



APPRAISAL OF:
PROPOSED PARTIAL ACQUISITIONS
FRANKLIN & WASHINGTON STREETS
SANTA CLARA, CALIFORNIA

PREPARED FOR:
CITY OF SANTA CLARA
SANTA CLARA, CALIFORNIA

FEBRUARY 2018

2018-CNA-108

February 7, 2018

Mr. Manuel Pineda, P.E.
Assistant City Manager
City of Santa Clara
1500 Warburton Avenue
Santa Clara, California 95050

Re: 2018CNA108, Appraisal Report
Franklin & Washington Street Extensions
Santa Clara, California

Dear Mr. Pineda:

At your request and authorization, Carneghi-Nakasako & Associates has appraised the land areas being proposed for acquisition by the City of Santa Clara for the Franklin Street and Washington Street Extensions. The proposed acquisitions impact a larger property addressed at 1050 Benton Street in the City and County of Santa Clara, California. The larger subject property is identified by the Santa Clara County Assessor's office as assessor parcel number 269-22-096.

The larger subject property is improved with an existing apartment complex known as Park Central. This complex contains 173 one and two bedroom units in multiple two and three story podium buildings over partial below grade parking. The improvements date from 1987, were most recently renovated in 2011/2012, and are generally of average to good quality and condition. The underlying site contains 5.259 acres or 229,082 square feet of land area per Assessor records. Comparing the number of units to the site size indicates a development density of 32.9 dwelling units per acre.

The proposal under consideration is for the voluntary sale of two separate land areas for the extension of Franklin Street and Washington Street. The proposed Franklin Street extension area contains 32,330 square feet of land area and extends along the southern portion of the larger property. The proposed Washington Street extension area contains 4,320 square feet of land area and is located in the northeast corner of the larger site. The total proposed acquisition area amounts to 36,650 square feet of land area (approximately 0.84 acres).

The client for this Appraisal Report is Mr. Manuel Pineda, P.E., Assistant City Manager with the City of Santa Clara. The purpose of this appraisal is to estimate 1) the current "as is" fee simple market value of each proposed acquisition area and 2) the current "as is" market value of a permanent easement covering each proposed acquisition area. It is our understanding that the intended use/user of this appraisal is for the exclusive use of the City of Santa Clara for assistance in negotiations for acquisition of the subject land areas. ***This report should not be used or relied upon by any other parties for any reason.***

Value Conclusions***Fee Simple Value***

Based on the research and analysis, and subject to the assumptions and limiting conditions contained in the attached report, it is the opinion of the undersigned that the “as is” fee simple market value of the proposed acquisition areas, as of January 24, 2018, is:

THREE MILLION SIX HUNDRED SIXTY THOUSAND DOLLARS

(\$3,660,000)

A breakdown of this value conclusion is as follows:

Franklin Street Land Area	=	\$3,230,000
Washington Street Land Area	=	\$ 430,000

Permanent Easement Value

Based on the research and analysis, and subject to the assumptions and limiting conditions contained in the attached report, it is the opinion of the undersigned that the “as is” value of a permanent easement across the proposed acquisition areas, as of January 24, 2018, is:

ONE MILLION EIGHT HUNDRED THIRTY THOUSAND DOLLARS

(\$1,830,000)

A breakdown of this value conclusion is as follows:

Franklin Street Land Area	=	\$1,615,000
Washington Street Land Area	=	\$ 215,000

Other Valuation Issues

As a result of the sale of the Franklin Street and Washington Street extension land areas to the City of Santa Clara, the larger apartment complex will be impacted by various continued operational issues which could affect value. As the proposed transaction is voluntary, these other issues are negotiable between the two parties. The impact of various continued operational issues is discussed in the final section of the attached appraisal report.

This letter must remain attached to the Appraisal Report, identified on the footer of each page as 2018CNA108, plus related exhibits, in order for the value opinion set forth to be considered valid.

Certification

We, the undersigned, hereby certify that, to the best of our knowledge and belief: the statements of fact contained in this report are true and correct; the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions; we have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved; we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment; our engagement in this assignment was not contingent upon developing or reporting predetermined results, our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal; the appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan; our analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice, Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute; Neil Johnson has made a personal inspection of the property that is the subject of this report, and Rick Nakasako has not made personal inspections of the property that is the subject; no one provided significant real property appraisal assistance to the persons signing this certification. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. As of the date of this report Rick Nakasako has completed the requirements under the continuing education program of the Appraisal Institute. In accordance with the Competency Provision in the USPAP, we certify that our education, experience and knowledge are sufficient to appraise the type of property being valued in this report. We have not performed any other professional services concerning the property that is the subject of this report in the 36 months prior to accepting this assignment.

We are pleased to have had this opportunity to be of service. Please contact us if there are any questions regarding this appraisal.

Sincerely,
CARNEGHI-NAKASAKO & ASSOCIATES



Rick Nakasako, MAI
Certified General Real Estate Appraiser
State of California No. AG013832



Neil Johnson
Certified General Real Estate Appraiser
State of California No. AG025966

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ADDENDA

Subject Property Photos
Take Area Maps
Qualifications and Licenses of Appraisers

I. REPORT SUMMARY

A. Property Appraised

The subject property appraised consists of the land areas being proposed for acquisition by the City of Santa Clara for the Franklin Street and Washington Street Extensions. The proposed acquisitions impact a larger property addressed at 1050 Benton Street in the City and County of Santa Clara, California. The larger subject property is identified by the Santa Clara County Assessor's office as assessor parcel number 269-22-096.

The larger subject property is improved with an existing apartment complex known as Park Central. This complex contains 173 one and two bedroom units in multiple two and three story podium buildings over partial below grade parking. The improvements date from 1987, were most recently renovated in 2011/2012, and are generally of average to good quality and condition. The underlying site contains 5.259 acres or 229,082 square feet of land area per Assessor records. Comparing the number of units to the site size indicates a development density of 32.9 dwelling units per acre.

The proposal under consideration is for the voluntary sale of two separate land areas for the extension of Franklin Street and Washington Street. The proposed Franklin Street extension area contains 32,330 square feet of land area and extends along the southern portion of the larger property. The proposed Washington Street extension area contains 4,320 square feet of land area and is located in the northeast corner of the larger site. The total proposed acquisition area amounts to 36,650 square feet of land area (approximately 0.84 acres).

B. Property Identifications

The following represents a summary of additional identifications for the larger subject property.

General Plan:	Medium Density Residential
Zoning:	PD (Planned Development)
Zip Code:	95050
Flood Zone:	Zone X – No Insurance Required
Alquist Priolo Earthquake Zone:	No

C. Client, Purpose, Intended Use and Intended User

The client for this Appraisal Report is Mr. Manuel Pineda, P.E., Assistant City Manager with the City of Santa Clara. The purpose of this appraisal is to estimate 1) the current “as is” fee simple market value of each proposed acquisition area and 2) the current “as is” market value of a permanent easement covering each proposed acquisition area. It is our understanding that the intended use/user of this appraisal is for the exclusive use of the City of Santa Clara for assistance in negotiations for acquisition of the subject land areas. ***This report should not be used or relied upon by any other parties for any reason.***

D. Type of Appraisal and Scope of Work

This is an Appraisal Report within a narrative format. The scope of work performed within this Appraisal Report is to use the appropriate approaches to value in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) to arrive at the market value conclusions indicated as the purpose of this appraisal. Specific steps in the appraisal process include the inspection of the subject property and the research and analysis of comparable data to arrive at the value indications as put forth in this report. The sources of information used in this Appraisal Report may or may not have included: appraiser work files; real estate brokers and agents; property owners; CoStar; Loopnet; MLS; local government agencies; and other market participants.

E. Property Rights Appraised

This report is addressing fee simple and easement values.

The fee simple interest is defined 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 Appraisal of Real Estate, 13th Ed., 2008, p.114*)

An easement is defined as “an interest in real property that conveys use, but not ownership, of a portion of an owner’s property.” (*The Dictionary of Real Estate Appraisal, 3rd Ed., 1993, p. 110*).

F. Date of Inspection/Valuation/Report

The subject property has an “as is” date of valuation as of January 24, 2018, the date of inspection.

The date of this Appraisal Report is February 7, 2018.

G. Definition of Market Value (*OCC 12 CFR 34.42 (f)*) & (*OTS 12 CFR 564.2 (f)*)

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interest;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

H. Value Conclusions

This appraisal report is addressing both the fee simple value of the proposed Franklin and Washington Street extension land areas, and the value of a permanent street easement across the land areas. The value conclusion for each scenario is presented below, broken down between the two separate land areas.

Fee Simple Value

Based on the research and analysis, and subject to the assumptions and limiting conditions contained herein report, it is the opinion of the appraisers that the “as is” fee simple market value of the proposed acquisition areas, as of January 24, 2018, is:

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I. Exposure/Marketing Period

Based on our research of comparable transactions and discussions with local real estate brokers as well as considering the current/projected economic climate and real estate market, it is our opinion that the larger subject property will require an exposure period of approximately six months as of the date of valuation. A similar marketing period of six months is also estimated for the larger subject property as of the date of valuation.

J. Extraordinary and General Assumptions and Limiting Conditions

The use of any hypothetical conditions or extraordinary assumptions in this report might have affected the assignment results.

Extraordinary Assumptions

1. A preliminary title report was not available for review. Valuation of the subject property is based on the extraordinary assumption that title of the property is marketable and free and clear of any liens, easements, encumbrances, encroachments, and special assessments, other than those

identified in this report, which may negatively affect the marketability of the subject property. No responsibility is assumed for legal matters.

2. No environmental or soil study was submitted for review. In this assignment, the existence (if any) of potentially hazardous materials used in the construction or maintenance of the improvements or disposed of on the site has not been considered. These materials may include (but are not limited to) the existence of formaldehyde foam insulation, asbestos insulation, lead paint or toxic wastes. The appraiser is not qualified to detect such substances. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors. The client is advised to retain an expert in the field. Valuation of the subject property is based on the extraordinary assumption that no contamination exists in connection with any operation (current or historical) on or near the subject property.
3. Staking of the proposed extension land areas had not been completed as of the date of valuation. The locations of these areas were estimated during inspection based on maps provided for review. Valuation assumes that future on-site staking of the proposed take areas will not differ substantially from the maps provided for review.
4. Easement language for the proposed street easements was not available for review. Valuation is based on the assumption that these easements would be typical, reserving full use of the land area for public (vehicular and pedestrian) use.

General Assumptions and Limiting Conditions

5. It is the client's responsibility to read this report and to inform the appraiser of any errors or omissions of which he/she is aware prior to utilizing this report or making it available to any third party.
6. Plot plans and maps are included to assist the reader in visualizing the property. Information, estimates, and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the appraiser is assumed by the appraiser.
7. All information has been checked where possible and is believed to be correct, but is not guaranteed as such.
8. The appraiser is not required to give testimony or appear in court in connection with this appraisal unless arrangements have been previously made.

9. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with the proper written qualification and only in its entirety, and only for the contracted intended use as stated herein.
10. Neither all nor part of the contents of this report shall be conveyed to the public through advertising, public relations, new sales, or other media without the written consent and approval of the appraiser, particularly as to the valuation conclusions, the identity of the appraisers, or any reference to the Appraisal Institute or the MAI designation.
11. Information regarding any earthquake and flood hazard zones for the subject property was provided by outside sources. Accurately reading flood hazard and earthquake maps, as well as tracking constant changes in the zone designations, is a specialized skill and outside the scope of the services provided in this appraisal assignment. No responsibility is assumed by the appraisers in the misinterpretation of these maps. It is strongly recommended that any lending institution re-verify earthquake and flood hazard locations for any property for which they are providing a mortgage.
12. The Americans with Disabilities Act (“ADA”) became effective January 26, 1992. The appraisers 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 we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

II. AREA & NEIGHBORHOOD DESCRIPTION

A. County of Santa Clara

Santa Clara County is the most populous of the San Francisco Bay Area counties. The County population was 1,938,180 as of January 1, 2017, according to the California Department of Finance (DOF). This represents an increase of approximately 0.8 percent from the year prior reported population. Population growth in Santa Clara County is generally limited by the fully built out nature of the area.

Over the past few years, Santa Clara County has been experiencing strong employment conditions, reflective of the growing local economy. According to statistics published by the State of California Employment Development Department (EDD), the Santa Clara County unemployment rate was 2.6 percent as of November 2017, based on 1,015,900 jobs. This is superior to the one year prior unemployment rate of 3.5 percent, based on 996,000 jobs. Current jobs statistics are essentially reflective of full employment in the subject market area.

Santa Clara County is well served by transportation routes, although many are heavily congested during commute hours. Highway 101 travels in a north/south direction through the middle of the County, continuing north to San Francisco and south to Los Angeles. Interstate 880 extends south from Oakland in the north, through Santa Clara County, where it becomes Highway 17, extending into Santa Cruz County. Interstate 280 crosses through the middle of Santa Clara County in an east/west direction, before turning north towards San Francisco. Interstate 680 extends in a predominantly northerly direction across the eastern portion of the County, extending into Alameda County. Highways 237, 85, and 87 provide further freeway transportation through the County.

Public transportation options in Santa Clara County include an extensive bus network, the Santa Clara County Light Rail system, and the Cal Train commuter rail service. The Light Rail system originally provided public transportation to areas of San Jose, Santa Clara, Sunnyvale, Mountain View, and Milpitas. An extension to the light rail system was subsequently completed, providing additional access to Campbell and Los Gatos. The CalTrain commuter rail service extends from Gilroy in the south, through San Jose, to San Francisco in the north, with multiple stops provided in both Santa Clara and San Mateo Counties. The area is served by San Jose Mineta International Airport. A planned extension of the BART regional rail system, which serves the greater San Francisco Bay Area, into Santa Clara County will further enhance public transit options. Following the recent completion of an extension of the BART system to the southern end of Alameda County, new BART stations in Milpitas and the Berryessa neighborhood of San Jose are expected to open in the near term.

B. City of Santa Clara

The City of Santa Clara is situated in the north-central portion of Santa Clara County. Similar to the County as a whole, the City's population and employment bases have expanded dramatically during recent decades with growth more recently slowing due to the lack of remaining land suitable for residential development. The DOF most recently estimated the City's population at 123,983 as of January 2017. The number of residents increased by approximately 0.3 percent from the year prior total population.

Similar to the County as a whole, the City of Santa Clara has recently seen strong employment conditions, reflective of the strong regional economy. The unemployment rate, as reported by the EDD, was at 2.3 percent in the City of Santa Clara as of November 2017, compared to a rate of 3.2 percent reported one year earlier. Over the same period, the total number of jobs in the City of Santa Clara remained relatively steady, with a total of 68,400 jobs in November 2017 compared to 67,000 jobs reported one year prior.

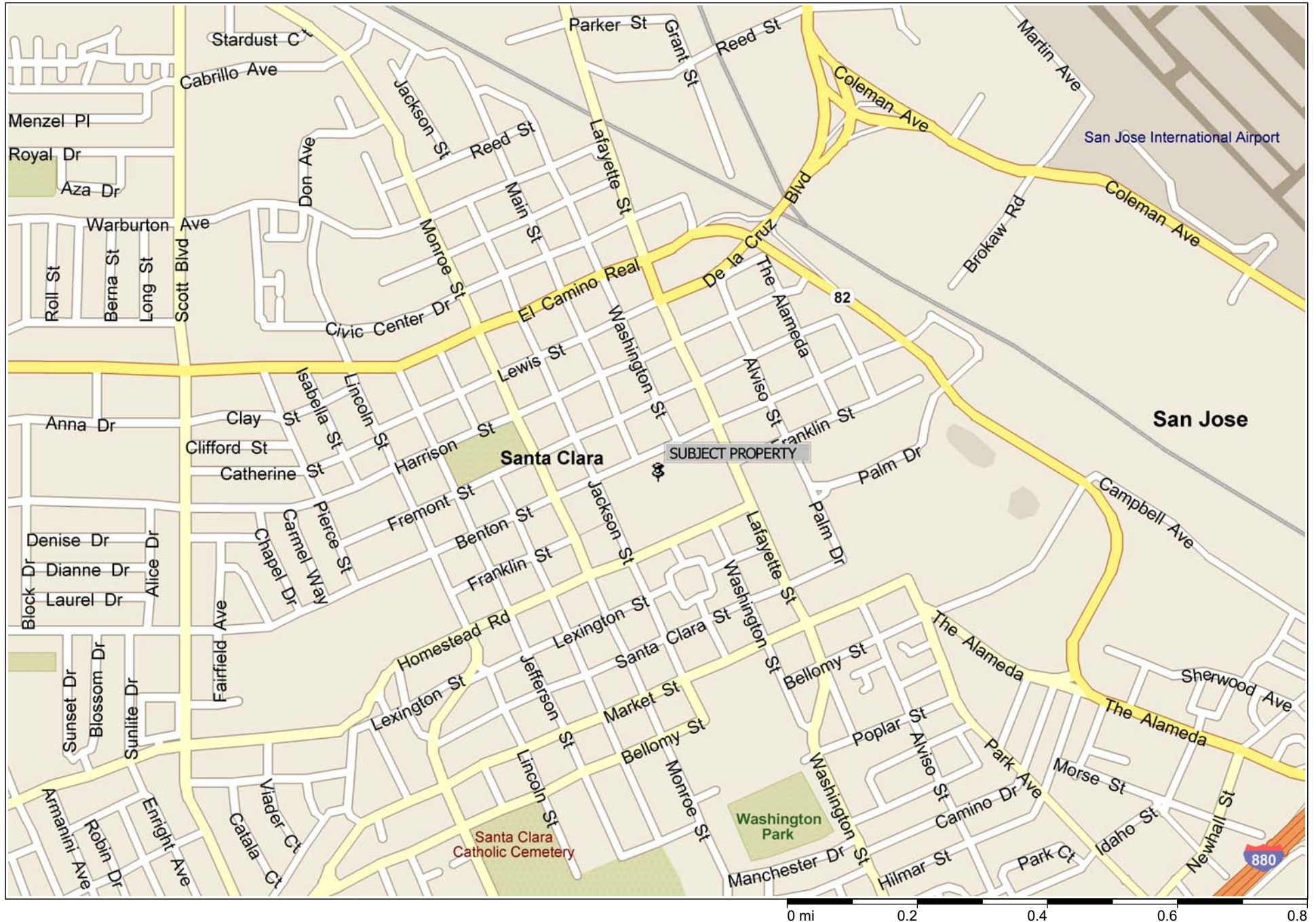
Santa Clara is well served by transportation routes, although many are heavily congested during commute hours. Highway 101 extends in a north/south direction through the middle of Santa Clara while Highway 237 extends along the northern edge of the City. Major surface arterials include Central Expressway, San Tomas Expressway, and El Camino Real. The Santa Clara County Light Rail system extends through the northern portion of the City of Santa Clara, as does the CalTrain commuter rail system. A future BART station is planned in proximity to the existing CalTrain and central bus station to create a transit hub for the city.

C. Neighborhood Description

The subject neighborhood can be defined as the area bounded by El Camino Real to the north and east, Market Street to the south, and Scott Boulevard to the west. This is largely a residentially oriented area with commercial uses on the primary arterials. Residential uses include detached single family homes and multi-family rental and sale projects. More recent residential development in this neighborhood is being proposed at higher densities to take advantage of proximity to public transit options. Commercial uses include a mix of retail and office space. A major use in the neighborhood is the University of Santa Clara campus.

At the core of the subject neighborhood is the area bounded by Benton Street, Monroe Street, Lafayette Street, and Homestead Road which is currently being studied as part of a downtown Santa Clara revitalization project. Themes for this project being studied include making the downtown a local destination, making Franklin Street a pedestrian-focused Main Street, re-establishing the street grid from the "Old Quad", encouraging a mix of uses, particularly along the new Franklin Street, introducing a theater as an iconic building and symbol for

Neighborhood Map



downtown, and establishing a central public space that can be used for music and events. The subject property falls within the bounds of the area being studied, and the proposed partial acquisitions would be part of the revitalization project (extension of Franklin and Washington Streets). A final plan is not indicted to have been approved for the area as of yet.

Uses immediately adjacent to the larger subject property are varied. To the north, across Benton Street, there is a mix of detached single family homes and commercial space. To the west there are one story commercial buildings and a U.S. Post Office branch. To the south there is the Santa Clara County Superior Courthouse and a two story mixed use building. To the east there is a surface parking lot and a one story commercial building. These adjacent uses are reflective of broader development patterns in the neighborhood.

Access and transportation characteristics in the subject neighborhood are considered to be good. Benton Street is a secondary surface arterial serving the immediate neighborhood. Lafayette Street and Monroe Street represent primary north/south arterials in the immediate area. El Camino Real and Homestead Road represent primary east/west arterials in the immediate area. The Santa Clara train and central bus station is located approximately one-half mile east of the subject location along Benton Street, providing for good public transit options. This will also be the future location of the BART extension.

III. MARKET ANALYSIS

A. General Economic Conditions

UCLA Anderson Forecast's final quarterly report for year-end 2017 presents a somewhat mixed outlook, as the United States awaits the outcomes of a number of initiatives and proposals that could affect the economy. For the nation, the near-term outlook is optimistic, anticipating a 3.0 percent growth in the economy, thanks to strong equipment spending, a potential tax cut, and an uptick in consumer spending. However, by the end of the forecast horizon in 2019, real GDP growth could be running at a rate below 1.5 percent as the outlook becomes cloudy.

UCLA Anderson senior economist David Shulman writes: "There is momentum coming from the recent strength in 2017, strong equipment spending, the likelihood of a tax cut, and a consumer that is benefiting from higher asset prices and the prospect of higher wages." He anticipates that unemployment will drop below 4.0 percent and remain there throughout most of the forecast horizon as inflation experiences an uptick. The risks predicted by the current forecast include the enigmatic consequences of the Fed's reducing its balance sheet and the potential failure of the ongoing NAFTA negotiations. Especially hard hit would be the U.S. automobile industry, where parts cross borders several times in the manufacturing of a single automobile. "In our view, should the U.S. leave NAFTA, the growth outlook would deteriorate and the chance of a recession in late 2018 or 2019 would significantly increase," he writes.

UCLA Anderson Forecast director Jerry Nickelsburg notes that the forecast for California differs from the previous one in two ways. First, the new tax bill, which is expected to pass in some form, may dampen the housing market, which will reduce economic growth in the state. Second, the investment incentive — in particular the bringing forward of investment because of expensing — increases the forecasted growth rate for employment and income in 2018, though reduces it slightly by the end of 2019. "The most likely outcome of these two opposite economic forces is for California's unemployment rate to fall to 4.6 percent by the end of the forecast period," Nickelsburg writes. The forecast for 2017, 2018, and 2019 total employment growth is 1.2 percent, 1.5 percent and 1.1 percent, respectively in California. Payrolls will grow at about the same rate over the forecast horizon. Real personal income growth is forecast to be 1.6 percent, 3.1 percent, and 3.6 percent in 2017, 2018, and 2019, respectively. Homebuilding will reach about 121,400 units per year at the end of the forecast.

B. General Commercial Real Estate Market

The commercial brokerage firm Cushman Wakefield's *Bay Area Investment Market Snapshot* for the third quarter of 2017 notes that the San Francisco Bay Area remains near the top of many commercial real estate investors' wish lists, and

this is driving demand for product in the region. The San Francisco Bay Area continued to be one of the nation's premier commercial real estate investment destinations. Silicon Valley, the San Francisco/Peninsula, and the East Bay region were among the top 30 markets in terms of volume, ranking 10th, 12th, and 26th, respectively, according to Real Capital Analytics. The San Francisco Bay Area, as a whole, held the 3rd position nationally, trailing New York City and Los Angeles with one of the strongest regional economies in the United States. Its position as a global gateway market has attracted strong levels of investment, both foreign and domestic.

C. Residential Market Supply and Demand

The State of California Department of Finance (DOF) compiles statistics on total housing units in both the cities and counties of California. Based on DOF statistics, Santa Clara County had a total housing supply of 657,360 units as of January 1, 2016. This represents an increase of 5,353 units over the 652,007 total units recorded in January 2015. Extending further back in time, the DOF estimates the total supply of housing units in Santa Clara County at 631,920, as of January 2010. This indicates that over the six-year period between 2010 and 2016, the housing supply in Santa Clara County increased by a total of 25,440 dwelling units, equivalent to a compounded annual increase of approximately 0.66 percent, or an average of 4,240 units per year.

According to the Association of Bay Area Governments (ABAG) Projections 2013 report, in 2010 Santa Clara County had a total of 604,204 households. The change of the number of households in a region can be a reflection of housing demand for the area (i.e. additional households in an area demand additional housing units). ABAG projects that in 2020, the number of Santa Clara County households will have increased by a compounded annual increase of 1.12 percent, to 675,670, or an average of 7,147 households per year. As such, the demand for housing (i.e. increasing number of households) is projected to increase at a considerably higher pace than the recent pace of increase in the housing supply as indicated by the DOF statistics.

The above statistics paint a picture of supply/demand imbalance in the subject market area. The pace of new development has not been sufficient over the past several years to meet the growing demand from a projected increase in the number of households. This imbalance of supply and demand will put continued upward pressure on rents and pricing in the region.

D. Apartment Market Conditions

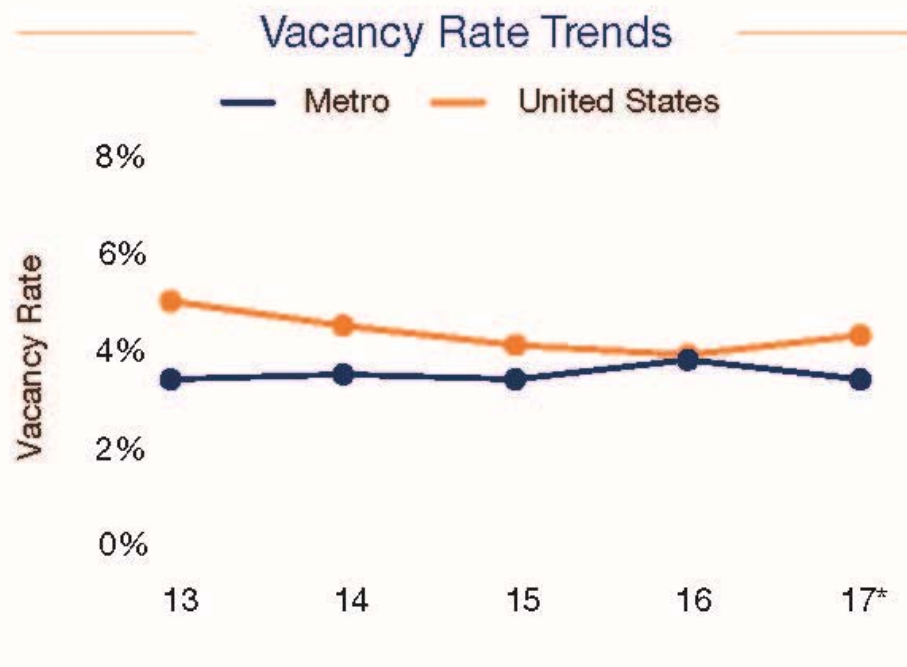
The apartment sector of the real estate market has most recently experienced strong conditions. Vacancy has remained low despite a large increase in inventory, achievable rental rates have increased, and investor demand is strong.

General Market Commentary

The commercial real estate brokerage firm Marcus & Millichap's Fourth Quarter 2017 Multifamily Research Market Report for the San Francisco Bay Area provides commentary on general conditions in the area. Marcus & Millichap indicates that the "robust demand for technology workers and other professional employment has pushed the broad region's employment rate to a multi-decade low, prompting surging demand for the limited housing stock that exists in the marketplace. Due to the high price of single-family homes, a continual flow of renters have kept rental demand elevated. In order to meet this demand, builders have pushed deliveries to the highest point in more than a decade. Although vacancy remains extremely depressed, the peak in deliveries in 2017 has begun to weigh on overall vacancy, particularly in the submarkets receiving the bulk of the injections. As a result, a modest uptick in vacancy is expected, while rent growth continues to reflect extremely tight conditions overall."

Apartment Vacancy Rates

According to Marcus & Millichap statistics, the apartment vacancy rate in Santa Clara County ended the third quarter of 2017 at approximately 3.6 percent. The chart below shows longer term trends in apartment vacancy in Santa Clara County based on Marcus & Millichap statistics.

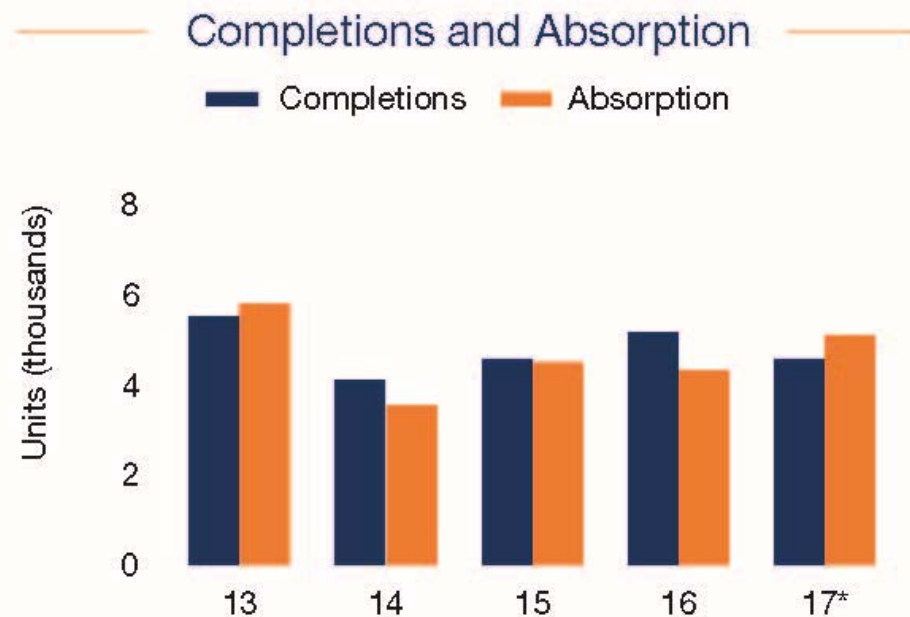


For the Santa Clara County metro area, vacancy is indicated to have hovered near or below 4.0 percent over the past five years, and is consistently below the national apartment vacancy rate. For the City of Santa Clara sub-market, apartment vacancy

finished the third quarter of 2017 at 5.1 percent according to Marcus & Millichap statistics. This reflects a 120 basis point increase over the year prior figure, though this increase in vacancy is considered to be reflective of the substantial increase in new inventory rather than market weakness.

Apartment New Construction

Construction of new apartment properties in the subject market area has continued at a rapid pace over the past few years as developers are attempting to meet demand for housing in the area. According to Marcus & Millichap, roughly 930 apartments will come online in the fourth quarter of 2017 in the Santa Clara County area, pushing the total new construction for 2017 to nearly 3,950 rentals. During 2016 builders in the metro delivered approximately 5,900 new apartments. This represents the highest volume of new units completed over the past 20 years. This followed construction of 4,100 new apartment units in 2014 and 3,800 new apartment units in 2015. The chart below displays the trend in new apartment construction in the Santa Clara County metro area per Marcus & Millichap.

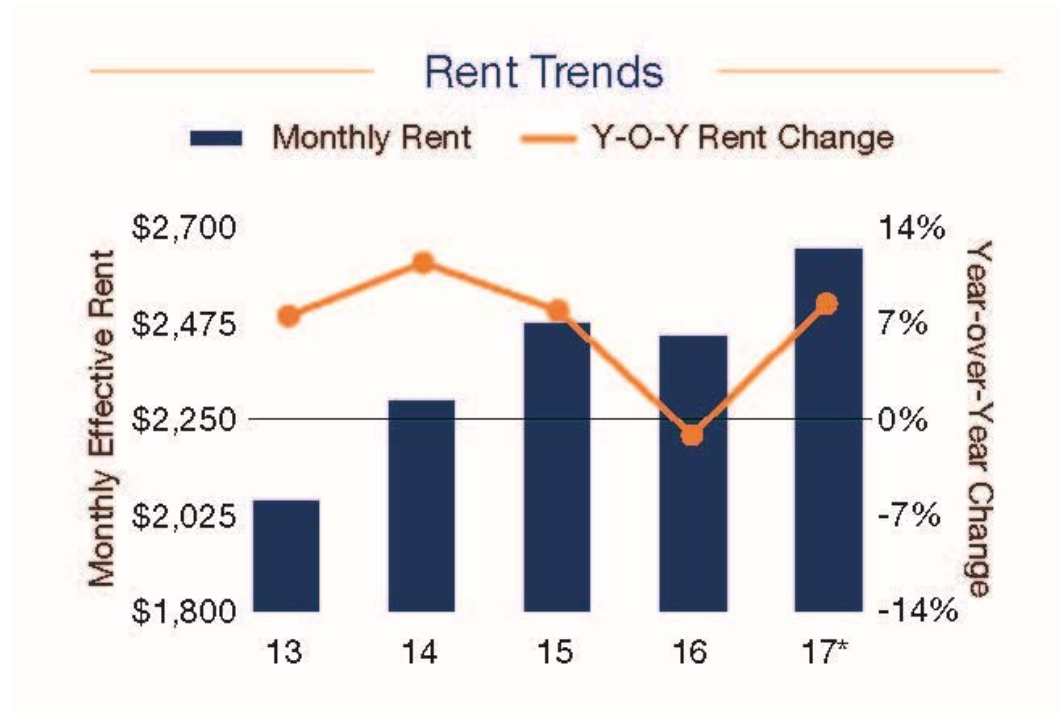


Also reflected on this chart is the relationship between new construction and absorption. In general, the pace of absorption has managed to keep up with the pace of new construction in the area.

Apartment Rental Rates

According to Marcus & Millichap statistics, the average effective rent surged 5.3 percent as of the third quarter 2017 from the prior year to \$2,619 per month in the

Santa Clara County metro area as tight conditions prompted sharp acceleration over the past year. The chart below outlines changes in rental rates in the subject market area over the past five years per Marcus & Millichap.



As indicated, monthly rental rates in the Santa Clara County metro area have been increasing over the past five years per Marcus & Millichap statistics. The pace of increase slowed in 2016, but rebounded in 2017. For the City of Santa Clara sub-market, Marcus & Millichap statistics indicate an average effective rent of \$2,798 per month as of the third quarter of 2017, reflecting an increase of approximately 6.1 percent from the year prior.

Investment Market

According to Marcus & Millichap, over the past year, transaction volume in the Santa Clara County metro area slipped nearly 25 percent, while the average price per unit rose steadily into the mid-\$340,000 per door range as investors remained focused on executing buy and hold strategies. This represents a continuation of the trend of pricing increases evident over the past five years. Overall capitalization rates remain in the low-4 percent range, reflecting the incredibly tight conditions currently in place in the subject Santa Clara County metro area. Marcus & Millichap project that well-located properties will remain extremely desirable, although a lack of availability is prompting buyers to venture into non-core neighborhoods for higher returns.

E. Summary

The subject area apartment market is currently strong. Following multiple years of rapid rental rate increases, achievable rents stabilized in 2016 before continuing an upward trajectory in 2017. The substantial amount of new construction has helped to alleviate somewhat the overwhelming demand for rental units in the subject market area. The subject market area continues to have strong appeal to investors. Projections are for continued strong demand with on-going increases in supply. The larger subject property is considered to be well positioned in the market to take advantage of the strong conditions.

IV. PROPERTY IDENTIFICATION AND DESCRIPTION

A. Site Description – Larger Property

The larger subject property is located at 1050 Benton Street in the City and County of Santa Clara County, California. It is identified by the Santa Clara County Assessor's office as assessor parcel number (APN) 269-22-096. An Assessor's Map identifying the larger subject site, as well as surrounding streets and parcels, is provided on the following page. An aerial photo of the larger subject site is presented below.

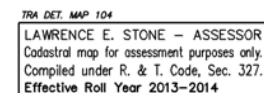


The larger subject site contains approximately 5.259 acres (229,082 square feet) of land area per Assessor records, and has level topography. The parcel shape is predominantly rectangular with extensive frontage on both Benton Street and some additional frontage on Jackson Street. The street frontage is fully improved with curbs, gutters, and sidewalks. The subject site is considered to be adequately configured for typical development, with average access and visibility.

B. Subject Land Areas

Two portions of the larger subject site are being proposed for voluntary sale to the City of Santa Clara for use in the extensions of Franklin Street and Washington Street.

The proposed Franklin Street acquisition contains 32,330 square feet of land area. It extends across the southerly portion of the larger subject site in an east/west direction from the Jackson Street frontage to the eastern property line. The proposal



is to construct a new two lane fully improved public arterial across this land area. This area currently is improved with landscaping and asphalt paving serving as a drive aisle and parking for the apartment project on the larger site. There are a total of 34 uncovered/unreserved parking spaces in this area, as well as carport structures providing 26 covered and reserved spaces. Also, there are two garbage dumpster enclosures in this area which would need to be relocated to elsewhere on the remainder subject property. The installation of public street improvements through this area would result in increased proximity of some existing apartment units to the new public arterial.

The proposed Washington Street acquisition involves a 4,320 square foot land area at the northeast corner of the larger site. This land area is improved with landscaping and an asphalt paved parking area which would be lost to the larger apartment complex. It appears that access to a total of 20 parking spaces will be lost, though this number could be reduced by reconfiguring the remainder property parking lot.

C. Utilities

All utilities appear to be available to the subject site, including natural gas, electricity, sewer, water and telephone. It appears that each is available in sufficient quantity with an adequate service capacity for any use permitted on the property.

D. Ownership History

According to public records, fee title to the subject property is currently vested in Prometheus Partners. There are indicated to have been no transfers of ownership over the past three years and the subject property is not known to currently be on the market for sale.

E. Preliminary Title Report

A preliminary title report on the subject property was not available to the appraisers for review. Valuation of the subject property is based on the extraordinary assumption that title of the property is marketable and free and clear of any liens, easements, encumbrances, encroachments, and special assessments, other than those identified in this report, which may negatively affect the marketability of the subject property. No responsibility is assumed for legal matters.

F. General Plan/Zoning

The subject property is under the jurisdiction of the City of Santa Clara for planning purposes. The subject has a General Plan designation of Medium Density Residential which calls for development of residential units at a density of 20 to 36 dwelling units per acre. The zoning designation is PD (Planned Development)

which requires approval of a specific development plan in conformance with the General Plan designation. The existing improvements on the site appear to conform to the current legal designations.

G. Assessed Valuation and Real Estate Taxes

For the 2017/2018 tax year, the subject property has an assessed land value of \$8,582,894, an assessed improved value of \$17,552,008, and a personal property value of \$361,025. The total assessed value is indicated at \$26,495,927, and taxes due amount to \$312,817.25. This is based on a current year tax rate of 1.16866 percent of assessed value plus special assessments. There are indicated to be no delinquent taxes pending against the subject property. Under California law, real property tax assessments can only be increased at a maximum of two percent per year. Reassessment is permitted only upon change of ownership or completion of new improvements and is typically based on the estimated market value multiplied by a tax rate of one percent plus any indirect or bond assessments.

H. Environmental Observations

No environmental or soil study was submitted for review. Inspection of the subject property revealed no obvious indications of environmental contamination, though the appraisers are not qualified to detect such issues. In this assignment, the existence (if any) of potentially hazardous materials used in the construction or maintenance of the improvements or disposed of on the site has not been considered. These materials may include (but are not limited to) the existence of formaldehyde foam insulation, asbestos insulation, lead paint or toxic wastes. The appraiser is not qualified to detect such substances. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors. The client is advised to retain an expert in the field. Valuation of the subject property is based on the extraordinary assumption that no contamination exists in connection with any operation (current or historical) on or near the subject property.

I. Flood Hazard and Earthquake Information

According to Flood Insurance Rate Map, Community Panel Number 060350-06085C0227H, dated May 18, 2009, the subject property is situated in Flood Zone X. Flood hazard insurance is not required within this zone. Also, the subject site is not located within an Alquist-Priolo earthquake special studies zone.

J. Existing Improvements – Larger Property

The larger subject site is improved with a 173 unit apartment project known as Park Central. The following description is based on inspection of the subject property and additional details provided by a representative of the property ownership.

Structurally, the subject is considered to be typical of area apartment properties. The building improvements consist of multiple two and three story podium structures over partial below grade parking. The structural improvements consist of exterior wood framed walls, concrete foundations, and composition built up roofs. The exterior walls are covered with painted wood siding, and there is adequate fenestration on most building elevations serving the individual apartments. Access to the individual units is via doors directly from the building exterior, with the second and third floors accessed via multiple stairwells. There are no elevators and the buildings are sprinklered.

The subject contains a total of 173 apartment units. There are 84 units with one bedroom and one bathroom containing 635 to 662 square feet of living area. There are 89 units with two bedrooms and two bathrooms containing 935 to 960 square feet of living area. Common area improvements consist of a rental office, a resident's lounge, and a gym. The building interiors are generally typical of similar properties in the area. Improvements include carpet and ceramic tile flooring, and painted drywall partitions. The kitchens feature granite counters, an electric range with microwave/hood, refrigerator, sink with garbage disposal, and dishwasher. The bathrooms have single vanities, toilets, and a shower over tub combination. All of the units have in-unit clothes washers and dryers, as well as a private patio or balcony area. HVAC service is provided to the apartments by wall mounted units.

The partially below grade parking area contains a total of 147 spaces and the carport parking area contains 26 spaces for a total of one covered space per apartment. Open unreserved surface parking is available for a reported additional 173 vehicles, resulting in a total parking ratio of 2.0 spaces per apartment unit. The perimeter of the property is attractively landscaped, with a pool and spa area located near the center of the complex. Comparing the number of units to the site size indicates a density of approximately 32.9 dwelling units per acre.

The subject improvements date from 1987 and were fully renovated in 2011/2012. Overall, quality and condition of the subject property are considered to be average to good. The actual age of the subject improvements is indicated at approximately 31 years. Based on adequate maintenance and renovation work over the years, the effective age is estimated at 10 years. Based on Marshall Valuation, the estimated economic life of properties similar to the subject is 40 years. The remaining economic life is indicated at 30 years.

V. HIGHEST AND BEST USE AND VALUATION METHODOLOGY

A. Highest and Best Use

Highest and best use is defined as “the reasonably probable use of property that results in the highest value” (*The Appraisal of Real Estate, 14th Edition, 2013, p. 332*). Implied in the definition of highest and best use is that the determination of highest and best use takes into account the contribution of a specific use to the community, and community development goals, as well as the benefits of that use to individual property owners. The following sections discuss/conclude the highest and best use of the subject property, as if vacant, and as improved.

1. *As If Vacant*

For the highest and best use of land as though vacant, the use must meet the following four criteria: the highest and best use must be 1) physically possible, 2) legally permissible, 3) financially feasible, and 4) maximally productive. The following paragraphs discuss each of the four criteria and conclude the highest and best use of the subject site, as if vacant.

Physically Possible

The larger subject site contains approximately 5.259 acres (229,082 square feet) of land area per Assessor records, and has level topography. The parcel shape is predominantly rectangular with extensive fully improved frontage on both Benton Street and Jackson Street. The subject site is considered to be adequately configured for typical development, with average access and visibility. The subject site’s physical characteristics are not considered to be restrictive in terms of development potential.

Legally Permissible

The subject property is under the jurisdiction of the City of Santa Clara for planning purposes. The subject has a General Plan designation of Medium Density Residential which calls for development of residential units at a density of 20 to 36 dwelling units per acre. The zoning designation is PD (Planned Development) which requires approval of a specific development plan in conformance with the General Plan designation. A residential development would be legally most appropriate for the subject site.

Financially Feasible/Maximally Productive

Physically and legally, the subject site appears to be best suited for development of a multi-family residential project. As has been indicated in the market conditions chapter of this report, demand for residential units is

currently strong with rapid price and rent escalation indicated over the past few years. Extensive new residential projects are currently being developed in the subject market area. Market and economic conditions support the economic viability of a residential project.

Conclusion – As If Vacant

As if vacant, the Highest and Best Use of the subject site is considered to be development of a multi-family residential project.

2. *As Improved*

In estimating the highest and best use of the subject property, as improved, consideration is given to the zoning of the site, quality, design, and functional utility of the existing improvements, as well as uses in the surrounding area.

The site is improved with a 173 unit apartment project. Construction dates from 1987, and the property has been well maintained and renovated over the years. Overall, the improvements are considered to be generally of average to good quality and condition, and are physically functional for the intended use. The existing building improvements also represent a legally appropriate use of the site. Market and economic conditions are currently strong, with increasing rental rates and declining vacancy over the past few years. The subject is currently at stabilized occupancy which supports the financial feasibility of continued use of the existing improvements.

Therefore, based on the subject's physical, locational, and economic characteristics, its highest and best use, as improved, is considered to be the existing improvements.

B. Valuation Methodology

This Appraisal Report is addressing the value of two portions of the existing larger property. This appraisal report uses the Direct Sales Comparison Approach to value in analyzing the subject land areas proposed for acquisition as this approach would most typically be used by market participants. The Direct Sales Comparison Approach is based on the principle of substitution, i.e., the value of a property is governed by the prices generally obtained for similar properties. In analyzing the market data, it is beneficial that the sales prices be reduced to common denominators to relate the degree of comparability to the property being appraised.

VI. VALUATION ANALYSIS

This chapter will consider the value of each acquisition area using a Direct Sales Comparison Approach analysis. A discussion of the impact of the sale of the proposed Franklin and Washington Street extension land areas on the larger subject apartment complex will then be presented.

A. Comparable Land Sale Analysis

The comparables considered to give the best indication of market value for the larger subject property (land only) are outlined in the table on the following page, keyed to the following map, and are further described in the paragraphs below.

Comparable Land Sale 1 is located at 574 Escuela Avenue in the City of Mountain View. This property consists of 0.555 acres or 24,176 square feet of land area. It is an interior parcel with a rectangular shape and level topography. The zoning and General Plan designations for this property as indicated by the City of Mountain View would allow for development of between 14 and 16 townhouses, though no plans have been proposed for the site. At a total of 15 dwelling units, a density of 27.0 units per acre would be indicated for this property. In November 2017, escrow closed on this property at a price of \$4,700,000, cash to the seller. Comparing this price to the potential for 15 dwelling units indicates a price of approximately \$313,333 per dwelling unit. A price of approximately \$194.41 per square foot of land area is also indicated for this transaction.

Comparable Land Sale 2 is located at 917 Warburton Avenue in the City of Santa Clara. This property consists of 0.643 acres or 28,004 square feet of land area. It is an interior parcel with a trapezoidal shape and level topography. This property had been approved for development of six detached single family homes on small lots prior to close of escrow. This indicates a development density of approximately 9.3 dwelling units per acre of land area. In July 2017 escrow closed on this property at a price of \$2,650,000, cash to the seller. Comparing the sale price to the number of new homes indicates a price of approximately \$441,667 per dwelling unit. A price of approximately \$94.63 per square foot of land area is indicated.

Comparable Land Sale 3 is located at 1480 Main Street in the City of Santa Clara. This 0.341 acre or 14,847 square foot site has a flag shape, level topography at street grade, and is fully improved with all off-sites. The site is proposed for the development of 12 residential units and 1,000 square feet of retail, reflecting a residential density of approximately 35.2 dwelling units per acre of land area. In July 2017, this property sold for a reported price of \$1,929,000, equivalent to approximately \$129.93 per square foot of land area, or approximately \$160,750 per dwelling unit.

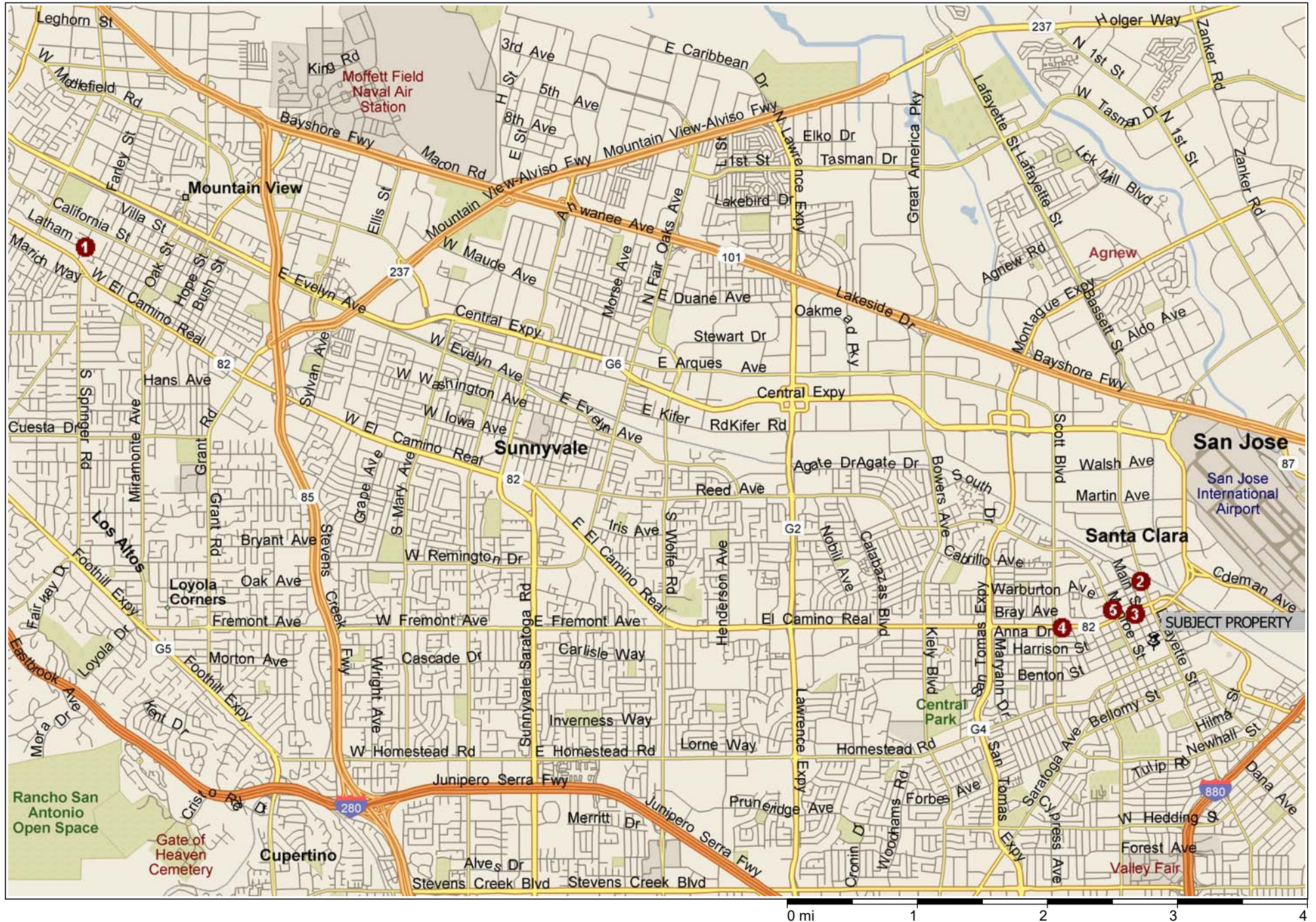
Table 1

Comparable Land Sales
Appraisal of Park Central Apartments
1050 Benton Street
Santa Clara, California

No.	Location	COE Date	Sale Price	Land Area (SF/Ac)	Price/SF	Allowed/Proposed Development/Density	Price Per Aprvd/Allow Dwelling Unit	Grantor/Grantee Document #
1	574 Escuela Avenue Mountain View APN: 154-21-013	11/17	\$4,700,000	0.555 24,176	\$194.41	15 27.0 du/ac	\$313,333	Escuela Terrace, LLC Denardi Group #23807322
2	917 Warburton Avenue Santa Clara APN: 224-27-049	7/17	\$2,650,000	0.643 28,004	\$94.63	6 9.3 du/ac	\$441,667	IRIS2, LLC Warburton, LLC #23765143
3	1480 Main Street Santa Clara APN: 269-05-107	7/17	\$1,929,000	0.341 14,847	\$129.93	12 35.2 du/ac	\$160,750	Shahmirza Trust Camino Main Place, LLC #23708529
4	1890 El Camino Real Santa Clara APN: 269-01-081, 082	5/17	\$10,000,000	1.510 65,776	\$152.03	56 37.1 du/ac	\$178,571	Gangi Corp. legend Santa Clara, LLC #23645335
5	1627 Monroe Street Santa Clara APN: 224-26-062	4/17	\$1,310,000	0.251 10,950	\$119.63	3 11.9 du/ac	\$436,667	1627 Monroe, LLC A1 Developer, LLC #23635578
	Subject Property 1050 Benton Street Santa Clara APN: 269-22-096			5.259 229,082		173 32.9 du/ac		

Source: Carneghi-Nakasako & Associates
February 2018 2018CNA108

Comparable Land Sales



Comparable Land Sale 4 is located at 1890 El Camino Real in the City of Santa Clara. This is a 1.510 acre or 65,776 square foot property which has a trapezoidal shape and is level at street grade. The location is at the corner with Pierce Street. The existing use consists of a used car lot and a tire installation shop, though the property is proposed for redevelopment with 56 residential condominium units plus a small retail component. This indicates a residential density of approximately 37.1 dwelling units per acre of land area. In May 2017, this property sold for a reported price of \$10,000,000, equivalent to approximately \$152.03 per square foot of land area, or approximately \$178,571 per dwelling unit.

Comparable Land Sale 5 is located at 1627 Monroe Street in the City of Santa Clara. This property consists of 0.251 acres or 10,950 square feet of land area which is rectangular in shape and level at street grade. This vacant interior parcel is located between Civic Center Drive and Reeve Street. It had Tentative Map approval at the time of sale for development with three detached single family homes, reflecting a development density of 11.9 dwelling units per acre. In April 2017, this property transacted for a sale price of \$1,310,000, equivalent to unit values of approximately \$119.63 per square foot of land area, and approximately \$436,667 per unit.

Comparable Land Sales Analysis

The comparable sales indicate unadjusted price ranges of \$160,750 to \$441,667 per dwelling unit and \$94.63 to \$194.41 per square foot of land area. Adjustments are now applied to the comparable transactions to reflect comparative differences with the subject property. A comparable sales adjustment grid is presented on the following page outlining the adjustments.

Conditions of Sale / Financing

Conditions of sale represent motivations involved in purchase negotiations or decisions which may have affected the purchase price. The selected comparable sales are considered to have transacted under typical negotiations, and no adjustments are applied. All of the selected comparable sales transacted on an all cash or cash-equivalent basis. No adjustments to the comparable sales are deemed warranted for financing.

Date of Sale / Market Conditions

The comparable sales date from 2017 and are considered to be reflective of current market conditions. No adjustments are applied to the comparable sales.

Location

Comparable 1 is considered to have a superior location in Mountain View. A negative adjustment is applied to Comparable 1 for location. The remaining

Table 2

Comparable Land Sales Adjustments
Appraisal of Park Central Apartments
1050 Benton Street
Santa Clara, California

	<u>Comparable 1</u> 574 Escuela Avenue Mountain View APN: 154-21-013		<u>Comparable 2</u> 917 Warburton Avenue Santa Clara APN: 224-27-049		<u>Comparable 3</u> 1480 Main Street Santa Clara APN: 269-05-107		<u>Comparable 4</u> 1890 El Camino Real Santa Clara APN: 269-01-081, 082		<u>Comparable 5</u> 1627 Monroe Street Santa Clara APN: 224-26-062	
Address:										
Sale Date:	11/17		7/17		7/17		5/17		4/17	
Sale Price:	\$4,700,000		\$2,650,000		\$1,929,000		\$10,000,000		\$1,310,000	
Land Area (SF)/#Dwelling Units	24,176	15	28,004	6	14,847	12	65,776	56	10,950	3
Unadjusted Price SF/DU:	\$194.41	\$313,333	\$94.63	\$441,667	\$129.93	\$160,750	\$152.03	\$178,571	\$119.63	\$436,667
Conditions of Sale:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Financing:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Adjusted Sale Price:	\$4,700,000		\$2,650,000		\$1,929,000		\$10,000,000		\$1,310,000	
Adjusted Price SF/DU:	\$194.41	\$313,333	\$94.63	\$441,667	\$129.93	\$160,750	\$152.03	\$178,571	\$119.63	\$436,667
Date of Sale/Listing	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Price Adj for Mkt Cond SF/DU:	\$194.41	\$313,333	\$94.63	\$441,667	\$129.93	\$160,750	\$152.03	\$178,571	\$119.63	\$436,667
Location	-20.00%	-20.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Size	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-5.00%	-5.00%	-10.00%	-10.00%
Shape/Utility	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Density	0.00%	0.00%	50.00%	-50.00%	0.00%	0.00%	0.00%	0.00%	50.00%	-50.00%
Total Adjusted% SF/DU:	-30.00%	-30.00%	40.00%	-60.00%	-10.00%	-10.00%	-5.00%	-5.00%	40.00%	-60.00%
Adjusted Value SF/DU	\$136.09	\$219,333	\$132.48	\$176,667	\$116.93	\$144,675	\$144.43	\$169,643	\$167.49	\$174,667

Source: Carneghi-Nakasako & Associates
February 2018 2018CNA108

comparable sales are located in the City of Santa Clara, and no further adjustments are applied for location.

Site Size

Typically, a larger site will sell for less on a per square foot of land area basis due to economies of scale. All of the comparable properties are smaller sites compared with the subject. Negative adjustments are applied to all of the comparable sales to reflect their smaller site sizes.

Configuration

The subject property and all of the comparable properties vary in terms of site configuration, but all are considered to be adequately configured for typical development and use in the area. No adjustments to the comparable sales are considered to be warranted for this factor.

Density

The subject property is developed at a density of 32.9 dwelling units per acre. A site with a higher density development potential will typically sell for more per square foot of land area and less per dwelling unit. Comparables 1, 3, and 4 have density indications considered generally similar to the subject, and no adjustments are applied. Comparables 2 and 5 have substantially lower density indications, warranting positive adjustments per square foot of land area and negative adjustments per dwelling unit in comparison with the subject property.

Land Value Conclusion

Subsequent to adjustment, the comparable land sales indicate a value range of approximately \$115 to \$165 per square foot of land area. Overall, a value of \$130 per square foot of land area is concluded for the subject property. Applying this value conclusion to the larger subject property site size results in a value of \$29,780,000 ($\$130/\text{sf} \times 229,082 \text{ sf}$, rounded). Dividing this amount by the 173 dwelling units at the subject property indicates a land value of approximately \$172,000 per dwelling unit (rounded). This value per dwelling unit indication falls within the adjusted range indicated by the comparable data (approximately \$150,000 to \$220,000 per dwelling unit), providing further support for the concluded value on a per square foot of land area basis.

B. Valuation of Proposed Acquisition Areas

The fee simple land value for the larger subject property was concluded at \$130 per square foot of land area. However, this does not take into consideration the fact that the land areas proposed for sale to the City of Santa Clara are encumbered by

existing easements. The value of the land areas being analyzed is considered to be lower than the fee simple “clean” value due to these existing easements. A value approximately 20 to 25 percent lower, concluded at \$100 per square foot of land area, would be warranted for use in this analysis. Each proposed acquisition area will be analyzed as a fee simple acquisition and as a permanent street easement.

Franklin Street

Fee Take

The proposed acquisition for the Franklin Street extension amounts to 32,300 square feet of land area extending along the southern subject property line. Applying the concluded fee simple land value to this land area results in the following value:

$$\text{\$100/square foot land area} \times 32,300 \text{ sq.ft.} = \text{\$3,230,000}$$

Permanent Easement

Under the proposed option of a permanent easement, the same land area would be impacted by a street easement allowing for full public use. Fee title to the land area would remain with the current owner, but full use of the area would be for the public. However, for determining development potential, the land area covered by the street easement would be included in the subject site area. This indicates that the larger subject property still receives a substantial benefit from the land area despite not being able to use this land area.

The value of a permanent street easement is estimated at 50 percent of the concluded fee simple land value. The value of the permanent street easement is calculated as follows:

$$\text{\$100/sq.ft. land area} \times 50\% \times 32,300 \text{ sq.ft.} = \text{\$1,615,000}$$

Washington Street

Fee Take

The proposed take for the Washington Street extension amounts to 4,320 square feet of land area located at the northeast corner of the larger property. Applying the concluded fee simple land value to this take area results in the following value:

$$\text{\$100/square foot land area} \times 4,320 \text{ sq.ft.} = \text{\$432,000}$$

Permanent Easement

As discussed above, the value of a permanent street easement is estimated at 50 percent of the previously concluded fee simple value. Applying the concluded fee simple land value at 50 percent to this take area results in the following value:

$$\text{\$100/sq.ft. land area} \times 50\% \times 4,320 \text{ sq.ft.} = \text{\$216,000}$$

Summary

The value of the fee simple interest in the Franklin Street extension land area was estimated at \$3,230,000 and the value of the fee simple interest in the Washington Street extension land area was estimated at \$432,000. The total value of the fee simple interest in the Franklin and Washington Street extension areas is concluded at \$3,660,000 (rounded).

The value of the street easement for the Franklin Street extension land area was estimated at \$1,615,000 and the value of the street easement for the Washington Street extension land area was estimated at \$216,000. The total value of the fee simple interest in the Franklin and Washington Street extension areas is concluded at \$1,830,000 (rounded).

C. Impacts on Larger Property

This section will discuss the impact of the sale of the proposed Franklin Street and Washington Street extension areas on the remainder larger subject apartment complex. As this is a voluntary transaction, all of these issues represent negotiable points between the two parties.

Improvements in Acquisition Areas

The land area being proposed for sale to the City of Santa Clara is improved with asphalt paved parking areas, landscaping, carport structures, and garbage dumpster enclosures. The sale of land with existing improvements for redevelopment purposes would typically not include any value for the existing improvements in the sale price as they would be considered at the end of their economic life. In this case, the improvements represent functional parts of the existing apartment complex on the larger site and some value could be assigned to them. A value of \$5.00 per square foot of land area could be warranted for the depreciated value of the improvements in the acquisition areas. This would result in a total of \$183,000 (Rounded - 36,630 square feet x \$5.00/square foot) as the estimated depreciated value of the improvements in the acquisition areas.

Relocation / Reconfiguration of Utility Infrastructure

There is reported to be existing utility infrastructure located within the proposed Franklin Street acquisition area. It is beyond the scope of the appraisers' expertise to estimate a cost for relocation and/or reconfiguration of existing utility infrastructure improvements. If this cost is to be incurred by the City of Santa Clara as part of the street construction project, it would represent a deduction from the above indicated land value conclusion.

General Loss of Parking

As a result of the partial acquisition, the subject property will lose some existing parking. Currently, the subject project has parking available at a reported rate of approximately 2.0 spaces per apartment unit (346 spaces). The Franklin Street acquisition will result in the loss of an estimated 60 parking spaces. The Washington Street acquisition will result in the loss of an estimated 20 parking spaces. The required relocation of two garbage dumpster enclosures to elsewhere on the property is estimated to result in a loss of four additional parking spaces. The total parking loss is estimated at 84 spaces, leaving 262 spaces or approximately 1.5 spaces per apartment.

A research study of apartment parking in the Santa Clara County area was completed by San Jose State University in November 2010. This study looked at the parking utilization rates at 12 housing developments near (within one-half mile) VTA light rail and CalTrain stations. The subject property is located approximately one-half mile from the Santa Clara CalTrain station and central bus terminal (and future location of the Santa Clara BART station), situated directly east along Benton Street. The conclusion of this study was that on average approximately 1.3 parking spaces per dwelling unit are needed for typical resident utilization (range of 0.84 to 1.54 spaces per apartment for the complexes studied).

Based on this study, the subject property will continue to have sufficient parking after the Franklin and Washington Street land areas are sold. The loss of parking by itself is not considered to impact the value of the larger project. Still, the proposed mitigation measure of providing the subject property with parking in the adjacent City lot will be of benefit to the subject property.

Loss of Carport Parking

The parking loss includes the carport structures which provide covered parking for 26 of the subject units. The loss of these structures will mean that the complex can no longer provide one covered parking space for each apartment which will be inferior. The damage caused by this is estimated by calculating the mitigating cost of constructing new carport structures elsewhere on the property (within the existing open parking areas). Based on Marshall Valuation (Section 12, Page 35)

an average quality carport structure can have direct costs of approximately \$30 per square foot of area covered. Including soft costs, an estimate of \$40 per square foot of area covered is concluded to reconstruct the carport improvements elsewhere on the site. The carport area contains 26 parking spaces and is estimated to cover approximately 3,900 square feet (approximately 150 square feet per parking space). The resulting cost to reconstruct the carport structures elsewhere on the site amounts to \$156,000 (3,900 square feet x \$40 per square foot). This amount is considered to be the damage caused by the loss of the carport structures.

Units Facing Public Arterial

Generally, a residential unit facing a public arterial would be considered inferior to a unit not facing a public arterial. This reflects the increase in traffic noise/fumes as well as less privacy/security. The construction of the new Franklin Street along the southern edge of the remainder subject property will result in such a condition. There are 28 one bedroom apartment units which will either directly or sideways face the new Franklin Street. The new configuration is considered to result in lower achievable rental rates for these units.

A paper published in the Journal of Sustainable Real Estate (Volume 7, No 1, August 5, 2015) addressed the issue of the impact on prices of residential properties near higher traffic roadways. Multiple studies were reviewed in this paper which predominantly indicated that residential prices decline in a range of approximately 4.0 percent to 11.0 percent due to proximity to a higher traffic arterial. This would support lower achievable rents for the subject units which will face the newly extended Franklin Street in the after take condition.

The subject has some units which front directly onto Benton Street. Based on available rental rate data from the property owner, these units are indicated to generate lower rents compared with similar units elsewhere in the complex. The one bedroom units facing Benton Street are indicated to have a lower average contract rent by approximately 4.0 percent compared with other one bedroom units in the complex.

As a result of the sale of the Franklin Street extension land area, some of the subject apartment units will likely achieve lower rental rates. It is estimated that the 28 one bedroom units impacted by the Franklin Street extension will achieve rent approximately 5.0 percent lower than the current condition. Using an average rent estimate of \$2,500 for the one bedroom units, the rent loss is estimated at \$125 per unit per month. For 28 units, this amounts to an annual potential rent loss of \$42,000 (\$125/month x 28 units x 12 months). In the current market, an appropriate overall capitalization rate for the subject apartment complex is estimated at 4.0 percent. Applying this rate to the estimated income loss results in a value of \$1,050,000. This represents an estimate of the potential loss in value for the larger apartment complex as a result of the sale of the Fremont Street extension land area.

Summary

This section discussed valuation issues impacting the larger apartment complex as a result of the sale of the Franklin Street and Washington Street extension areas to the City of Santa Clara. As the proposed transaction is voluntary, all of these issues and the associated value estimates are negotiable between the two parties involved as to which side incurs the cost and/or value loss. Potential issues impacting the larger subject apartment complex as a result of the sale of the Franklin and Washington Street extension areas are summarized as follows:

Improvements in Acquisition Areas:	\$183,000
Reconfiguration/Relocation of Utilities:	Cost Undetermined
General Loss of Parking:	No Impact / Mitigated
Loss of Carport Parking:	\$156,000
Units Facing Public Arterial:	\$1,050,000

ADDENDA

SUBJECT PROPERTY PHOTOS



BUILDING EXTERIOR



BUILDING EXTERIOR

SUBJECT PROPERTY PHOTOS



BUILDING EXTERIOR



KITCHEN

SUBJECT PROPERTY PHOTOS



KITCHEN



LAUNDRY CLOSET

SUBJECT PROPERTY PHOTOS



LIVING ROOM



LIVING ROOM

SUBJECT PROPERTY PHOTOS



BATHROOM



BATHROOM

SUBJECT PROPERTY PHOTOS



BEDROOM

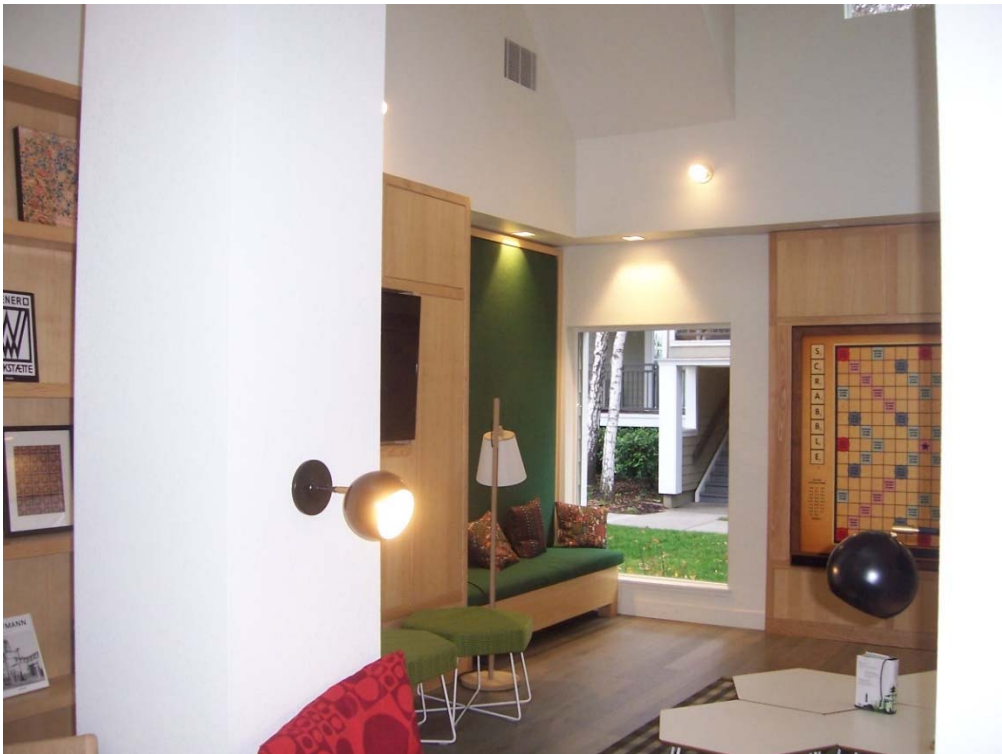


FITNESS CENTER

SUBJECT PROPERTY PHOTOS



GARAGE PARKING



RESIDENT LOUNGE

SUBJECT PROPERTY PHOTOS



POOL



FRANKLIN STREET TAKE AREA

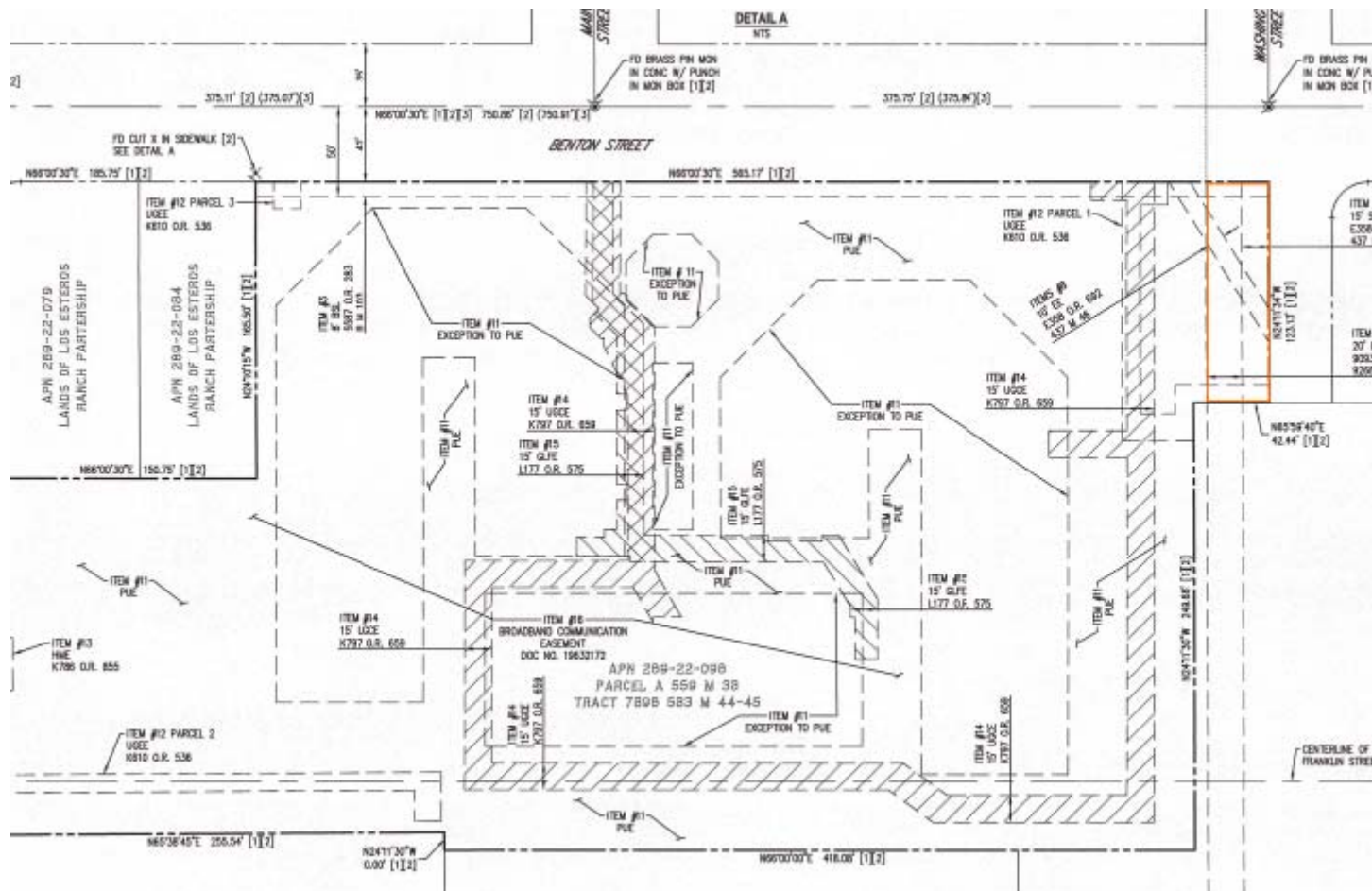
SUBJECT PROPERTY PHOTOS

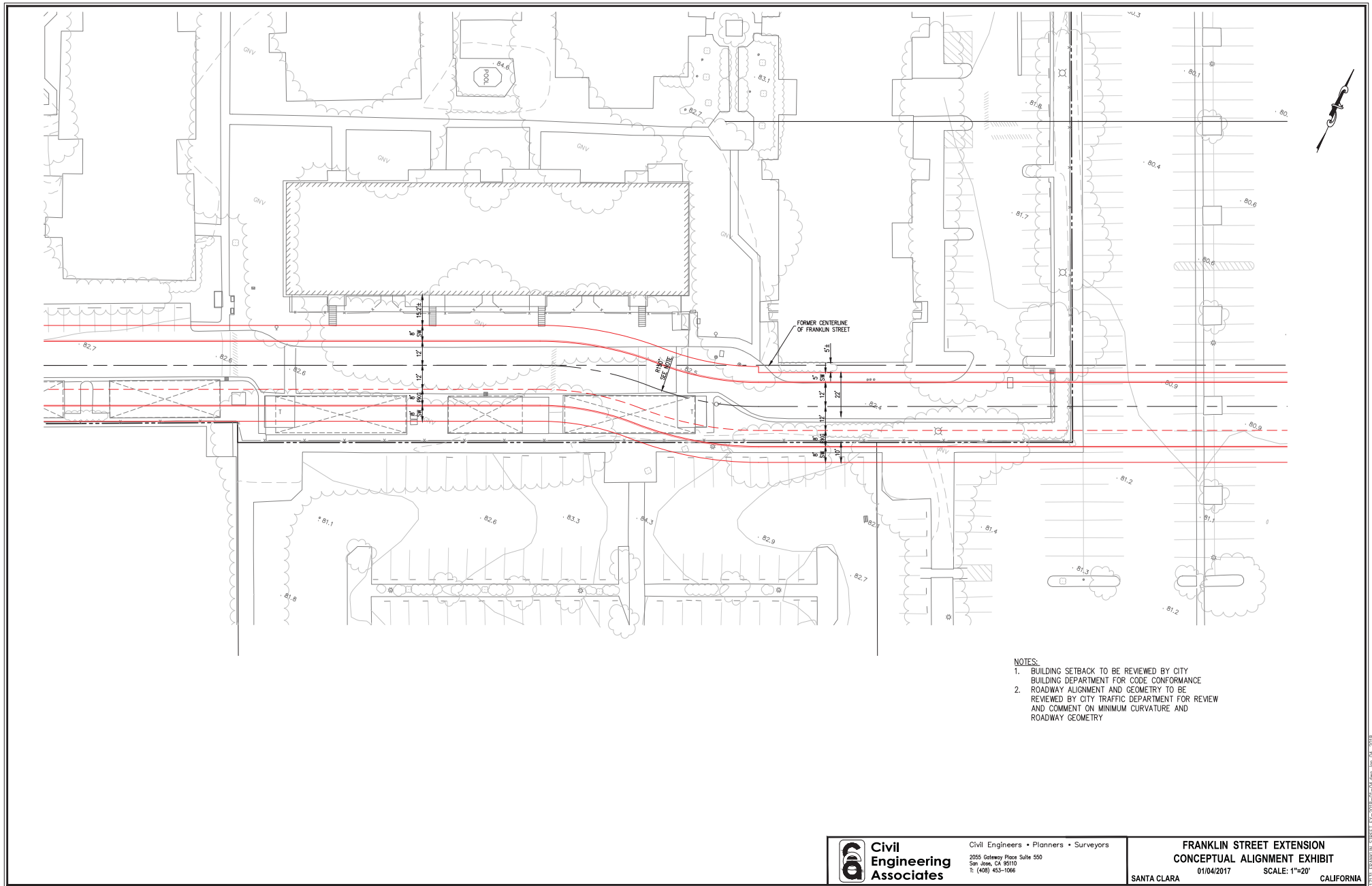


FRANKLIN STREET TAKE AREA



WASHINGTON STREET TAKE AREA





- NOTES:
1. BUILDING SETBACK TO BE REVIEWED BY CITY BUILDING DEPARTMENT FOR CODE CONFORMANCE
 2. ROADWAY ALIGNMENT AND GEOMETRY TO BE REVIEWED BY CITY TRAFFIC DEPARTMENT FOR REVIEW AND COMMENT ON MINIMUM CURVATURE AND ROADWAY GEOMETRY

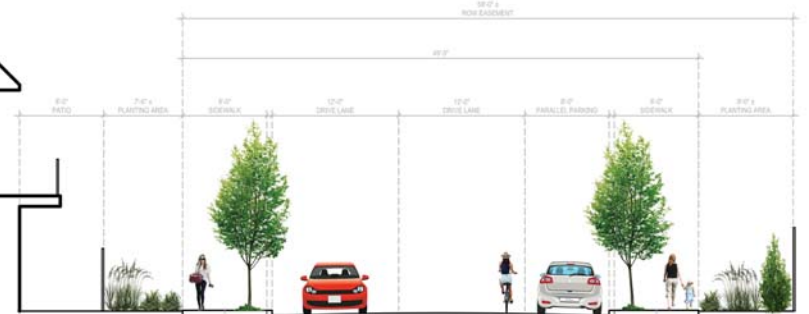
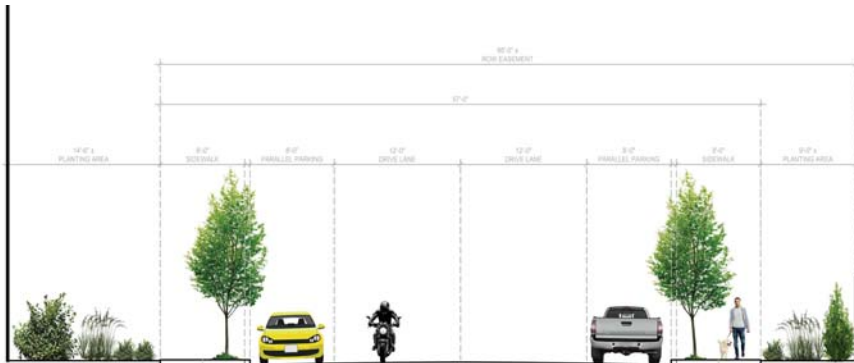
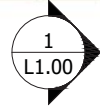
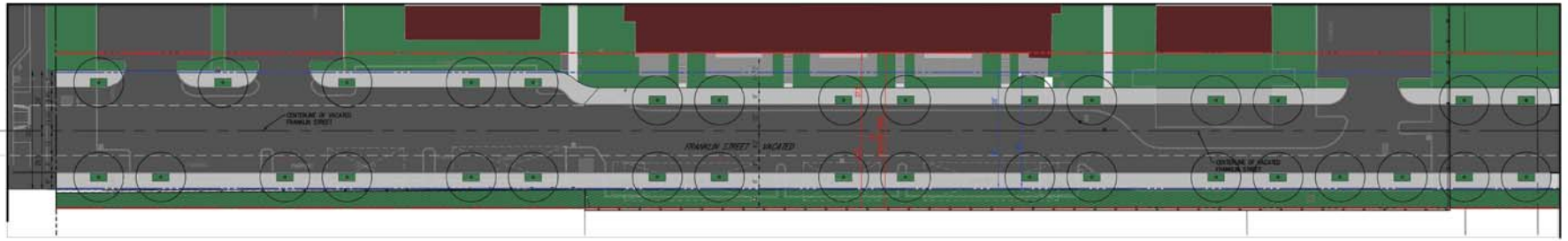


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**FRANKLIN STREET EXTENSION
CONCEPTUAL ALIGNMENT EXHIBIT**

SANTA CLARA 01/04/2017 SCALE: 1"=20' CALIFORNIA

1/10/17 FRANKLIN STREET EX-2016-27-10.dwg user: JCA 04/2018



1

2

L1.00 - Plan Renderings & Sections

Scale: 1" = 30' - 0"

Park Central - Franklin Street Extension

Franklin Street, Santa Clara, CA



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QUALIFICATIONS OF RICHARD D. NAKASAKO, MAI

California Certified General Real Estate Appraiser No. AG013832

Mr. Nakasako has more than 30 years of experience as a real estate appraiser and consultant in the fields of real estate and urban economics. He has conducted numerous real estate appraisals of commercial properties including office buildings, research and development (R&D) buildings, industrial facilities, retail stores and shopping centers, motels/hotels, apartments, condominiums, churches/schools and vacant land. Mr. Nakasako's real estate appraisal expertise is focused on urban/suburban buildings, development projects and land. He has extensive experience in appraising real estate for condemnations, rental and other appraisal arbitration matters, property tax assessment appeals, real estate loans, assessment districts, community facilities districts and similar public bond financing. Analysis and valuation of leasehold, leased fee and other real estate interests are standard areas of practice. Mr. Nakasako holds a Bachelor's Degree from California Polytechnic State University (Cal Poly), an MAI designation from the Appraisal Institute (No. 10550, dated October 1994), and is licensed as a California Certified General Real Estate appraiser (AG013832).

EXPERIENCE

May 2016 to Present	Principal, Carneghi-Nakasako & Associates, a successor firm to Carneghi and Partners, Inc. Provide appraisal and consulting services in real estate and urban economics throughout the Bay Area, with an emphasis on Silicon Valley (Santa Clara, San Mateo, Alameda and Santa Cruz counties).
June 1988 to April 2016	Partner, Vice President, Carneghi and Partners, Inc. Manager of the San Jose office. Clients include financial institutions, real estate developers, pension fund advisors, law firms, government agencies and individuals.
1987 to May 1988	Vice President/Manager, SF/Bay Area Investment Appraisal, Bank of America. Directed all Urban Investment Appraisal activities in San Francisco, Oakland-Alameda, Contra Costa, Solano, Napa, Marin and San Mateo Counties. Staff included nine appraisers (including a satellite office in Santa Rosa) in addition to independent contractors.
1986 to 1987	Manager/AVP, San Jose Residential Appraisal, Bank of America. Directed all residential appraisal activities in Santa Clara County. Staff included ten appraisers in addition to numerous independent contractors.
1983 to 1986	Appraisal Specialist, Bank of America. Commercial and Industrial appraiser, predominantly in Santa Clara County Area. Periodic managerial responsibilities.



Business, Consumer Services & Housing Agency
BUREAU OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

Richard D. Nakasako

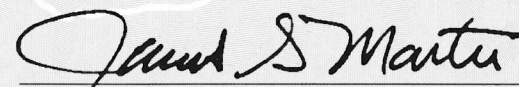
has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 013832

Effective Date: August 11, 2017
Date Expires: August 10, 2019


Jim Martin, Bureau Chief, BREA

3036089

QUALIFICATIONS OF NEIL D. JOHNSON

California Certified General Real Estate Appraiser No. AG025966

EXPERIENCE:

2016 to Present	<p>Senior Appraiser, Carneghi-Nakasako & Associates</p> <p>Responsible for preparation of appraisal reports covering a wide variety of property types including industrial, office, retail, and residential, as well as a variety of uses such as mortgage lending, estate taxes, and eminent domain. Geographic areas of work have included Santa Clara County, Alameda County, San Mateo County, Santa Cruz County, San Benito County, and Monterey County.</p>
2001 to 2016	<p>Project Manager, Carneghi and Partners, Incorporated. Clients have included financial institutions, government agencies, law firms, development companies, and individuals.</p>
1997 to 2001	<p>Appraiser Trainee, Carneghi-Bautovich & Partners, Incorporated</p> <p>Responsible for preparation of appraisal reports under the direct supervision of a Certified General Real Estate Appraiser.</p>
1994 to 1997	<p>Market Researcher, Carneghi-Bautovich & Partners, Incorporated</p> <p>Responsible for obtaining and analyzing market and subject property data, and assisting in preparation of appraisal reports.</p>

EDUCATION:

Appraisal Course Work:	<p>Completed basic appraisal education for a California Certified General appraisal license, as well as continuing appraisal education for maintenance of license.</p>
MBA	<p>California State University, Hayward, 1993 International Business Emphasis Received Academic Achievement Award</p>
Bachelor of Arts	<p>Saint Mary's College of California, Moraga, 1990 History Major, Political Science Minor Graduated Magna Cum Laude</p>



Business, Consumer Services & Housing Agency
BUREAU OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

Neil D. Johnson

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

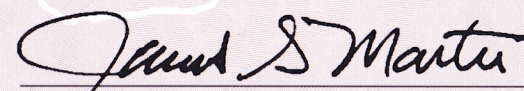
“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 025966

Effective Date: October 14, 2017

Date Expires: October 13, 2019


Jim Martin, Bureau Chief, BREA

3036098