APPRAISAL REPORT

1401 IMPERIAL AVENUE
SAN DIEGO, CALIFORNIA

APPRAISED FOR

Mr. Michael Keagy, MAI
Principal Appraiser/Program Manager
City of San Diego, Real Estate Assets Department
1200 Third Avenue, Suite 1700
San Diego, California 92101

DATE OF VALUATION

December 31, 2017

DATE OF REPORT

August 19, 2020

APPRAISED BY

Jones, Roach & Caringella, Inc.
10920 Via Frontera, Suite 440
San Diego, California 92127
Our File No.: 2020113

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August 19, 2020

Mr. Michael Keagy, MAI
Principal Appraiser/Program Manager
City of San Diego, Real Estate Assets Department
1200 Third Avenue, Suite 1700
San Diego, California 92101

Re: *1401 Imperial Avenue, San Diego*

Dear Mr. Keagy:

At your authorization and request, we have performed an appraisal of the referenced property. The purpose of this appraisal is to estimate the market value of the fee simple interest. The intended use is for internal accounting and grant funding purposes. The City of San Diego Real Estate Assets Department is the client and the only intended user of the appraisal report. The effective date of the appraisal, commonly known as the date of value, is December 31, 2017. This is a retrospective date of value.

This letter is accompanied by an appraisal report which is intended to comply with the reporting requirements set forth under Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP). It presents summary discussions of the data, reasoning, and analyses that were used in the appraisal process. Supporting documentation concerning the data, reasoning, and analyses is contained herein. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated herein. We are not responsible for unauthorized use of this report.

This appraisal was performed in conformance with USPAP and the supplemental requirements of the Appraisal Institute. This appraisal is subject to certain assumptions and limiting conditions that are made a part of this report. Acceptance and use of this report by the client or any other intended user constitutes acceptance of these assumptions and limiting conditions.

The conclusions are presented on page one of this report. Thank you for this opportunity to be of service. Please contact us if you have any questions or if we may be of further service.

Sincerely,

Robert P. Caringella, MAI, SRA, AI-GRS
AG003295

Eric C. Schneider, MAI, SRA, AI-GRS
AG040624

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SUMMARY OF SALIENT FACTS AND CONCLUSIONS

PROPERTY OWNER ON DATE OF VALUE:	1401 Imperial Holding Company LLC
PROPERTY LOCATION:	1401 Imperial Avenue San Diego, California
ASSESSOR'S PARCEL NUMBERS:	535-614-01, 02
PROPERTY DESCRIPTION:	The subject site contains 10,000 square feet of land area. The site is improved with a three-story, former indoor skydiving facility that was built in 2016 and contains approximately 23,000 to 26,508 square feet of gross building area, depending on the method of measurement. The subject building was designed and constructed as a special-purpose property, but is also functional for other commercial uses including creative office. Some of the building, including the basement and portions of the rooftop equipment area, are not functional for other purposes. For valuation purposes, we have used the gross area of the more functional floors one through three (for office or similar commercial use) containing about 23,500 square feet, which excludes the basement and rooftop enclosure. Based on our inspection, the improvements are in very good condition. The physical condition and functionality of the improvements have been considered in our analysis.
HIGHEST AND BEST USE:	Adaptive reuse for commercial office or similar use (a list of potential uses is provided in this report)
ESTATE APPRAISED:	Fee simple
DATE OF REPORT:	August 19, 2020
EFFECTIVE DATE OF APPRAISAL:	December 31, 2017
MARKET VALUE CONCLUSION:	$7,200,000

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following extraordinary assumption, the use of which might have affected the assignment results.

1. The property was inspected on July 20, 2020. This valuation is based on the extraordinary assumption that the improvements were in a similar condition on the date of value (minor changes made by the current occupant after the date of value have been disregarded), and that the utility and mechanical systems for occupancy of the building were in good working order.

This appraisal is subject to the following general assumptions and limiting conditions.

1. Information, estimates, and opinions furnished by others and contained in this report are assumed to be true, correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed.

2. No responsibility is assumed for matters legal in character, nor do we render an opinion as to title, which is assumed to be held in fee simple interest as of the date of valuation unless otherwise stated.

3. It is assumed that the subject property is readily marketable and free of all liens and encumbrances, except any specifically discussed in this report.

4. Photographs, plats, and maps furnished in this report are to assist the reader in visualizing the property. We have not made a survey of the property, and no responsibility has been assumed in this matter.

5. It is assumed that there are no legitimate environmental or ecological reasons that would prevent use of the property to its highest and best use, unless otherwise set forth in this report.

6. A soils engineering study has not been provided for this appraisal. It is assumed that there are no hidden or unapparent conditions of the property such as subsoil conditions which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which might be required to discover such factors.

7. This report may not be used for any purpose by anyone other than the party to whom it is addressed without our written consent.

8. The submission of this report constitutes completion of the services authorized. It is submitted on the condition that the client will provide us customary compensation relating to any subsequent required depositions, conferences, additional preparation, or testimony.

ASSUMPTIONS AND LIMITING CONDITIONS
(Continued)

9. Possession of this report, or a copy thereof, does not carry with it the right of publication. Disclosure of the contents of this appraisal report is governed by the by-laws and regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially reference to the Appraisal Institute or its professional designations) may be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communications without prior written consent and approval.

10. No warranty is made as to the seismic stability of the subject property.

11. The date of value to which the opinions expressed in this report apply is set forth herein. We assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.

12. We have not performed an engineering survey. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.

13. No opinion is expressed as to the value of subsurface oil, gas, or mineral rights and it is assumed that the property is not subject to surface entry for the exploration or removal of such materials except as is expressly stated.

14. The projections included in this report are utilized to assist in the valuation process and are based on then current market conditions, anticipated short-term supply, and demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted and could affect the future income or value projections.

15. Testimony or attendance in court or any other hearing is not required by reason of rendering this appraisal unless such arrangements are made a reasonable time in advance.

16. The subject property was personally inspected and no obvious evidence of structural deficiencies were found; however, no responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes can be assumed without provision of specific professional or governmental inspections.

17. A title report was not available for this appraisal. It is assumed that there are no easements or encumbrances that would limit the utility of the property, unless otherwise noted in the report. No responsibility is assumed for undisclosed items of record or any unrecorded items that may limit the utility of the property.

ASSUMPTIONS AND LIMITING CONDITIONS
(Continued)

18. By acceptance and use of this report, the user agrees that any liability for errors, omissions, or judgment is limited to the amount of the fee charged for the appraisal. Anyone acting in reliance upon the opinions, judgments, conclusions, or data contained herein, who has the potential for monetary loss due to the reliance thereon, is advised to secure an independent review and verification of all such conclusions and/or facts. The user agrees to notify us, prior to any loan or irrevocable investment decision, of any error which could reasonably be determined from a thorough and knowledgeable review.

19. As used in this report, the word “inspection” means a viewing of the property and its improvements for appraisal purposes; it should not be construed to mean a professional building inspection in which the building structures and systems are reviewed, examined, and/or tested. Measurements taken, if any, are for appraisal purposes only and are not to be relied upon for any other use.

20. Physical inspection of the property revealed no apparent contamination by hazardous chemicals or toxic wastes. However, we are not experts in detecting hazardous waste. It is assumed that no such contamination of the subject property exists.

21. The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformance 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 requirements of the ADA. If so, this fact could have a negative impact on 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 the ADA in estimating the value of the property.

22. The existence of potentially hazardous material used in the construction or maintenance of the subject improvements, such as asbestos, urea formaldehyde foam insulation, and/or toxic waste, which may or may not be present on the property, has not been considered in this valuation. The existence of such substances on or near the property may have an effect on the value of the property. We are not qualified to detect such substances. The client is urged to retain an expert in this field if desired.

APPRAISER'S CERTIFICATE

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, nor bias with respect to, the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.

4. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

5. 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.

6. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

9. No one provided significant real property appraisal assistance to the persons signing this certification.

10. I have personally inspected the property that is the subject of this certification.

11. 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 the agreement to perform this assignment.

12. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute. I have also received certification from the state of California as a Certified General Real Estate Appraiser.

		August 19, 2020
Robert P. Caringella MAI, SRA, AI-GRS AG003295	Eric C. Schneider, MAI, SRA, AI-GRS AG040624	Date

IDENTIFICATION OF THE PROPERTY

The subject of this appraisal is a 10,000 square foot site improved with a three-story, former skydiving facility, which is adaptable for other uses as discussed herein. The subject property is located at 1401 Imperial Avenue and is further identified as Assessor's parcel numbers (APNs) 535-614-01 and -02.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the fee simple interest in the property.

EFFECTIVE DATE OF APPRAISAL

The effective date of the appraisal is December 31, 2017, a retrospective date of value.

INTENDED USE OF THE APPRAISAL AND USER OF THE APPRAISAL REPORT

This appraisal is to be used by the client, the city of San Diego Real Estate Assets Department, for internal accounting and grant funding purposes. The client is the only intended user of the appraisal report. There are no other intended uses of the appraisal or users of the appraisal report.

PROPERTY RIGHTS APPRAISED

The estate appraised is the fee simple interest subject to covenants, conditions, and restrictions of record, if any.

DEFINITION OF PROPERTY RIGHTS APPRAISED

According to *The Dictionary of Real Estate Appraisal, Sixth Edition,*[1] published by the Appraisal Institute in 2015, fee simple estate is defined as follows:

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.

As our assignment pertains to the valuation of the subject's fee simple interest, we have not estimated any value related to intangible assets or removable fixtures. We did note some electrical equipment located in the roof enclosure that could potentially have salvage or other value.

DEFINITION OF VALUE

We have estimated the market value of the fee simple interest in the subject property. Market value is defined as follows.

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

The subject property was appraised on a cash basis. This appraisal is subject to assumptions and limiting conditions contained herein. If any of the assumptions and limiting conditions are not valid, we reserve the right to amend the appraisal. Exposure time has been estimated to be about six months, based on a review of relevant sale data.

DEFINITIONS AND CONCEPTS RELEVANT TO ASSIGNMENT

The subject was constructed as an indoor skydiving facility, considered to be a special-purpose property. Also known as a special-design property, a special-purpose property is defined as a property with a unique physical design, special construction materials, or a layout that particularly adapts its utility to the use for which it was built. These criteria apply to the subject property as it

[1] Unless stated otherwise, definitions contained herein are sourced from this publication.

was designed and constructed for a specific use (indoor skydiving). As noted later in this report, the building can be adapted for other uses without major modifications.

As a result of its unique construction and the subject's relative adaptability, the improvements (for adaptive reuse) suffer from some functional obsolescence, which is defined as the impairment of functional capacity of improvements according to market tastes and standards. Another term relevant to functional obsolescence is functional inutility, which is defined as the impairment of the functional capacity of a property or building according to market tastes and standards; it is equivalent to functional obsolescence when ongoing change makes layouts and features obsolete and impairs value. By contrast, functional *utility* is the ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards; it is the efficiency of a building's use in terms of architectural style, design and layout, traffic patterns, and the size and type of rooms. External obsolescence, also a term used later in this report, refers to negative external influences that are a source of depreciation, and can be temporary or permanent.

The preceding terms are sourced from *The Dictionary of Real Estate Appraisal* and were considered in our analysis of highest and best use and in our valuation analysis; the utility of the improvements (particularly as it pertains to adaptive reuse) is a consideration in our analysis.

OWNERSHIP AND PROPERTY HISTORY

Discussion

On the date of value, the subject was vested in 1401 Imperial Holding Company LLC. The most recent prior sale of the property had been recorded on November 25, 2014, approximately three years prior to the date of value. In this 2014 transaction, the vacant site was sold for $1,800,000, or $180 per square foot of land area. At that time, the property was improved as a parking lot. The property had been marketed for approximately two years prior at an asking price of $1,900,000.

The buyer of the vacant site was Mr. Alan Fink, principal of Airborne America, Inc., who subsequently constructed an indoor skydiving facility after obtaining the necessary entitlements. Known as Airborne San Diego, the facility was completed in late 2016. The reported costs of construction (sourced from a prior appraisal of the property) were approximately $18.8 million, of which approximately $11.3 million was related to furniture, fixtures, and equipment (FF&E) for the skydiving operation. Approximately $3 million of the $11.3 million figure was related to construction of the wind tunnel components; the facility includes two 30-foot-tall glass tunnels. The remaining cost (approximately $7.5 million) is reportedly attributable to building construction.

The total cost of the 2014 land acquisition and the 2016 construction of the improvements (excluding the reported cost of the fixtures and equipment) was $9,300,000.

After only being open a number of months, the business suffered operational difficulties and failed. These difficulties included equipment/machinery failure. The property was transferred by a deed-in-lieu of foreclosure to Suncoast Financial Mortgage Corporation (Suncoast). This document, recorded on September 22, 2017, indicates the amount of unpaid debt together with costs was $10 million. A Correcting Quitclaim Deed was recorded about one month later on October 22, 2017, with Suncoast quitclaiming its interest to 1401 Imperial Holding Company LLC. The Quitclaim Deed indicates that Suncoast did not hold equitable interest in the loan related to the deed-in-lieu of foreclosure, and that it held title as a servicing agent for a trust that is the sole member of 1401 Imperial Holding Company LLC (this transaction is mentioned here to identify the current ownership prior to the sale to the city of San Diego, discussed below).

To our knowledge, no other transfers of title have occurred in the three years prior to the effective appraisal date. In 2017, there was reportedly some effort to find a buyer for the property, and the city of San Diego purchased the property with a closing on February 7, 2018. The intent by the city was to use the property for a housing navigation center. The price paid was $7,000,000, which equates to approximately $298 per square foot based on 23,500 gross square feet.[2] The city was reported to have allotted an additional $300,000 for permits and improvements for the housing navigation center. The property has since been put to this use and is operational. Other documentation related to the purchase includes a prior appraisal indicating a value of $22 million, and a broker opinion of value (BOV) indicating a value of $15 million. These opinions were not relied upon for this appraisal assignment.

Analysis

In analyzing the property history, including the failure of the skydiving operation, we found no evidence to suggest that this use should continue. We have not investigated this use further. Instead, we have focused this valuation on adaptive reuse of the building as this is how market participants would evaluate this property (absent a skydiving user).

As shown later in this report, land values in San Diego had increased considerably since the 2014 subject land purchase, particularly in the East Village area, which is one of the last neighborhoods in downtown San Diego that is ripe for redevelopment. Based on the land sale data contained herein, the value of the subject land was higher on the date of value, which also contributes to the subject's overall value as an improved property.

[2] This square footage and its use in our analysis will be discussed in the section regarding the improvements.

Although land and development costs were reportedly $20.6 million,[3] much of the costs are attributable to FF&E specific to the skydiving operations. In adaptive reuse of the building, this FF&E was considered functionally obsolete as it does not provide contributory value to the interest being appraised. The only improvement cost that is somewhat relevant to our analysis is the $7.5 million figure attributable to the building itself; this figure will be discussed later in our valuation analysis.

For purposes of our analysis, we have ignored the 2017 transactions as these were not arm's-length sales and/or involved foreclosure. We did not give any weight to the value opinions established in the prior appraisal and BOV as our assignment requires an independent valuation of fee simple market value. Last, USPAP requires the appraiser to consider recent sales or contracts of sale involving the subject property. While the $7,000,000 purchase by the city does provide some evidence of value, we have appraised the property independent of this figure (as there has been some reported concern as to whether the purchase price was reasonable). As such, we have given essentially no weight to the February 2018 purchase price involving the city.

SCOPE OF THE APPRAISAL

This analysis is intended to be an "appraisal" as defined in the Uniform Standards of Professional Appraisal Practice (USPAP). It is our intent that the appraisal service be performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party. All appropriate data deemed pertinent to the solution of the appraisal problem was collected, confirmed, and reported in conformity with USPAP and the supplemental requirements of the Appraisal Institute. The scope was appropriate in relation to the appraisal problem.

In preparing this appraisal, the following tasks were performed:

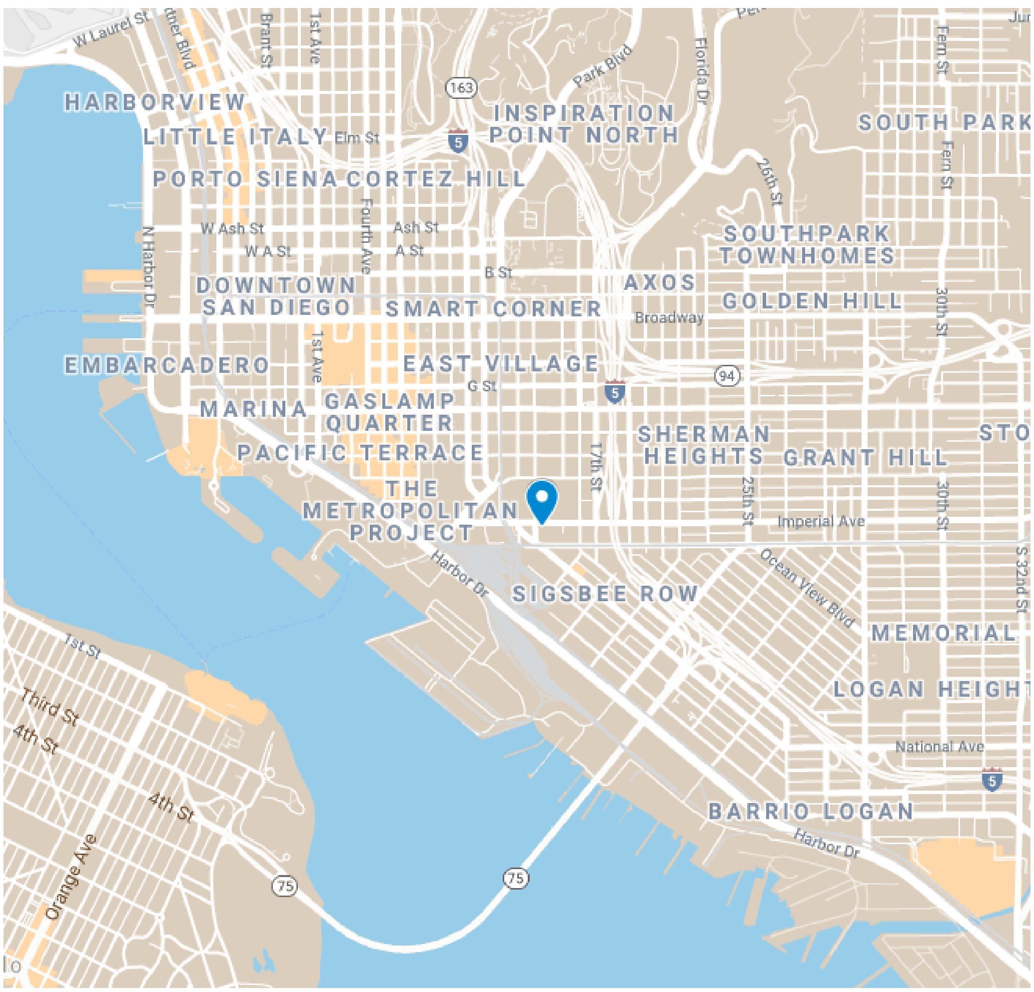
- the subject property was inspected by the appraisers;
- the physical, legal, and economic characteristics of the subject property were investigated;
- research related to the determination of gross building area was performed, including a reading of publications produced by the Building Owners and Managers Association International (BOMA);
- the highest and best use of the subject property was determined;
- various market participants were interviewed;

[3] Land price of $1.8 million plus development costs of $18.8 million.

- research was conducted to locate, inspect, and verify improved sale information for use as comparable sale properties;
- the sales comparison approach was the primary method used to value the subject; and
- as a test of reasonableness, cursory cost and income approaches were performed in support of the sales comparison approach.

This appraisal report includes a description of the subject property as well as a discussion of the reasoning that has resulted in the conclusions. This appraisal is subject to certain assumptions and limiting conditions that are made part of this report.

AREA MAP



AREA DESCRIPTION

Introduction

The subject property is located in downtown San Diego, the heart of San Diego where many government, law, and business offices are located. Downtown has also evolved into a popular shopping, entertainment, and residential area. The downtown area has been divided into several subareas: Columbia, Civic/Core, Convention Center, Marina, Horton Plaza/Gaslamp Quarter, Little Italy, Cortez, and East Village (where the subject is located), each with its distinctive land use patterns. The following map shows the location of East Village in relation to the other subareas. East Village is further divided into four subdistricts, Northwest, Northeast, Southeast, and Ballpark. The subject is located on the west side of the Southeast subdistrict, proximate to the parking lots that support Petco Park (identified with the blue marker).

Downtown's two former redevelopment projects, the Horton Plaza Redevelopment Project and the Centre City Redevelopment Project, eventually covered the entire 1,450 acres of downtown bounded by the waterfront and Interstate 5. This area is generally covered by the Downtown Community Plan. When the redevelopment agency was dissolved in about 2011, development planning was shifted to Civic San Diego (successor to the Centre City Redevelopment Agency). Though occurring after the date of value (June 2019), the San Diego City Council voted to separate

Civic San Diego from the city in response to a settlement agreement. This action will return downtown land use decisions to the city and leave Civic San Diego as a private, non-profit, public benefit company that has a focus on community investment programs.

Development Trends

East Village has seen significant redevelopment in past economic upturns. The 26-block ballpark district features Petco Park, a 42,000-seat stadium designed for the San Diego Padres. The ballpark opened in 2004 and is located in the southwest quadrant of East Village. As downtown's largest neighborhood, East Village is the last neighborhood where major new development has occurred. Largely as a result of the ballpark and ancillary uses, development has surged in the area.

The western part of this neighborhood is home to several mid and high-rise residential projects. Pinnacle at the Park, a 46-story, 484-unit apartment project, was constructed in 2015 at a cost of $150 million. The Rey is a 478-unit, 328,000 square-foot apartment complex that was constructed in 2017 at the west edge of East Village. Although development is currently underway (after the date of value), one other notable project is located just south of the subject at 1402 Commercial Street. This is a 1.06-acre site that is approved for a 14-story residential tower and owned by Father Joe's Village. The development consists of 407 units, all of which will be operated as affordable housing. The immediate neighborhood also includes smaller residential projects, including the 62-unit Cypress project. This 2017-built affordable housing development is located adjacent to the east of the subject.

In addition to these projects, there are other commercial projects that have been constructed in East Village. Cisterra Development (Cisterra) constructed a $165 million, 16-story office tower for Sempra Energy, which includes 393,000 square feet above grade, and parking for approximately 500 cars. The property is located at 488 Eighth Avenue. Located on this block are two sales that were utilized in our sales comparison approach to value that were owned by Cisterra. A new San Diego Central Library complex took root in East Village, opening in September 2013. The main structure is nine stories high and the entire complex contains approximately 497,000 square feet. Its iconic architecture represents an anchor and a landmark for the neighborhood.

Area Analysis and Conclusion

The subject property is located at the southeast corner of Imperial Avenue and 14th Street. This location is within a half-mile of several prominent landmarks, including Petco Park, the convention center, and the downtown central San Diego Library. At one point prior to the date of value, the

San Diego Chargers had contemplated moving to East Village, but in early 2017 the decision was made to move the team to Los Angeles. East Village is also home to several adaptive reuses of older industrial buildings for uses such as gyms, breweries, and creative office space.

The subject is located southeast from Tailgate Park, which was poised for redevelopment on the date of value. In early March 2020, the Padres organization announced it had formed a joint venture with local and international real estate partners to pursue development of the site. The property is leased to the Padres organization through 2042 when options are included. Other current developments include a Kilroy project to the north. To the west is a 10-story office tower that is proximate to a trolley station. There is pedestrian traffic in this area of downtown, though this activity is more prevalent farther west of the subject.

Development in East Village in recent years has been focused on mixed-use projects that typically include residential over commercial/retail space. Some office components have been included in some projects as well. Based on the physical characteristics of the improvements, the subject can take advantage of this demand, particularly for commercial office use. Additionally, the immediate subject area is undergoing a transition from lower-intensity commercial uses to higher-intensity commercial and mixed-uses. As this part of East Village continues its transformation, the subject will benefit.

MARKET TRENDS

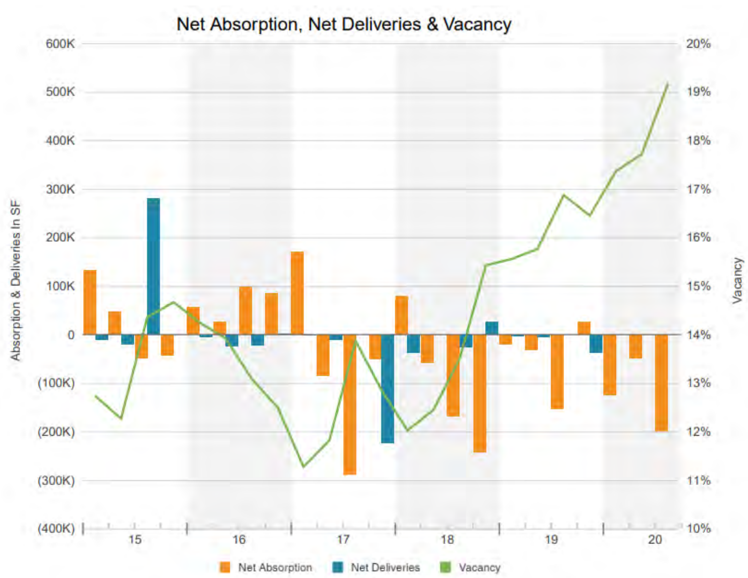
The subject is located in downtown San Diego, a highly desirable submarket in San Diego County. In order to understand the market forces that influence value, various segments of the commercial real estate market were investigated using CoStar Group, a real estate research company.

While the subject was originally designed for a specialized use, it is readily adaptable to other uses because so many office and instructional areas were included in the design. One logical use of the subject building is commercial office. Given this alternative, the downtown office market was investigated. Also included is a brief investigation of retail trends; the subject improvements are adaptable to certain types of retail uses as discussed herein. As our valuation includes a cursory analysis utilizing the cost approach to value, the land market was also investigated. In the few years leading up to the date of value, land values (particularly for land in downtown San Diego and East Village) increased considerably.

Office

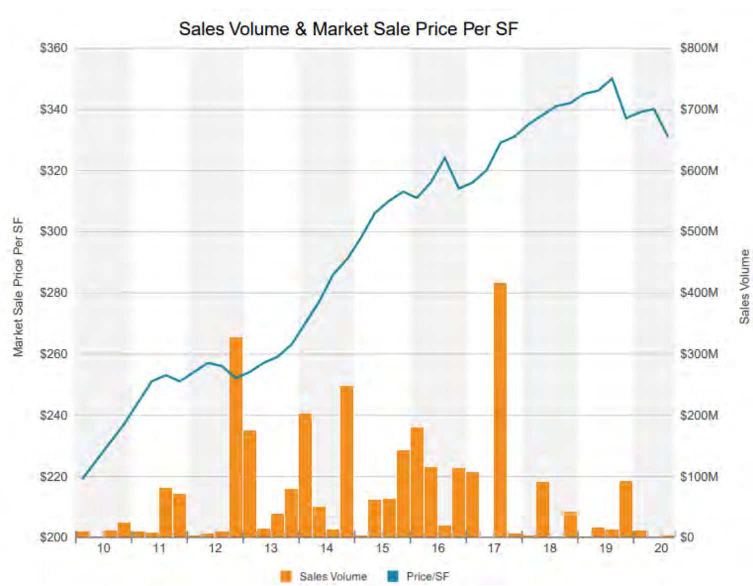
As shown in the following chart from CoStar that depicts the office market in downtown San Diego, the average rental rate had been increasing through the date of value. The average vacancy rate had been relatively stable in the few years prior to the date of value following a steady decrease that began in 2012. However, the vacancy rate would eventually begin to rise in late 2018 (after the date of value).

As shown in the following chart, the downtown market had experienced several quarters of positive absorption leading up to the date of value. However, 2017 experienced both negative absorption and negative net deliveries.

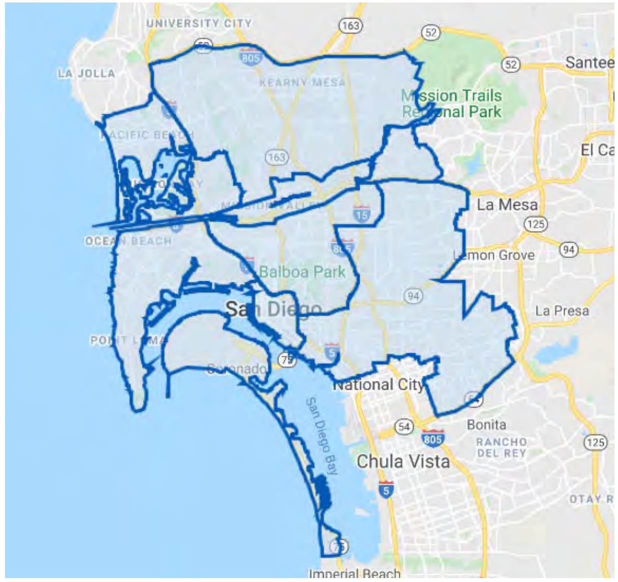


Despite these negative trends, the time to lease was relatively low; the following chart indicates that the average time to lease was around six months or less on the date of value.

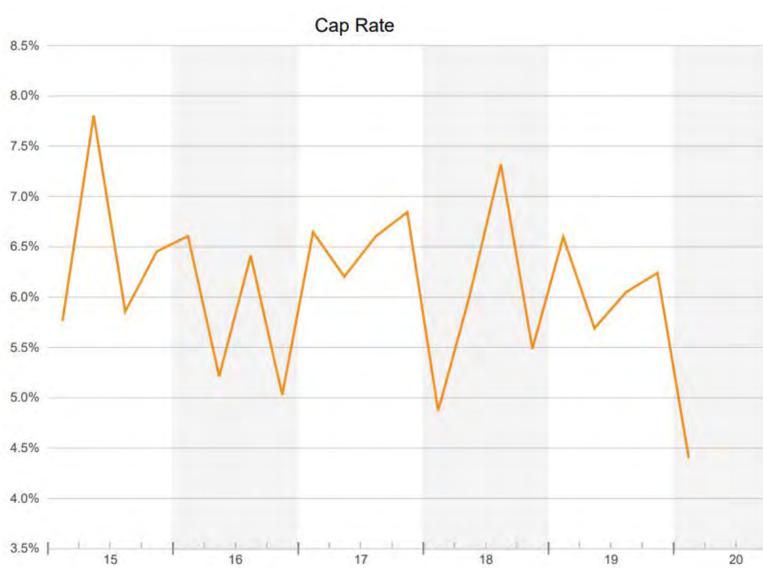
In addition to leasing trends, we also reviewed sale trends for office properties in the submarket. As evidenced by the following chart, sales volume has been relatively consistent over the past five years (with considerable spikes in some quarters), while the average price per square foot had been generally increasing.



With respect to capitalization rates, we researched rates in the central San Diego submarket cluster as there was insufficient rate data in the downtown market alone. The central San Diego cluster is identified in CoStar by the following map.



As shown in the next exhibit, capitalization rates had been on an overall downward trend in the years prior to the date of value (which suggests rising values).



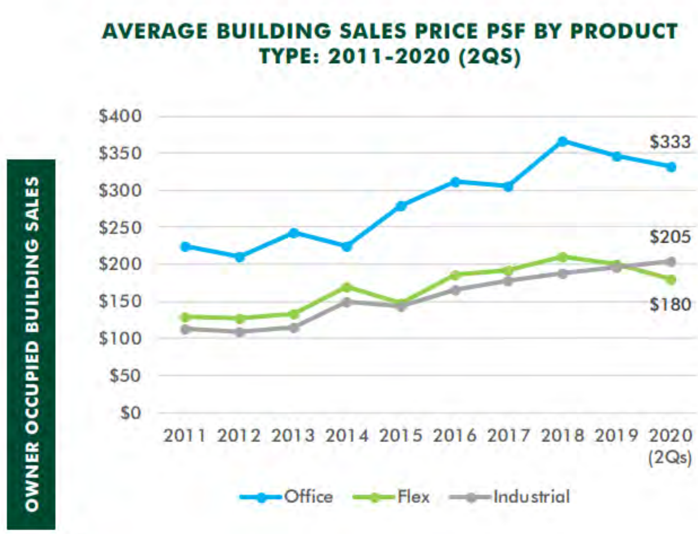
In the past 15 years, there has been a surge of development in downtown San Diego, including some office development. According to CoStar, there have been 1.6 million square feet of office built in downtown since 2005, including larger projects such as the aforementioned Sempra Energy building as well as office condominium projects, with some units under 1,000 square feet.

As the subject consists of relatively new construction, we investigated sales of newer office product in East Village to demonstrate the magnitude of pricing. For example, the DiamondView

East Village project is a 2007-built office development with over 310,000 square feet of building area. This property (located at 350 Tenth Avenue) sold in September 2017 for $207 million, or over $660 per square foot. Another example is the TR Office | TR Retail project built in 2006 and located at 406 9th Avenue. This project includes office condominiums that sold in the range of $350 to $450 per square foot around the date of value, noting that there is no onsite parking. These projects are located in proximity to Petco Park, and their functional utility make them superior to the subject. However, these projects are discussed to emphasize the type of pricing that newer office product in East Village can command, and that such development is in demand. Many smaller spaces have been occupied as creative office space.

Downtown San Diego continues to attract office uses. While popular nodes are located further north in San Diego County (such as in University Towne Center and Del Mar Heights), downtown has the potential for office expansion based on its existing transportation infrastructure and residential base. Around the date of value, UC San Diego Extension planned to develop in East Village and newer developments continue to include an office component.

As noted later in this report, the subject property is best suited for use by an owner-user/single occupant. The following exhibit from CBRE, a commercial real estate firm, shows the average price per square foot for various owner-occupied property types in San Diego County. As shown, the office per square foot had risen considerably in the few years prior to the date of value. As a property designed for owner-user/single-occupant use, the subject was poised to take advantage of this trend (fee simple ownership was generally considered superior to the condominium form of ownership).



Lastly, it is noted that the subject improvements are adaptable for a range of commercial uses, including some quasi-retail space. As discussed later in this report, the improvements could be used by a range of occupants that also compete for retail space, and so downtown retail market trends were briefly investigated. As shown in the following chart from CoStar, the average retail rent had been steadily increasing through the date of value (around $3.00 per square foot per month, net on the date of value), while the vacancy rate had been decreasing (though the rate has been relatively low at under 5 percent). The average retail rent is notably higher than office rents, which is attributed to demand for retail space downtown, particularly in neighborhoods such as Little Italy and the Gaslamp area where monthly rents can exceed $5.00 per square foot, net.

Land

The land market was investigated using CoStar with the entire San Diego market investigated to illustrate pricing trends. Additionally, numerous market participants were interviewed. The following table summarizes the CoStar results represent all individual land transactions reported in the last several years surrounding the date of value that included a sale price and contained no sale conditions.

CoStar Land Sale Summary

Period	# of Transactions	Sales Volume	Land Acres	Median Price Per Land SF
2012	150	$663,718,708	2,805.7	$17.87
2013	164	$647,451,665	3,531.4	$14.28
2014	176	$549,914,928	6,409.5	$18.71
2015	179	$906,810,670	3,481.1	$22.51
2016	212	$805,692,877	3,401.3	$25.92
2017	156	$776,503,217	3,068.8	$25.41
2018	195	$883,218,417	7,574.5	$27.96

As the chart indicates, the land market year-over-year is subject to substantial volatility. This is partially because the transactions vary in terms of physical characteristics, zoning designations, and entitlement status. Additionally, the land market ranges greatly between locations. Nevertheless, the purpose of this analysis is to discern overall trends in the San Diego land market. Overall, the land market had been steadily improving prior to the date of value, though transaction volume and the median price per square foot decreased slightly in 2017. Despite this slight downward trend in 2017, it was expected that the land market would continue to experience positive market conditions.

As demonstrated in the market data utilized, land prices in downtown San Diego are significantly higher than most of the county. What is also evident in market data specific to downtown San Diego/East Village is that land prices increased significantly over 2013 through 2018. As a result of increased demand in the neighborhood, many land sales have taken place in the range of $300 to $600 per square foot or more around the date of value. One other example took place in 2018 at 241 14th Street, located two blocks north of the subject. This city-block sold for nearly $390 per square foot, indicating relatively high pricing in the area.

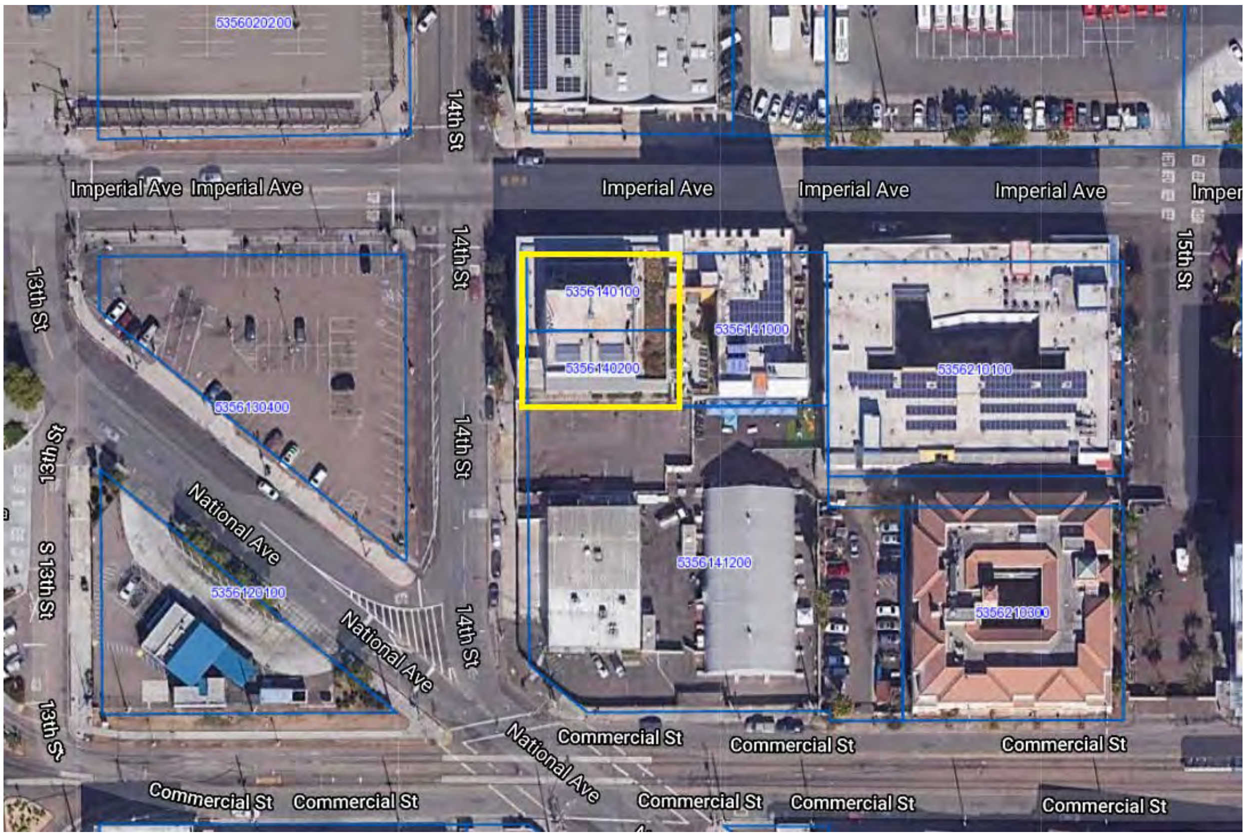
Conclusion

Based on our research, there was no evidence to suggest that market trends would drastically change in the future from the perspective of a December 2017 date of value. Prices generally continued to rise, and rental rates were projected to increase. Additionally, office and land pricing were relatively high in the East Village neighborhood. Vacancy increased following the date of value as a result of some negative absorption, but, overall, market conditions were good on the date of value and were expected to remain positive.

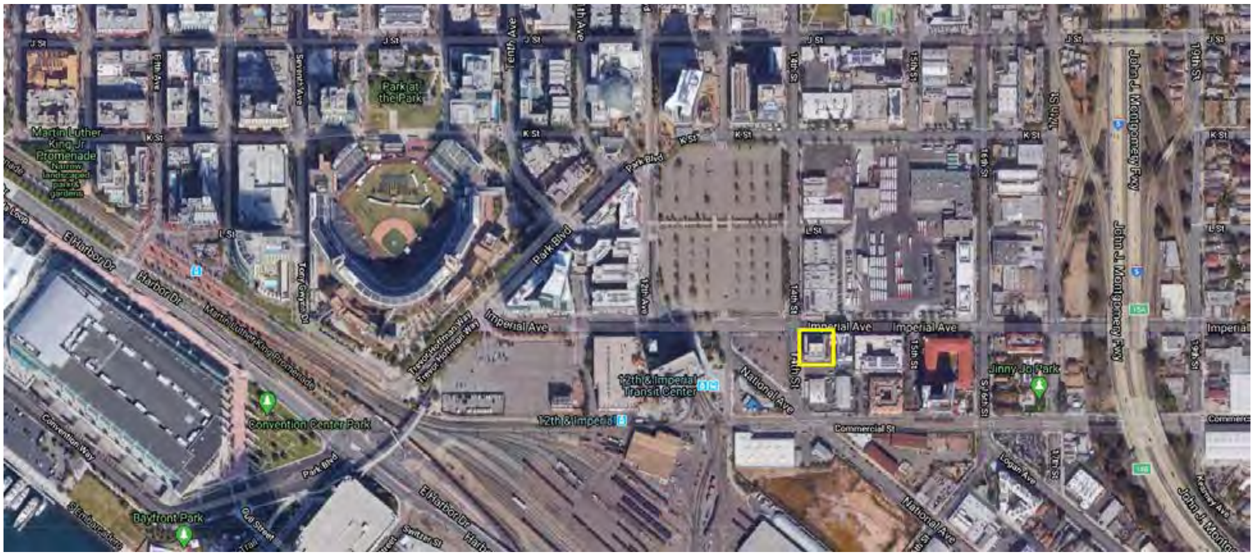
LAND DESCRIPTION - PHYSICAL CHARACTERISTICS

Location and Access

The subject property is located at the southeast corner of Imperial Avenue and 14th Street. Access is available from either street, but noting that there is no onsite parking. The following is an aerial photograph of the subject property with the subject highlighted in yellow.



As shown in the following image, the subject is proximate to landmarks such as Petco Park, the 12th and Imperial Transit Center, and the convention center. Imperial Avenue also provides access to and from Interstate 5 (with travelers having to head north on 19th Street to access northbound I-5). Trolley (light rail) access is proximate to the subject as well.



Surrounding Uses

The subject is surrounded by a mix of uses. To the immediate north are older commercial/industrial buildings (adaptive reuse to office and a brewery). Most of the superblock to the north is used by the San Diego Metropolitan Transit System as a bus yard. To the east of the subject are multifamily projects, with the adjacent property recently built as an affordable housing project. To the south of the subject is a property that was improved for low-intensity commercial use on the date of value, and is currently under construction as a multifamily project. To the west is a parking lot operated by ACE Parking, and to the northwest is large parking field known as Tailgate Park and owned by the city of San Diego. While the city is currently exploring options to either sell or lease the 5.25-acre site, it was used as a parking lot on the date of value (eventual redevelopment was expected).

Street Improvements

Imperial Avenue is a four-lane, asphalt-paved street with traffic traveling in an east/west direction. Street improvements include concrete curbs, gutters, and sidewalks. 14th Street is a two-lane street that is similarly improved. However, traffic is one-way (north) along the western boundary of the subject before transitioning to a north/south path of travel beginning north of the intersection. According to the Assessor's parcel map, the right of way for both streets has a width of 80 feet. Traffic at the intersection is controlled by stop signs.

Size and Shape

According to the Assessor's parcel map contained herein, the site contains 10,000 square feet (5,000 square feet for each legal parcel) and is square in shape.

Topography, Drainage, and Flood Control

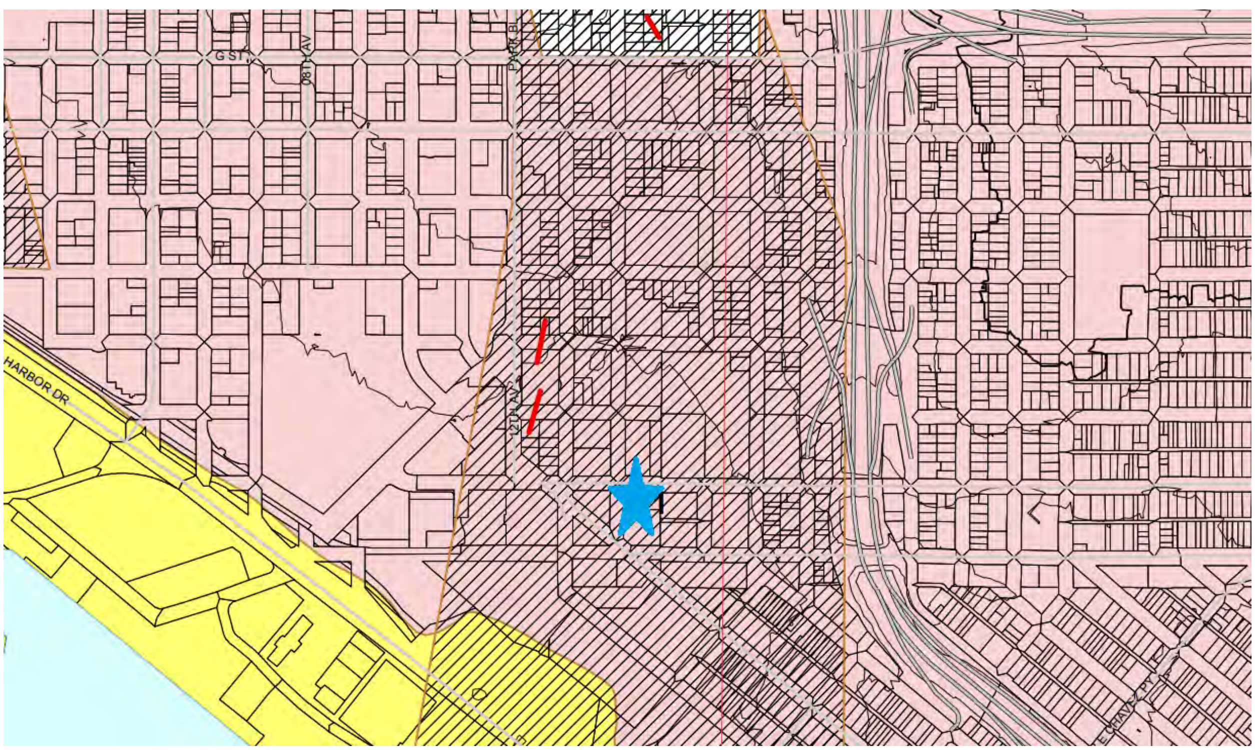
The subject's topography is generally level, and drainage appears to be adequate. According to Federal Emergency Management Agency, the subject is located on Flood Insurance Rate Map panel number 06073C1884H, dated December 20, 2019. The property is located in Zone X, defined as an area determined to be outside the 500-year flood plain (mapping created prior to the date of value indicates the same flood zone). As shown in the following exhibit, the subject is proximate to (but does not appear to be impacted by) the flood zone indication a 0.2 percent annual chance flood hazard.

Soils

A soils report was not provided for this appraisal. No obvious adverse soils conditions were noted during our inspection. It was assumed as part of this analysis that the subject has soils capable of supporting its highest and best use.

Seismic Stability

According to the Department of Conservation, the subject property is located within the Point Loma Quadrangle. The city also produces a Seismic Safety Study identifying geologic hazards and faults. Based on these sources, the subject is located within an Alquist-Priolo earthquake fault zone. The state Alquist-Priolo Zone Act regulates development near active faults, preventing buildings intended for human habitation from being built on identified active faults (setbacks apply). The following exhibit from the city shows the subject located in an active fault zone, but not on a fault line. San Diego County is seismically active, and improvements in the area are generally required to withstand seismic activity.



Utilities

The subject is provided with all public utilities. Water and sewer service is provided by the city. San Diego Gas & Electric provides electricity and gas services.

Hazardous Waste

Physical inspection of the subject property did not reveal the obvious existence of any hazardous waste. However, we are not experts in this field. The neighborhood has historic uses commonly associated with hazardous waste/chemical contamination. This includes automotive uses and former burn sites located downtown. According to GeoTracker (the State Water Resources Control Board's data management system), there are no open cases associated with the property. However, there are two prior cases involving gasoline and diesel as contaminants of concern. These cases have been closed for decades.

We have read environmental site assessments (ESAs) dated 2014 and 2015 related to the subject. According to these ESAs, certain recommendations were made related to development of the site, including precautions regarding soil extraction and dewatering. No significant impacts were reported, though we have not been provided with any current assessment (or an assessment near the date of value). It is assumed that no such hazardous waste exists that would significantly impact value. We presume that any soil contamination would have been removed for excavation of the relatively deep basement structure (discussed further in the improvement section of this report).

Potential Adverse Influences

The immediate subject area can be described as being along the fringe of new development that has been expanding eastward in East Village, and still transitioning from older heavy commercial uses to more mixed-use redevelopment. The location is in the path of redevelopment.

LAND DESCRIPTION - LEGAL CHARACTERISTICS

Legal Description

A legal description of the property is retained in our workfile.

Easements and Encumbrances

A preliminary report was not available for this assignment. There were no easements noted on the Assessor's parcel map or other maps available to the appraisers. No additional encroachments or easements were observed during our inspection. Lacking any information to the contrary, this assignment is based on the assumption that there are no easements or encumbrances that would have a significant adverse impact on the value of the subject property.

Zoning and Land Use

The subject property is located in the East Village neighborhood of downtown San Diego. Land use is regulated by the Centre City Planned District (CCPD). According to the CCPD Ordinance (CCPDO), the subject's base district is identified as Mixed Commercial (CCPD-MC). According to the municipal code, the MC district is intended to accommodate a diverse array of uses, including residential, artist studios, live/work spaces, hotels, offices, research and development, and retail. Commercial and service uses, including light industrial and repair, warehousing and distribution, transportation, and communication services that are essential for the livelihood of businesses and residents of the downtown area are also permitted. This zone is meant to allow existing industrial and warehousing activities to continue along with new uses such as residential and offices. The property is also subject to the Downtown Community Plan, which is generally consistent with the CCPDO. Some adaptive re-uses may require further city approvals.

In this planned district, properties are subject to a base minimum and maximum floor area ratio (FAR) for new construction. With respect to the subject, the base minimum FAR is 2.0 and the maximum is 3.0. However, the CCPDO allows for density bonuses/incentives to promote civic benefits. These include retail along active streets, preservation of historical resources, affordable housing, parks or public infrastructure, and specifically desirable amenities such as green roofs. With these incentives, the maximum FAR is 6.0. The subject is also impacted by a Large Floor Plate Overlay (LF). The LF District allows for larger floor plates and bulkier buildings at upper levels to accommodate employment uses.

The zoning and planning regulations impacting the subject property are quite complex. Our appraisal is based on our understanding of zoning requirements and policies based on our research. The information provided on the previous page is intended to summarize the land use constraints to assist in our valuation.

LAND DESCRIPTION - ECONOMIC CHARACTERISTICS

Assessment Information

The subject property is located in tax rate area 19074, which carried a tax rate of $1.16967 per $100.00 of assessed value for the 2017/2018 fiscal year. Historical fixed charges are not readily available (and, as the subject is currently owned by the city and exempt from taxation, there are no current assessment figures), but were reported to be in the range of $3,000. California law requires that properties be reassessed upon transfer, and inherent in the definition of value is a sale of the property. Due to properties in California being reassessed upon transfer, the subject's current assessment is not relevant for valuation.

DESCRIPTION OF THE IMPROVEMENTS

The subject site is improved with a specialized commercial building constructed in 2016 and designed as an indoor skydiving facility. The building construction is mostly poured-in-place concrete with a glass exterior. The facility has three main floors, plus a basement and roof enclosure. The central portion of floors two and three have an atrium (open space);[4] in this central portion of the building are two, 30-foot tall glass tunnels that served as the indoor skydiving tunnels, and the original concept was to allow spectating on the second and third floors. Following the city's acquisition, very few improvements were needed for use of the building.

On the ground floor is the main reception area and café with a kitchen and pantry. Each floor includes perimeter offices and classrooms, open seating areas, and at least two restrooms. Access to each floor is via an elevator located inside the northern portion of the building that opens to a landing and seating area on each floor. There are also two interior stairways, one of which is located inside the building near the elevator, and other located in a separate stairwell at the southwest corner of the building. Interior finishes include polished concrete floors (noting that some carpeted floors were installed in portions of the building after the city's purchase); concrete,

[4] According to BOMA, this is identified as a Building Void and would not be included as building area.

drywall, and glass partition walls (noting the glass exterior); and acoustic tile and drywall ceilings. There is built-in cabinetry in many areas, lockers, and an enclosed balcony (which would be included under BOMA standards) with barbeque equipment. The ceiling height is about ten feet or higher in some places. The building is also sprinklered.

In addition to the three main floors, the roof is partially enclosed and contains much of the skydiving/electrical components. If these components were removed, this high-ceiling roof enclosure (about 3,200 square feet) could have more functional utility, but currently the utility is nominal. The roof also has rooftop garden area, which is an attractive feature of the building, particularly for adaptive reuse of the property. There is a basement area that is approximately 35 feet deep and consists mainly of metal ducting for wind to be directed up into the glass tunnels. Upon inspection, there is nominal functional utility as to the basement. Both the basement and the roof are accessed by the separate stairwell. There is no onsite parking.

There is some discrepancy regarding the reported size of the building. Because the building is specialized, there is not necessarily a “standard” measurement for this property. In our highest and best use analysis, we have determined that the improvements are best suited for a single user. As such, we have consulted BOMA’s “single-use standards” for an office building (ANSI/BOMA Z65.1, dated 2017) as well as the standards for Gross Areas of a Building (ANSI/BOMA Z65.3, dated 2018), which provide that the size of buildings leased to/occupied by a single occupant can be based on gross area. Because the building is most easily adaptable to office or similar commercial use, we have used a building measurement methodology that would be acceptable in the marketplace (we have excluded the basement and rooftop enclosure due to functional inutility). Further, we have discounted the value due to less functional areas on floors one through three.

According to public records, the building contains 26,508 square feet, which equates to an FAR of 2.65 based on 10,000 square feet of site area. However, a prior appraisal indicates the size of the building to be about 23,000 square feet, reportedly sourced from the former property owner (Airborne America). Based on our approximate exterior measurements, the ground floor contains approximately 9,000 square feet. The atrium inside the building measures approximately 35 feet by 50 feet (or about 1,750 square feet), so the second and third floors each contain a gross area of about 7,250 square feet each, more or less (for a total of about 14,500 square feet for the two upper floors combined). The total of the three floors suggests a gross area of approximately 23,500 square feet (9,000 plus 14,500). Although requested, we were not able to receive a copy of building plans, and the city’s development services department is closed to the public during the current COVID-19 pandemic.

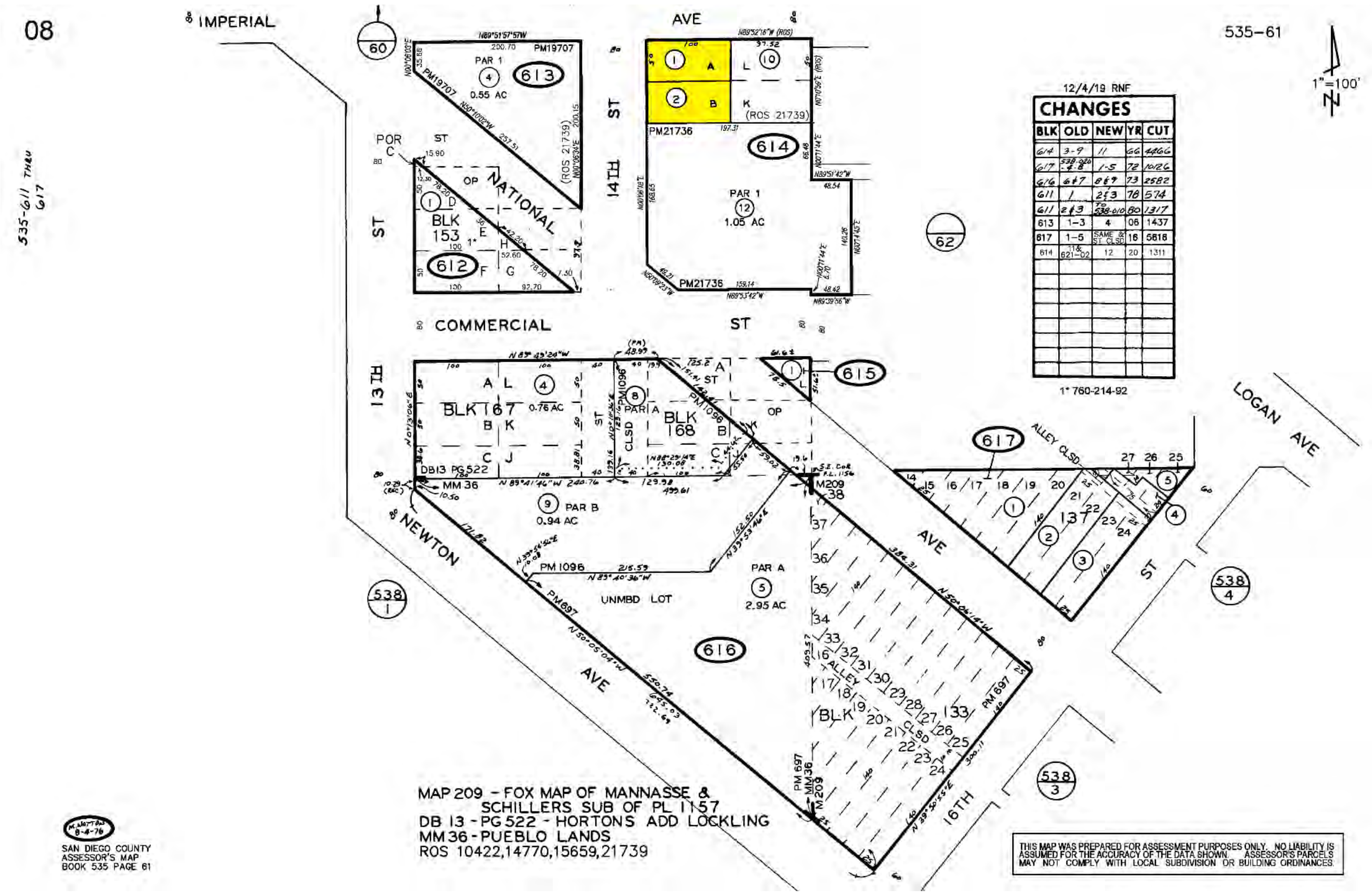
As discussed, the improvements are designed for a single user, and our highest and best use analysis indicates that a single owner/user would be the most likely occupant. According to

BOMA, gross building area may be used as the measurement standard for a single occupant, and market participants generally use gross area for single-occupant buildings. Absent building plans, we have used a figure of 23,500 square feet as reasonably representative of gross area for the three-story structure. Given the use of this gross size, we also recognized in the valuation that not all of the space is fully functional, and that the square footage is approximate.

Originally designed as an indoor skydiving facility, the improvements suffer some functional obsolescence. The skydiving-related components (including the glass wind tunnels, the mechanical components located in the enclosed roof structure, and the metal ducting in the basement level) do not contribute to value, and the roof and basement square footage was not included in the gross building area used for valuation. The glass tubes are located in the atrium area and have a fairly small footprint on the ground floor (still a somewhat usable area). Other air ducting behind walls are not functional unless converted. Despite some of the improvements having functional constraints, the building is still very usable and desirable for office use or similar commercial use. Based on the building configuration and interior improvements, the subject is best suited for a single occupant.

The improvements were about one year old on the date of value. According to Marshall Valuation Service (a cost manual used in the appraisal industry to estimate construction costs and depreciation), commercial properties of this construction type (concrete and glass) have a typical building life of more than 50 years, which can be extended considerably with ongoing maintenance and repairs. The structure is good quality and in very good condition. The remaining economic life is estimated to be approximately 50 years or more, assuming adequate maintenance. The quality of the subject improvements and their essentially new construction have a positive impact on appeal and market value.

ASSESSOR'S PARCEL MAP



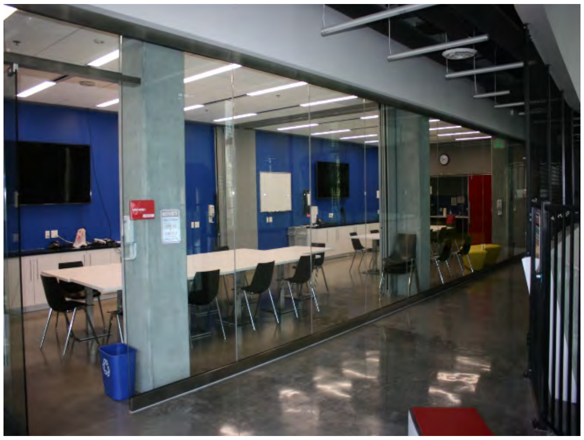
SUBJECT PHOTOGRAPHS

Subject front exterior viewing southeast

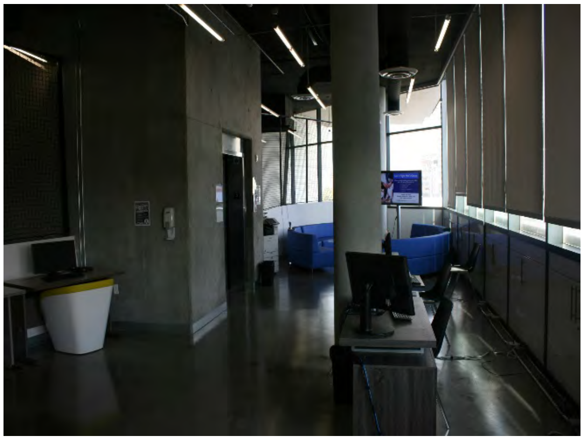
Ground floor with glass tunnel visible

Example of interior

Sample office/classroom space



Elevator landing and seating area



Ground floor area

Upper floor area

Upper floor area

Stair access

VALUATION METHODOLOGY

The purpose of this appraisal is to estimate the market value of the fee simple interest in the subject property. There are three generally recognized approaches to value. These include the cost, sales comparison, and income capitalization approaches. Based on our analysis of the subject's highest and best use, as well as the market data contained herein, the sales comparison approach is the primary approach utilized as it is most relevant to the subject use and would be used by most market participants. As secondary support and test of reasonableness, a brief analysis utilizing the cost approach and the income capitalization approach was performed; these approaches to value were considered as a test of reasonableness for the primary sales comparison approach.

The sales comparison approach is based on the principle of substitution and relates similar properties that have recently sold to the subject. In the cost approach, the depreciated cost of the improvements is added to the estimated land value to arrive at a value conclusion; the sales comparison approach was utilized to value the land. In the income capitalization approach, specific appraisal techniques are applied to develop a value indication for a property based on its earning capability and measured by the capitalization of property income. In this case, direct capitalization was used to value the subject property by income capitalization.

Prior to valuing the subject, the highest and best use of the subject property must be determined. The purpose of the highest and best use analysis is to establish which use will result in the highest value, and to assist in identifying relevant comparable data.

HIGHEST AND BEST USE

Highest and best use is an important concept in real estate valuation as it represents the premise upon which value is based. Highest and best use is defined on page 332 of *The Appraisal of Real Estate, 14th Edition* (2013) as follows:

The reasonably probable use of property that results in the highest value.

In order to meet the reasonably probable criterion, a use must be (1) physically possible, (2) legally permissible, and (3) financially feasible. These criteria are often considered in that order because qualification under a latter test does not matter if the property fails an earlier test. Uses which meet these three criteria are then tested for economic productivity, and the reasonably probable use with the highest value (i.e. maximally productive) is then determined to be the highest and best use.

This definition applies to vacant land or improved property. The highest and best use of vacant land could be immediate development of the property or holding for future development.

The highest and best use of a property is determined by social, economic, governmental, and environmental forces. The relative weight that any of these forces carries in determining the highest and best use of a property depends on the individual property. Social forces are exerted primarily by population characteristics. Specifically, the demographic composition of the population reveals the potential demand for real estate. Examples of social forces that influence real estate are population changes, rate of family formations and dissolutions, and age distributions.

Economic forces determine the supply and demand conditions influencing real estate. The desire and ability of the population to satisfy its demand for real estate, or those uses situated on the real estate, are determined by economic forces. Examples of economic forces influencing the demand for real estate are employment and wage levels, the economic base of the region and community, price levels, and the cost and availability of mortgage credit. Examples of economic forces influencing the supply of real estate are the stock of available improved properties, proposed development, occupancy rates, and price patterns of existing properties.

Governmental influences include a broad range of political and legal actions which influence the provision of public services, restrict the supply of real estate through zoning and planning ordinances, establish local, state, and national fiscal policies, and special legislation (e.g., a building moratorium) which may influence property values and availability.

Environmental conditions which may influence real estate include climatic conditions, topography and soil, transportation systems, and the nature and desirability of the immediate neighborhood surrounding a property. Environmental forces can be external to the property being appraised or can include characteristics of the property itself.

While the four forces that influence value have been identified separately, they work in concert to affect property values. For a given property these forces will probably exert uneven influence on the value, with certain forces having greater impact on that property than others.

Highest and Best Use as if Vacant

Physically Possible

The subject property consists of 10,000 square feet of generally level land that is square in shape. The surrounding area is developed, and all public utilities are readily available to the subject. Overall, the subject property is physically suited for a wide range of development.

Legally Permissible

The property is zoned CCPD-MC, which is primarily a commercial zone that allows the flexibility of commercial and residential (multifamily) development. Based on this, a use that is consistent with this zone was considered to be legally permissible.

Financially Feasible and Maximally Productive

By definition, any use which results in positive land value represents a financially feasible use. The maximally productive use of a property is that use which results in the highest land value. In order to establish financial feasibility, research was conducted to find sales of parcels similar to the subject. New commercial and mixed-use construction was also investigated in the market area. Based on this research, mixed-use (most likely residential or office with active commercial uses on the ground floor) was determined to be financially feasible and maximally productive given the activity in the market. This is recognized throughout the valuation analysis.

Highest and Best Use as Improved

There are three primary conclusions that are possible when conducting a highest and best use test as improved. These conclusions include continuing the existing use, adaptively reusing the improvements in order to achieve a higher value, or demolishing the improvements for development of another use.

The property was initially improved as an indoor skydiving facility. The original owner-user was unsuccessful at operating the business, and we found no evidence that this use should be continued. The business model had failed, so we did not investigate that use further. The alternative would be adaptive reuse or demolition of the improvements.

The three-story building was designed with office and classroom space, meeting and seating areas, storage space, and a café. The usable areas contain both enclosed offices as well as usable open areas. Some ducting and mechanical rooms are less functional. The good quality construction, elevator-served upper floors, unique atrium design, and glass exterior are all features that would attract and support creative office use. While the open floor areas around the atrium are less functional for traditional office space, an open floor concept is considered functional and desirable for creative office and assembly uses. Examples of potential uses include the following.

- Office (creative space, such as design and/or tech)
- Co-working space
- Retail (utilizing the ground floor café)
- Gym/fitness center
- School (public or private)
- Civic or government
- Religious or similar facility
- Other commercial uses (brewery, real estate offices, insurance offices, call center)

Based on our research, there was demand for such a building for office or commercial use on the date of value, and market data contained herein demonstrate that this use creates value above and beyond that of vacant land value (i.e., the building as improved is worth far more than the site as if vacant). For this reason, demolishing the improvements is not the highest and best use.

Highest and Best Use Conclusion

The highest and best use was determined to be creative office or similar commercial use. Though originally designed for a different use, the improvements provide sufficient functional utility to operate as an office/commercial building with limited investment to occupy the improvements. Based on the size and configuration of the improvements, the most probable buyer would be an owner-user, but could include an investor who would lease the property to a single tenant.

VALUATION ANALYSIS – SALES COMPARISON APPROACH

The sales comparison approach is based on the principle of substitution, which implies that a prudent buyer would pay no more to purchase a property than it would cost to obtain a comparable substitute property. In this case, sales of commercial office properties were compared to the subject property.

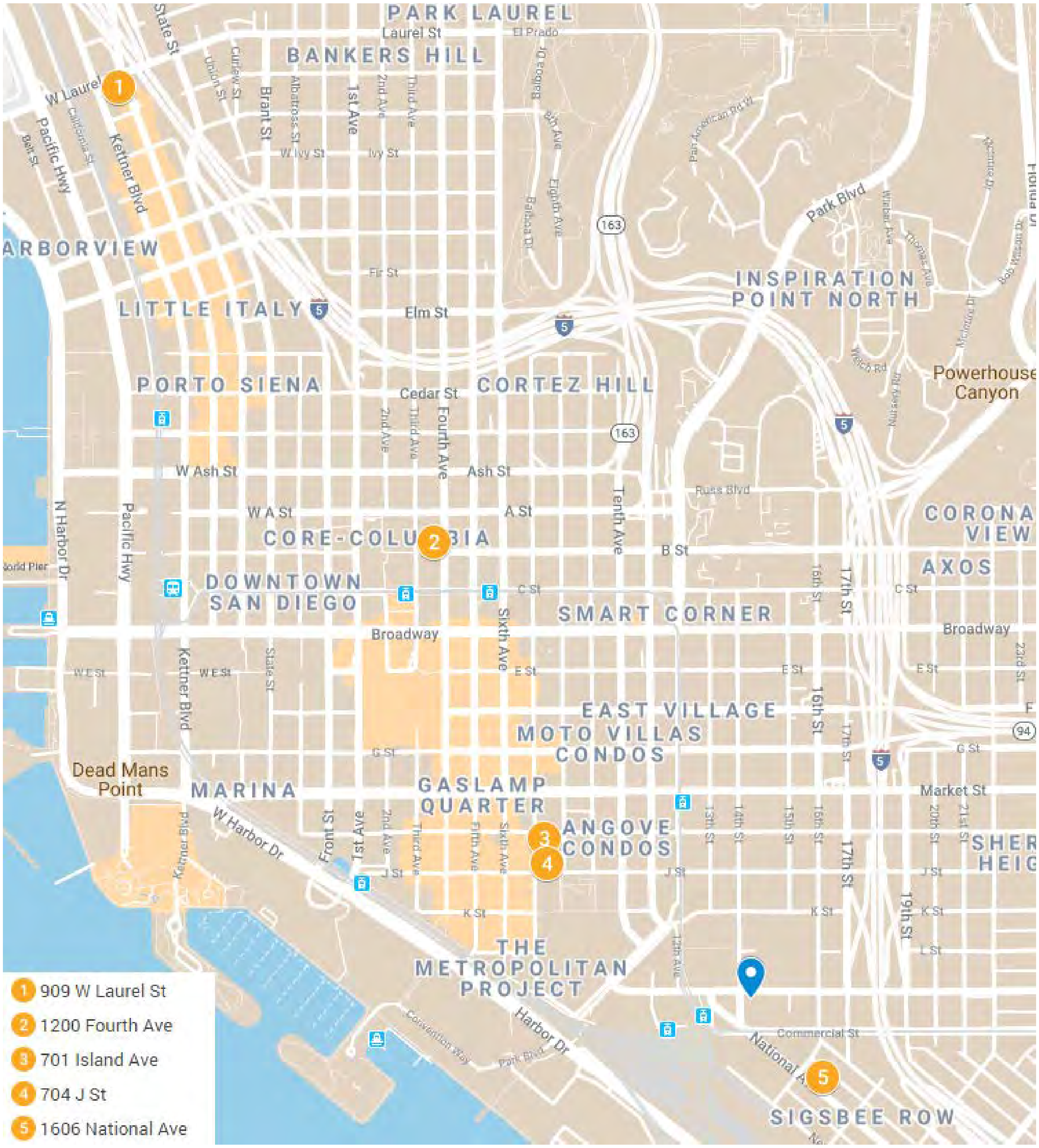
The primary sources of data were CoStar, RealQuest, and interviews with market participants. The comparables were inspected to determine locational, condition and appeal, and other characteristics. Offering memoranda and other documentation showing the interior and exterior of the improvements were also reviewed. The data were then verified with the buyer, seller, real estate broker, or other knowledgeable party involved in the transaction, if possible. Of the units of comparison potentially available for analysis, price per square foot of building area was utilized. In most cases, rentable or gross area is provided by the source.

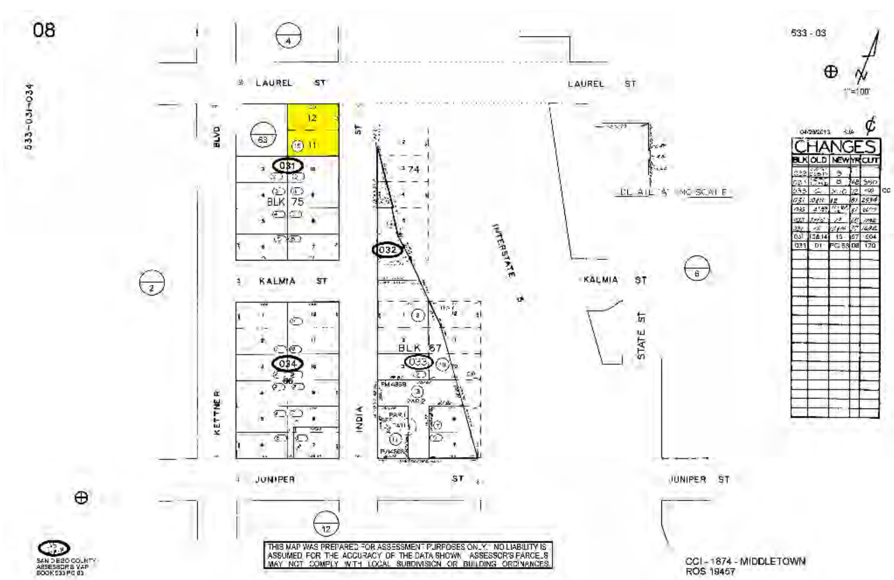
Our research involved investigating sales of improved commercial properties in the downtown and Barrio Logan areas. Emphasis was placed on properties that share similar physical and location characteristics as the subject, as well as a similar highest and use. While many of the properties are older, they were still the best available for valuation. The search includes sales that took place within approximately three years of the date of value. Gross size was reported for each sale.

The data summarized in the following table were used in the valuation of the subject property, and were helpful to "bracket" the value per square foot of the subject. Following the summary of data is a map showing the location of the sales, representative photographs of the comparables, and additional information about the sales. Our workfile contains further details regarding the sale data.

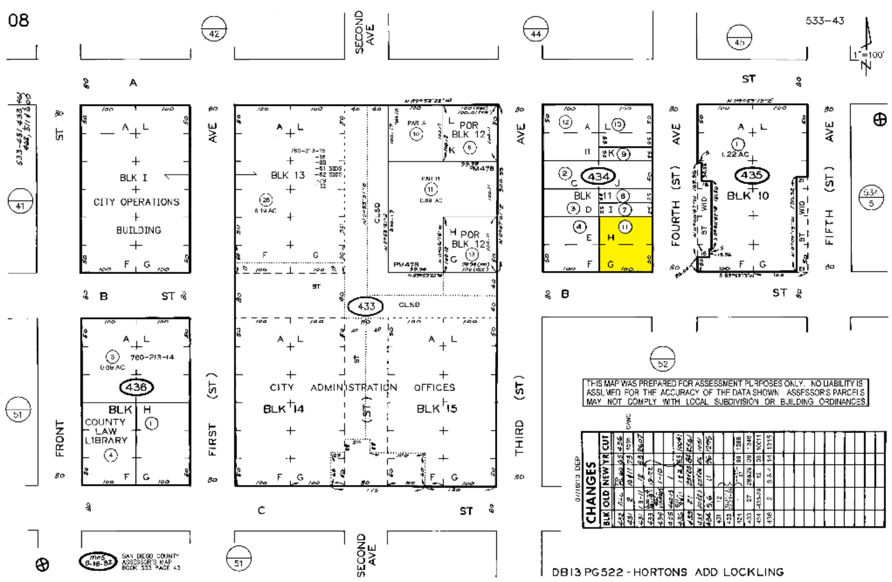
Improved Sale Summary

No.	Location and APN	Sale Date Doc. No.	Seller Buyer	Price Terms	Year Blt./Renov. Bldg. Size	Land Area (SF) Shape/FAR	Price/SF Cap Rate
1	909 West Laurel Street San Diego 533-031-15	Feb-17 2017-88553	West Laurel MAG, LLC Bespoke Partners Investments, LLC	$4,000,000 Cash to seller	1985 10,500	10,000 Rectangular	$380.95 N/A
2	1200 4th Avenue San Diego 533-434-11	Sep-16 2016-474172	Seagrove Properties, LLC San Diego K4, LLC	$6,750,000 Cash to seller	1946 22,486	10,000 Rectangular	$300.19 6.60% In-Place
3	701 Island Avenue San Diego 535-115-09	Aug-15 2015-431728	Bledsoe Warehouse, LLC JSW Pack Loft LP	$4,700,000 Cash to seller	1925 20,000	5,012 Rectangular	$235.00 N/A
4	704 J Street San Diego 535-115-12	Jul-15 2015-408225	Western Warehouse, LLC PREF Unicorn, LLC	$4,350,000 Cash to seller	1927 13,000	10,000 Rectangular	$334.62 N/A
5	1606-1622 National Avenue San Diego 538-040-33	Apr-15 2015-152615	Barriohaus, LP Barriohaus LLC	$6,300,000 Cash to seller	2005 34,905	41,818 Rectangular	$180.49 7.30% In-Place

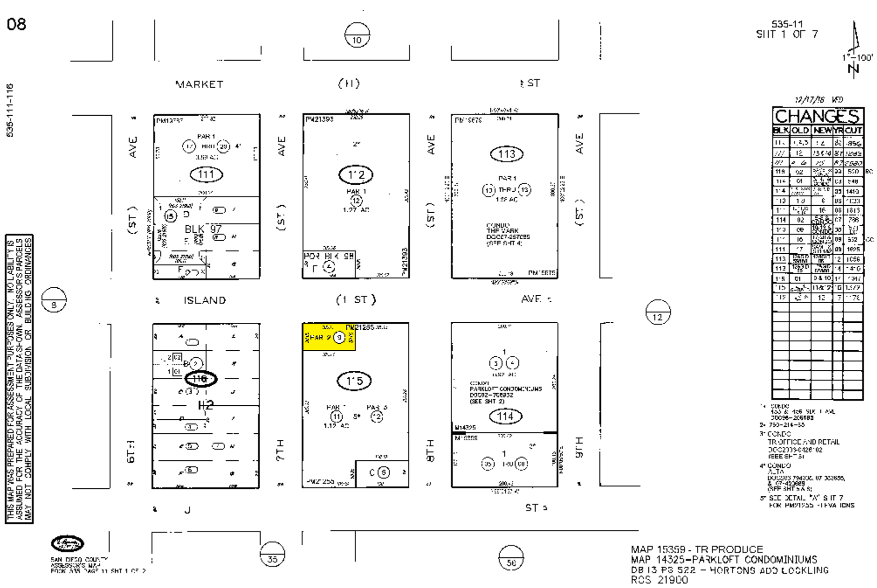

1 909 W Laurel St
2 1200 Fourth Ave
3 701 Island Ave
4 704 J St
5 1606 National Ave



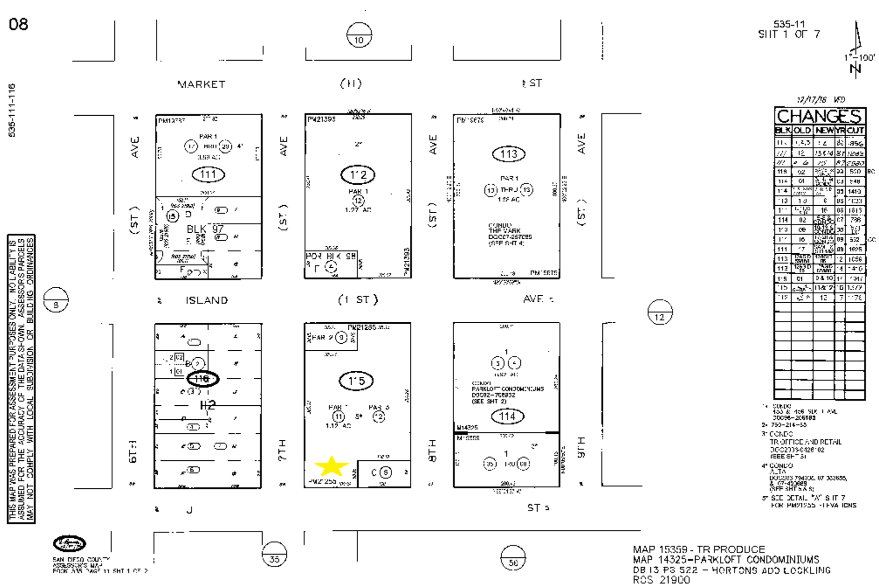
Improved Sale No. 1 is located at the southwest corner of West Laurel Street and India Street in the Little Italy neighborhood (north side), approximately two miles northwest of the subject property. The property was purchased by an owner-user who remodeled the two-story, vacant building after purchase. The property includes 30 onsite parking spaces. At the time of purchase, the building had average appeal. There is some aircraft noise in this overflight area, as well as freeway noise and visual impacts.



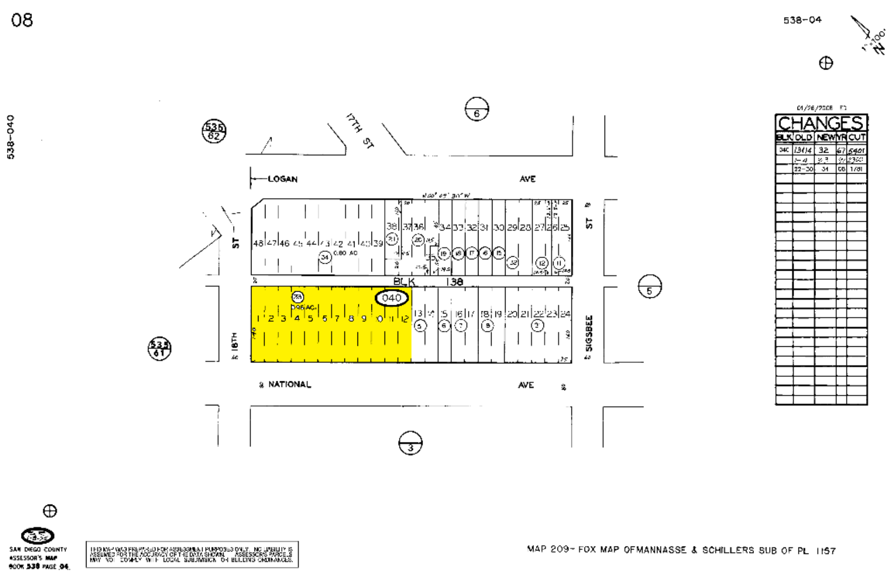
Improved Sale No. 2 is located at the northwest corner of 4th Avenue and B Street in the downtown "Core" neighborhood, approximately one mile northwest of the subject property. The property is improved with a two-story office building and small usable basement. The building has three elevators, and there is no on-site parking. The building was fully occupied by one tenant at the time of sale. This concrete block and frame building was originally constructed in 1946 and sold with no deferred maintenance. It has average appeal. There was a $290,000 cash down payment, and a loan from a private lender for the balance of $6,960,000. According to the listing agent, the loan amount (96 percent of the purchase price) was favorable and likely impacted the purchase price, but it was not known by how much (this influence was considered in the reconciliation).



Improved Sale No. 3 is located at the southeast corner of 7th Avenue and Island Avenue in downtown's Ballpark District, approximately one-half mile northwest of the subject. The property was improved with a four-story office building in shell condition. The property has one elevator and there is no on-site parking. The building was vacant at the time of sale. This concrete block and frame building was originally constructed prior to 1950. The seller is Cisterra, who built the aforementioned Sempra Energy building on the same block and used this property as a construction management office. The buyer anticipated completing the tenant improvements and leasing the building. Renovation costs were reported to be approximately $2.3 million ($115 per square foot), indicating a total expected cost of $350.00 per square foot of building area.



Improved Sale No. 4 is located at the northeast corner of J Street and 7th Avenue in the Ballpark District (same block as Improved Sale No. 3), approximately one-half mile northwest of the subject. The property is improved with a two-story building (with a basement). The seller is Cisterra. As part of the Sempra development, Cisterra removed the building interiors, upgraded the infrastructure, restored the exterior and demolished a portion of the property to create ramps for Sempra's underground garage. The buyer purchased the property with the intent to lease it out for creative office use. The property has since been leased to a co-working office provider.



Improved Sale No. 5 is located at the southeast corner of National Avenue and South 16th Street in the Barrio Logan neighborhood (just outside of the downtown plan area), approximately one-quarter mile southeast of the subject. The property consists of three buildings ranging from approximately 3,000 to 14,700 square feet, with uses including creative office, retail/restaurant space, and warehouse space. The property was redeveloped in 2005 and was fully occupied when it sold. The property was purchased by the San Diego Comic Convention.

Valuation Analysis

This data set was not well suited to quantified adjustments (sufficient information was not available for the support of reliable specific adjustments). The exception is a quantified adjustment for market conditions. As such, the comparisons were mostly qualitative in nature. The following discussion summarizes the treatment of the comparables in the analysis. The primary elements of comparison in this analysis are market conditions; location; quality, condition, and interior improvements; functional utility; size; and parking.

Market Conditions

The market for commercial properties has improved in recent years. Additionally, downtown is very desirable, though the subject is at the edge of the developing East Village neighborhood. The demand for well-located commercial property in the area is considered above average. Market conditions were considered to be good on the effective appraisal date.

To assist in quantifying an adjustment for market conditions, we reviewed commercial property sale trends as well as office rent trends over several years before the date of value (this information was previously presented). In general, there has been a steady upward trend in rents and values over the past several years. We applied a market conditions adjustment of 6.0 percent per year on a straight-line basis and rounded to the nearest whole percent to account for this trend. This adjustment is shown in the table summarizing the market data comparisons.

Location

The sales are located in various parts of downtown San Diego or (in the case of Sale No. 5), just outside of the downtown plan area. Our research of location influences downtown indicates that certain neighborhoods (or even streets) can command a premium depending on the location of the property. In the case of the subject, the property is located in East Village, which had experienced a surge in overall property values. However, compared to most of the data set, the subject was considered to be inferior; based on a review of rent and sale price trends, the other sales located in the downtown plan area were determined to be superior. With respect to Sale No. 5, the property is located in the Barrio Logan neighborhood, which is overall inferior to the subject (lower rents and property values overall).

Quality, Condition, and Interior Improvements

This category includes consideration for the age and condition of the improvements as well as the quality of construction materials and interior finishes. The subject improvements are essentially new and are of good quality concrete and glass construction. Also, for many users, the subject building requires very few improvements to occupy the space. By contrast, all of the sales are older and are in an inferior condition. These sales were determined to be inferior for these reasons.

Functional Utility

This category considers the improvements' functional utility, which is again defined as the ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards. As stated previously, the subject suffers some inefficiencies related to design and layout, having been developed for a different use compared to the highest and best use on the date of value. This also accounts for differences in how building size is used or reported, which varies slightly in the sales data. In these respects, all of the sales were determined to be superior as the functionality of each of the comparables was considered superior. Improved Sale No. 5 includes uses other than office, but the functionality is still superior.

Size

This category considers the size of the building improvements. In general, there is an inverse relationship between building size and sale price per square foot; for example, a smaller building generally commands a higher price per square foot and vice versa. This relationship is exhibited in the market data utilized. Improved Sale Nos. 1 and 4 are smaller than the subject and were determined to be superior, while the other sales are sufficiently similar to the subject such that no adjustment was warranted.

Parking

This category accounts for a property's parking ratio, which is normally characterized as the number of spaces per 1,000 square feet of building area. In urban submarkets like downtown San Diego, having onsite parking creates upward pressure on pricing and rents. Based on this, Sale Nos. 1 and 5 were determined to be superior as they have onsite parking, while the other sales were determined to be similar. In downtown, there is some market acceptance of less-than-ideal parking where street parking and pedestrian activity is present. There are many examples of office buildings located downtown with no onsite parking available.

Summary

It is important to note that the individual adjustments are not weighted equally; the comparisons vary by degree. The reader's attention is invited to the "overall" comparison considered in the final analysis.

Summary of Market Data Comparisons

Comparable		1	2	3	4	5
Sale Date/Date of Value	Dec-17	Feb-17	Sep-16	Aug-15	Jul-15	Apr-15
Sale Price		$4,000,000	$6,750,000	$4,700,000	$4,350,000	$6,300,000
Size		10,500	22,486	20,000	13,000	34,905
Price/SF		$380.95	$300.19	$235.00	$334.62	$180.49
Market Conditions	6%	5%	8%	14%	15%	17%
Adjusted Price		$400.00	$324.21	$267.90	$384.81	$211.17
Location		Superior	Superior	Superior	Superior	Inferior
Quality, Condition, and Interior Improvements		Inferior	Inferior	Inferior	Inferior	Inferior
Functional Utility		Superior	Superior	Superior	Superior	Superior
Size		Superior	Similar	Similar	Superior	Similar
Parking		Superior	Similar	Similar	Similar	Superior
Overall		Superior	Superior	Inferior	Superior	Inferior
Indicated Value		Below $400.00	Below $324.21	Above $267.90	Below $384.81	Above $211.17

The adjusted price per square foot of the sales ranges from $211.17 to $400.00, and the average is $317.62 per square foot. At the upper end of the range is Sale No. 1. This sale is not only located in the superior Little Italy neighborhood, but is more efficient, is smaller, and has onsite parking. The value of the subject should be well below $400 per square foot. Also at the upper end of the range is Sale No. 4, which located in the superior Ballpark District and also has superior physical characteristics. Based on these sales, a value per square foot below $380 is warranted.

At the low end of the range is Improved Sale No. 5, which was included due to its proximity to the subject. However, this property is outside of the downtown plan area. As evidenced by the market data, property values are relatively high in downtown San Diego, and this sale is inferior for location. The improvements are also much older. Based on this sale (which is given little weight in the reconciled value indication), a value well above $210 per square foot is warranted.

The remaining two sales are Nos. 2 and 3, which range from approximately $270 to $325 per square foot. At the lower end of the range is No. 3, which was vacant at the time of sale. Based on the configuration of the building, this property is more suited for multi-tenant use, which is less relevant to the subject. Additionally, the property sold in shell condition, and would require considerable improvements to ready it for occupancy. When the $115 per square foot that the buyer had to spend, the time-adjusted price is almost $400 per square foot and superior at that point. With respect to Sale No. 2, the property is located in a superior neighborhood compared to the subject's emerging East Village neighborhood. In addition, the functionality of the sale is superior, and the price was positively impacted by favorable financing.

Conclusion

Based on the preceding data analysis, the value of the subject should fall in the range of about $300 to $310 per square foot. This falls within the range of Sale Nos. 2 and 3, toward the upper end of the range given the subject's newer improvements and interior finishes. Finally, this is considered reasonable in light of the CBRE average owner-user office property pricing provided earlier in this report. The range of $300 to $310 per square foot extends to $7,050,000 to $7,285,000 for the 23,500 square foot subject building. The final value indication by this approach was concluded to be near the middle-upper portion of this range at $7,200,000.

SUPPLEMENTAL VALUATION ANALYSIS

As secondary analyses and a broad test of reasonableness, we compared the value indication by sales comparison to the value indications resulting from the cost approach and the income capitalization approach. Due to the unique nature of the improvements, this supplemental analysis was performed mostly as a test of reasonableness in support of the sales comparison approach. The following is a summary of these analyses.

Cost Approach

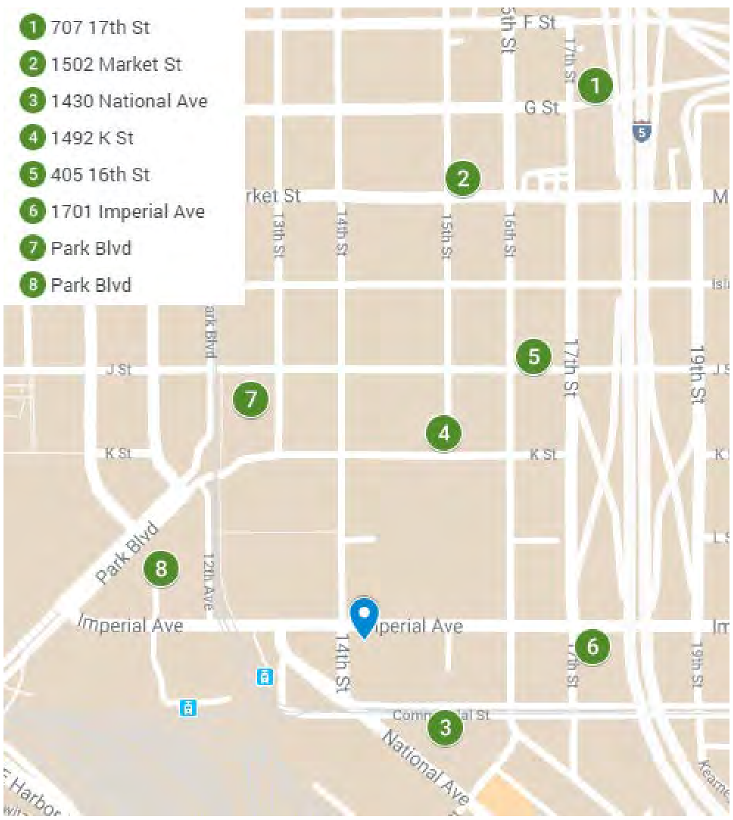
In the cost approach, a property is valued based on a comparison of the cost to build a new or substitute property. This reflects the thinking of market participants as they relate value to cost based on the premise that buying a site and constructing new improvements could be a substitute to purchasing an existing improved property. Once the estimate of cost is calculated, it is then adjusted for depreciation evident in the existing property. The estimated value of the land is then added to the depreciated cost of the improvements to arrive at a value indication via the cost approach.

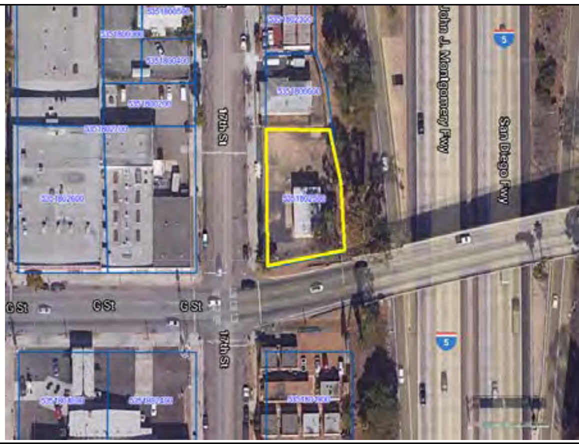
Land Value

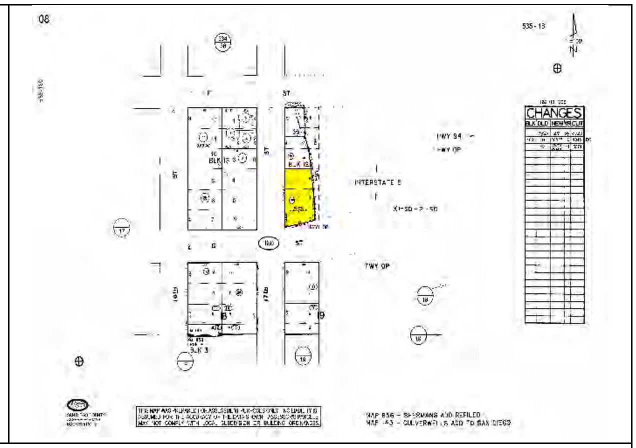
As we have demonstrated in this report, land values have increased significantly in downtown San Diego since the 2014 purchase of the subject. Additionally, the subject has a favorable location near influential landmarks. In determining an estimate of land value, we researched land sales in the subject’s immediate area. The following is a summary of these sales.

Land Sale Summary

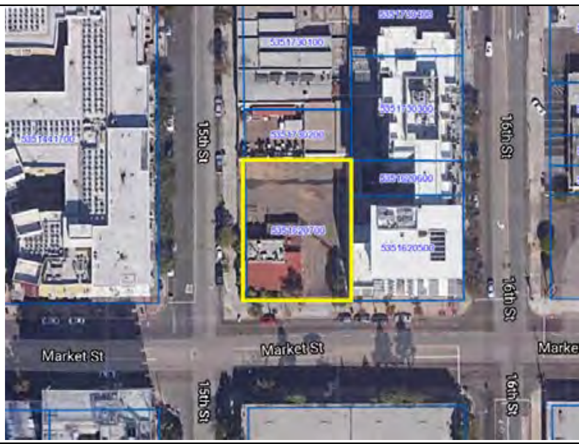
No.	Address APN	Sale Date Doc. No.	Seller Buyer	Land Area (SF) Shape	Price Terms	Price per Square Foot	Zoning and FAR (Min/Max, Total)
1	707-723 17th Street San Diego 535-180-25	Jan-18 2018-3185	Investments Unlimited Phoenix, LLC, et al. East Village PSH, L.P.	11,761 Rectangular	$3,400,000 Cash to seller	$289.09	CCPD-ER 3.5/6.0 6.0
2	1502 Market Street San Diego 535-162-07	Jan-18 2018-80	Anthony Michael Salazar, et al. Robert O. Burggraf, et al.	13,300 Rectangular	$4,200,000 Cash to seller	$315.79	CCPD-R 3.5/6.0 10.0
3	1430 National Avenue San Diego 535-615-01, 535-617-01, 535-625-03	Feb-17 2017-76057	The Mendell Corporation LLJ Barrio Ventures	72,745 Rectangular	$12,000,000 Cash to seller	$164.96	CCPD-MC 2.0/3.0 10.0
4	1492 K Street San Diego 535-396-11, 12	Sep-16 2016-522060	Bell Hotel, LTD., et al. Nook East Village, LP	7,700 Rectangular	$3,500,000 Cash to seller	$454.55	CCPD-NC 3.5/6.0 6.0
5	405-409 16th Street San Diego 535-393-05	Aug-16 2016-426579	Mar City II, LLC 16th and J Creative, LLC	7,500 Rectangular	$1,775,000 Cash to seller	$236.67	CCPD-R 3.5/6.0 8.0
6	1701-1707 Imperial Avenue San Diego 535-630-01	Jun-16 2016-299132	Cottingham Development Fund, LLC, et al. Property Cellars, LLC	7,841 Rectangular	$975,000 Cash to seller	$124.35	CCPD-MC 2.0/3.0 6.0
7	Park Boulevard San Diego 535-371-02 thru 09	Sep-15 2015-477011	CW San Diego Towers OLC, LLC SVF Richman Thirteenth St. SD, LLC	38,846 Rectangular	$12,100,000 Cash to seller	$311.49	CCPD-BP 3.5/6.0 8.0
8	Park Boulevard San Diego 535-563-39	Mar-15 2015-106027	Ballpark Village LLC Greystar GP II, LLC	61,420 Irregular	$32,365,000 Cash to seller	$526.95	CCPD-BP 4.0/6.5 6.5

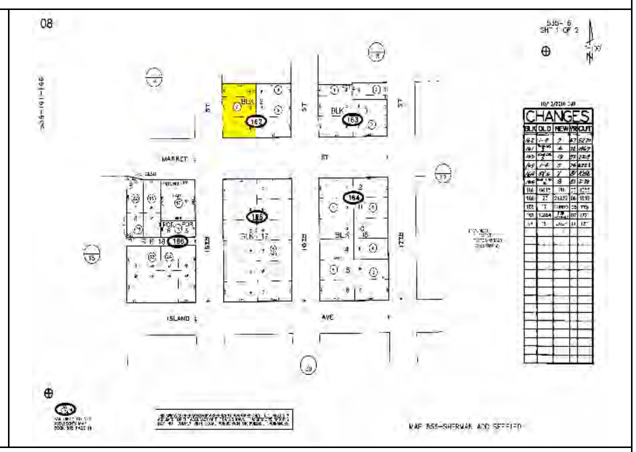




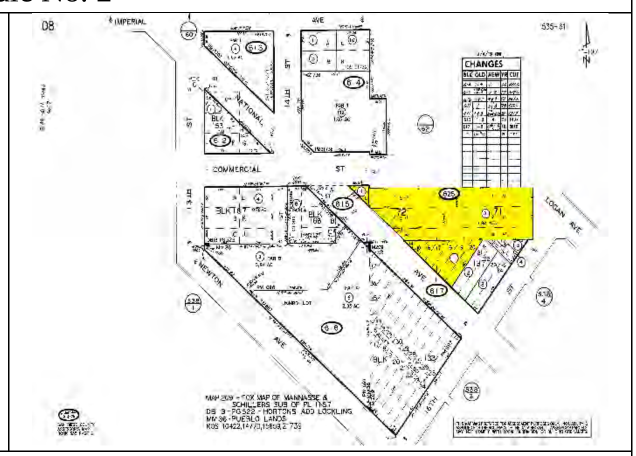


Land Sale No. 1

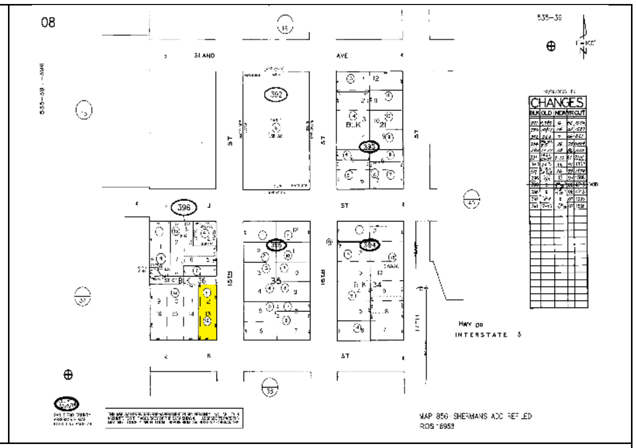




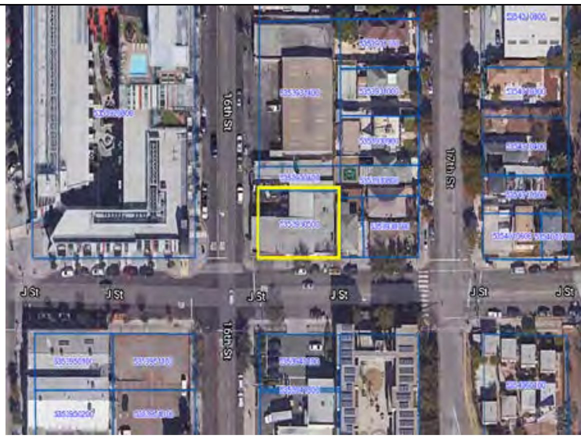
Land Sale No. 2

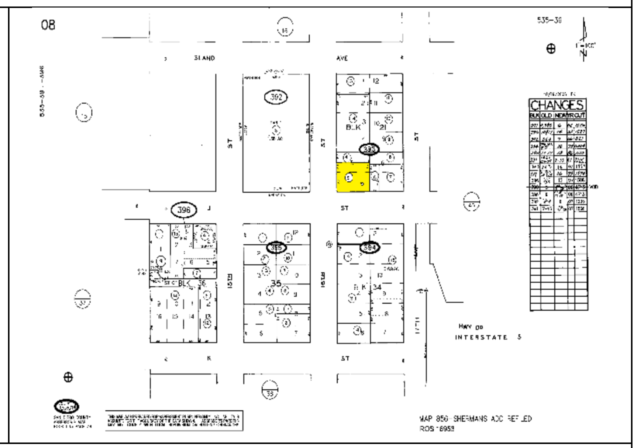


Land Sale No. 3

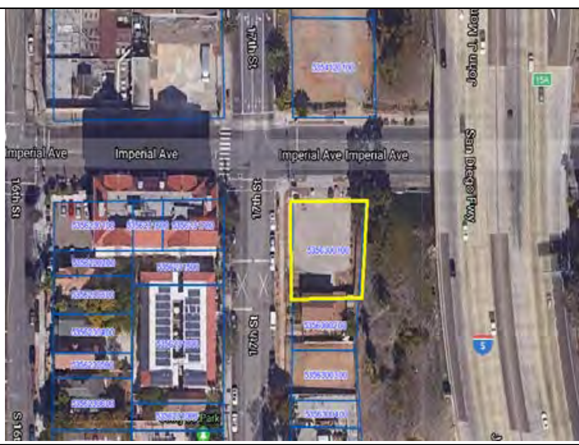


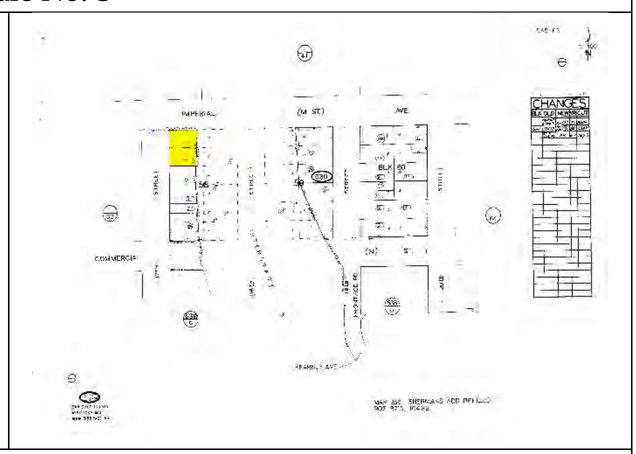
Land Sale No. 4



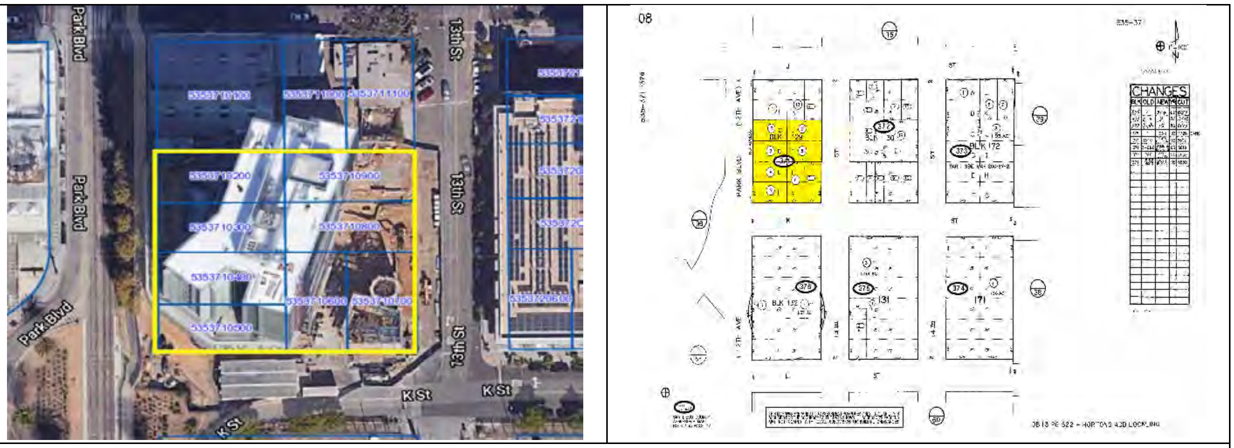


Land Sale No. 5

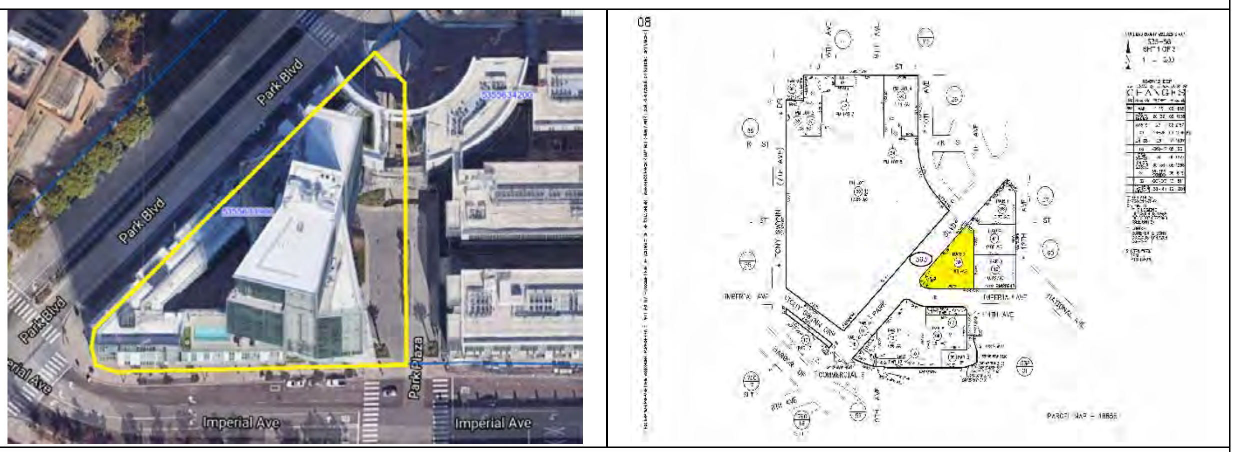




Land Sale No. 6



Land Sale No. 7



Land Sale No. 8

In reconciling the land data, it is noted that Sale Nos. 3, 6, and 8 are proximate to the subject. Despite this proximity, the land prices vary significantly. As shown in the improved sale analysis, proximity to downtown landmarks influence pricing significantly. Sale Nos. 3 and 6 do not share the same location characteristics as the subject and are overall inferior. Conversely, Sale No. 8 is one block west of the subject, but is heavily influenced by its adjacency to Petco Park and is superior (this property also sold as entitled land, which influenced the price upward).

It is also noted that the highest and best use of these properties is different from that of the subject. Under consistent use theory, land cannot be valued based on one use while improvements are valued based on another. An improved site is valued as though vacant and available for its highest and best use, and existing improvements that do not conform to the ideal improvement may be an interim use that contributes some value, no value, or even reduces value if the costs to remove the improvements are substantial. However, in a market such as downtown San Diego, there is competition to purchase developable sites for a variety of uses. Even though the highest and best use of the subject is office/commercial, a market participant would compete with mixed-use developers, hoteliers, and the like to acquire a site (there is also evidence of office development proposed in downtown at prices that compete with mixed-use). Therefore, using these sales as comparables is appropriate (the possibility of external obsolescence is treated later in this cost approach).

Based on a cursory analysis of this data, a value of $300 per square foot of land is supported, which extends to the subject as follows.

Land Value Indication

Description	Figure
Value per Square Foot	$300.00
Square Feet	10,000
Value Indication	$3,000,000

Depreciated Cost of Improvements

Once land value is estimated, the next step was to estimate the replacement cost new of the improvements. We then deducted estimated depreciation (physical, functional, and external, if any) to arrive at the depreciated replacement cost of the improvements. This figure is then added to the previously estimated land value.

The building is relatively new construction, and actual building costs were reported to be $7.5 million (excluding FF&E) in a prior appraisal of the property. This cost was not well documented, so little reliance was placed on it; however, the cost was still compared as a check with the MVS replacement cost for an office property. This is the replacement cost of the square footage appraised, and inherently reflects normal building functionality. Depreciation, including recognition of functional shortcomings, is estimated and reflected later. In determining replacement cost, there are three components to consider: direct costs, indirect costs, and entrepreneurial incentive (often referred to as developer’s profit). MVS Direct costs (also known as hard costs) include labor, materials, supervision, contractor’s profit and overhead, architect plans and specifications, sales taxes, and insurance, among other related costs that are considered in the construction of the project. Indirect costs (soft costs) include costs necessary for development, including atypical governmental fees, real estate taxes during construction, loan points, and miscellaneous expenses. These costs are typically considered as a percentage of direct costs. The last item to consider is developer profit in order to undertake such a project. This is calculated based on either a percentage of cost (may include the cost to acquire the land), a percent of the total value indication once completed and stabilized, or a load on projected net operating income returns.

Depreciation is defined as the difference between the cost of an improvement and the market value of the improvement as of the effective appraisal date. There are several components of depreciation that were considered in this analysis, including physical deterioration (such as wear and tear and deferred maintenance), functional obsolescence, and external obsolescence. After consideration of these components, we determined that the subject improvements are mainly subject to functional obsolescence, though there is some argument that this location is less conducive to new office development, and therefore external obsolescence occurs from the land value being high for this use. Further, super-adequacy may be caused by the quality of the construction (poured concrete and glass rather than block and/or wood frame).

As noted in *The Appraisal of Real Estate*, functional obsolescence is caused by a flaw in the structure, materials, or design of an improvement when the improvement is compared with the highest and best use and the most cost-effective functional design requirements. Functional obsolescence can include items that are deficient or super-adequate, and can be curable or incurable (depending on the cost to cure and the relative impact on value). In the case of the subject, there is functional inutility created by the improvements having been designed and built as an indoor skydiving facility, and that some components of the development (relatively large building void, constraint of glass tunnels and other ducting behind walls, and large open areas).

In analyzing a functional valuation problem, steps include identifying the components (or lack thereof) associated with the problem, identifying costs to cure, determining if that cost is less than or equal to the value added, and then calculating the amount of depreciation caused by the functional problem. In this case, the lack of utility of the basement and roof enclosure was treated by not including them in the reported square footage or in the cost estimate. Given that this cost approach is intended to be a secondary analysis, we have not attempted to extract depreciation through paired sales. Instead, we have used our judgement, and have also included consideration of external obsolescence caused by the office use in this location as well as the somewhat expensive construction materials (which may be considered super-adequate for office use).

The following is a summary of the inputs used for the cost approach. Direct costs are sourced from MVS, while indirect costs and entrepreneurial incentive are based on our market research. Depreciation arguably falls in the range of 30 to 50 percent. Ultimately, we applied a depreciation rate of 40 percent to account for the subject’s functional and external obsolescence. Absent the depreciation, the replacement cost per unit for an office building plus the unit land value totals about $490 per square foot, which is reasonably supported by new office product with a traditional design/function and desirable location. The depreciated value of the subject is much lower due to the functional and external factors described above.

Cost Approach Input Summary

Description		Figure
MVS Category		Office
Page/Section		15/17
Class		B
Type		Good
Average Type Cost		$218.00
Sprinklers		$3.57
Subtotal		$221.57
Perimeter Adjustment		0.95
Time Multiplier		1.03
Local Multiplier		1.21
Total Unit Cost - Direct		$262.34
Indirect Cost of	20%	$52.47
Total Unit Cost - Direct and Indirect		$314.81
Entrepreneurial Incentive at	15%	$47.22
Replacement Unit Cost		$362.03
Depreciation		40%
Depreciated Unit Cost		$217.22
Building area		23,500
Estimated Depreciated Cost		$5,104,670
Plus Contributory Land Value		$3,000,000
Indicated Value		$8,104,670
Rounded		$8,100,000

Income Capitalization Approach

The income capitalization approach is based on the principle of anticipation, which affirms that value is created by the expectation of future benefits to be derived from ownership. Of the several capitalization techniques available to convert an income projection into an indication of value, direct income capitalization was judged to be the most appropriate for the subject property. For this method, the first year of net operating income is capitalized to value using an applicable capitalization rate. In this case, the income approach is also helpful as a measure of opportunity cost if the likely owner-user buyer for this property were instead to lease space elsewhere.

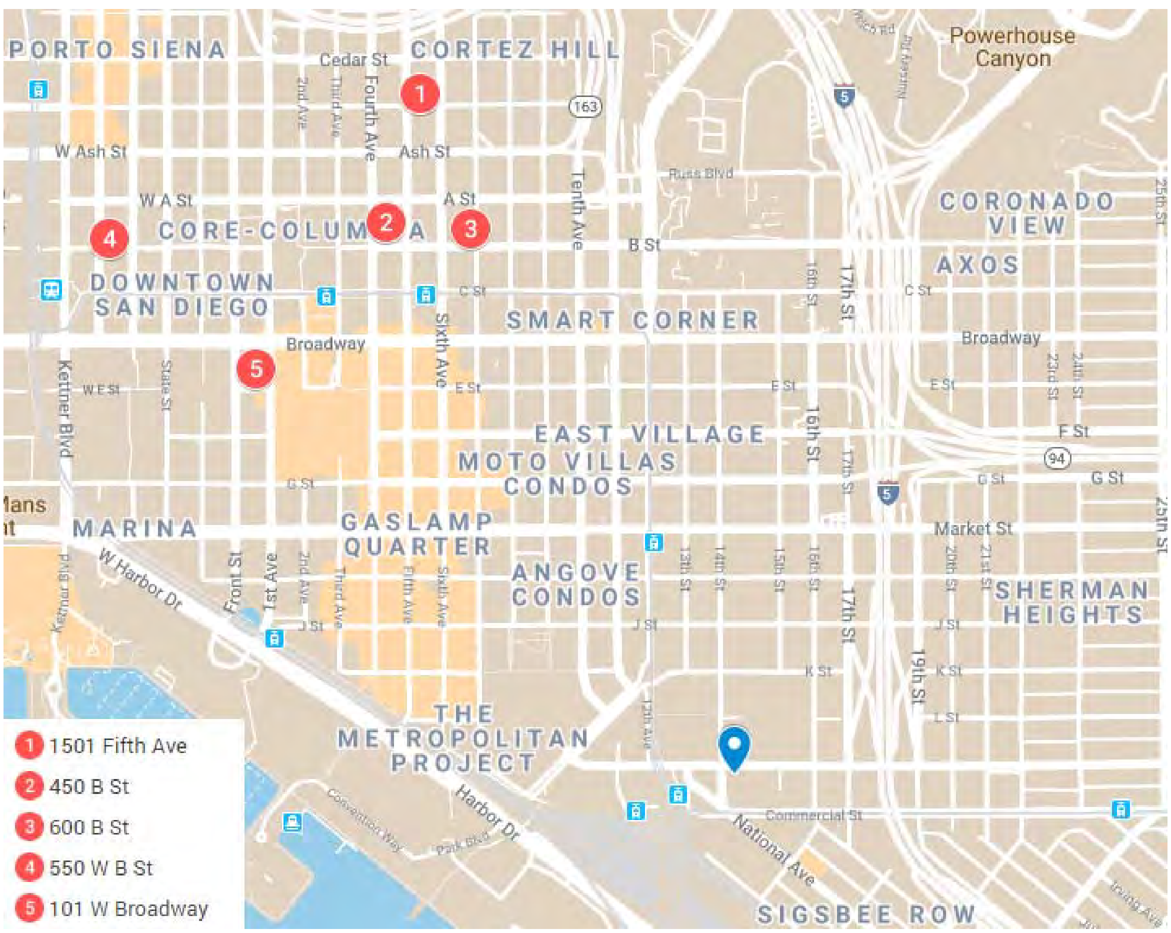
The steps for direct capitalization are as follows:

- Estimate annual potential gross rent;
- Consider a deduction for vacancy and collection loss to arrive at effective gross income;
- Consider a deduction for operating expenses to arrive at net operating income; and
- Capitalize net operating income at an appropriate capitalization rate.

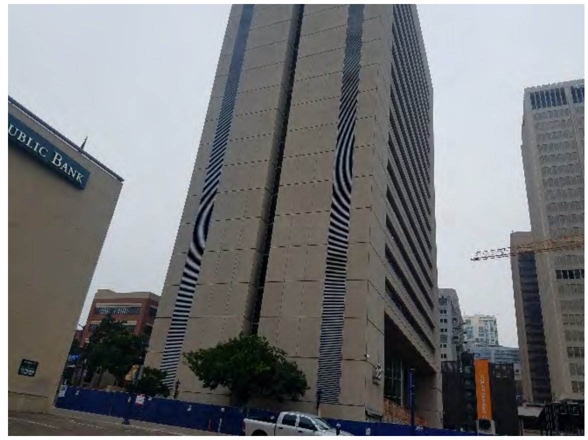
For this (cursory) supplemental analysis, we researched office leases involving relatively large spaces in downtown that transacted around the date of value. The following is a summary of these leases. Large spaces tend to be concentrated in the central business district, considered superior in location.

Lease Summary

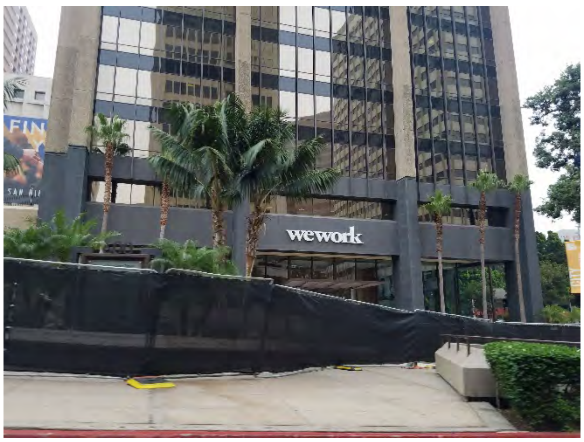
No.	Tenant Location	Start Date Term (Mos.)	Rent/SF/Month Basis	Year Blt Size (SF)	Tenant Improvement Allowance	Free Rent (Months)	Effective Rent
1	ABA Group 1501 5th Avenue San Diego	Dec-17 120	$1.95 Modified Gross	1989 19,860	$0.00	4	$1.89
2	LevitZacks 450 B Street San Diego	Jul-17 120	$2.25 Full Service	1982 12,500	$0.00	1	$2.23
3	WeWork 600 B Street San Diego	Dec-16 156	$2.75 Full Service	1974 88,273	$120.00	10	$2.57
4	California International Business University 550 West B Street San Diego	May-16 119	$2.42 Modified Gross	1986 12,522	$30.00	1.5	$2.39
5	MindTouch 101 West Broadway San Diego	Jul-16 84	$2.65 Full Service	1984 20,736	$50.00	0	$2.65



Lease No. 1



Lease No. 2



Lease No. 3

Lease No. 4

Lease No. 5

As shown, the rental data ranges from $1.89 to $2.65 per square foot per month (with consideration of free rent). Most of the lease data found is in the central part of downtown, outside of the subject neighborhood, as this is where large blocks of office space exist. These are superior locations which were considered in our reconciliation of the data. As such, in consideration of the subject's physical and location characteristics, it would be reasonable to be at the lower end of the range.

They are still helpful in exploring the opportunity cost of leasing versus owner-occupancy. Further investigation of asking rents in East Village indicates a range of $2.00 to $3.00 per square foot (some are smaller spaces), and a projection at the lower end of this range is reasonable considering the subject's inefficiencies and micro-location. Last, asking rents in the building to the north of the subject (at 105-171 14th Street) are in the range of $2.15 per square foot, modified gross; considering the older age of this building, a rent near this figure is reasonable (even with the understanding that asking rents are generally higher than contract rents). For this analysis, we utilize a rent of $2.15 per square foot, modified gross (where the tenant is responsible for utilities).

The following is a summary of the income capitalization approach utilizing direct capitalization. It is common to deduct some percentage of potential gross income for vacancy and collection loss, even if a property is fully occupied. While the current vacancy rate in the market was above approximately 10 percent, market participants typically view vacancy from a stabilized perspective, and projections are generally lower. This is how capitalization rates were extracted from the market data. A single tenant property may even dictate not applying a vacancy factor. We have used a 3.0 percent deduction for this analysis. The projection for expenses includes items such as real estate taxes (which are based on the value of the property), insurance, common area maintenance (CAM) charges, utilities that are not the tenant's responsibility, and management. The expense figure stated below, expressed per square foot per month, is supported by office expense data in our workfile. The capitalization rate utilized is based on our research of office properties in the downtown market that sold within the two years prior to the date of value; this supplemental data is contained in our workfile. For consistency with the highest and best use determination of owner-occupancy, lease-up costs were not deducted, but are addressed following the table.

Value Indication

Description	Figure		Total
Potential Gross Income	$2.15	PSF per Month	$606,300
Less Vacancy and Collection Loss	3.0%		($18,189)
Effective Gross Income			$588,111
Expenses	$0.60	PSF per Month	($169,200)
Net Operating Income			$418,911
Capitalization Rate			6.00%
Value Indication			$6,981,850
Rounded			$6,980,000

If this property were purchased by an investor with the expectation of finding a tenant rather than considering owner occupancy, a final deduction for lease-up costs may be warranted. A lease-up period of four months (supported by the data found in the market analysis section of this report) and related commission could be deducted to reflect the vacant status of the building; the lease term is based on the comparable data used and other office lease research. The summary of the lease-up costs is shown on the following page. Because the building is more likely to be purchased by an owner-user, the lease-up costs are reported here only for illustration purposes.

Lease-Up Costs

Description	Figure	Unit/Notes
Rentable Area	23,500	square feet
Market Rent	$2.15	per square foot per month
Lease-Up Period	4	months
Lease Term	60	months
Lease Commission	5%	
Lost Rent	$202,100	Size x Rent x Months to Lease
Leasing Commission	$151,575	Term x Rent x Size x Lease Commission
Total	$353,675	
Rounded	$350,000	

RECONCILATION

The market value of the subject's fee simple interest was estimated via the sales comparison approach to be $7,200,000 as of the date of value. This analysis was based on a comparison of mainly office properties, with adjustments made for elements such as location, quality/condition and interior improvement, and functional utility. There were sufficient data to "bracket" the value of the subject property. Also, the final value conclusion is well supported by the average sale price of owner-user office properties in San Diego in late 2017.

As a supplemental analysis and test of reasonableness, the cost and income capitalization approaches were performed, which resulted in value indications of $8,100,000 and $6,980,000, respectively. While there was sufficient land sale data to reliably estimate land value, the estimate for depreciation is not as reliable. The cost approach being higher than the sales comparison approach may suggest that there is more functional or external obsolescence present in the building. Nonetheless, the cost approach is important because it demonstrates the high cost of replacement if the city or other buyer were to purchase land and build a structure in the downtown area (i.e. the property was purchased at less than replacement cost). The cursory income approach resulted in a lower figure, which was expected, and is common with owner-user properties. The most likely buyer would not rely on the income approach for this property since it is oriented toward the owner-user market. The primary reason for the lower indication from the income approach is that borrowing rates are so low, that, even with a low down payment, the principal and interest payment is far less than the rental rate (and expenses are partially offset by the tax advantages of ownership), so buyers pay more than the income approach may suggest. Overall, the supplemental approaches are supportive of the conclusion from the sales comparison approach.

Based on our investigation and analysis, we have concluded that the market value of the subject property as of December 31, 2017 was $7,200,000. The value conclusion is subject to certain assumptions and limiting conditions that are made a part of this report.

ADDENDUM
QUALIFICATIONS OF THE APPRAISERS

Robert P. Caringella, MAI, SRA, AI-GRS

Educational Background

B.A. degree in Management Science, Economics Department,
University of California, San Diego 1987

Professional Courses Completed:

Appraisal Institute (or AIREA):

Real Estate Appraisal Principles/Valuation Procedures	1987
Capitalization Theory and Techniques - Parts A & B	1988
Case Studies in Real Estate Valuation	1989
Report Writing	1991
Standards of Professional Practice	2005, 2008, 2010, 2012, 2014, 2016, 2018
Limited Partnership and Common Tenancy Valuation	2002
Fundamentals of Separating Real/Personal Property and Intangibles	2012
Review Theory - General	2015
The Cost Approach	2020

Seminars Attended (partial list):

Appraisal Institute (or AIREA):

Business Practices and Ethics	2017
Historic Districts and Properties	2016
Uniform Appraisal Standards for Federal Land Acquisitions	2011
Appraising Unique Properties	2010
Annual Litigation Seminar	1989, 1990, 1995, 1996, 2007
Conservation Easements	2005
Planning and Land Use	1990
OREA Federal and State Laws and Regulations	1995, 1999
Attorneys, Appraisers & Real Estate	1996, 1997, 1998
Blueprint Reading	1996
Environmental Issues	1996
San Diego Economic Update	2004, 2005, 2006, 2007, 2009, 2012, 2013
Mitigation Land Update and Valuation	1997
Tax Assessment	1997
Apartment Seminar	1998, 2003, 2005
Retail Property Analysis; Single Tenant Net Leased Properties	1998;1999
Trends in R&D Market	2002
Advanced Appraisal	2004

International Right-of-Way Association:

Easement Valuation	1990
Mock Condemnation Trial	1994, 2000, 2012
Eminent Domain Case Update	1995, 1997, 2002, 2005, 2018

IRS Symposium 2006, 2018

Professional Affiliations

Member, Appraisal Institute (MAI No. 9649) (SRA and AI-GRS)
Certified under Continuing Education Program
Appraisal Institute, Admissions and Designation Qualifications Committee 2015-2017
Vice-Chair 2017
Appraisal Institute, National Finance Committee, 2015-16 and prior; 2019-2020

Appraisal Institute Education Trust - Board, 2011-2013
National Board of Directors, Regional Vice Chair 2007, Regional Chair 2008
President, San Diego Chapter of Appraisal Institute, 2005
Board of Directors, San Diego Chapter, 1999-2001, 2003-2005
Leadership Development and Advisory Council, 1999 and 2000 (National)
Chairman of Experience Review Committee, San Diego Chapter 1996-98
California Certified General Real Estate Appraiser (AG003295)
Member, International Right-of-Way Association
Board of Directors, San Diego Chapter, 1999-2003
Young Leadership Council, 1998 and 1999 (National)

Appraisal Company Experience

Co-Owner - Jones, Roach & Caringella, Inc. (formerly Jones & Roach, Inc.), Since 1996
Staff Appraiser - Jones & Roach, Inc. - 1987-1996

Testimony Experience

San Diego Superior Court
San Diego Assessor Tax Hearing
Los Angeles Superior Court
Imperial County Superior Court
US District Court, Special Master Hearing
Mediations and Arbitrations

Teaching and Education Experience

Speaker - San Bernardino Assessors Office - Effective Testimony: 2020
Speaker - CLE International - Eminent Domain, Precondemnation Damages: 2019
Speaker - Appraisal Institute - Residential “Spring Symposium”: 2018
Speaker - IRWA Seminar - “Eminent Domain and Valuation”: 2018
Guest Lecturer at UCSD, SDSU, USD, and Point Loma Nazarene University on Appraisal
Guest Instructor - USD Real Estate Class: 2017
Speaker - CLE International, Eminent Domain: 2015
Speaker - Lormon Seminar, Law of Easements: 2013
Speaker - MCLE Seminar, Eminent Domain: 2011
Speaker - Caltrans Seminar, Contaminated Properties: 2011
Speaker - Appraisal Institute Litigation Seminar So. Cal.: 2007
Speaker - IRS Symposium, Conservation Easements: 2006
Co-Creator, Co-Instructor - “Advanced Refresher”: 2004
Co-Instructor - “Rates and Ratios”, Appraisal Institute: 2003
Seminar Creator/Moderator - “The Client”: 2003
Speaker - IRS Seminar “Valuation of Fractional Interests”: 2000
Speaker - San Diego Assessor’s Seminar: 1998
Seminar Coordinator/Moderator - “Attorneys, Appraisers & Real Estate”: 1996, 97, and 98
Seminar Co-Coordinator/Moderator - Int'l Right-of-Way Assoc. “Valuation Tour”: 1996

Other Affiliations

Board of Directors - Willow Grove Educational Foundation 2008 -2013
Board of Directors - USE Credit Union, San Diego, 1999-2006
Investor Manager of LLC - $5,000,000 Loft Development, Downtown San Diego 2000

Types of Appraisals
Agricultural
Apartment Buildings
Auto Dealerships
Auto Repair
Aviation Facilities
Commercial Buildings
Contaminated Properties
Development Rights
Easements
Eminent Domain/Partial Acquisitions
Fractional Interests
Historical Appraisals
Industrial & Office Buildings
Leasehold and Leased Fee Estates
Mining - Aggregate
Mitigation Credits
Mixed-Use Properties
Notes/Loans
Mobilehome/RV Parks and Homes
Planned Communities
Research & Development Buildings
Residential Subdivisions
Retail Centers
Self-Storage Facilities
Single Family Homes and Condominiums
Single Room Occupancy Hotels
Vacant Land
View Impairment
Wetlands/Other Sensitive Habitat

Partial List of Clients

Public Agencies
California Department of Transportation
California Coastal Conservancy
California State Lands Commission
Centre City Devel. Corp. (Civic San Diego)
Chula Vista Redevelopment Agency
City of Chino Hills
City of Dana Point
City of Escondido
City of National City
City of Oceanside
City of Redlands
City of San Diego
County of San Diego
Del Mar Union School District
IRS
Metropolitan Transit System (MTS and MTDB)
MiraCosta Community College District
Oceanside Redevelopment Agency
Otay Water District
Regents of the University of California
Resolution Trust Corporation (RTC)
San Diego Association of Governments
San Diego City College District
San Diego County Water Authority
San Diego Unified Port District
Solana Beach School District
Southeastern Economic Development Corp.
U.S. Department of Justice
Wildlife Conservation Board (California)

Lenders and Developers
Ayres Land Company
Bank of America
Bank of California
Barratt American
Brookfield Homes
Buie Corporation
California Transportation Ventures
Citicorp Acceptance Company
Coast Federal Bank
Column Financial
Continental Bank
Downey Savings
D.R. Horton
First Interstate Bank
Garden Communities
Great American Bank
Home Savings of America
HomeFed Bank and Home Capital Dev. Corp.
KB Home
Leisure Technology
Nexus Development Corporation
Pardee Homes
McMillin Communities
San Diego National Bank
Sherritt Development Services
Union Bank
US Bank

Wells Fargo Bank
Western National Properties
Western Pacific Housing

Corporations, Attorneys, and Individuals
American Assets
Anderson, Mann & Hilbert, LLP
ARCO Petroleum Products Co.
Bartz & McCarberg, LLP
Berger & Norton
Best, Best & Krieger LLP
Bob Baker Enterprises
Brobeck, Phleger & Harrison
Burger King Franchisee
Burke, Williams & Sorensen, LLP
Coldwell Banker Realty Advisory Services
Daley & Heft
Endeman, Lincoln, Turek & Heater
English & Gloven
Epsten & Grinnell
Ford Motor Company
Fraser Engineering, Inc.
Golden Eagle Insurance Company
Golub & Morales
Gordon & Rees
Gray, Cary, Ware & Friedenrich
Greenberg Traurig
Haight, Brown & Bonesteel
Hearthstone Advisors
HomeFed Corporation
Insurance Company of the West
Irell & Manella, LLP
John H. Reaves, Attorney at Law
Judge Robert C. Thaxton (retired)
Lempres & Wulfsberg
Liberty Mutual Insurance Company
McKenna & Cuneo
McKenna Long & Aldridge, LLP
Meisenheimer Herron & Steele
Morris, Polich & Purdy
Olmstead, Hughes & Garrett
Orrick, Herrington & Sutcliffe, LLP
Palmieri Tyler Weiner Wilhelm & Waldron
Procopio Cory Hargreaves & Savitch
Rick Engineering Company
Ryals & Associates
San Diego Gas & Electric Company
Seltzer Caplan McMahon Vitek
Sheppard, Mullin, Richter & Hampton, LLP
Sierra Club Legal Defense Fund
Silldorf, Burdman, Duignan & Eisenberg
Solomon Ward Seidenwurm & Smith, LLP
Sullivan Wertz McDade & Wallace
Texaco Oil
Thorsnes, Bartolotta, McGuire & Padilla
Trust Company of the West
Trust for Public Land
UETA
Walmart
Withers Bergman

Eric C. Schneider, MAI, SRA, AI-GRS

Appraisal Company Experience

Senior Appraiser - Jones, Roach & Caringella, Inc.	2015 to Present
Senior Analyst - Integra Realty Resources	2011 to 2015
Appraiser - Robert Shea Perdue Real Estate Appraisal	2009 to 2011

Professional Affiliations

State Certifications	
California Certified General Real Estate Appraiser (AG040624)	
Nevada Certified General Appraiser (A.0207821-CG)	
Member, Appraisal Institute (MAI, SRA, and AI-GRS Designations)	
Certified under Continuing Education Program	
Chapter President, San Diego	2019
Board of Directors, San Diego Chapter	2016-2020
Volunteer of Distinction (National)	2016
Leadership Development Advisory Council (LDAC)	2016 to Present
Instructor: Income Capitalization, Part 1	
Co-Developer: Condemnation Appraising: Principles and Applications	
Member, International Right of Way Association	
Chapter President, San Diego	2019-2020
Board of Directors, San Diego Chapter	2015 to Present
International Director, San Diego Chapter	2018-2020
Young Professional of the Year, San Diego Chapter	2017
Other Organizations	
Urban Land Institute	
San Diego County Bar Association (Vendor Member)	

Publications and Presentations

Co-Presenter: “Part Takes of Improved Properties”, San Diego, California	March 2020
Co-Author: “Value Buildings if They’re Not Being Taken? Shedding Light on Complicated Valuations - *Right of Way Magazine*	July/August 2019
Co-Developer/Presenter - “Value Buildings If They Are Not Taken? Shedding Light on Complicated Valuations”, Costa Mesa, California	August 2019
Co-Presenter - “Diversification for the Residential Appraiser”, Downey, California	September 2019
Co-Presenter - “Property Tax Administration: Strengths, Challenges, & Opportunities”, San Diego, California	September 2019

Educational Background

San Diego State University	
B.S. Degree in Business Administration, Emphasis in Real Estate	2008
Appraisal Institute (Partial List)	
Condemnation Appraising: Principles & Applications	2015
Litigation Appraising: Specialized Topics & Applications	2015
The Appraiser as an Expert Witness: Preparation & Testimony	2015
Uniform Appraisal Standards for Federal Land Acquisitions	2015
Advanced Land Valuation: Sound Solutions to Perplexing Problems	2017
Evaluating Commercial Leases: The Tenants and the Terms Matter	2018
How Tenants Create or Destroy Value: Leasehold Valuation	2019
Uniform Standards of Professional Appraisal Practice	Current
International Right of Way Association (IRWA)	
Easement Valuation	2015
The Valuation of Partial Acquisitions	2016
Problems in the Valuation of Partial Acquisitions	2019
Integrating Appraisal Standards	2019
Reviewing Appraisals in Eminent Domain	2019
Urban Land Institute	
Introduction to the Real Estate Development Process	2020
Professional Seminars (Partial List)	
Introduction to Right of Way Appraising (Appraisal Institute)	2015
Associating with Appraisers and Attorneys (Appraisal Institute)	2017
IRS Valuation Seminar (Appraisal Institute)	2018
What Does and Doesn’t Work for Appraisers at Deposition and Trial (Appraisal Institute and IRWA)	2019, 2020
Annual Valuation Seminar (IRWA Los Angeles)	Multiple
Eminent Domain Conference (CLE International)	Multiple
Eminent Domain Roundtable - Severance Damages and Goodwill (San Diego County Bar Association)	2017
How to Keep Your Expert In and Keep Their Expert Out (San Diego County Bar Association)	2018
Eminent Domain From Start to Finish (Nossaman LLP)	2019
Navigating COVID-19 for the Right of Way Industry (Nossaman LLP, Webinar)	2020

Property Experience

- Agricultural
- Automotive Dealerships
- Automotive Repair Facilities
- Bank Branches/Financial Buildings
- Brewery
- Bed and Breakfast/Inns
- Condominiums (Office, Retail)
- Convenience Stores/Service Stations
- Government Facilities
- Hotels and Motels
- Industrial/Warehouses
- Land (Rural, Urban, Open Space, Subdivision)
- Medical Facilities/Clinics
- Mixed-Use (Residential/Commercial)
- Multifamily (2-4 units and 5+ units)
- Offices (Low and High Rise)
- Orchard
- Parking Lots
- Public (Library, Museum)
- Religious Facilities/Churches
- Research & Development Facilities
- Restaurants/Bars/Night Clubs/Breweries
- Retail (Single Tenant/Freestanding)
- Self-Storage/RV Storage Facilities
- Shopping Centers
- Single Family Residential

Ownership Experience

- Fee Simple
- Leased Fee
- Leasehold
- Easements
- Partial Acquisitions
- Partial Interest
- Ground Leases