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February 9, 2018

Mr. Patrick P. Calihan
Vice President Acquisitions
Prometheus Real Estate Group, Inc.
1900 South Norfolk Street, Suite 150
San Mateo, California 94403

Re: A Proposed Acquisition from the
Park Central Apartments
Santa Clara, California

Dear Mr. Calihan:

Appraisal Report:

This is a Restricted Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice.

File Number:

D186356

Appraiser:

Smith & Associates, Inc.
Terry S. Larson, MAI

Client:

Prometheus Real Estate Group

Intended Use:

Proposed Acquisition by City of Santa Clara
(Voluntary Sale by the Owner)

Intended User:

Prometheus Real Estate Group

Property Location:

1050 Benton Street, Santa Clara

Assessor's Parcel Number:

269-22-096

Property Type:

173 Unit Apartment Complex, Built in 1987

Total Land Area:

5.26 Acres

Density:

33 Units per Acre

Owner:

Prometheus Partners

Type of Value:

Market Value

Value Premise:

"As Is"

Property Interest Appraised:

Two Permanent Public Street Easements

Date of Value:

January 24, 2018

Date of Inspection:

January 24, 2018

Zoning:

PD Planned Development

General Plan:

Medium Density Residential
20-36 Units per Acre

Mr. Patrick P. Calihan
Vice President Acquisitions
Prometheus Real Estate Group, Inc.

Land to be Acquired:	Franklin Street Easement - 32,330 Square Feet Washington Street Easement - 4,320 Square Feet
Improvements to be Acquired:	Parking Spaces, Driveways, Carports, Trash Enclosures, Landscaping, Trees, Fencing and Underground Infrastructure
Use Restriction:	The use of this report is limited to the client and the opinions and conclusions set forth in this report may not be understood properly without additional information in the appraiser's workfile. The appraiser is not responsible for unauthorized use of this report.
Highest and Best Use:	The Current 173 Unit Apartment Complex
Scope of Work:	<ul style="list-style-type: none">▪ Review all documentation provided by the client.▪ Identify the appraisal problem.▪ Inspect the subject property and neighborhood.▪ Research neighborhood, city & county factors which might impact the subject property and its value, appeal and marketability.▪ Determine the subject properties highest and best use.▪ Interview buyers, sellers, investors, and brokers familiar with market activity in the area.▪ Review property rent roll.▪ Survey, review & select comparable land sales.▪ Analyze the comparable land sales selected.▪ Develop the Sales Comparison Approach to value the land.▪ Conclude to a market value for the land.▪ The Cost Approach is used to value the site improvements in the acquisition areas.▪ The Income Approach is used to value lost rent.▪ Prepare the appraisal report.▪ Review report for content and compliance with Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice (USPAP).▪ The property inspection and all necessary investigation and analysis were made by the appraiser.▪ This appraisal is for the sole use of the client and only for the specified use, and I am not responsible for unauthorized use of the report.

Mr. Patrick P. Calihan
Vice President Acquisitions
Prometheus Real Estate Group, Inc.

Conclusion of Market Value:

Proposed Acquisitions	\$5,923,129
Lost Rental Value	<u>\$1,382,129</u>
Total	\$7,305,258
Rounded	\$7,300,000

**Repair Costs Associated with
the Acquisitions and Street
Construction:**

**The owner is also entitled to reimbursement
for these unknown repair costs**

*Please see General Assumptions and Limiting Conditions,
Extraordinary Assumptions and Hypothetical Conditions
regarding the values presented in this appraisal report.*

Respectfully submitted,

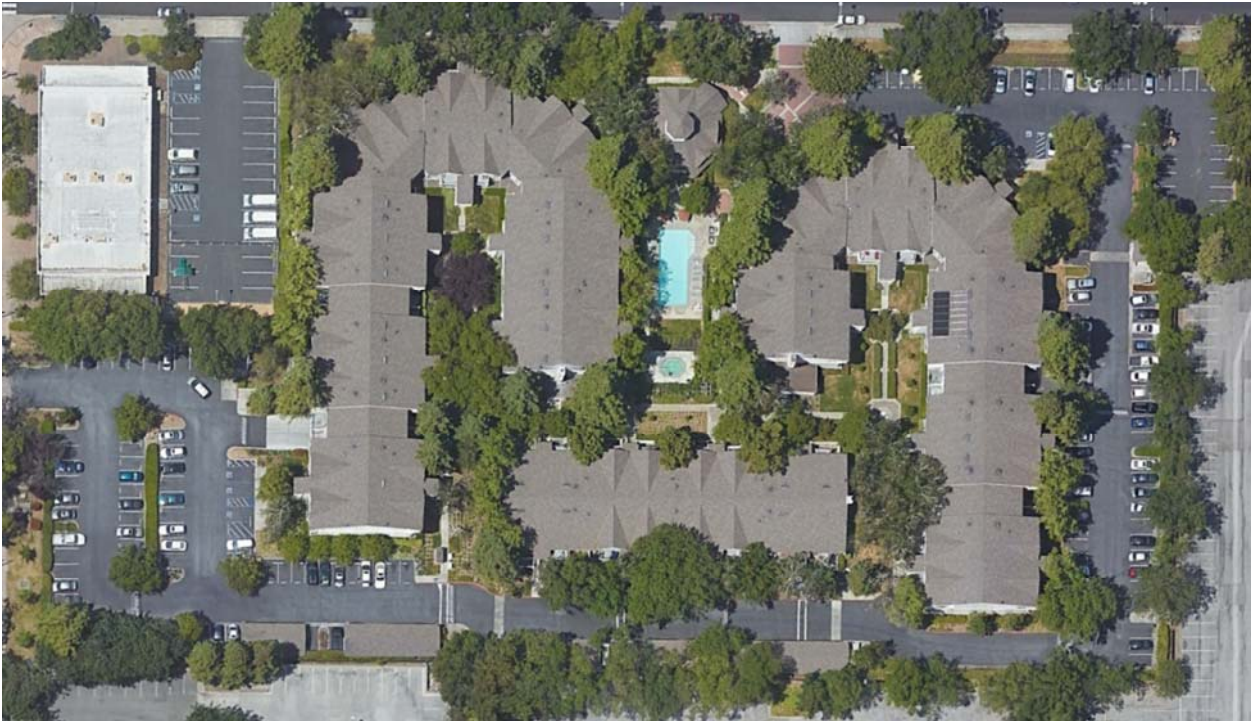


Terry S. Larson, MAI
Certified General Real Estate Appraiser
California #AG007041, exp. 11/30/2018

SUBJECT PROPERTY



Park Central Apartments



Park Central Apartments

SUBJECT PROPERTY



Proposed Franklin Street Easement Next To Building 2



Proposed Franklin Street Easement Next To Building 3

SUBJECT PROPERTY



**Proposed Franklin Street Easement Next To Building 3
(Easement will be immediately in front of Entrance to all Units)**



Proposed Franklin Street Easement Next To Building 1

SUBJECT PROPERTY



Proposed Washington Street Easement



Proposed Washington Street Easement

SUBJECT PROPERTY



**Proposed Replacement Parking
(Outside of Secured Property Fence)**



**Franklin & Washington Street Easements
and
Proposed Replacement Parking
(Outside of Secured Property Fence)**

THE SUBJECT PROPERTY

The Park Central Apartments includes 173 units in three buildings constructed in 1987 and located on 5.26 acres. The project is built out to 33 apartment units per acre (density). The City of Santa Clara General Plan is Medium Density Residential allowing 20-36 residential units per acre and the Zoning is Planned Development. Buildings 1 and 2 are three-story with subterranean parking. Building 3 is two-story but has no subterranean parking.

Building 1 contains 76 apartments, Building 2 has 65 apartments and Building 3 has 32 apartments. There are a total of 345 parking spaces. Building 1 has 79 subterranean spaces and Building 2 has 67 subterranean spaces. There are 26 carport spaces across from Building 3. The remaining 173 spaces are open.

All units in Buildings 1 and 2 have one assigned subterranean parking space. With 141 units in Buildings 1 and 2 and 146 subterranean parking spaces, there are 5 remaining subterranean spaces assigned to 5 tenants in Building 3. The remaining 26 units in Building 3 have one assigned covered carport space at the rear of the property. There are a total of 172 subterranean and carport spaces which provides one covered parking space for each unit except one. The remaining 173 spaces are open spaces available to residents and guests.

The Highest and Best Use of the property is the current use. The property is built out to the allowed density and is not ready for redevelopment. The value of the improved property far exceeds the value of the land.

NEIGHBORHOOD MAP



THE PROPOSED ACQUISITIONS

The City of Santa Clara is proposing to buy two permanent public street easements across the Park Central Apartment complex. This will be a voluntary sale by the owner.

The first proposed acquisition includes a small parcel of land (4,320 square feet) known as the Washington Street Easement. This area is a paved parking lot with 13 parking spaces and associated landscaping, trees and fencing that will be removed with the acquisition. An additional 7 spaces will be inaccessible once the circulation driveway is removed. However, these 7 spaces may be able to be saved by reorienting the access from the other direction. There are no carports in this area.

The other proposed acquisition is known as the Franklin Street Easement (32,330 square feet). This area is more highly improved and includes circulation driveways, parking and landscaping. All 26 covered carport parking spaces are located here and will be removed with the acquisition. There are also 33 open parking spaces that will be removed. This area also includes 2 trash enclosures and 2 storage enclosures as well as extensive landscaping, trees and fencing. Additional parking spaces may be lost in order to relocate the trash enclosures.

The required parking by the City for Medium Density Residential Zoning is: "At least one garage or carport shall be provided for each dwelling unit, plus one parking space for each dwelling unit". With 173 units and a requirement to have two parking spaces per unit, the minimum required parking per zoning is 346 spaces. The property currently has 345 spaces and is only one space short of meeting the requirement.

After the acquisition the property will lose 72 spaces and have only 273 remaining spaces. With a zoning requirement of 346 spaces, the property will be 73 spaces below the requirement and will be non-conforming to City zoning requirements. With the loss of 36,650 square feet of land or .84 acres, the size of the site drops from 5.26 acres to 4.42 acres. The 172 units will then equate to a density of 39 apartment units per acre, exceeding City allowances of 20 to 36 units per acre, again making the property non-conforming to City zoning requirements.

PROPOSED MITIGATION

The City proposes to mitigate the impacts of these acquisitions in two ways. First they will transfer the potential developable units from the acquisition area to the remaining property so that in the future if and when the site is redeveloped the owner will not lose any potential residential units. The acquisition areas total 36,650 square feet or .84 acres. At a density of 20 to 36 units per acre, this amounts to 17 to 30 potential units that can be transferred to the remaining 4.42 acres.

There are several difficulties with this mitigation measure. First, the highest and best use of the property is the current improved use. The apartments were built in 1987 and are only 30 years old and are in excellent condition. The remaining economic life of the improvements is at least 20 years and likely much longer. Therefore, the opportunity to recognize these potential transferable development units is well into the future and has no effect on mitigating the current impacts from the acquisition on the existing apartments. Also, just because units are being transferred to the remaining property does not mean they can economically be incorporated into a new project. These transferable units would cause the density of a new development to be much higher and may require the construction of taller buildings or smaller units or both, which changes the design characteristics and may cause higher construction costs. And additional parking will need to be provided. There is no way to know for sure if transferring these potential

development units would be economically feasible for a future project that won't even be designed or built for 20 plus years. Also, redevelopment of the site in 20 plus years may call for an entirely different project as the market changes and there is no telling if these transferable units will even be incorporated into a future project.

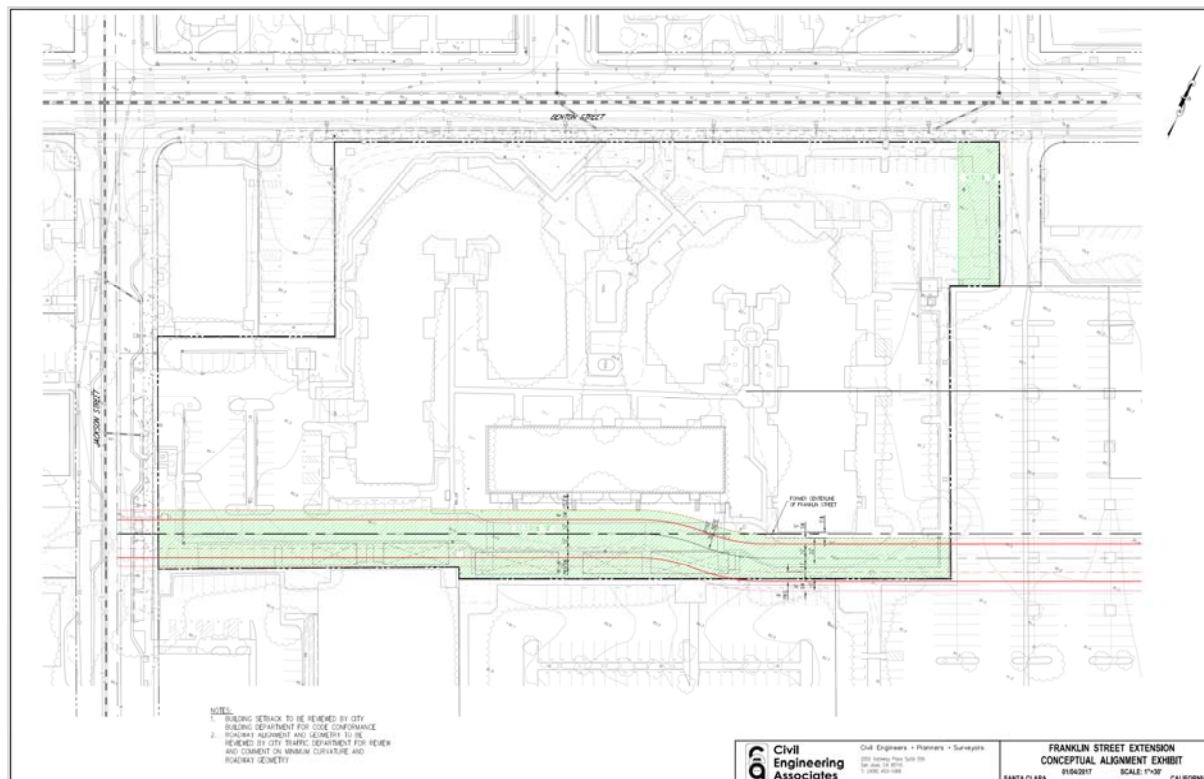
Given these uncertainties regarding a future 20 plus year redevelopment scenario for the property, attempting to offset the acquisition of the land by granting transferrable development rights isn't justified and I have not offset the acquisition cost by these potential transferable units.

Secondly the City proposes to provide replacement parking to the east of the complex on other City land. This replacement parking is outside of the secured fence for the property and some distance from the apartment units. Washington Street will eventually be extended across this replacement parking and when this occurs the replacement parking will then be moved again, this time to the other side of the new Washington Street. So eventually the replacement parking will only be accessible by crossing a public street.

This replacement parking is problematic given that it will be outside of the secured property fence. It is doubtful that tenants will want to park here given the distance from the complex and the unsecured lot. In reality this replacement parking provides little if any utility or benefit to the project and the fact that it will eventually be moved even further away and across a public street is even more problematic. No value is gained for this replacement parking that will offset the impacts from the lost parking spaces within the property.

PURPOSE OF THE APPRAISAL

This appraisal analyzes the acquisitions as well as the impact the acquisitions have on the remaining property.



ACQUISITION

Land Value

The proposed acquisitions include 36,650 square feet of land. Although they are easement acquisitions, public streets will be constructed across the land and the land will be of no use to the property owner and will have no contributory value to the project. The easement acquisitions are essentially buying 100% of the rights in these areas so the valuation of the land being acquired is considered tantamount to a fee acquisition.

Because the subject property is built out with 173 apartments, the land is considered to be fully entitled land and is appraised as entitled land. The following land sales were considered in valuing the land.

LAND SALES SUMMARY TABLE							
Sale No.	Location APN	Sale Date Doc No.	Buyer Seller	Sq. Ft. Acres	Units Density Entitlements	Sale Price Price/S.F.	Comments
Subj.	1050 Benton Street Santa Clara	N/A	N/A	229,082 5.26 (total property size)	173 33 units/acre Entitled	N/A	General Plan Medium Density Residential, Downtown Location Rental apartments
1	3305 Kifer Rd Santa Clara 216-33-001, 030	04/12/17 23622730	Toll West Coast Kifer Rd Partners	83,200 1.91	45 23 units/acre Entitled	\$14,500,000 \$174.28	Sold entitled. Industrial bldgs to be demolished Townhomes
2	1632 Edgeworth Ave Daly City 006-344-019 thru 043	07/14/16 20160688656	Edgeworth Daly City Edgeworth Dev Grp	75,000 1.72	25 15 units/acre Entitled	\$13,320,000 \$177.60	Sold entitled. Sold with infrastructure in place Townhomes
3	1375 El Camino Real Santa Clara 224-48-002, 012	06/16/17 23675971 23675974	Santa Clara De Asis (Citation Homes) Bradley & Vitkovich	54,073 1.24	54 44 units/acre Unentitled	\$5,402,000 \$99.90	Sold unentitled. Assemblage of two parcels Townhomes
4	Central Sunnyvale Confidential	01/01/17	Confidential (Major Residential Developer)	1,130,382 25.95	994 38 units/acre Unentitled	\$135,905,500 \$120.23	Sold unentitled. Assemblage of multiple parcels Apartments & townhomes
5	1122 Aster Ave Sunnyvale 213-65-001 thru 020	12/26/16 Multiple Deeds	Classic Communities Multiple Sellers	72,310 1.66	34 20 units/acre Unentitled	\$11,700,000 \$161.80	Sold unentitled. Demo ind bldgs. Assemblage of 20 parcels Townhomes
6	740-766 San Aleso Ave Sunnyvale 204-01-007, 015, 016	11/30/16 23512731	CalAtlantic Group (CalAtlantic Homes) DPM San Aleso	157,644 3.62	118 33 units/acre Unentitled	\$20,150,000 \$127.82	Sold unentitled. Neighborhood Transition Area Townhomes & duets
7	1 AMD Place Sunnyvale 205-22-024, 025	08/03/16 23388663	Irvine Company W.P. Carey	1,412,869 32.44	1,076 33 units/acre Unentitled	\$175,000,000 \$123.86	Sold unentitled. 319,000 sf office with interim value Townhomes & apartments
8	1525 Alviso St Santa Clara 224-012-012, 032, 034	08/02/16 23388776	Santa Clara 1 Inv (Pulte Group) Ivancovich	91,345 2.10	40 19 units/acre Unentitled	\$8,325,000 \$91.14	Sold unentitled. Very long escrow. Townhome / condos
9	100 N. Winchester Blvd. Santa Clara 303-19-073	04/02/16 23262198	Santa Clara 632, LLC (Elliott Homes) Santana Atrium	81,022 1.86	92 49 units/acre Unentitled	\$12,145,000 \$149.90	Sold unentitled Med/Ofc bldg to be demolished Market rate Senior apartments

It is important to understand that the subject land is fully entitled and in fact is built out with the Park Central Apartments. Additionally, the land is fully developed as a finished site with all underground infrastructure in place, including grading, site preparation, utilities and drainage.

Sales 1 and 2 are the only "entitled" land sales in my survey. Both of these parcels sold with approved maps in place and ready for development. Additionally, Sale 2 has all infrastructure in place as well including graded building pads and utilities. Although Sale 2 is in Daly City, it is included because of the lack of entitled land sales in the Santa Clara market. These parcels sold for \$174 to \$177 per square foot of land area.

Sales 3 through 9 are all “unentitled” land sales where the buyer still has to submit to get approvals for development. These sales sold in the \$90 to \$160 per square foot price range. Clearly entitled land parcels sell for higher prices and the subject property is fully entitled.

Sales 1 and 2 are given the most weight as they are entitled, similar to the subject property. However, both are much smaller suggesting downward adjustments. Alternatively, the subject has a higher density suggesting upward adjustments. Recognizing the large size of the subject site I have concluded to \$150 per square foot for the subject land.

The Land to be Acquired is 36,650 Square Feet
36,650 Square Feet x \$150 per square foot = \$5,497,500

Site Improvements in the Acquisition Area

The acquisition area consists of land improved with asphalt paved parking spaces, asphalt paved driveways, landscaping, trees, fencing and carports. These improvements were constructed when the project was developed and have contributory value and should be compensated for as part of the acquisition. I have listed these site improvements on the following table along with their contributory unit values. The next table includes the unit count for each item, individual market values and the total market value for all items. The contributory market value for all of the site improvements identified in the acquisition areas is **\$425,629**.

UNIT VALUE OF SITE IMPROVEMENTS CONTRIBUTORY MARKET VALUE						
Description	Sec./ Pg.	Cost New		Cost Mult.	Local Mult.	Market Depr. Value
Large Trees	66 / 8	\$2,000.00	each	1.03	1.35	0% \$2,781.00
Medium Trees	66 / 8	\$700.00	each	1.03	1.35	0% \$973.35
Small Trees	66 / 8	\$200.00	each	1.03	1.35	0% \$278.10
Light Fixtures	66 / 5	\$2,500.00	each	1.03	1.35	20% \$2,781.00
Wood Fence	66 / 5	\$25.00	per l.f.	1.03	1.35	20% \$27.81
Landscaping	66 / 8	\$6.50	per s.f.	1.03	1.35	0% \$9.04
Paving with Base	66 / 2	\$3.00	per s.f.	1.03	1.35	20% \$3.34
Concrete Curb	66 / 2	\$20.00	per l.f.	1.03	1.35	20% \$22.25
Parking Bumpers	66 / 3	\$60.00	each	1.03	1.35	20% \$66.74
Parking Stripes	66 / 3	\$16.00	each	1.03	1.35	20% \$17.80
Carports	12 / 35	\$20.00	per s.f.	1.03	1.35	20% \$22.25
Trash Enclosures	66 / 4	\$3,500.00	each	1.03	1.35	20% \$3,893.40
Open Enclosures	66 / 4	\$2,500.00	each	1.03	1.35	20% \$2,781.00

Source: Marshall Valuation Service

CONTRIBUTORY MARKET VALUE OF SITE IMPROVEMENTS IN THE EASEMENT ACQUISITION AREAS					
Description	Size or Number		Market Value		Total
Large Trees	29	x	\$2,781.00	=	\$80,649
Medium Trees	8	x	\$973.35	=	\$7,787
Small Trees	8	x	\$278.10	=	\$2,225
Light Fixtures	2	x	\$2,781.00	=	\$5,562
Wood Fence	868	l.f. x	\$27.81	=	\$24,139
Landscaping	7,879	s.f. x	\$9.04	=	\$71,212
Paving with Base	28,771	s.f. x	\$3.34	=	\$96,015
Concrete Curb	1,279	l.f. x	\$22.25	=	\$28,455
Parking Bumpers	36	x	\$66.74	=	\$2,403
Parking Stripes	72	x	\$17.80	=	\$1,281
Carports	4,160	s.f. x	\$22.25	=	\$92,552
Trash Enclosures	2	x	\$3,893.40	=	\$7,787
Open Enclosures	2	x	\$2,781.00	=	\$5,562
Total					\$425,629

IMPACT OF THE ACQUISITION TO THE PROPERTY

Parking

I was provided with a parking study for the property. This study shows that occupied parking spaces during the study period range from 212 to 219 spaces. With 345 total spaces, 126 spaces were not utilized. While parking demand can vary with different tenants (with and without cars) and different times of the week and day, the property clearly has excess parking for the identified demand.

After the acquisition the property will lose 72 spaces and have only 273 remaining spaces. The study shows occupied parking between 212 and 219 spaces, so the unoccupied spaces will drop from 126 to only 54. This has the effect of making the property less parking friendly and provides far less guest parking and parking options for the tenants.

Building 3 tenants currently park in the spaces immediately adjacent to their units, which are the spaces being removed by the Franklin Street Easement acquisition. 26 units have assigned covered spaces in the carports with all other parking being open. Once all of these spaces are removed, these tenants will have to park in the remaining spaces at either end of the project.

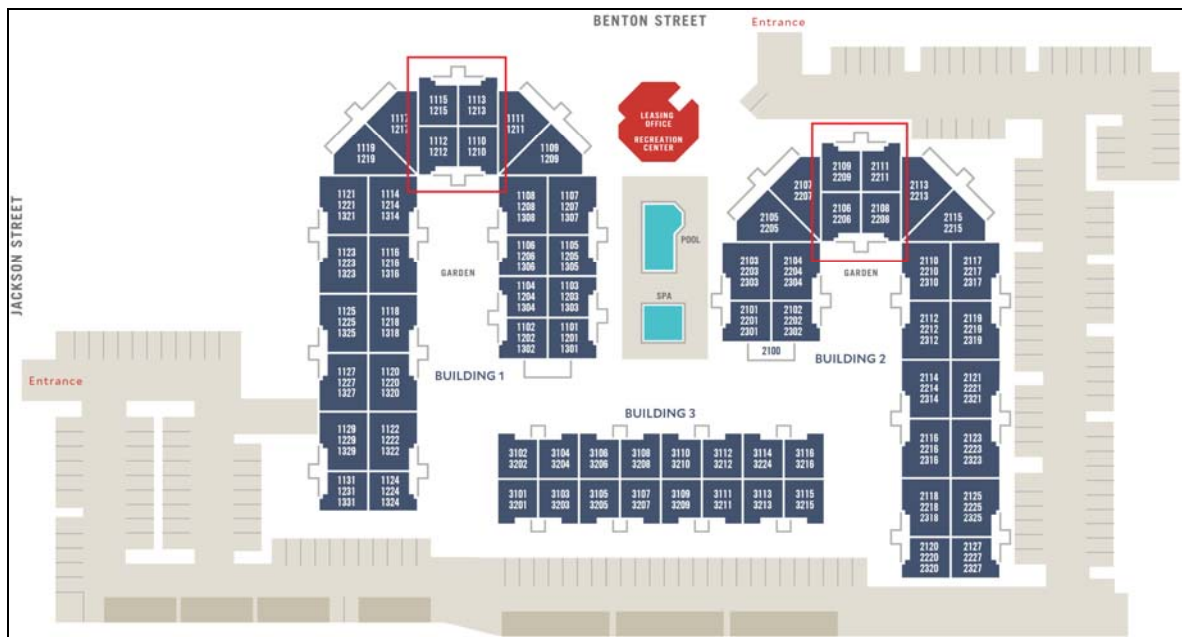
The following exhibit shows the current carports and open parking in close proximity to Building 3. It also shows where these tenants will have to park after the acquisition, at either end of the project or in the replacement parking. The west parking lot is 300 feet away and the east parking lot is 250 feet away. The replacement parking lot is 350 feet away and also outside of the security fence surrounding the property. Clearly, both the west and east parking lots and especially the replacement parking are a big inconvenience to the tenants in Building 3. It is reasonable to conclude that this inconvenience will require a reduced rent to keep tenants.



Rent for Street Facing Units vs. Interior Units

I was provided with a rent roll for the subject property and was able to compare street facing units with identical interior facing units. The following Site Plan shows 8 – 1 bed/1 bath units on the first and second floor facing Benton Street and 8 identical units facing the interior of the project. The street facing units have lower rents between \$25 and \$30 per month.

SUBJECT PROPERTY RENT COMPARISON – INTERIOR VS. STREET UNITS

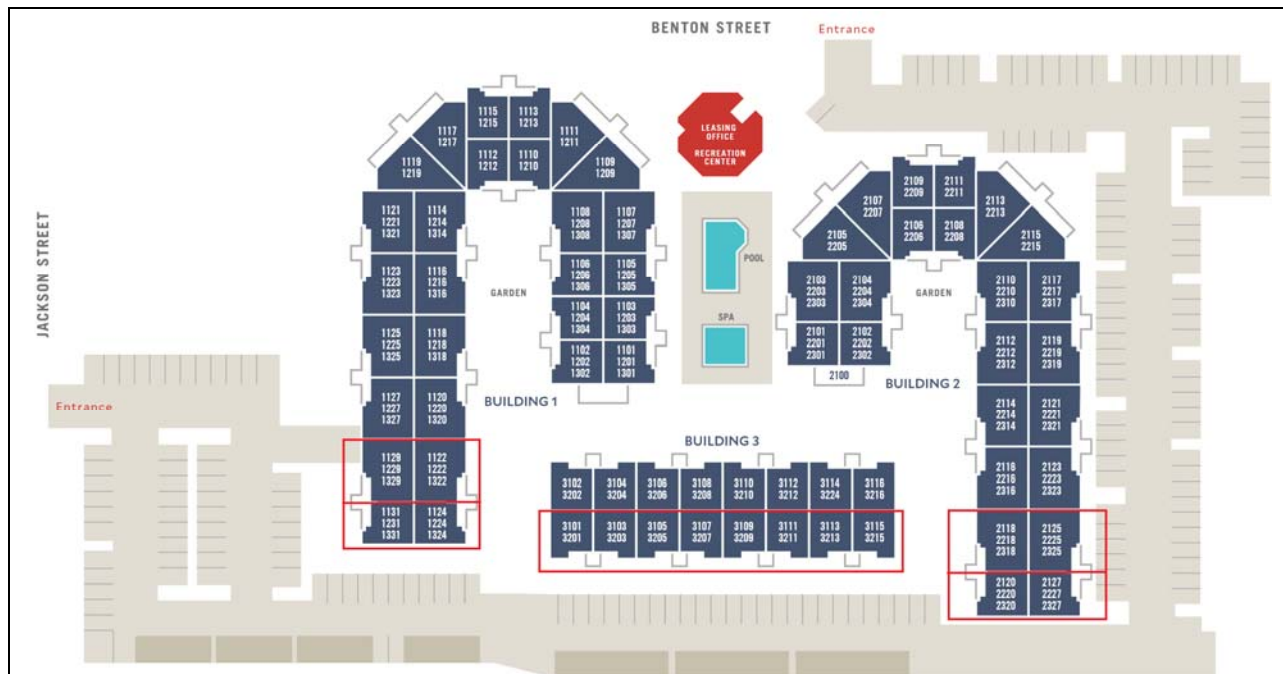


RENT COMPARISON INTERIOR VS. STREET UNITS PARK CENTRAL APARTMENTS								
Unit	Floorplan	Bed/Bath	Floor	S.F.	Location	Market Rent	Market Rent Average	Market Rent Difference
Building 1								
1110	11CAR	1x1	1	662	Interior	\$2,489	\$2,494	\$25
1112	11CAR	1x1	1	662	Interior	\$2,499		
1113	11CAR	1x1	1	662	Benton	\$2,464	\$2,469	
1115	11CAR	1x1	1	662	Benton	\$2,474		
1210	11CAR	1x1	2	662	Interior	\$2,534	\$2,529	\$30
1212	11CAR	1x1	2	662	Interior	\$2,524		
1213	11CAR	1x1	2	662	Benton	\$2,499	\$2,499	
1215	11CAR	1x1	2	662	Benton	\$2,499		
Building 2								
2106	11CAR	1x1	1	662	Interior	\$2,499	\$2,494	\$25
2108	11CAR	1x1	1	662	Interior	\$2,489		
2109	11CAR	1x1	1	662	Benton	\$2,464	\$2,469	
2111	11CAR	1x1	1	662	Benton	\$2,474		
2206	11CAR	1x1	2	662	Interior	\$2,534	\$2,529	\$30
2208	11CAR	1x1	2	662	Interior	\$2,524		
2209	11CAR	1x1	2	662	Benton	\$2,499	\$2,499	
2211	11CAR	1x1	2	662	Benton	\$2,499		

After the acquisition is completed and Franklin Street is installed, Building 3 will have 16 units that will change from interior facing units to street facing units. Buildings 1 and 2 will have 12 units each that will also change from interior facing units to street facing units. These units are identified in Red below.

It is reasonable to conclude that these units will then suffer a lower rental rate as a result of the new Franklin Street being installed. Additionally, this new street will be much closer to the buildings and the apartment units than those units along Benton Street. The distance from Building 1 units to Benton Street is about 35 feet and from Building 2 to Benton Street is about 70 feet. The new Franklin Street extension will be only 5 feet from Building 2, 15 feet from Building 3 and about 20 feet from Building 1. It seems reasonable then that the rent loss for the units outlined in Red below will be at least \$25 to \$30 per month and maybe more.

SUBJECT PROPERTY IMPACTED UNITS CHANGING FROM INTERIOR TO STREET UNITS



PERMANENT LOSS IN VALUE

The property will suffer a permanent loss in rental income from the acquisitions resulting in a permanent loss in market value. This results from two impacts. First is the construction of Franklin Street which changes the 40 units described above from interior facing to street facing. Second is the fact that parking for Building 3 will be removed requiring tenants to walk a much greater distance to the remaining parking in addition to the loss of covered carport parking.

I have identified each building in the following table with the number of units that will be impacted by these changes. Each category of impacted units is shown with the description of the impact.

Buildings 1 and 2 each have 6 interior units that will be moderately impacted by street proximity and noise. While these units are not end units that are directly adjacent to the new Franklin Street, their balconies and patios face this new street and they will suffer from the increased

noise. I have included these units at the minimum \$25 per month rent loss identified for the subject units along Benton Street discussed earlier.

Buildings 1 and 3 also have 6 end units that will be more severely impacted by street proximity and noise as they are immediately adjacent to the new Franklin Street. While they do not face Franklin Street directly, they do have balconies and patios facing the street and they have windows that open onto the street. I have included these units at a \$50 per month rent loss.

Building 3 is significantly more affected than Buildings 1 and 2. Franklin Street will come to within 15 feet of Building 3 and immediately adjacent to the entrances into these units. Balconies and patios will directly face Franklin Street. The 16 end units in Building 3 will be significantly affected by the traffic and noise on Franklin Street. Additionally, these units will lose the covered carport parking and open parking that is immediately adjacent to the building and the tenants will have to walk a much greater distance to find alternative parking. I have included the highest rent loss for these units at \$150 per month recognizing both conditions.

Building 3 also has 16 interior units that will not be affected by the Franklin Street noise as they are interior facing units, but they will lose the covered carport parking and open parking that is immediately adjacent to the building. These tenants will have to walk a much greater distance to find alternative parking. I have included the rent loss for these units at \$100 per month recognizing the inconvenience of lost covered parking and walking a greater distance to find parking. Only 11 units are affected as the other 5 units have assigned subterranean parking in Buildings 1 and 2.

With monthly market rents in the \$2,500 to \$2,800 range, the rent losses of \$25 to \$150 per month are relatively modest.

The total monthly rent loss for all of these units is \$52,800. Because this rent loss will continue into perpetuity once Franklin Street is constructed, the best way to recognize this impact on property value is to capitalize the rent loss. I have used a 4.5% capitalization rate and the support for this rate is included on the following pages. The capitalized rent loss is **\$1,173,333**.

PERMANENT LOSS IN VALUE	
<u>Building 1 Interior Units</u>	
Street Proximity & Noise	
Monthly Rent Loss	\$25
Units	6
Total	<u>\$150</u>
<u>Building 1 End Units</u>	
Street Proximity & Noise	
Monthly Rent Loss	\$50
Units	6
Total	<u>\$300</u>
<u>Building 2 Interior Units</u>	
Street Proximity & Noise	
Monthly Rent Loss	\$25
Units	6
Total	<u>\$150</u>
<u>Building 2 End Units</u>	
Street Proximity & Noise	
Monthly Rent Loss	\$50
Units	6
Total	<u>\$300</u>
<u>Building 3 Interior Units</u>	
Lost Parking	
Monthly Rent Loss	\$100
Units	11
Total	<u>\$1,100</u>
<u>Building 3 End Units</u>	
Street Proximity, Noise & Lost Parking	
Monthly Rent Loss	\$150
Units	16
Total	<u>\$2,400</u>
Total Monthly Rent Loss	\$4,400
	<u>12</u>
Annual Rent Loss	\$52,800
Capitalization Rate	4.5%
Loss In Value	\$1,173,333

TEMPORARY RENT LOSS DURING STREET CONSTRUCTION

During construction of Franklin Street tenants immediately adjacent to the construction zone will be significantly impacted. While the actual time to construct Franklin Street is unknown, I have estimated a reasonable construction period of 6 months. During construction the units closest to the construction site will suffer from the noise, dust, and inconvenience of building Franklin Street. The owners have a policy of providing rent relief at their projects when they do construction like remodeling or adding units. The policy is to provide 4 to 8 weeks of free rent to those units closest to construction that will suffer the most.

It is reasonable to provide the same rent relief to the subject property during construction of Franklin Street. I have included the same units as identified previously on the Impacted Units site plan.

The following chart shows the actual market rent for these units with a total gross monthly rent of \$104,389. Applying 8 weeks of free rent, or 2 months, the total rent loss during construction is **\$208,796**.

RENT LOSS DURING CONSTRUCTION					
Unit	Floorplan	Bed/Bath	S.F.	Location	Market Rent
<u>Building 1</u>					
1122	22CBR	2x2	935	Interior	\$2,873
1129	22CBR	2x2	935	Interior	\$2,848
1222	22CBR	2x2	935	Interior	\$2,848
1229	22CBR	2x2	935	Interior	\$2,833
1322	22CBR	2x2	935	Interior	\$2,908
1329	22CBR	2x2	935	Interior	\$2,883
<u>Building 1</u>					
1124	11CAR	1x1	662	End	\$2,534
1131	11CAR	1x1	662	End	\$2,499
1224	11CAR	1x1	662	End	\$2,509
1231	11CAR	1x1	662	End	\$2,484
1324	11CAR	1x1	662	End	\$2,534
1331	11CAR	1x1	662	End	\$2,544
<u>Building 2</u>					
2125	22CBR	2x2	935	Interior	\$2,848
2118	22CBR	2x2	935	Interior	\$2,883
2225	22CBR	2x2	935	Interior	\$2,833
2218	22CBR	2x2	935	Interior	\$2,848
2325	22CBR	2x2	935	Interior	\$2,873
2318	22CBR	2x2	935	Interior	\$2,898
<u>Building 2</u>					
2127	11CAR	1x1	662	End	\$2,509
2120	11CAR	1x1	662	End	\$2,499
2227	11CAR	1x1	662	End	\$2,494
2220	11CAR	1x1	662	End	\$2,484
2327	11CAR	1x1	662	End	\$2,519
2320	11CAR	1x1	662	End	\$2,569
<u>Building 3</u>					
3101	11CAR	1x1	662	End	\$2,499
3103	11CAR	1x1	662	End	\$2,464
3105	11CAR	1x1	662	End	\$2,464
3107	11CAR	1x1	662	End	\$2,464
3109	11CAR	1x1	662	End	\$2,464
3111	11CAR	1x1	662	End	\$2,464
3113	11CAR	1x1	662	End	\$2,464
3115	11CAR	1x1	662	End	\$2,499
3201	11CAR	1x1	662	End	\$2,534
3203	11CAR	1x1	662	End	\$2,499
3205	11CAR	1x1	662	End	\$2,499
3207	11CAR	1x1	662	End	\$2,499
3209	11CAR	1x1	662	End	\$2,499
3211	11CAR	1x1	662	End	\$2,499
3213	11CAR	1x1	662	End	\$2,499
3215	11CAR	1x1	662	End	\$2,534
Gross Monthly Rent					\$104,398
Months of Rent Loss					2.0
Total Rent Loss During Construction					\$208,796

CONCLUSION OF ACQUISITION COSTS AND IMPACTS FROM THE PROJECT

The acquisition of the land is valued at \$5,497,500 and the site improvements on the land are valued at \$425,629 for a total acquisition value of \$5,923,129. The permanent loss in value due to reduced rent is \$1,173,333 and the temporary loss in rent during construction is \$208,796 for a total loss in property value of \$1,382,129.

The total market value of the impacts to the property from both the acquisition and lost rent is then \$7,305,258, rounded to **\$7,300,000**.

It is important to note that the property owner will incur unknown repair costs associated with the proposed acquisitions and street construction that are not included in this appraisal. There will undoubtedly be significant repair work to the property after the streets are installed. There are 7 parking spaces along the Washington Street easement that will no longer be accessible once the circulation driveway is removed. Access to these spaces will have to be realigned in order to make them available to tenants. Because Franklin Street will come so close to Building 3, all of the stairways to the second floor units will need to be reconfigured. Landscaping and irrigation systems will need repaired and there will be repair work needed to asphalt and concrete work. There is a large electrical transformer at the back of the property that will need to be relocated. Underground drainage systems will need to be repaired. There will no longer be a security fence across the back of the property which opens up the complex to trespassers and vandalism. New security measures may be required.

These are just some of the items that I noticed during my inspection that will need to be addressed once the acquisitions are complete and the new streets are installed and there will undoubtedly be more. The owner is entitled to reimbursement for all unknown repair items that are incurred as a result of this project as a separate payment from the acquisition costs and lost property value discussed above.

PWC REAL ESTATE INVESTOR SURVEY 4Q2017

National Apartment Market

The national apartment market remains a favorable play among investors despite an eight-year run that many anticipated would have come to end by now. One of the greatest attributes of this sector's strength is a growing propensity to rent instead of own a home. According to the U.S. Census Bureau, the percentage of renters in the country increased from 34.0% in the third quarter of 1997 to 36.1% in the third quarter of 2017.

An increase in rental demand in the face of a surge in additions to supply continues to have a positive impact on apartment rental rates at many properties. This quarter, the average initial-year market rent change

rate is 2.58% for the national apartment market. Even though this assumption slips 11 basis points this quarter, it sneaks past the average of 2.50% for the national warehouse market, which ranks as the top property pick among industry leaders in *Emerging Trends in Real Estate*® 2018.

While Reis forecasts the largest additions to supply in 2017, increasing the overall vacancy rate to 4.8% from 4.2% at year-end 2016, most surveyed investors believe the impact on vacancy and rent growth will be temporary. "We recognize supply issues, but foresee it getting better in 18 months or so," estimates an investor. ♦

KEY 4Q17 SURVEY STATS*

Total Vacancy Assumption:

Average 6.0% =

Range 3.0% to 10.0%

Months of Free Rent⁽¹⁾:

Average 1 =

Range 0 to 2

% of participants using 78.0% =

Market Conditions Favor:

Buyers 0.0% =

Sellers 33.0% ▼

Neither 67.0% ▲

* ▼, ▲, = change from prior quarter
(1) on a one-year lease

Table 30
NATIONAL APARTMENT MARKET
Fourth Quarter 2017

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
DISCOUNT RATE (IRR)^a					
Range	5.50% – 10.00%	5.00% – 10.00%	5.50% – 10.00%	5.50% – 10.00%	5.25% – 14.00%
Average	7.26%	7.28%	7.30%	7.34%	8.17%
Change (Basis Points)		- 2	- 4	- 8	- 91
OVERALL CAP RATE (OAR)^a					
Range	3.50% – 7.50%	3.50% – 7.50%	3.50% – 7.50%	3.50% – 8.00%	3.75% – 10.00%
Average	5.32%	5.35%	5.26%	5.36%	5.72%
Change (Basis Points)		- 3	+ 6	- 4	- 40
RESIDUAL CAP RATE					
Range	4.25% – 7.75%	4.25% – 7.75%	4.25% – 7.50%	4.25% – 9.00%	4.50% – 9.75%
Average	5.74%	5.79%	5.71%	6.03%	6.17%
Change (Basis Points)		- 5	+ 3	- 29	- 43
MARKET RENT CHANGE^b					
Range	(1.00%) – 5.00%	(1.00%) – 5.00%	0.00% – 5.00%	0.00% – 8.00%	(2.00%) – 6.00%
Average	2.58%	2.69%	2.85%	2.83%	2.57%
Change (Basis Points)		- 11	- 27	- 25	+ 1
EXPENSE CHANGE^b					
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 4.00%	1.00% – 4.00%	1.00% – 3.50%
Average	2.72%	2.72%	2.78%	2.74%	2.71%
Change (Basis Points)		0	- 6	- 2	+ 1
MARKETING TIME^c					
Range	1 – 9	1 – 9	1 – 9	1 – 9	0 – 18
Average	3.8	3.8	3.8	4.1	5.1
Change (▼, ▲, =)		=	=	▼	▼
a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months					

Table 32
REGIONAL APARTMENT MARKETS
Fourth Quarter 2017

MID-ATLANTIC REGION						PACIFIC REGION				
	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
DISCOUNT RATE (IRR)^a										
Range	5.25% – 10.00%	5.25% – 10.00%	5.25% – 10.00%	6.00% – 10.00%	5.00% – 14.00%	5.00% – 10.00%	5.25% – 10.00%	5.25% – 9.00%	5.00% – 11.00%	5.25% – 12.50%
Average	7.30%	7.33%	7.58%	7.94%	9.02%	6.65%	6.73%	6.70%	7.44%	8.48%
Change (Basis Points)		- 3	- 28	- 64	- 172		- 8	- 5	- 79	- 183
OVERALL CAP RATE (OAR)^a										
Range	3.00% – 6.75%	3.00% – 6.75%	3.00% – 7.50%	4.00% – 7.50%	4.00% – 7.50%	3.50% – 6.00%	3.50% – 6.00%	3.50% – 6.00%	3.50% – 6.50%	4.00% – 7.00%
Average	5.17%	5.04%	5.20%	5.44%	5.69%	4.45%	4.49%	4.54%	4.85%	5.06%
Change (Basis Points)		+ 13	- 3	- 27	- 52		- 4	- 9	- 40	- 61
RESIDUAL CAP RATE										
Range	4.00% – 6.75%	4.00% – 6.75%	4.25% – 7.00%	4.50% – 8.50%	4.50% – 9.75%	4.00% – 6.00%	4.25% – 6.00%	4.25% – 6.50%	4.00% – 7.00%	4.00% – 7.50%
Average	5.55%	5.53%	5.63%	6.00%	6.27%	4.98%	5.00%	5.10%	5.54%	5.52%
Change (Basis Points)		+ 2	- 8	- 45	- 72		- 2	- 12	- 56	- 54
MARKET RENT CHANGE^b										
Range	0.00% – 3.00%	0.00% – 4.00%	0.00% – 4.00%	0.00% – 5.00%	(5.00%) – 6.00%	0.00% – 5.00%	0.00% – 5.00%	0.00% – 5.00%	2.00% – 7.00%	0.00% – 10.00%
Average	1.60%	1.75%	1.90%	2.75%	2.63%	2.75%	2.85%	2.95%	4.04%	3.71%
Change (Basis Points)		- 15	- 30	- 115	- 103		- 10	- 20	- 129	- 96
EXPENSE CHANGE^b										
Range	0.00% – 3.00%	0.00% – 4.00%	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.00%	2.50%	2.70%	2.75%	2.75%	2.23%	2.23%	2.23%	2.88%	2.79%
Change (Basis Points)		- 50	- 70	- 75	- 75		0	0	- 65	- 56
MARKETING TIME^c										
Range	1 – 9	1 – 9	2 – 9	2 – 9	1 – 18	1 – 9	1 – 9	1 – 9	1 – 9	1 – 12
Average	3.9	3.9	4.2	4.8	5.4	4.1	4.1	4.1	4.3	4.9
Change (▼, ▲, =)		=	▼	▼	▼		=	=	▼	▼
a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months										

COSTAR APARTMENT SALES STATS

Quick Stats Report

Comps Statistics					
	Low	Average	Median	High	Count
Sale Price	\$13,500,000	\$55,284,000	\$45,833,334	\$150,500,000	30
Building Size	18,496 SF	180,613 SF	136,098 SF	647,464 SF	30
Price per SF	\$165.00	\$403.37	\$426.77	\$738.54	30
Actual Cap Rate	3.40%	4.50%	4.50%	5.25%	21
Gross Income Multiplier	-	-	-	-	-
Gross Rent Multiplier	12.17	12.17	12.17	12.17	1
# of Units	50	187	173	634	30
Price per Unit	\$156,977	\$371,447	\$295,603	\$781,955	30
Days on Market	15	120	92	265	5
Sale Price to Asking Price Ratio	91.70%	96.62%	97.83%	100.33%	3
Totals					
Sold Transactions	Total Sales Volume:	\$1,658,520,002	Total Sales Transactions:	30	
Survey Criteria					
basic criteria: Type of Property - Multi-Family; Sale Price - from \$1,000; Sale Date - from 1/1/2016; Cap Rate - 1.00 % - 15.00 %; Sale Status - Sold; Return and Search on Portfolio Sales as Individual Properties - Yes; Exclude Non-Arms Length Comps - Yes					
geography criteria: County - Santa Clara, CA					

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
7. My 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.
8. My analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
9. I have made a personal inspection of the property that is the subject of this report.
10. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.
11. No one provided significant real property appraisal assistance to the person signing this certification.
12. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three year period immediately preceding acceptance of this assignment.



Terry S. Larson, MAI
Certified General Real Estate Appraiser
California #AG007041, exp. 11/30/2018

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

1. The appraisers assume no responsibility for the legal description provided for matters pertaining to the legal or title considerations. Title is assumed to be good and marketable and the property is appraised free and clear of any encumbrances, unless otherwise stated. It is assumed that the property is under responsible ownership and management.
2. Information, estimates and opinions furnished to the appraiser(s) and contained in this report were obtained from sources considered reliable and believed to be true and correct. However, the appraisers give no warranty of the accuracy of such items furnished by others.
3. The appraisers are not required to give testimony or appear in court in connection with this appraisal unless prior arrangements have been made.
4. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraisers have made no survey of the property and assume no responsibility in connection with such matters.
5. The appraisers assume that there are no hidden or unapparent conditions of the property, subsoil or structures, which would render it more or less valuable. The appraisers assume no responsibility for such conditions or for engineering which might be required to discover such factors.
6. The appraisers assume the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance is stated, defined, and considered in the appraisal. The appraisers assume the property contains no hazardous materials or substances.
7. The appraisers assume all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinions contained in the report are based.
8. The appraisers assume that the property complies with applicable zoning requirements, use regulations and other restrictions, unless a lack of conformity has been stated, defined, and considered in the appraisal report.
9. Any allocation of the total value opinion stated in this report between the site and improvements applies only under the stated program of use. The separate values allocated to the site and improvements may not be used in connection with any other appraisal and are invalid if so used. Any value opinions provided in the appraisal report apply to the entire property and any proration or division of the total into fractional interests will invalidate the value opinion unless such proration or division of interests has been stated in the report.
10. Disclosure of the contents of the appraisal report is governed by the Code of Professional Ethics of the Appraisal Institute and is subject to peer review.
11. The appraisers assume that the site and improvements are contained within the boundaries or property lines of the property described and that there are no encroachments unless noted in this report.
12. If only preliminary plans and specifications were available for use in the preparation of this assignment, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and the appraisers reserve the right to amend this appraisal if substantial deviations exist.

13. The dates of value to which the opinions expressed in this report apply are set forth in this report. The appraisers assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions.
14. This appraisal was prepared for the sole and exclusive use of the client for the intended use outlined in this report. Any party who is not the client or intended user identified in the appraisal or the engagement letter is not entitled to rely upon the contents of this appraisal without the express written consent of Smith & Associates, Inc. The appraisers assume no obligation, liability, or accountability to any third party.
15. 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 impact upon the value of the property. Since the appraisers have no direct evidence relating to this issue, possible non-compliance was not considered in estimating the value of the property.
16. No part of the appraisal report (nor any copy of it) shall be used for any purpose by any party except the client without the previous written consent of the appraisers. No portion of the appraisal report may be reproduced. The report shall not be used for advertising, public relations, news, or other media without the consent of the appraisers.
17. Acceptance and/or use of this appraisal report by the client or any third party constitutes acceptance of the previously stated assumptions and limiting conditions.

EXTRAORDINARY ASSUMPTIONS

1. None.

HYPOTHETICAL CONDITIONS

1. None.

Terry S. Larson, MAI - Partner

California Certified General Real Estate Appraiser No. AG007041

QUALIFICATIONS

Terry Larson has been a professional real estate appraiser and consultant in Northern California since 1981. He concentrates his work in the San Francisco Bay Area and Sacramento Regions, but has performed national assignments in over twenty states.

Terry began his career with American Appraisal Associates, the largest full service valuation firm in the world, providing valuation services for real estate, personal property, and intangible business assets. As manager of the Northern California Real Estate Valuation Group, his territory covered California and assignments across the country.

Upon joining Smith & Associates in 1997, Terry expanded the firm's territory into Santa Clara, San Mateo, San Francisco and Marin Counties and built a group of appraisers that emphasize litigation support, eminent domain, partial interest valuations and special purpose properties, including airport appraisals. With over \$2 billion in annual valuations, Smith & Associates has three offices to serve client needs; Danville in the East Bay, San Mateo in Silicon Valley and Folsom in the Sacramento Region.

Terry regularly provides litigation support services for property analysis and valuation, deposition and expert witness testimony, arbitration & mediation services in disputes regarding real estate values and fair rental rates, and related matters.

CLIENTS

Banks and other lenders, developers, attorneys, private property owners, government agencies including cities and counties, the State of California, and the Federal Government. For a client list see our web page at www.SmithAssociatesInc.com.

EXPERT WITNESS TESTIMONY

Testified in dozens of cases including eminent domain representing agencies and private property owners, fire damage, diminution in value, contract fraud, land slide and breach of fiduciary responsibilities in real estate transactions.

Qualified Expert Witness in Superior Court for Santa Clara, Contra Costa, Alameda, Marin and Sacramento Counties. Testified at San Mateo County Tax Board regarding the Redwood Shores Special Assessment District with an estimated value of \$1 billion. Testified in Santa Clara County Criminal Court as a percipient witness in a real estate fraud case.

SPEAKING ENGAGEMENTS

Santa Clara County Brokers Association, Role of the Real Estate Appraiser, 6/2008

SW Chapter American Assoc. Airport Executives, Appraisal/Lease Negotiations, 1/2011

Appraisal Institute Spring Litigation Conference, Subsurface Easements, 5/2013

IRWA Chapter 42 Annual Spring Conference, Appraiser Right of Way Debate, 4/2014

CLE Eminent Domain Conference, Temporary Construction Easements, 10/2014

IRWA Chapter 42 Annual Spring Conference, Agency/Owner Appraisal Issues, 4/2015

Terry S. Larson, MAI - Partner

Page 2

PROPERTY TYPES APPRAISED

Commercial	Retail, Office, Apartments, Hotels, & Restaurants.
Industrial	Warehouse, Industrial, R&D, Mini-Storage, Manufacturing Plants, Truck Facilities, Cross Docks, & Corporate Campuses.
Vacant Land	Industrial, Commercial, Agricultural, Residential & Mitigation.
Specialty	Golf Courses, Mixed-Use Projects, Food Processing, Jet Hangars, Fixed Base Operations, Sr. Housing, RV Parks, Right-of-Way, Easements, Detrimental Conditions, Partial Interests, Eminent Domain, Residential Subdivisions, Arbitration, Mediation & Appraisal Reviews.

WORK HISTORY

1997 – Present	Partner	Smith & Associates, Inc.
1996 - 1997	Commercial Realtor	Cornish & Carey, Investment Services Group
1988 - 1996	Senior Appraiser	Hulberg & Associates, Inc.
1981 - 1988	Appraisal Manager	American Appraisal Associates, Inc.

EDUCATION

Bachelor of Science, School of Business Finance, University of Oregon, 1980

Appraisal Institute Courses:

Real Estate Appraisal Principles; Basic Valuation Procedures; Capitalization Theory and Techniques; Standards of Professional Practice; Case Studies in Real Estate Valuation; Valuation Analysis and Report Writing; Uniform Standards of Professional Appraisal Practice (USPAP); Case Studies in California Eminent Domain; Federal and State Laws and Regulations; The Appraisers Workfile; Appraisals for Estate Tax Purposes; Valuations of Partial Interests; Fractional Interest and Business; California's Condemnation Process; Appraisal of Nursing Facilities; Right of Way Acquisitions; Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book).

Appraisal Institute Litigation Professional Development Program: The Appraiser as an Expert Witness, Litigation Appraising, Condemnation Appraising.

International Right of Way Association Courses:

Appraisal of Partial Acquisitions; Eminent Domain Law, Basics for Right of Way; Issues in Eminent Domain Valuation; Telecommunications and Rights of Way.

PROFESSIONAL AFFILIATIONS

State of California Certified General Real Estate Appraiser, License No. AG007041

Member of the Appraisal Institute, MAI No. 11046

Member of the International Right of Way Association, Member No. 2508

Appraisal Institute, Northern California Chapter, Board of Directors, 2014-2016

GLOSSARY

Definitions are taken from the Dictionary of Real Estate Appraisal, 5th Edition, the Uniform Standards of Professional Appraisal Practice (USPAP) and Building Owners and Managers Association International (BOMA)

ABSOLUTE NET LEASE

A lease in which the tenant pays all operating expenses including structural maintenance, building reserves, and management, often a long-term lease to a credit tenant. **(Dictionary)**

AGGREGATE OF RETAIL VALUES (ARV)

The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. **(Dictionary)**

AS-IS MARKET VALUE

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. **(Dictionary)**

ASSUMPTION

That which is taken to be true. **(USPAP)**

BUILDING RENTABLE AREA

The sum of all floor rentable areas. Floor rentable area is the result of subtracting from the gross measured area of the floor the major vertical penetrations on the same floor. It is generally fixed for the life of the building and is rarely affected by changes in corridor size or configuration. **(BOMA)**

CASH EQUIVALENCY

An analytical process in which the sale price of a transaction with nonmarket financing or financing with unusual conditions or incentives is converted into a price expressed in terms of cash. **(Dictionary)**

CLIENT

The party or parties who engage, by employment or contract, an appraiser in a specific assignment. The client may be an individual, group, or entity, and may engage and communicate with the appraiser directly or through an agent. **(USPAP)**

CONDOMINIUM

A form of ownership in which each owner possesses the exclusive right to use and occupy an allotted unit plus an undivided interest in common area. A multi-unit structure or a unit within such a structure with a condominium form of ownership. **(Dictionary)**

COVERAGE

The proportion of the net or gross land area of a site that is occupied by a building or buildings. **(Dictionary)**

DEED RESTRICTON

A provision written into a deed that limits the use of land. Deed restrictions usually remain in effect when title passes to subsequent owners. **(Dictionary)**

DEPRECIATION

1) In appraising, the loss is a property value from any cause; the difference between the cost of an improvement on an effective date of the appraisal and the market value of the improvement on the same date. **(Dictionary)**

DISPOSITION VALUE

The most probable price that a specified interest in real property is likely to bring under the following conditions:

- Consummation of a sale within an exposure time specified by the client;
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- An adequate marketing effort will be made during the exposure time specified by the client;
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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. **(Dictionary)**

EASEMENT

The right to use another's land for a stated purpose. **(Dictionary)**

EFFECTIVE AGE

The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. **(Dictionary)**

EFFECTIVE DATE

1) The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. 2) In a lease document, the date upon which the lease goes into effect. **(Dictionary)**

EFFECTIVE RENT

The rental rate net of financial concessions such as periods of no rent during the lease term and above- or below-market tenant improvements (TIs). **(Dictionary)**

EXCESS LAND

Land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately and is valued separately. **(Dictionary)**

EXPOSURE TIME

Estimated length of time that the property interest being appraised would have been on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market. **(USPAP)**

EXTRAORDINARY ASSUMPTION

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis. **(USPAP)**

EXTERNAL OBSOLESCENCE

An element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant. **(Dictionary)**

FEE SIMPLE ESTATE

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. **(Dictionary)**

FLOOR AREA RATIO (FAR)

The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. **(Dictionary)**

FULL SERVICE GROSS LEASE

A lease in which the landlord receives stipulated rent and is obligated to pay all of the property's operating and fixed expenses; also called a full service lease. **(Dictionary)**

FUNCTIONAL OBSOLESCENCE

The impairment of functional capacity of a property according to market tastes and standards. **(Dictionary)**

GOING CONCERN VALUE

1) The market value of all of the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern. 2) The value of an operating business enterprise. Goodwill may be measured separately but is an integral component of going-concern value when it exists and is recognizable. **(Dictionary)**

GROSS BUILDING AREA

The total constructed area of a building. It is generally not used for leasing purposes. **(BOMA)**

GROUND LEASE

A lease that grants the right to use and occupy land. Improvements made by the ground lease typically revert to the ground lessor at the end of the lease term. **(Dictionary)**

HIGHEST & BEST USE

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are 1) legal permissibility; 2) physical possibility; 3) financial feasibility; and 4) maximally profitability. Alternatively, the probable use of land or improved property-specific with respect to the user and timing of the use – that is adequately supported and results in its highest present value. **(Dictionary)**

HYPOTHETICAL CONDITION

A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of the analysis. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions or trends; or about the integrity of data used in an analysis. **(USPAP)**

INTENDED USE

The use or uses of an appraiser's reported appraisal or appraisal review assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment. **(USPAP)**

INTENDED USER

The client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser on the basis of communication with the client at the time of the assignment. **(USPAP)**

INDUSTRIAL GROSS LEASE

A lease of industrial property in which the landlord and tenant share expenses. The landlord receives stipulated rent and is obligated to pay operating expenses, often structural maintenance, insurance and real estate taxes as

specified in the lease. There are significant regional and local differences in the use of this term. **(Dictionary)**

INSURABLE VALUE

A type of value used for insurance purposes. **(Dictionary)**

LEASED FEE INTEREST

A freehold (ownership-interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease). **(Dictionary)**

LEASEHOLD INTEREST

The tenant's possessory interest caused by a lease. **(Dictionary)**

LESSEE (TENANT)

One who has the right to occupancy and use of the property for a period of time according to a lease agreement. **(Dictionary)**

LESSOR (LANDLORD)

One who conveys the right of occupancy and use to others under a lease agreement. **(Dictionary)**

LIMITING CONDITIONS

Constraints which are imposed on valuations by clients, the Valuer, or local statutory law. **(Dictionary)**

LIQUIDATION VALUE

The most probable price that a specified interest in real property should bring under the following conditions:

- Consummation of a sale within a short period;
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under extreme compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- A normal marketing effort is not possible due to the brief exposure time;
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto;
- 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. **(Dictionary)**

MARKET ANALYSIS

A process for estimating the productive attributes of a specific property, its demand and supply, and its geographic market area. Marketability analysis (often referred to erroneously as market analysis) is an essential part of the highest and best use for every valuation assignment. **(Dictionary)**

MARKET RENT

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement including permitted uses, use restrictions, expense obligations; term, concessions, renewal and purchase options and tenant improvements (TIs). **(Dictionary)**

MARKET VALUE

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 and 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 acting in what they consider their own best interests;
- c. A reasonable time if allowed for exposure in the open market;
- d. Payment is made in terms of cash in U.S. dollars or in financial arrangements comparable thereto;
- 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. **(Office of the Comptroller of the Currency)**

MARKET VALUE "AS IF COMPLETE"

A hypothetical scenario representing the market value of the property with all proposed construction, conversion or rehabilitation completed under specified hypothetical conditions as of the date of the appraisal.

MARKET VALUE "AS IF STABILIZED"

A hypothetical scenario representing the market value of the property at a current point in time when all improvements have been physically constructed and the property has been leased to its optimum level of long term occupancy under specified hypothetical conditions as of the date of the appraisal.

MARKETING TIME

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level immediately after the effective date of the appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of the Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.) **(Dictionary)**

MODIFIED GROSS LEASE

A lease in which the landlord receives stipulated rent and is obligated to pay some, but not all, of the property's operating and fixed expenses. Since assignment of expenses varies among modified gross leases, expense responsibility must always be specified. In some markets, a modified gross lease may be called a double net lease, net net lease, partial net lease, or semi-gross lease. **(Dictionary)**

PARTIAL INTEREST

Divided or undivided rights in real estate that represent less than the whole (a fractional interest). **(Dictionary)**

PHYSICAL DETERIORATION

The wear and tear that begins when a building is completed and placed into service. **(Dictionary)**

PROSPECTIVE OPINION OF VALUE

A value opinion effective as of a specified date in the future. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy. **(Dictionary)**

REMAINING ECONOMIC LIFE (REL)

The estimated period during which improvements will continue to represent the highest and best use of the property; an estimate of the number of years remaining in the economic life of the structure of structural components as of the date of the appraisal; used in the economic age-life method of estimating depreciation. **(Dictionary)**

REPLACEMENT COSTS

The estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout. **(Dictionary)**

REPRODUCTION COSTS

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same

materials, construction standards, design, layout, and quality of workmanship and embodying all of the deficiencies, super-adequacies, and obsolescence of the subject building. **(Dictionary)**

RETROSPECTIVE VALUE OPINION

A value opinion as of a specified historical date. The term does not define a type of value. Instead, it identifies a value as being effective at some specific prior date. Value as of a historic date is frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., "retrospective market value opinion." **(Dictionary)**

SANDWICH LEASEHOLD ESTATE

The interest held by the original lessee when the property is subleased to another party; a type of leasehold estate. **(Dictionary)**

SCOPE OF WORK

The type and extent of research and analyses in an appraisal or appraisal review assignment. **(USPAP)**

SURPLUS LAND

Land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved property. **(Dictionary)**

TRIPLE NET (NET NET NET) LEASE

A lease in which the tenant assumes all expenses (fixed and variable) of operating a property except that the landlord is responsible for structural maintenance, building reserves, and management. Also called NNN, triple net lease, or fully net lease. **(Dictionary)**

USABLE AREA

The measured area of an office area, store area, or building common area on a floor. The total of all of the useable areas of a floor shall equal floor usable area of that same floor. The amount of floor usable area can vary over the life of a building as corridors expand and contract and as floors are remodeled. **(Dictionary)**