the affordability of homes for a large proportion of the population. Non-residential construction has had a less steady growth than in the past. While more recent complete figures are not available, construction in the first half of 1995 was up significantly from 1994, with much of this fueled by non-residential development. It is considered that this trend has continued in 1996 as there have been a large number of significant commercial projects undertaken.

Retail and Wholesale Trade: The Birmingham area is the largest retail market in the state. Its 18 county trade zone includes over 1.5 million residents, and retail sales have grown steadily since the last major national recession ended in the early 1990's, as shown in the chart at the right. The area is a trade center for Alabama, with 24% of the states retail sales, but only 21% of the population. Large retail centers in the area are a major draw, particularly during the holiday shopping season. There has been extensive new retail development over the past several years. There are five enclosed shopping malls, and about 50 retail centers with over 100,000 square feet each in the market. By far the largest retail center is the Riverchase Galleria, which was recently expanded to over 1.7 million square feet of space to make it the 20th largest mall in the nation. It is anchored by Macy's, Rich's, McRae's, J.C. Penney, a recently expanded Parisian, and a newly added, Sears. It also features 200+ shops in the mall area and numerous surrounding retail and restaurant facilities on outparcels. Wildwood Center and Brook Highland Shopping Center introduced the market to the "big-box" concept of retailing, as did the recent arrival of national chains such as Home Depot, Barnes & Noble, Bed Bath & Beyond, Campo Electronics, CompUSA, and other "category killer" merchants. Development is ongoing at the Summit, which will add some 450,000+ square feet of retail space to the market, primarily "big box" tenants.



RETAIL SALES GROWTH

In addition to being a major retail area in the state, Birmingham is an important wholesale area, and is home to a number of retailers that operate stores regionally and nationally from their Birmingham headquarters. Changes in the retailing industry are most evident by looking at retailers based in Birmingham. Bruno's, the largest grocery chain in the state was recently acquired by the Wall Street investment firm of KKR, although it remains based in Birmingham. Parisian, a long-standing local department store chain that had been expanding in many other areas was recently acquired by Proffitt's, a Knoxville based chain that had already acquired Jackson-based McRae's, which had entered the Birmingham market with its acquisition of the local Pizitz chain several years ago. It is uncertain what long-term changes this will bring to Parisian, which is to remain locally headquartered at present. Revco, a nationally prominent drugstore chain is attempting to acquire Big B, Alabama's leading chain based in Birmingham. The potential impact of this hostile takeover on Birmingham is unknown at this point. Yeilding's, a 120 year old local clothing retailer recently announced that

it will close its stores due to increased competitive pressure in the industry. While consolidation of these large chains is continuing, several Birmingham-based retailers have found niches and are expanding regionally and nationally. Just for Feet is expanding through the country with its category-killer concept athletic shoe superstores, and has been well received by Wall Street. The former Sandwich Chef chain based in Birmingham has successfully introduced its Wall Street Deli concept restaurants through the region. Alabama-based Books-a-Million maintains a strong Birmingham presence, and has been aggressively expanding its book superstores. While Birmingham will remain an important retail market, it is apparent that local control of some of its largest retailers has been lost, and it is possible that headquarters operations for these businesses currently located in Birmingham may eventually relocate.

Advanced Technology: Birmingham is making an effort to increase its advanced technology industries, and is already home of Southern Research Institute (SRI), the largest nonprofit independent research laboratory in the Southeast, focusing on medical, environmental, and materials research. UAB houses numerous research facilities, largely in medical-related and bio-technology fields. The university is active in commercializing technologies through its Office for the Advancement of Developing Industries, an incubator which has housed 47 advanced technology firms, seventeen of which have graduated to become independent businesses. Among these is BioCryst, a publicly traded firm with several medical-related products in advanced testing. The program is constructing a new 70,000 square foot facility in Oxmoor known as Genesis Center. It will join SRI in this mixed-use project that was originally intended to attract primarily high-tech firms. The City of Birmingham funded construction of a state-of-the-art medical products mart at the BJCC, the first of its kind in the nation. To date, however, it has not attracted the volume of advanced technology firms and trade shows it was envisioned to house. Growth in this industry segment is anticipated in the future, and is likely to have a positive impact.

Hospitality & Tourism: While not traditionally viewed as a tourist destination, the area is a business center for the state, which has led to a healthy hospitality and lodging market. In addition, a number of special events in the area and surrounding areas occur through the year which bring in large numbers of out-of-town visitors. Conventions centered at BJCC have brought upwards of 40,000 attendees. Tourism is by all accounts a growing industry in the area, with the cultural amenities previously addressed serving as significant draws. In addition, the City of Fairfield, west of Birmingham, is spearheading development of an amusement park known as Visionland. Final planning of this \$39 million amusement park is underway, and indications are that it will begin development shortly. The project is intended to enhance Birmingham's draw as a tourist destination. Another such project is being contemplated by B.A.S.S., and outdoor sports organization currently based in Montgomery that has the area on its short list of three cities for relocation. The relocation would reportedly bring not only the headquarters for this organization, but also would include development of a large theme park with an outdoor flavor. There has been some indication that if the project locates at a site selected east of Birmingham, the city would relocate the zoo to be part of the facility. Tourism is estimated to account for 25,000 jobs in the area, and has an economic impact estimated at over \$900 million annually. According to the Greater Birmingham Convention and Visitors Bureau, there were almost 11,000 hotel rooms in over 100 facilities in the area as of April, 1996. In addition, some 800 rooms are currently slated to be added to this base in 12 facilities under construction in 1996. Occupancies in 1995 (as reported by Smith Travel Research) were at the national average of about 65%. This is up from 1994 when they were about 63% in Birmingham

and 65% in the nation. Average daily room rates increased from about \$49 to \$51 in this time, which is significantly below national averages of \$64 to \$67. The number of national and regional restaurant chains with locations in Birmingham has increased significantly in the past several years with such entrants as Johnny Rockets, Ralph & Kacoo's, Landry's Seafood House, Tony Romas, Tia's, Superior Grill, and J. Alexander's. Most of these offer mid-range sit-down dining. As Birmingham continues to grow in importance as a business center, develops additional tourist destinations, and experience increases in effective household buying income, it is anticipated that the hospitality industry will continue to increase in importance in the local economy.

Agriculture & Resource Industries: While often given little regard in analyzing the overall economy of the Birmingham area, agriculture remains a strong component in its economic vitality, having its greatest impact in outlying areas such as Blount and St. Clair Counties, west Jefferson County, and south Shelby County. In addition, Birmingham itself is home to a number of supporting and processing industries associated with the agricultural products reaped from the surrounding areas. Agricultural production in the area resulted in almost \$200 million in cash sales in 1992, with more than half of this from Blount County, where it is the largest economic component. Only about \$25 million of this resulted from crops, which includes timber. The bulk is from livestock production, in particular broilers. Farms in Blount County alone produced over \$75 million in broilers, and over \$100 million in all livestock. While agricultural use of land has become an interim use in areas in close proximity to the continued growth of Birmingham's suburbs, it will likely remain of significant importance in areas such as north Blount County, south Shelby County, and east St. Clair County as these areas are physically the most distant from current development. Much of the timberland in the area is held by a few private interests. As development has approached some of these holdings in the past, owners have shown a strong willingness to release land for development.

In addition to agricultural uses of land, extraction of mineral resources is also an important component in the local economy. Extracted resources in the area include primarily coal (for local use and export), quarried stone (primarily for local use), and natural gas and coalbed methane. The Warrior River basin is considered to hold some of the richest coal reserves in the country, and this mineral wealth has created significant financial wealth in the area, particularly in adjacent Walker County, where it is perhaps the largest component of the local economy. Mine operators use shaft, strip, and long wall mining techniques in extracting mineral resources in the area, and the large number of mines located in northwest Jefferson County will tend to limit any potential future growth in that area, although development in former mined areas has been successful in Birmingham in the past, most notably in the Liberty Park area, which had been extensively mined in the past. While the mining industry employs only about 3,000 workers in the area, loss of jobs in this field would have a disproportionate impact on several small communities, particularly in west Jefferson County, which have developed around mining employment. Of perhaps greater future potential impact on the overall area than from direct mining is the fact that much of the mineral resource land is held by a few interests in the area. USX, one of the largest landowners, has been quite shrewd in the development of its holdings, preferring to retain ownership of their properties and control development within them rather than sell them outright. The ability of this and other well-financed interests to do this has had a profound positive impact on the quality of planned developments surrounding Birmingham. USX is currently developing Trace Crossings, and owns the bulk of the land in the Oxmoor Valley area.

Significant Growth Areas

Birmingham is a growing metropolitan area, as illustrated by the discussion in the preceding pages. However, as with any market area, not all portions of the metropolitan area are poised for equivalent growth. In addition, physical growth trends in Birmingham are frequently influenced by terrain and a number of large, influential landowners. In its early history, suburban growth in Birmingham was perhaps less concentrated than it is now, with growth occurring radially in all directions from the city center. However, the direction of development in the past 50+ years has been distinctly to the south with development cresting successive ridges and spilling into the next valley as transportation routes over the mountains were improved, enhancing access. There are currently few ongoing transportation projects in the area which would significantly improve linkages to a large area. Therefore, development now is tied more to other factors, and is catching up with existing linkage capacity primarily by infill development in areas already easily accessible by existing infrastructure (roads, sewers, water lines, schools, and other services). There is a large amount of undeveloped land in the area within the boundaries of existing infrastructure service areas, and it is anticipated that these would tend to be developed prior to new areas opening up as the government's current efforts are geared more toward maintenance of the existing infrastructure and logical upgrades in areas already served, rather than in expanding the infrastructure further at this time. There are a number of key growth spots in the area that will be important in shaping future trends in the market. Several of these are identified and discussed below.

Highway 280 Corridor: Growth in the U.S. 280 corridor in southeast of Birmingham is ending its second decade. It began with the development of the Inverness planned community by Metropolitan Life in the 1970's, and has for many years been one of the strongest growth centers in the area. Development now includes thousands of single family homes, primarily located in planned communities such as Inverness, Meadow Brook, Brook Highland, and Graystone. These homes are targeted primarily to relatively affluent residents, with significant numbers of new home communities having entry prices generally well over \$150,000. In addition, there is a large concentration of multi-family projects, and the bulk of Birmingham's suburban office space. Retail development was somewhat under-represented in the area until the recent construction of the Brook Highland shopping center, and the proposed construction of the Summit, a new planned commercial center. Growth continues in this corridor, with HealthSouth and Just for Feet developing new headquarters facilities here. Redevelopment of a former Southern Company facility at Shades Creek Parkway in the northern end of the corridor is evidence of the continued attractiveness of this area for office users. Concerns related to traffic congestion in the corridor have been the most noted drawback to development in this area. However, U.S. 280 has now been widened to six lanes from I-459 to Cherokee Road, alleviating some congestion in a traditional bottleneck area. This widening is slated to continue to the Red Mountain Expressway, which will significantly enhance access when completed, but this construction is currently being held up by a lawsuit involving the contractors and it will be several years before it is completed. The significant shifts in population (primarily affluent residents) to this area, and the fairly large amounts of remaining vacant land (primarily within existing planned developments with all infrastructure available) will likely ensure continued quality growth in this corridor in the future.

I-459 East Corridor: This area is situated along I-459 east of U.S. 280, and is centered around the Liberty Park planned community. Development in the area began with the construction of a headquarters facility by

Liberty National Insurance, but this has been joined by several other office facilities that provide some of the newest, best appointed space in the market. Developers of the park built the only significant speculative office buildings in Birmingham in the early 1990s, which appear to be successful at this time. In addition, development of the large upscale residential community is ongoing, enhanced by the resolution of lawsuit allowing Vestavia Hills to annex the property and bring it into its prestigious school district. The city is also developing a large recreational complex in the area. The residential community is centered on a private golf and country club. The Federal Reserve recently announced that it would move its Birmingham operations to a site in the park, and Wyndham hotels will be adding a full service hotel to the mix of uses in the area. Further to the east, at Grants Mill Road, property owners are proposing development of a number of highway related commercial ventures. While there is no significant retail development in the area at this time, it is anticipated that this will likely follow additional residential construction. A national mall developer reportedly abandoned the idea of building at a Liberty Park site at this time, but it is considered that this area, with its excellent proximity to numerous high income neighborhoods and easy access by I-459, will likely be successful in attracting such potential development in the future.

Highway 150 Corridor: This area lies west of U.S. 31 south of I-459, and is adjacent to the successful Riverchase project in Hoover. It includes the last remaining undeveloped portions of this extremely successful planned project which was begun in the late 1970's. The cornerstone of the project is the Riverchase Galleria, which has frontage on Highway 150. The corridor is strongly influenced by this major retail center, and also by the presence of Trace Crossings, an upscale planned residential project located in its westerly portion. This corridor has been the focus of strong multi-family development in the last several years as it has some of the few remaining development sites for this purpose in the desirable Hoover market. Hoover opened its state-of-the-art Hoover High School in this area in 1995. Widening of the highway to four lanes from U.S. 31 to I-459 has begun, and this is anticipated to alleviate growing congestion and enhance the attractiveness of the area. Several small retail centers are planned for the area as well. With its easy access to I-459 west, this area is a short commute from the Mercedes plant in Vance, located off of I-59 just west of the Tuscaloosa county line. This proximity will also likely have a beneficial effect on growth in this area in the future.

I-65 South Corridor: This area is considered to include the suburban communities of Pelham, Helena, and Alabaster, all of which access Birmingham primarily by way of I-65. Located south of Hoover, these communities were formerly small rural towns which have boomed in recent years as developers have constructed numerous subdivisions marketed primarily toward first-time, or middle income homebuyers, with a choice of homes in many new subdivisions priced under \$150,000. These areas began growing primarily as traditional bedroom communities with residents employed elsewhere in the metropolitan area. However, in recent years, this corridor has grown in importance as an employment center, with numerous distribution and light industrial operations located in one of several small parks. In addition, the Cahaba Valley Road interchange in Pelham has grown to be a major highway commercial center, with numerous national chain restaurants, service stations, and hundreds of motel rooms developed in the past few years. Continued residential growth in this corridor is likely to result in continued demand for commercial growth.

I-59 East Corridor: This area is currently one of the few areas of strong growth that is not located south of Birmingham. It is centered around the community of Trussville, which was a small rural town, but has grown in

importance as a bedroom community. As growth has proceeded to the south of Birmingham, congestion has increased, and typical commuting times have increased in turn. This has created opportunities for development in many areas formerly not given much consideration. Developers around Trussville have taken advantage of this situation. While much development has been single family in nature to date, a large community shopping center was recently completed as well as a class-A apartment complex, numerous highway commercial businesses, and a number of manufacturing facilities and other employment centers. It is anticipated that this area will continue to experience strong growth.

Oxmoor Valley: This 7,600 acre planned mixed use development is conveniently located south of Birmingham within the I-459 perimeter, west of I-65. Owned largely by USX, the area is slated to be developed as a planned community with residences and businesses in close proximity. There is already a significant commercial base in the area, with a thriving industrial distribution center, the Wildwood retail center, and several large offices including the regional IRS office, State Farm's regional office, and SouthTrust Bank's recently completed operations center. In addition, SRI maintains new facilities in the area, and UAB is building its Genesis Center in the park, in keeping with planner's goal to create a high-tech image for the development.

Plans are to extend Lakeshore Parkway through the property to State Road 150 in Bessemer, which would significantly enhance access in this corridor. The residential component would be enhanced by the 54-hole Oxmoor Valley golf course which is already in place. However, single family residential development has not been undertaken to date, reportedly as a result of concerns over which school district will ultimately have jurisdiction over the development. However, this will likely be resolved, and the most recent plans include having UAB operate a model school in the area for grades K-8. While no single family residential growth has occurred to date, the first apartment complex in the area is currently under construction. This area, with its central location and expanses of undeveloped land, is considered to be poised for significant future potential growth.

Other Areas: The areas identified in the preceding paragraphs have captured (and will likely continue to capture) much of the growth and development in Birmingham. However, there are a few other trends and development projects worth noting which may enhance growth in other areas as well.

One such development project is the anticipated completion of "Corridor X" from I-65 north of Birmingham to Memphis. This highway would tremendously enhance access to the northwesterly portion of the market. This is likely to have a positive impact on development in the communities of Forestdale, Adamsville, and Graysville for two reasons. First, it will directly enhance access to these areas, and second, it will alleviate significant congestion (and its negative impact) on U.S. 78 which currently provides primary access to these areas but also serves as a major truck route. Another potential project is the planned extension of I-459 around the northerly perimeter of Birmingham, which would likely open new areas to development. This would enhance the northerly area of Birmingham in a similar manner as the southerly area of Birmingham was enhanced by the completion of I-459 as it currently exists. The area that might be influenced the most by this development would be south Blount County, which could experience a surge in growth similar to that being experienced by north Shelby County at this time.

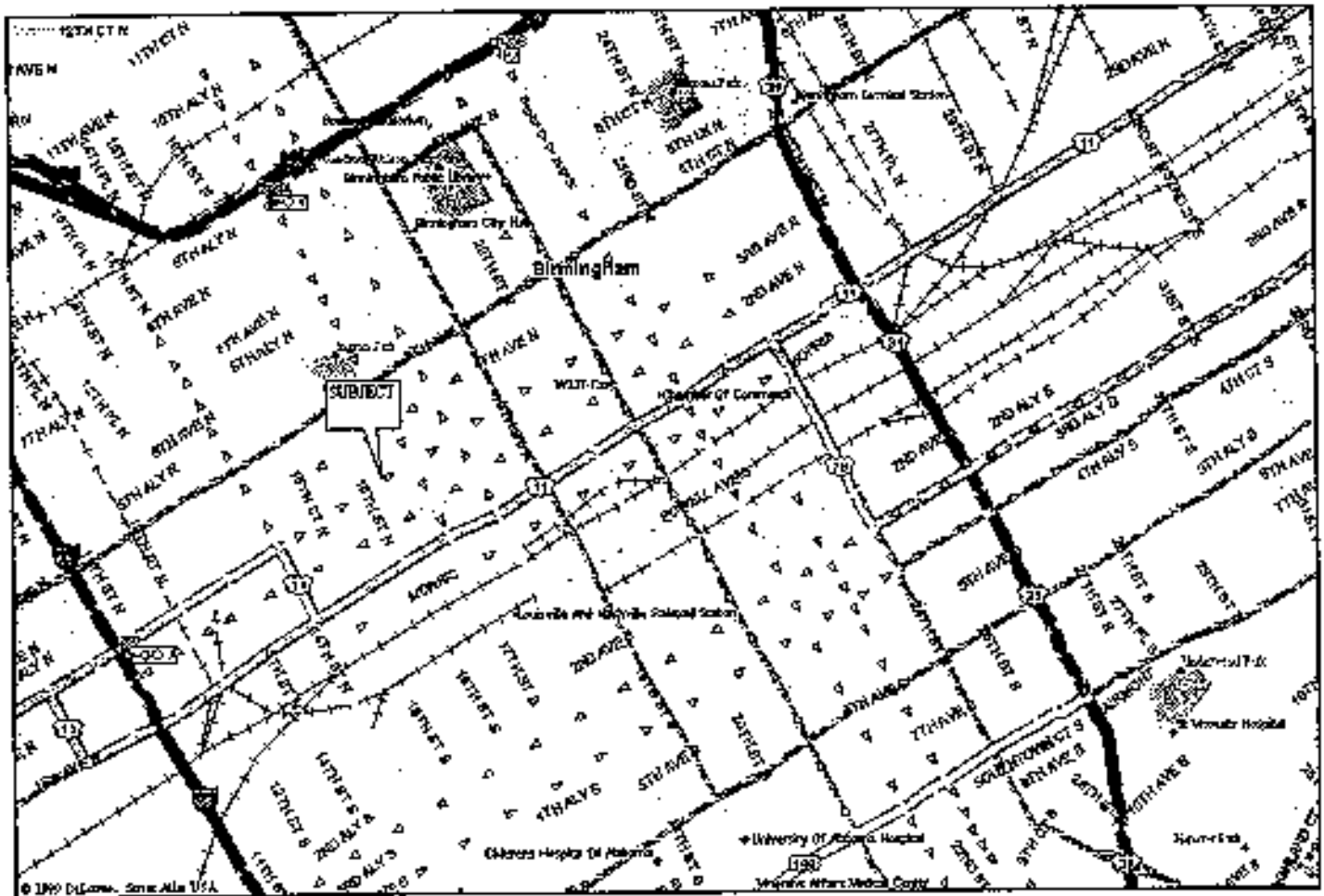
The I-65 North corridor around Gardendale has not been heavily developed in the past, in part because of a

number of heavy industries in the northern part of Birmingham that serve as a negative influence in the area. However, increased commuting times caused by congestion in the southerly suburbs, as well as generally lower land prices have recently led to increased residential development in this area, particularly in outlying areas such as Mt. Olive. This trend is likely to increase in the future as is being experienced currently in the I-59 East Corridor.

The downtown area is currently positioned at a crucial point in its history. For years, there has been a drain of businesses (including retail and office occupants) from the city center to the suburbs, with little done successfully to alter this condition. However, there is now an active, concerted effort by public and private groups to try to rebuild this declining area. Operation New Birmingham, a semi-public entity has been spearheading this effort for some time, and signs of success are beginning to appear. Adaptive re-use projects which convert historic buildings from former occupancies as retail buildings, warehouses, or offices are ongoing. New uses include primarily residential, office, and special purpose uses. It is not likely that significant retail recovery in the city center can be achieved, as this would be going against the trend that has been experienced in city centers throughout the South since the advent of the automobile. There have been almost weekly announcements of new projects in the area, and the list of vacant buildings in the city center is declining. However, this conversion of the city center from a place that closes after office hours to a vibrant, "round-the-clock" community is in its early stages, and the success of many projects that have been announced is in no way assured. However, the thrust of redevelopment is such that this area will likely continue to change for the better.

Conclusion

The metropolitan Birmingham area is the most significant in the state of Alabama. It has the largest economic base, and has diversified itself from its roots as an iron town to an economically sound community with a strong service, financial, retail, healthcare, and manufacturing community. The generally conservative nature of the business and banking communities have insulated the market from some of the extreme economic cycles which have been experienced in other areas: while Birmingham rarely experiences significant economic booms, it also tends to avoid significant busts. Homegrown businesses such as engineering firms, retailers, banks, and healthcare operators have expanded their presence throughout the region and country, and have been attracting more national attention in recent years. North Alabama secured a significant economic prize with the development of the Mercedes plant near Birmingham, and this action has brought additional positive attention to the area from national and international manufacturers. A second or third tier market from the national perspective, the Birmingham area and its real estate markets have received renewed interest from regional and national investors in the past several years. Development in all real estate categories is currently ongoing at a pace which has not been experienced in Birmingham for many years. New subdivisions, apartments, shopping centers, office buildings, industrial facilities, and special purpose properties are all being built at this time, while occupancy rates in most categories in most areas remain quite healthy. In conclusion, it would appear that the Birmingham market is well positioned for continued steady growth into the next century, which will have a positive effect on the health of its real estate markets.

NEIGHBORHOOD ANALYSIS:

The subject is located in the 1600 Block of 3rd Avenue North in downtown Birmingham. The subject neighborhood is situated on the outside fringe of the Central Business District of the City of Birmingham. The neighborhood consists of multiple common wall buildings. These buildings contain offices, retail and storage space mainly. The subject neighborhood is an older established commercial area of downtown. In the recent past, the downtown market has seen an increase in demand. The subject neighborhood is bounded by the streets, which run north and south and the avenues running east and west through the downtown area. The neighborhood is bounded on the west by 15th Street North and on the east by 24th Street North. In addition, the neighborhood is bounded on the south by 1st Avenue North and on the north by 7th Avenue North. The above listed streets and avenues make up the subject neighborhood for this area of Birmingham. Most demand is centered surrounding the financial district of 5th Avenue North and 20th Street North. In addition, several buildings to the south and east of the subject have been renovated over the past years to high quality office space or to loft apartment space.

The majority of the renovations in the subject neighborhood have taken place from 18th Street to 22nd Street North and 7th Avenue to 3rd Avenue North. The subject area has not seen the increase in demand that areas in the southern and eastern sections have seen. Most facilities in the subject area consist of retail stores on the first or ground floor and office or storage space on the second or third floors. Some buildings in the subject's immediate area have been renovated or restored. However, most are still utilized for their first floor retail or commercial space.

As discussed, areas to the northeast of the subject are in high demand. This area, known as the financial district houses many of Birmingham's skyscrapers and Class A office facilities. Two of Birmingham's most recent skyscraper office facilities are scheduled for construction in the financial district. Most retail and commercial facilities in this section of the neighborhood cater to the office buildings and companies in this area.

Areas to the south and east of the subject are just beginning to feel demand shift in their directions. Many older office buildings and retail facilities have been remodeled. Small size office facilities are being remodeled and used by single tenants as high quality office space. Other larger offices have been remodeled into apartment loft space. Overall, this area is also seeing redevelopment and some new growth.

Areas to the far south of the subject on the southern section of downtown are mainly associated with the medical facilities in the area. This consist of The University of Alabama, Birmingham (UAB) and other hospitals such as St. Vincent's and Children's. These areas are not considered comparable to the subject.

Conclusion:

The subject's immediate area is in the Central Business District (CBD). However, it is on the fringe of the CBD for the city of Birmingham. The uses on the fringe of the CBD are dominated by ground floor retail and office space, but not much of the above ground floor space is used for any other use rather than storage. Many sections of the CBD have seen an increase in new growth or redevelopment in the recent past. The subject area has not yet felt this growth or rise in demand. Space in the subject area is generally used for retail purposes with the upper floors mainly used for storage. There are some offices in the subject's immediate area, but most commercial space in the subject's section of the neighborhood is retail.

ZONING AND UTILITIES ANALYSIS

The subject property is zoned B-4, Central Business District, by the City of Birmingham. This zoning classification allows for most types of commercial uses with the intent to provide areas for office, retail and service.

All public utilities are reportedly available to the subject property including electric, water, sewer, telephone, and natural gas. The writers are aware of no conditions, which would change this factor in the near future, nor are they aware of any factors that would reduce the available supply of such services.

AD VALOREM TAX ANALYSIS

The subject property is currently assessed as one parcel (22-36-2-041-009.000) by the Jefferson County Tax Assessor's office. The county appraised value for the subject in 1993 was \$420,050 with \$35,000 being land value and the remaining \$385,050 being improvement value. The parcel is assessed at 20% of its estimated appraised value and then multiplied by the prevailing millage rate of 69.5 mills. The total estimated tax for 1993 was \$5,838.70. The county appraised value for the subject in 1995 was \$185,230 with \$42,000 being land value and the remaining \$143,230 being improvement value. The parcel is assessed at 20% of its estimated appraised value and then multiplied by the prevailing millage rate of 69.5 mills. The total estimated tax for 1995 was \$2,574.70.

HISTORY OF OWNERSHIP

It is the writers understanding that the ownership of the subject is in the State of Alabama Insurance Commission. There appears to be no transactions in the past three years, therefore, a further title search was not performed by the writers as it would be beyond the scope of the appraisal.

SUBJECT PROPERTY ANALYSIS

Site:

The subject property is a regular shaped tract of land containing an estimated 7,000± square feet of land area. The site is located at 1612 3rd Avenue North in Birmingham, Jefferson County, Alabama. The subject site is part of a typical city block in downtown Birmingham.

According to the Flood Insurance Rate Maps for the subject area, no portions of the subject are located within an area that would be classified as a special flood hazard area.

Improvements:

The subject property is developed with a 14,000± square foot office building. Approximately 7,000± square feet of the building is finished area all on the first/ground floor. The remaining 7,000± square feet of the building is unfinished area located on the second floor. The subject is a two-story building with a masonry exterior and a flat built-up tar and gravel roof. This design and layout of the building is typical for the neighborhood. The building appeared to be in fair condition at the time of the inspection.

Conclusion:

The subject improvement would be considered as a two-story office building. The construction is typical for this neighborhood with the flat roofs and the masonry exterior. There are multiple buildings, which are similar to the subject in the neighborhood. There have been several renovations performed on numerous buildings in the subject's neighborhood. The tax records reveal that the subject was built in 1900 and renovated in 1988.