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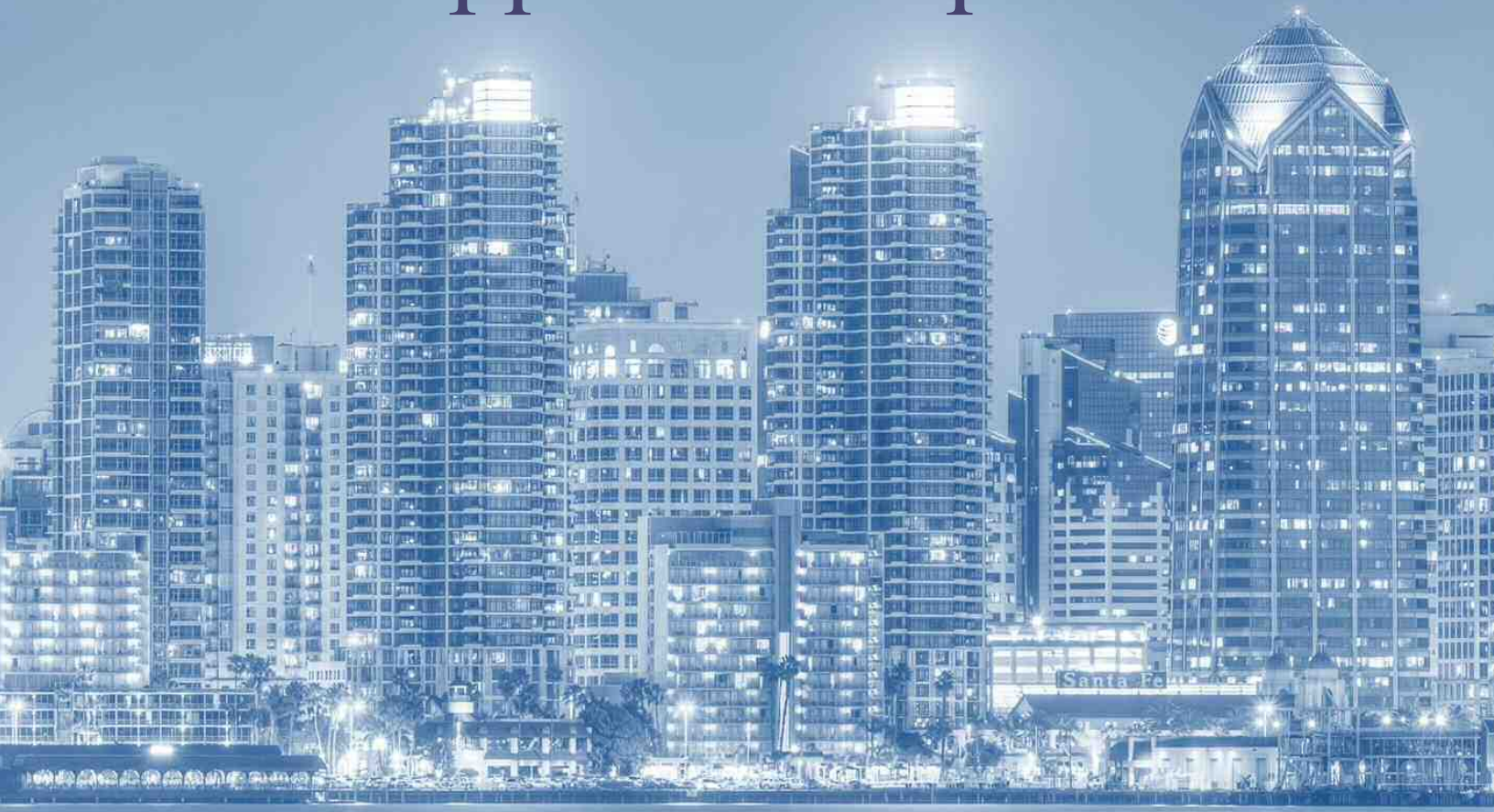
Appraisal Report



HENDRICKSON APPRAISAL COMPANY INCORPORATED
3530 Camino del Rio North ▪ Suite 205
San Diego, California 92108 ▪ (619) 282-0800

APPRAISAL OF

A Two Story Office Building
Situated on 50.12 Gross Acres of Land
City of San Diego Owned Property
Used as a Practice Facility by the Former San Diego Chargers

Located at
4020 Murphy Canyon Road
San Diego, CA 92123

Our File Number: 2017110

EFFECTIVE DATE OF VALUE:
March 2, 2017

DATE OF REPORT:
May 26, 2017

APPRAISED FOR:
City of San Diego

APPRAISED BY:
Hendrickson Appraisal Company, Inc.
3530 Camino Del Rio North, Suite 205
San Diego, CA 92108
(619) 282-0800

HENDRICKSON APPRAISAL COMPANY, INC.
Real Estate Appraisers ■ Consultants
3530 Camino del Rio North ■ Suite 205 ■ San Diego, California 92108 ■ (619) 282–0800 Fax (619) 282-1471 www.hendricksonappraisal.com

May 26, 2017
Ms. Jean Catling, MAI
Real Estate Assets Division
City of San Diego

San Diego, CA 92101

Reference: Appraisal of a two story office building situated on a 50.12 gross acre site. Located at 4020 Murphy Canyon Road, San Diego, CA 92123. The property was formerly occupied by the former San Diego Chargers, a National Football League team as its headquarters and practice facility.
Our File No. 2017110

Ms. Catling,

At your request, we have appraised the above referenced property. The subject site comprises approximately 50.12 gross acres, and is identified as San Diego County Assessor's Parcel Numbers 421-391-01 & 02/ 420-392-01 thru 04. The site is improved with an approximately 69,078-square foot single user office building and site improvements designed to meet the needs of a National Football League (NFL) team. The site improvements include two grass football fields, an Astroturf football field, a half-Olympic sized swimming pool and paved parking. Based on the 19.01 acre developable area, the floor area ratio (FAR) is approximately 8.3%.

The developable area of the subject property is 19± acres in size, divided into six legal lots, only two of which contain the existing office building. The remaining four lots are essentially vacant land, although as combined they meet the requirements of the current tenant, an NFL team, for use as a practice facility. Our highest and best use conclusion is to continue the use of the existing building and two legal lots as a single property, leaving the other four lots available for development on an individual basis. Therefore, the valuation analysis included valuation of the office building using the Sales Comparison Approach and the Income Approach; and valuation of the other four lots using the Sales Comparison Approach. The combined reconciled values constitute the subject property's fee-simple market value.

The client and intended user of this appraisal is the City of San Diego. The purpose of the appraisal is to develop an opinion of the market value of the fee-simple interest in the subject property. The effective date of value is March 2, 2017 as specified by the client. The intended use of this appraisal report is for internal asset management purposes.

The following appraisal report, of which this letter is a part, describes the facts and reasoning upon which our opinion is based. The analysis and final report have been prepared in compliance with Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice as adopted by The Appraisal Foundation; and of the Code of Ethics and Standards of Professional Practice of the Appraisal Institute.

Based upon our investigations and analysis and by virtue of our experience as real estate appraisers and analysts, it is our opinion that the fee-simple interest in the subject property, as of March 2, 2017, subject to the Assumptions and Limiting Conditions as stated in the body of this report, was:

..... TWENTY SEVEN MILLION THREE HUNDRED THOUSAND DOLLARS .....
$27,300,000

Thank you for this opportunity to be of service. Should you have any questions regarding this appraisal, please contact us at (619) 282-0800.

Respectfully submitted,

Ted G. Hendrickson, MAI
California Certified General Appraiser
AG004974

Edward A. Beaver
California Certified General Appraiser
AG009555

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SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Type
Two story, single user office building situated on a 50.12 gross acre (19.01 net acre) site, with large open areas.

Location
4020 Murphy Canyon Road, San Diego, CA 92123

Assessor's Parcel Numbers
421-391-01 & 02/ 420-392-01 thru 04

Owner of Record
City of San Diego

Intended User / Client
City of San Diego

Purpose of Appraisal
Develop an opinion of the market value of the fee-simple interest in the subject property, as of the effective date of value.

Intended Use
Internal asset management purposes.

Effective Date of Value
March 2, 2017

Zoning
IL-3-1 (Light Industrial), City of San Diego.

Land Use
The Kearny Mesa Community Plan identifies the subject land use as a combination of Industrial and Business Parks and Open Space.

Total Site Size / Shape
50.12 gross acres, irregular configuration. (Refer to Plat Map).
19.01 net acres

Gross Building Area
69,078 Sq. Ft.

Floor Area Ratio
8.3%

Highest & Best Use

As Vacant:	Develop the site with an office project on an individual lot basis consistent with zoning and land use, and generally similar to surrounding projects.
As Improved:	Retain the existing building on Lots 13 & 14, make lot line adjustments to improve the marketability of the remaining four lots, and develop those lots individually.

Reconciled Market Value Conclusion
$27,300,000

AERIAL PHOTOGRAPHS

Aerial view of subject. Property boundaries are approximate.

Oblique view of subject looking generally west. Parcel boundaries are approximate.

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is prepared subject to the following conditions and stipulations:

Hypothetical Condition

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

(1) The client has requested that the fee simple interest in the subject property, disregarding the existing lease, be appraised with a date of value of March 2, 2017. The property is currently encumbered by a master lease with the former San Diego Chargers for Qualcomm Stadium and the subject training facility which does not expire until July 31, 2017. Our analysis assumes that the lease will be terminated on that date and disregards the impact of the lease from the date of value to termination of the lease.

General Assumptions

(1) The legal description as furnished is assumed to be correct.

(2) No responsibility is assumed for matters legal in character or nature. No opinion is rendered as to title, which is assumed to be good and marketable. All existing liens, encumbrances, and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, having responsible ownership and competent management.

(3) 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 by the appraisers. Photographs, plats, and maps furnished in this report are intended to assist the reader in visualizing the property.

(4) According to FEMA Flood Insurance Rate Map 06073C11628H, dated May 16, 2012, much of the subject property is located in Flood Zone A, Flood Zone AE and Grey Flood Zone X. Flood zones A and AE are in the 1% annual chance (100 year) flood plain. Grey zone X is in the 0.2% annual chance (500 year) flood plain. Since the subject improvements have been in place for approximately 20 years, we have assumed that, at the time of their construction, all City of San Diego requirements regarding development in a flood zone were satisfied. We further assume that, should the property be redeveloped, those City requirements could also be satisfied.

(5) No soils or geotechnical investigation report was provided by the client. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures which would render it more or less valuable than otherwise comparable properties. No responsibility is assumed for such conditions or for engineering which might be required to discover such factors. The appraisers are not qualified to analyze said conditions, and urge the client to retain an expert in this field if desired. No visible evidence of soils subsidence was observed during our inspection of the property.

(6) No opinion is rendered as to the value of sub-surface gas, oil or mineral rights, or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated in this appraisal report.

(7) All opinions of value are presented as the appraisers considered opinion, based upon the facts and data set forth in this report. The appraisers assume no responsibility for changes in market conditions or the inability of the owner to locate a purchaser within a reasonable time at the appraised market value.

(8) The delivery and/or possession of this report does not require the appraiser to attend or give testimony at any meeting, public hearing, pretrial conference, deposition or court trial unless there is a written agreement between the appraiser and the party possessing or relying on this report or requesting such services.

(9) By acceptance and use of this report, the user agrees that any liability for error, omissions or judgment of the appraisers 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 this reliance is advised to secure an independent review and verification of all such conclusions and/or facts. The user agrees to notify the appraiser, prior to any loan or irrevocable investment decision, of any error which could reasonably be determined from a thorough and knowledgeable review.

(10) The date of value to which the opinions expressed in this report apply is set forth in the letter of transmittal. The appraisers assume no responsibility for economic or physical factors occurring at some future or later date which may affect the opinions herein stated. The appraisers reserve the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

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

(12) The possession of this report, or a copy thereof, does not carry with it the right of publication, nor may it be used for any purpose other than described in this report, without the previous written consent of Hendrickson Appraisal Company, Incorporated.

CERTIFICATION

The undersigned certify that, to the best of our 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 our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

(3) We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

(4) We have performed no services, as appraisers or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

(5) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

(6) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

(7) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result or the occurrence of a subsequent event directly related to the intended use of this appraisal.

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

(9) The undersigned have made a personal inspection of the property that is the subject of this report.

(10) Mark J. Hendrickson, MAI inspected the property and provided consulting assistance to the persons signing this certification.

(11) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representative.

(12) As of the date of this report, Ted G. Hendrickson, MAI, has completed the continuing education program for Designated Members of the Appraisal Institute.

Ted G. Hendrickson, MAI
California Certified General Appraiser
AG004974

Edward A. Beaver
California Certified General Appraiser
AG009555

INTRODUCTION / PURPOSE OF APPRAISAL

Executive Summary

The subject property is located at 4020 Murphy Canyon Road, San Diego, CA 92123. This appraisal report is the result of a thorough analysis and the findings are reported in compliance with the requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP). As such, it presents summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraisers' opinion of value. Comparable photographs and plat maps are included in the addenda to this report, and additional supporting documentation concerning the data, reasoning, and analyses is retained in the appraisers' files. The depth of discussion contained in this report is specific to the needs of the client and for the intended use of the appraisal.

The subject site comprises a 50.12-gross acre (19.01 net acre) parcel of industrial zoned land. The site is improved with a two story office building totaling 69,078 square feet. It was formerly occupied by a National Football League (NFL) team as their headquarters and practice facility. A large portion of the site was used for practice fields and the property's floor area ratio (FAR) is substantially lower than typical competing properties in the area. The property as currently configured is designed to accommodate a single user.

The property was appraised both as though vacant and as currently improved using the Sales Comparison Approach for the land and both the Sales Comparison Approach and the Income Approach for the building. The cost approach was not used as prospective buyers of this property type typically do not utilize the depreciated cost method in making their decision to purchase an office building.

Purpose of Appraisal

The purpose of this appraisal is to develop an opinion of the market value of the fee-simple interest of the subject property as of March 2, 2017. The appraisal is prepared under the reporting requirements of the Uniform Standards of Professional Appraisal Practice (USPAP), as defined by The Appraisal Foundation.

Intended Use of Appraisal

The City of San Diego will use this appraisal for internal asset management purposes.

Client / Intended Users of this Appraisal

This appraisal is intended for the sole use of the City of San Diego for the stated purpose and intended use. The City of San Diego is also identified as the client.

Scope of Work

(a) The analysis included in this assignment is intended to be an "appraisal" as defined in the Standards of Professional Practice of the Appraisal Institute, with the results of the analysis, opinions, and conclusions being that of a disinterested third party. The appraisal process has been extensive and comprehensive and

the findings of the appraisal process are reported in compliance with Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP) of The Appraisal Foundation.

(b) The client has requested that we complete a fee simple analysis of the subject property in its "as-is" condition. The subject building is currently configured to satisfy the needs of an NFL team for use as their headquarters and practice facility and will require considerable reconfiguration to be suitable for a more typical office use. Our analysis will begin by developing an opinion of the hypothetical value of the property assuming that the renovations have been completed and the property is at stabilized occupancy. To develop the as-is fee simple value, we then deduct the estimated cost of reconfiguration, rent loss during lease up and leasing commissions.

(c) All appropriate data deemed pertinent to the solution of the appraisal problem has been collected, confirmed, and reported in conformity with USPAP. These data include: neighborhood and office district information, zoning and development information, subject property data, highest and best use data and research, and appropriate market data used in the analysis of the appraisal of this property.

(d) The subject property was physically inspected by Ed Beaver, Mark Hendrickson, MAI and Ted Hendrickson, MAI of Hendrickson Appraisal Company, Inc. on April 22, 2017, and subsequent dates. Information relating to the size and configuration of the building improvements was provided to the appraisers by the client. During the site inspection, exterior building measurements were taken to confirm the accuracy of the improvement size noted on the construction plans. The information provided by the client was deemed reasonably accurate.

(e) The appraisers consulted the City of San Diego Planning Department to determine current zoning and land use designations for the subject property. Information collected was used in conjunction with analysis of the current market for multi-tenant office properties in the subject area and other competing areas to develop an opinion of the subject property's highest and best use.

(f) In the valuation process, the subject property's physical characteristics and economic potential were analyzed in order to develop an opinion of market value. Typically, when developing this value, there are three approaches used to develop an opinion of market value: the cost approach, the Sales Comparison Approach, and the Income Approach. In this case, the appraisers used the Sales Comparison Approach and the Income Approach. The cost approach was not used as prospective buyers of this property type typically do not purchase based upon the depreciated cost method used in the cost approach.

(g) Market data research was conducted of recent sales, escrows, listings, and leases of similar properties. Data sources included CoStar Group, Loopnet, ReisReports, Chicago Title Company, County Assessor's public records, and conversations with brokers active in the subject market area. Photographs and plat maps of each of the sale comparables used are contained in the addendum to this appraisal report

(h) Each comparable property was inspected, and the buyer, seller, and/or broker involved in the transaction were interviewed to confirm the salient information regarding the transaction. The assumptions made throughout the report have been well supported by market evidence and/or discussions with knowledgeable individuals.

(i) The final step in the valuation process involved reconciling the approaches used into an opinion of the market value of the subject property, considering the relative strengths and weaknesses of each approach. The final opinion of subject value is supported with the best available data from the marketplace.

(j) This appraisal report has been prepared in conformance and full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), as published by The Appraisal Foundation and adopted by the Appraisal Institute. It is intended throughout this appraisal process that this appraisal be performed in such a manner that the results of the analysis, opinions, or conclusions are that of a disinterested third party.

Value Definition – Market Value

The definition of market value for this assignment is:

> The most probable price that the portion being disposed of should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably, and assuming that the price is not affected by coercion or undue stimulus.[1]

Property Rights Appraised

The property rights appraised are those of the *fee simple interest*, 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.[2]

Excess Land Definition

Land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land has the potential to be sold separately and is valued separately.[3]

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[1] Definition included in the City of San Diego Scoping Letter dated April 19, 2017.
[2] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).
[3] Ibid

Exposure and Marketing Time

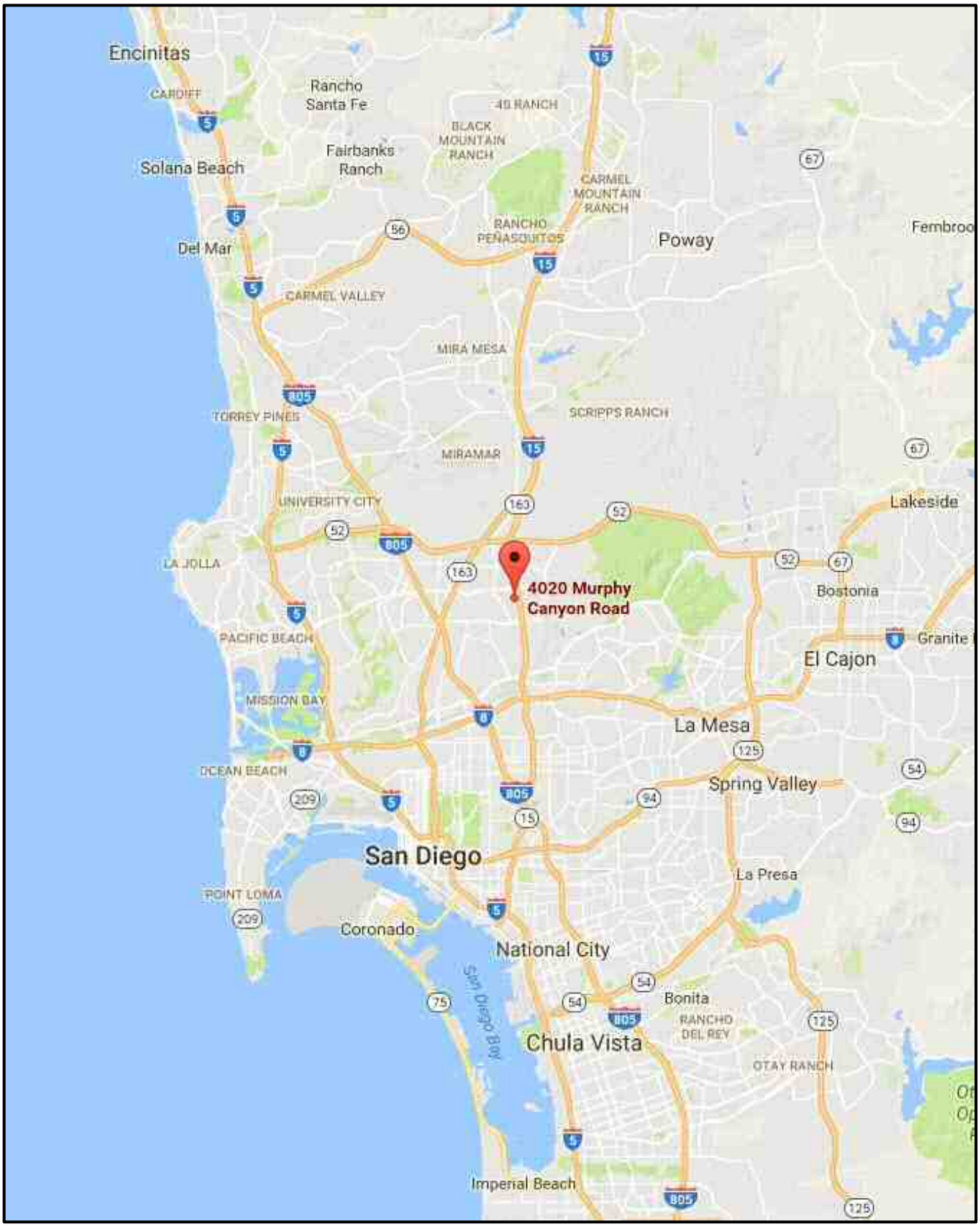
Exposure and marketing times are defined by the Appraisal Standards Board and set forth in the Uniform Standards of Professional Appraisal Practice as:

> Exposure Time
>
> The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. A retrospective estimate based on an analysis of past events assuming a competitive and open market.[4]
>
> Marketing Time
>
> The definition of market value includes the provision that a reasonable time is allowed for exposure on the open market. Our opinion of marketing time includes consideration of current and projected economic conditions, actual exposure time of comparable properties, discussions with brokers and investors in the San Diego County submarket, as well as the subjects' property types, location and economic characteristics.

The distinction between the two terms is that the exposure time precedes the effective date of an appraisal and marketing time is the period immediately after the effective date of an appraisal. The following opinion regarding marketing and exposure times for the subject property is based on information obtained during our market research for this assignment. The Central San Diego office sub-market continues to show strong market conditions, with vacancy rates at or near record lows. Also, the subject's central location in a fully developed, dynamic office market segment of San Diego is a driving force. The property is uniquely desirable and a scarce commodity in the market. Therefore, based upon our market research and discussions with knowledgeable market participants specializing in the Kearny Mesa market, it is our view that the marketing and exposure times for the subject property would likely be approximately nine months to one year, assuming the property is priced at its market value.

[4] Ibid

AREA MAP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Fairbanks Ranch
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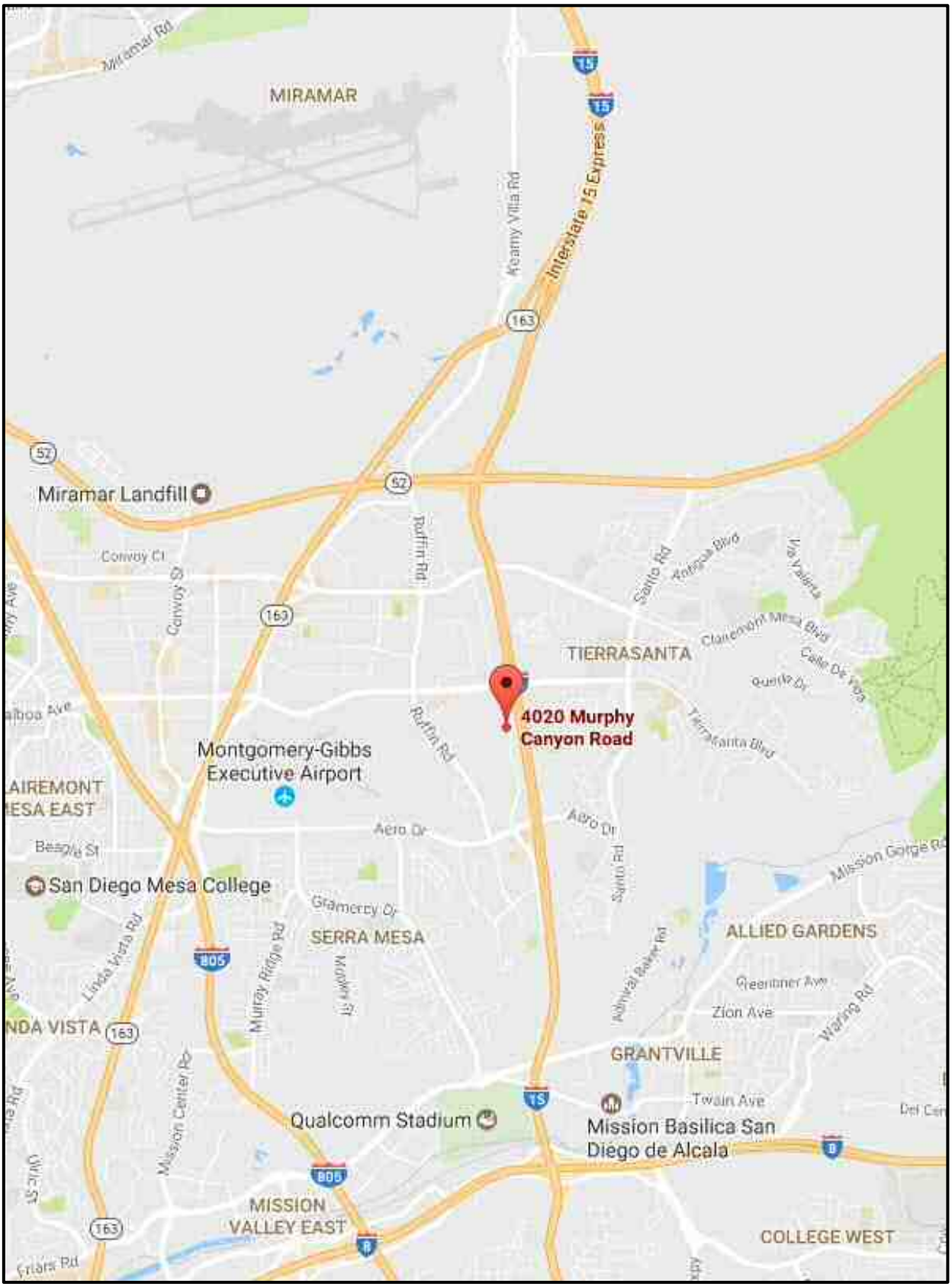
CARMEL MOUNTAIN RANCH
RANCHO PEÑASQUITOS
Poway
Fembroo
Del Mar
CARMEL VALLEY
MIRA MESA
TORREY PINES
SCRIPPS RANCH
MIRAMAR
UNIVERSITY CITY
Lakeside
LA JOLLA
4020 Murphy Canyon Road
Bostonia
PACIFIC BEACH
Granite
El Cajon
MISSION BAY
La Mesa
OCEAN BEACH
Spring Valley
San Diego
La Presa
POINT LOMA
Coronado
National City
Bonita
RANCHO DEL REY
Chula Vista
OTAY RANCH
Imperial Beach

NEIGHBORHOOD MAP



AREA DESCRIPTION

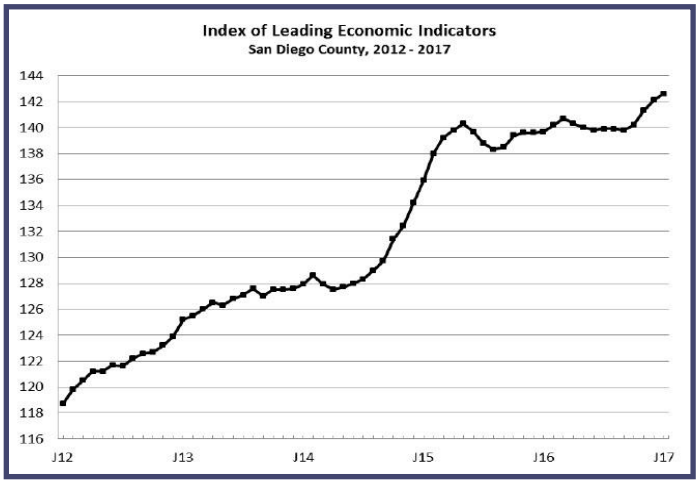
At the request of the client, a detailed area description is not provided in this appraisal. The subject property is located in the Kearny Mesa area of the City of San Diego. Kearny Mesa is a predominantly commercial and industrial area of the City. The subject is situated on the west side of Murphy Canyon Road just south of Balboa Avenue. It is a centrally located area which is served by multiple freeways. Other development in the immediate subject area comprises approximately 21 low rise office buildings from two to three stories. There are two four story buildings and one five story building near Clairemont Mesa Boulevard to the north and Aero Drive to the south. There are two self-storage facilities, one directly across Murphy Canyon Road from the subject and one just north of Balboa Avenue on the west side of Murphy Canyon Road. Near the intersections of Clairemont Mesa Boulevard to the north and Aero Drive to the south, the development is more commercial in nature and includes two small shopping centers, two motels, a gas station and mini mart, a fast food restaurant and an auto repair facility. The subject property is located in a dynamic office oriented area that is fully built out. As such it is uniquely desirable with properties like it in short supply.

SAN DIEGO COUNTY MARKET DYNAMICS

The San Diego County real estate market remains strong though leveling off to some degree. Per the State of California Economic Development Department, the San Diego County unemployment rate was 4.2% in February 2017, down from a revised 4.5% in January 2017, and below the year-ago estimate of 4.8%. This compares with an unadjusted unemployment rate of 5.2% for California and 4.9% percent for the nation during the same period. [5]

San Diego County total nonfarm employment increased from 1,424,100 to 1,430,700, a net gain of 6,600 jobs from January 2017 to February 2017. Year-over-year total nonfarm employment increased by 26,700 jobs (1.9%±). The largest increases came from government (6,900 jobs); education and health services (4,800± jobs); and professional and business services (4,400± jobs). All employment sectors are expected to grow over the next two years at a combined rate of 2.5% in 2016 and 2.3% in 2017.

The San Diego Index of Leading Economic Indicators is prepared by the University of San Diego and measures six economic indicators for San Diego County. The index tracks month-over-month changes in new building permits, unemployment insurance, stock prices of local companies, local consumer confidence, help wanted advertising, and economic indicators from the national economy. The last reported indicator was in February 2017 and it was up slightly (0.4%) since the Januaary estimate. The index indicated signifcant gains and a strong growing economy from mid-2014 to mid-2015. Since that time



[5] US Bureau of Labor Statistics

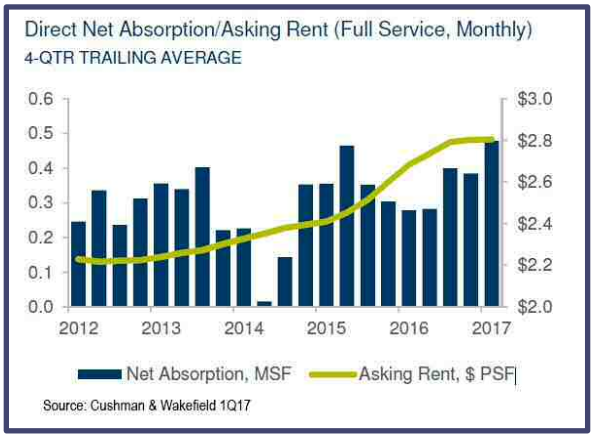
there have been signs of slight pullback as consumer confidence and the local stock prices both fell from their peak, however, the index has increased relatively sharply for the past four months.

Office Market

The San Diego County office market continues to show signs of improvement and strong demand with the addition of 30,900 jobs (2.2%) year-over-year through the 4th quarter 2016. Of the 30,900 jobs added, 21% were office related. Office employment is forecast to grow approximately 4.2% in 2017, continuing to positively affect demand for office space. The accompanying chart shows steadily increasing job growth each year since 2011. The percentage increase in job growth has been relatively flat at between 2% and 3% from 2013 to 2016.

Job growth and moderate new construction has continued to drive vacancy rates (including sublease) down to ±14.4%, with rates currently below the historical 10-year average (14.7%). Overall, vacancy rates for office space vary depending on which survey is reviewed. Surveys reviewed for the San Diego County office market included: Cushman & Wakefield, Colliers International and CBRE. Current vacancy rates reported by those organizations range from a low of 11.5% to 14.6%. The relatively wide range is likely a result of differing survey methodologies. All the surveys indicated a declining trend in office vacancies over the past two to three years.

Overall, vacancy rates for Class-B office space now is at a ten-year low reported at 14.4%. Demand for Class-B space lagged Class-A after the recession as many tenants were able to negotiate favorable terms in more desirable Class-A space. However, as the office market has continued to improve asking lease rates have been rising, although they have leveled off somewhat in early 2017. Demand has slightly shifted to the more affordable Class-B space.



Average asking full service office rents have continued to increase, after bottoming out at about $2.55/SF/Mo in mid-2011. All office classes are experiencing rental rate growth while the leasing environment remains robust. Over the past 12 months, Class-A rent has increased by 8.0% to $3.19/SF, Class-B has increased by 11.8% to $2.58/SF, and Class-C increased 7.2% to $1.83/SF. The indicated rent averages are stated as monthly rates per square foot, full service.

San Diego County currently has 17 office projects under construction which total about 1.5 million square feet. Of those, 13 are expected to be completed in 2017. Over half of the square footage is in build to suit projects. Three of the projects are creative renovations of previously existing buildings; the old Union Tribune office and print buildings in Mission Valley (320,000 SF), and the old San Diego Daily Transcript building in Uptown (34,000 SF). About 56% of the total space is pre-leased. As these projects come on line later in the year, a modest short term increase in vacancy rates is anticipated.

The long-term outlook for the San Diego office market is considered good. The job market is expected to continue growing throughout the remainder of 2017 which will drive occupancy and rental rates. Construction activity has exceeded 1.6 MSF, and will be at or near its highest level since 2008. There is limited concern for overbuilding as was the case prior to the recession that began in 2007 as demand since 2014 remains as strong or stronger than most of the years prior to that recession.

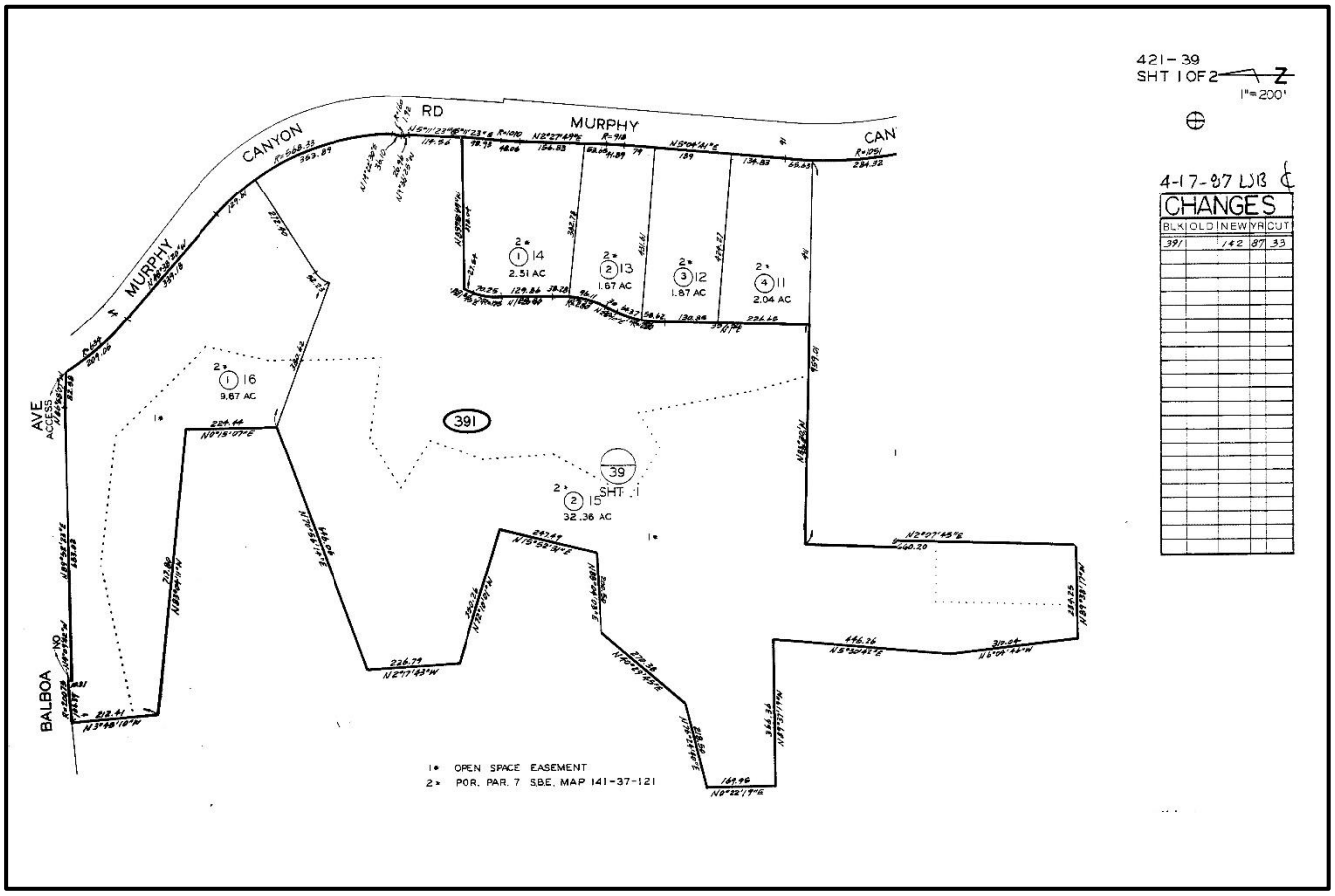
Kearny Mesa Real Estate Submarket

The Kearny Mesa office submarket continues to perform as well or better than other major markets in the area. Asking rental rates for all office properties continued their upward climb in the most recent quarter at an average of $2.09 per square foot on a full service gross basis. Kearny Mesa is popular with potential office tenants due to its central location in the county along with easy access to the freeway system on I-15, I-805 and State Routes 52 and 163. Review of office building sales in Kearny Mesa shows strong price appreciation over the past two years.

Sunroad Enterprises is currently in the planning stages for two additional 11 story office buildings near its existing Centrumplace office building in the Spectrum development built on the former General Dynamics property north of Montgomery Field in Kearny Mesa. The Centrum II tower will add approximately 290,000 square feet of office space to the 274,000± square feet in the existing tower.

While not adding to the rentable space in Kearny Mesa, a contract has been awarded for construction of a new California Highway Patrol facility at the intersection of Kearny Villa Road and Ruffin Road. That project is intended to replace the existing CHP facility on Pacific Highway in the Old Town area of San Diego. It will include a 40,000± square foot office building, an auto service building, a radio vault building, a fueling area and a generator yard. Construction is expected to commence in the first half of 2017 and be complete some time in 2018. Considering the unique locational aspects of the subject property in the Murphy Canyon Road office sector, it should compete well in the Kearny Mesa market area.

PLAT MAP



This is a composite of two Assessor's Maps. The subject property includes all six parcels shown.

SITE DESCRIPTION

Location

The subject property is located at 4020 Murphy Canyon Road, San Diego, CA 92123, in the Industrial/Business Park portion of the Kearny Mesa Community Plan area in the City of San Diego. The property is situated on the west side of Murphy Canyon Road immediately south of Balboa Avenue.

GPS Coordinate

32°49.139"N 117°06.971"W

Owner

City of San Diego

Sales History

There have been no arm's length transactions in the past five years. The City of San Diego purchased the property from San Diego Gas and Electric on June 28, 1996 for a consideration of $6,300,000. The current improvements were constructed shortly thereafter and have been occupied by an NFL team until the present.

Assessor's Parcel Numbers(APN)

421-391-01 & 02, 421-392-01 thru 04

Property Taxes and Assessments

The property is vested in the City of San Diego, a municipal corporation, and is exempt from property taxes. For information, the adjacent property to the south is in Tax Rate Area 08100, has fixed charges of $231.66 and a tax rate of 1.17432%.

Legal Description

The following legal description was extracted from a title report prepared by Chicago Title Company and dated March 29, 2017.

> THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SAN DIEGO, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:
>
> LOTS 11 THROUGH 16 INCLUSIVE OF MURPHY CANYON GATEWAY UNIT NO. 1, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 11502, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO, MAY 2, 1986.
>
> APN: 421-391-01 &02; 421-392-01, 02, 03 & 04

Size and Shape

The site comprises 50.12 gross acres and has a very irregular configuration. Much of the western portion of the site is steep hillsides which have been left in their natural state. The Covenants, Conditions and Restrictions (CC&Rs) for the Daley Corporate Center require that they remain that way. The area to the west of the green line in the accompanying aerial photo was dedicated to open space on Subdivision Map 11502. Per the map, that area totals approximately 22.60 acres. Information provided by the client indicates that the developable area of the site is 19.01 acres. The yellow line in the aerial photo shows the approximate boundaries of the developable area. The red and green boundary lines in the aerial are based on Assessor Plat Maps of the subject. The yellow developable area was estimated based on historical aerial photography of the property from 1996, shortly after it was purchased by the City.

Access

The property is accessible from either direction on Murphy Canyon Road on which it fronts. There is no access to the subject from Balboa Avenue which crosses above Murphy Canyon Road on an overpass.

Frontage / Exposure

The property is located on the west side of Murphy Canyon Road just south of Balboa Avenue. The property's exposure is limited to traffic passing on Murphy Canyon Road. Due to topography, natural vegetation, buildings and roadway structures, it is only marginally visible from I-15 and not visible at all from Balboa Avenue. The property has 2,080± lineal feet of frontage on Murphy Canyon Road, but the developable area is not visible from the northerly 1,000± feet of that frontage. SANDAG does not measure daily traffic volumes for Murphy Canyon Road. It is considered to be moderately traveled, particularly during rush hour periods.

Street Improvements

Murphy Canyon Road is an 80-foot-wide, four-lane road with two northbound travel lanes, one southbound lane and a two way center left turn lane at the subject location. There are concrete curbs, gutters and sidewalks along the entire subject frontage on the west side of the street. There are concrete curbs and gutters along the entire east side of the road, but the sidewalk ends at the north end of the self storage facility across the street from the subject.

Topography

The developable portion of the site slopes very gently up from the street and from the south to the north. The remainder of the site comprises steep hillsides and canyons. Elevations on the property range from 185± feet at the southeast corner, to 425± feet along the ridge at the south end of the open space area. The developable portion of the site had been graded prior to its purchase by the City in 1996.

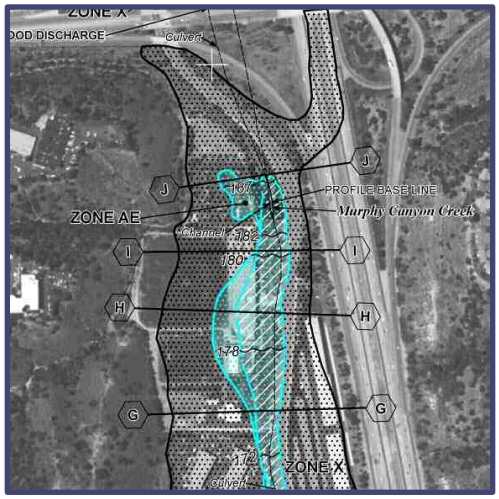
View Potential

The developable area of the subject property is generally level, but the western portion of the property is steep hillsides rising between 175 and 200 feet above the developable portion. The hillsides have been dedicated to permanent open space, and must be left in their natural state. Thus, west facing offices on the property will be afforded a pleasing view of the natural hillsides.

Drainage

The finished grading of the site appears to allow for adequate drainage. There are several easements on the subject property which facilitate drainage. Those easements encumber both the developable and the non-developable portions of the property and a 45 foot wide strip along the frontage.

Flood Hazard



The majority of the developable area of the subject property is located in Flood Zone A, Flood Zone AE or grey Flood Zone X. Flood Zones A and AE are areas subject to inundation by the 1% annual chance (100 year) flood. These areas include the majority of the existing building and about half of the frontage on Murphy Canyon Road. Grey Flood Zone X is area subject to inundation by the 0.2% annual chance (500 year) flood.[6] This area includes most of the rest of the developable area which is currently either vacant or improved with a parking lot and practice fields. It is assumed as a limiting condition of this appraisal that all City of San Diego requirements for development in a flood zone were satisfied when the existing improvements were constructed. It is further assumed that, should the property be redeveloped, those requirements could also be satisfied.

Soil Conditions

No soils or geotechnical investigation report was provided by the client. Our site inspection revealed no visible evidence of soils subsidence or other adverse soil conditions. Surrounding properties are improved with large office and R&D buildings and it is assumed that the load bearing capacity of the site's soil is sufficient to support development of the site to its highest and best use.

Utilities

All utilities are available and operating to the site. San Diego Gas and Electric provides gas and electric service. Water and sewer service is provided by the City of San Diego. Several companies provide telephone service.

Land Use

Per the current Kearny Mesa Community Plan, the subject area is identified for Industrial and Business Park use and Open Space. Office and commercial uses are also permitted. Residential uses are not permitted. An update to

[6] Flood Insurance Rate Map: 06073C1628H, dated May 16, 2012

the Kearny Mesa Community Plan was commenced in 2016. The appraisers reviewed a draft copy of that plan which proposes a change to the land use for Lots 15 and 16 of the subject to a park, recreation and open space use. As of the date of value, the existing community plan was, and still is, in effect. Our land value analysis is based on the land uses in the current Kearny Mesa Community Plan.

Airport Influence Area

Per the Airport Element of the Kearny Mesa Community Plan, the subject property is not in either the Montgomery Field "Area of Influence" or the Montgomery Field "Flight Activity Zones".

Zoning

Per the City of San Diego Municipal Code the subject property is zoned IL-3-1–Light Industrial. The purpose of the IL zones is to provide for a wide range of manufacturing and distribution activities. The development *s*tandards of this zone are intended to encourage sound industrial development by providing an attractive environment free from adverse impacts associated with some heavy industrial. IL-3-1 is among the most liberal of the industrial zones. It allows a mix of light industrial, office, and commercial uses. Most of the surrounding area has been developed with office improvements.

Site Development Standards

The following standards are required for development in IL-3-1 industrial zone areas.

Floor Area Ratio (FAR)	0.5 maximum specified in the Kearny Mesa Community Plan
Lot Area:	15,000 SF minimum
Lot Width:	75 feet
Lot Depth:	100 feet
Setback Requirements:	Front – 20 feet standard, 15 feet minimum
	Side – 10 feet
	Street side – 20 feet standard, 15 feet minimum
	Rear – 15 feet standard, 0 feet minimum
Height Restriction:	Not specified

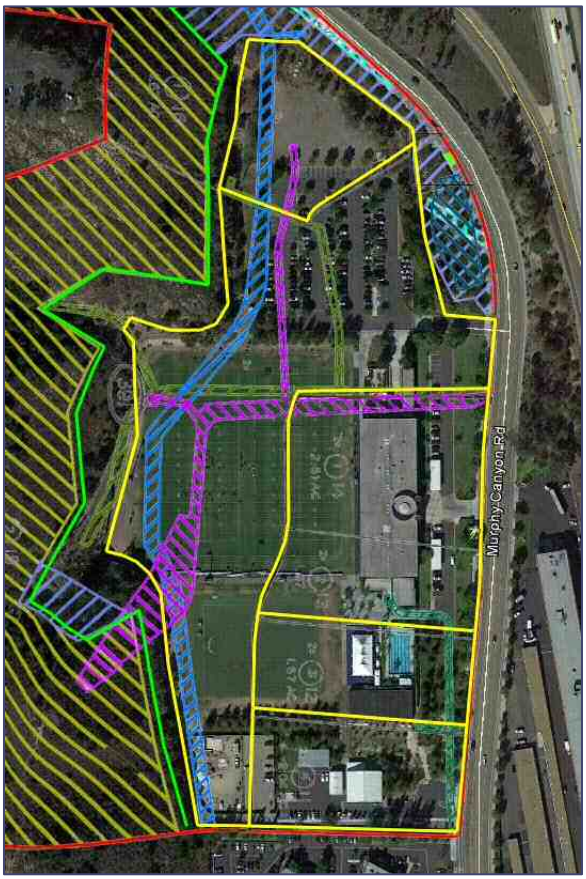
Parking Requirements

San Diego Municipal Code states that in the IL-3-1 zone, the parking requirement is 5.0 spaces per 1,000 square feet of building area. However, Planned Industrial Development (PID) 84-0902, which established the subject subdivision, states that for Lots 3 through 16, which include the six subject lots, on-site parking is to be provided at a ratio of one space per 330 square feet of gross building area, or approximately 3.03 spaces per 1,000 square feet. The original PID has been amended twice, however, the parking requirements for the subject lots were not changed in those amendments.

Easements/Encumbrances

The preliminary title report prepared by Chicago Title Company identified 19 easements encumbering the subject property. The easements were granted between 1925 and 2014. The easements are mainly for open space, drainage,

storm drains and public utilities. The majority of the easements encumber areas outside the developable portion of the property, however, some of them impact the developable areas. The accompanying aerial displays the approximate locations of lot lines and easements in the developable portion of the site which are outlined in yellow. The blue easement is for utilities, the pink easement is for storm drains, the green easement at the upper end of the developable area is for drainage and the green easement at the southeast corner is for utilities. In addition to the easements shown in the accompanying aerial photo, there are several utility easements located in a 45 foot wide strip along the subject frontage on Murphy Canyon Road. All of the parcels have sufficient unencumbered area to support development.



Toxic or Hazardous Materials

No toxic or hazardous waste report was available for review, and a thorough physical investigation of the property is beyond the scope of the assignment. No indications of hazardous materials was observed during our physical inspection of the subject, however, we are not experts in the field and are not qualified to complete a detailed hazardous materials inspection. The client is urged to contract with an expert if deemed necessary.

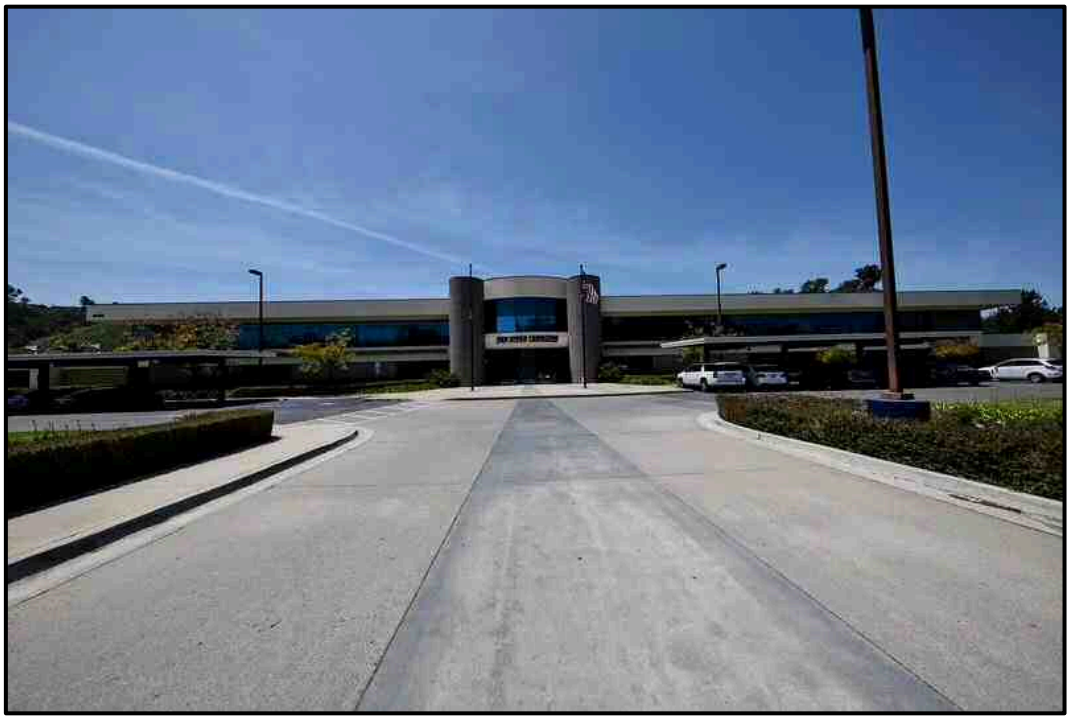
Geologic Conditions

Most of Southern California including San Diego County is subject to a potential seismic activity. There are no major earthquake faults directly affecting the immediate subject area, but the Rose Canyon fault, a short distance offshore, could create a damaging earthquake. The subject property and all the comparable sales are considered to have generally similar potential threats from earthquakes.

Environmental Issues

A large portion of the subject property comprises steep hillside and canyon areas. The hillsides are scrub and chaparral. There is a small pond and wooded area near the north end of the property. Both the Planned Industrial Development and CC&Rs dictate that these areas are all to be left in their natural state. These areas are all outside the developable portion of the property.

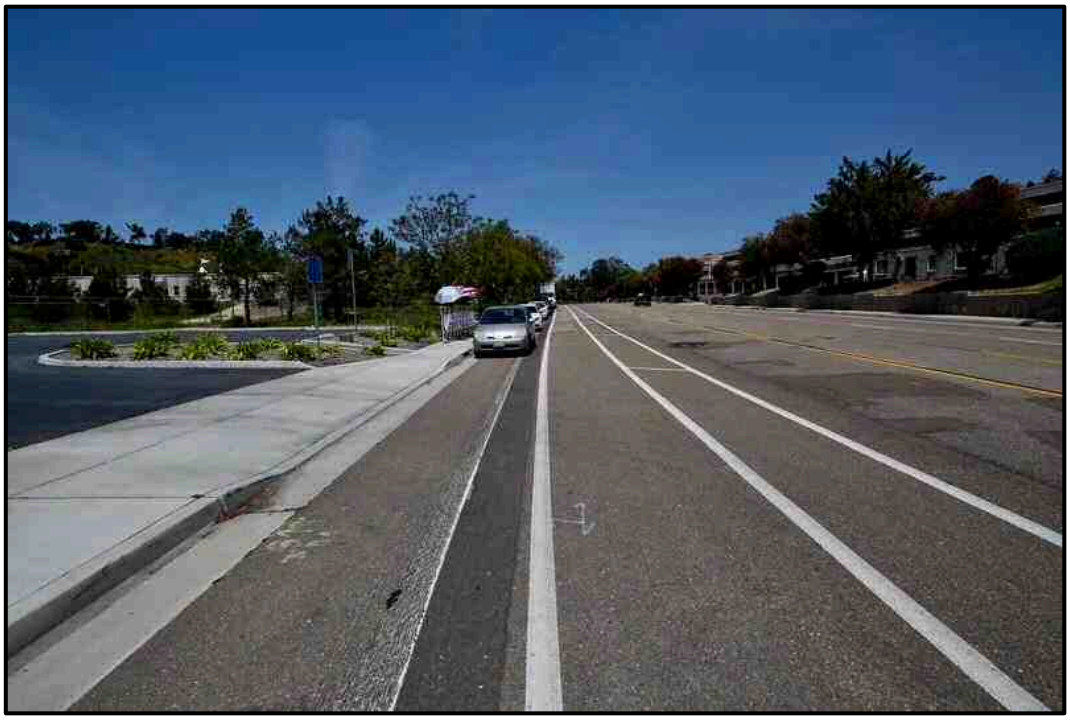
SUBJECT EXTERIOR PHOTOGRAPHS



Front of the office building looking west from the main entrance driveway.

Back side of the office building looking east from the grass practice field.

SUBJECT EXTERIOR PHOTOGRAPHS



Looking north on Murphy Canyon Road from the southern subject entrance driveway.

Looking west along the southern entrance driveway. The maintenance building is in the background.

SUBJECT EXTERIOR PHOTOGRAPHS

North end of the building with storage spaces on the left and the machinery enclosure on the right.

South end of the subject building.

SUBJECT EXTERIOR PHOTOGRAPHS

City of San Diego maintenance building at the south end of the property.

City of San Diego garage building at the south end of the property.

SUBJECT EXTERIOR PHOTOGRAPHS

Modular structures housing the Digital Media Center – to be removed by the team.

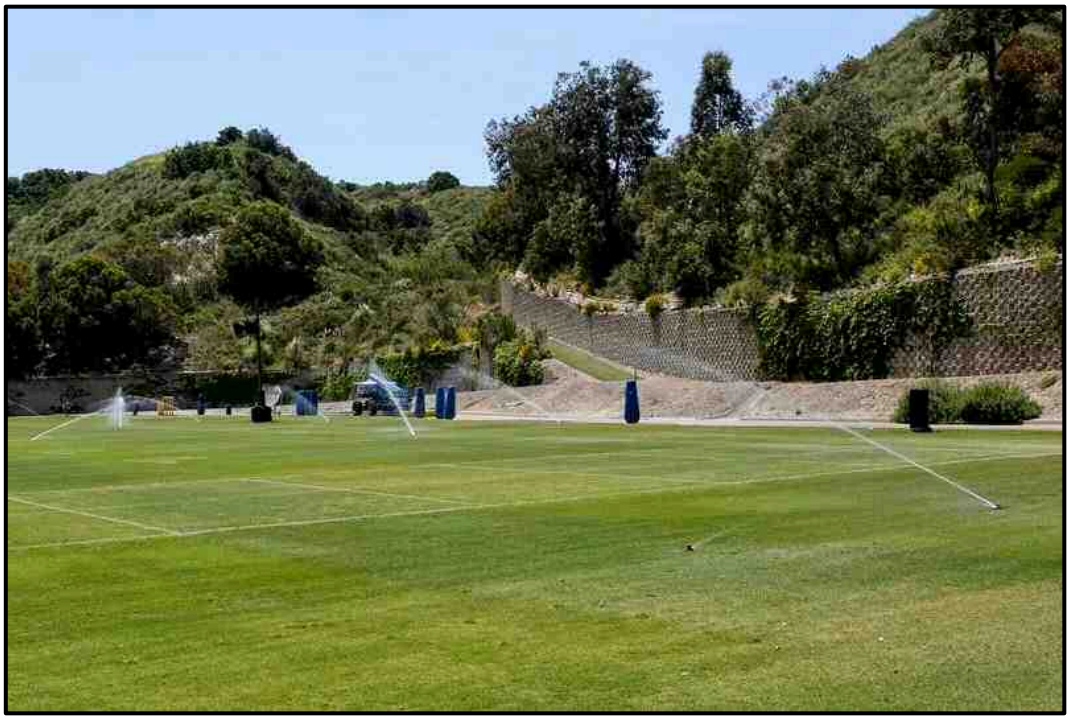
Media center building at the south end of the property – to be removed by the team.

SUBJECT EXTERIOR PHOTOGRAPHS

North end of the developable portion of the site looking toward open space and building restricted easements.

Large parking lot at the north end of the property.

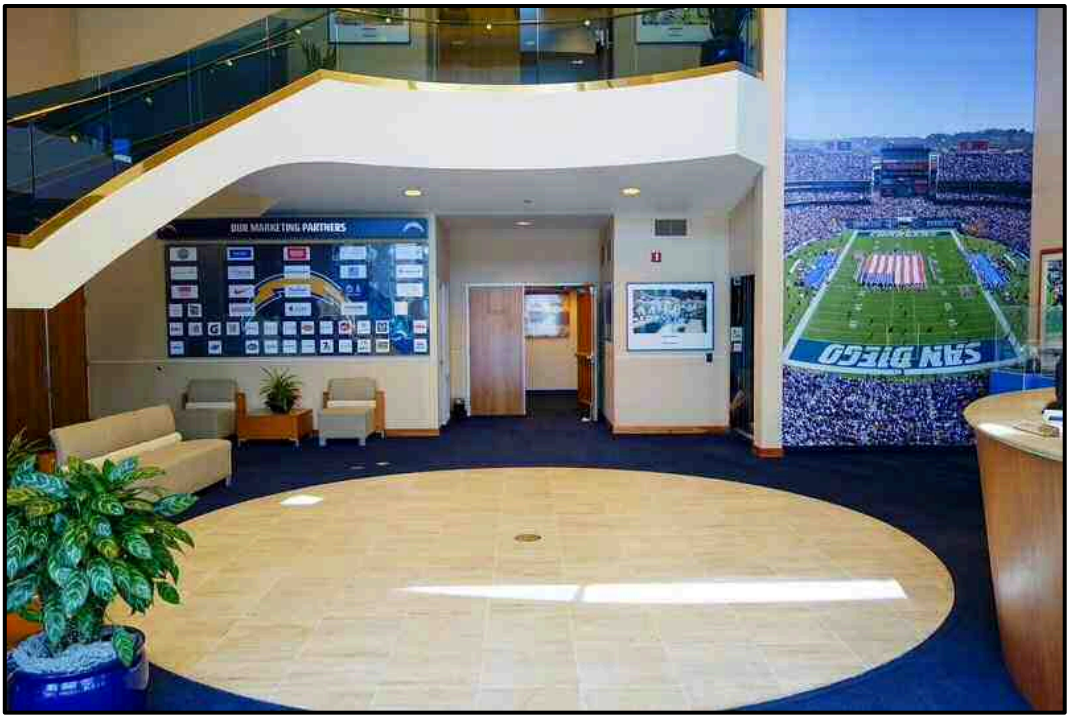
SUBJECT EXTERIOR PHOTOGRAPHS



Looking southwest across the west end of the grass practice field. The open space easement area is in the background.

Looking northwest across the Astroturf practice field.

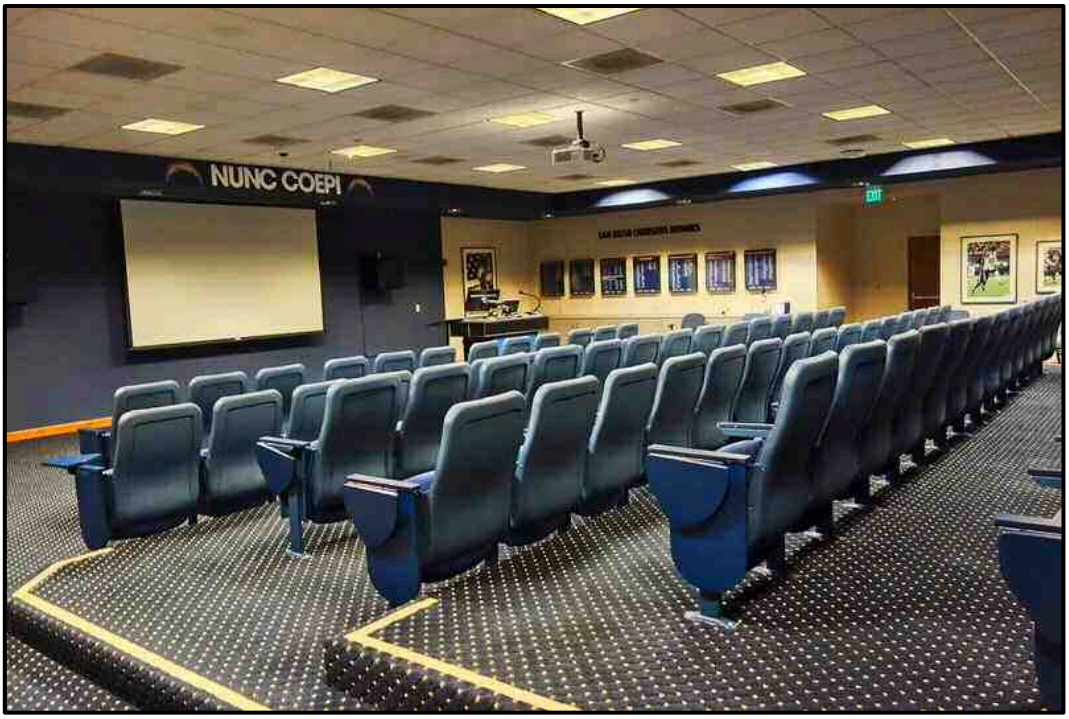
SUBJECT INTERIOR PHOTOGRAPHS



Main entrance lobby and reception area.

Owners suite reception area on the second floor.

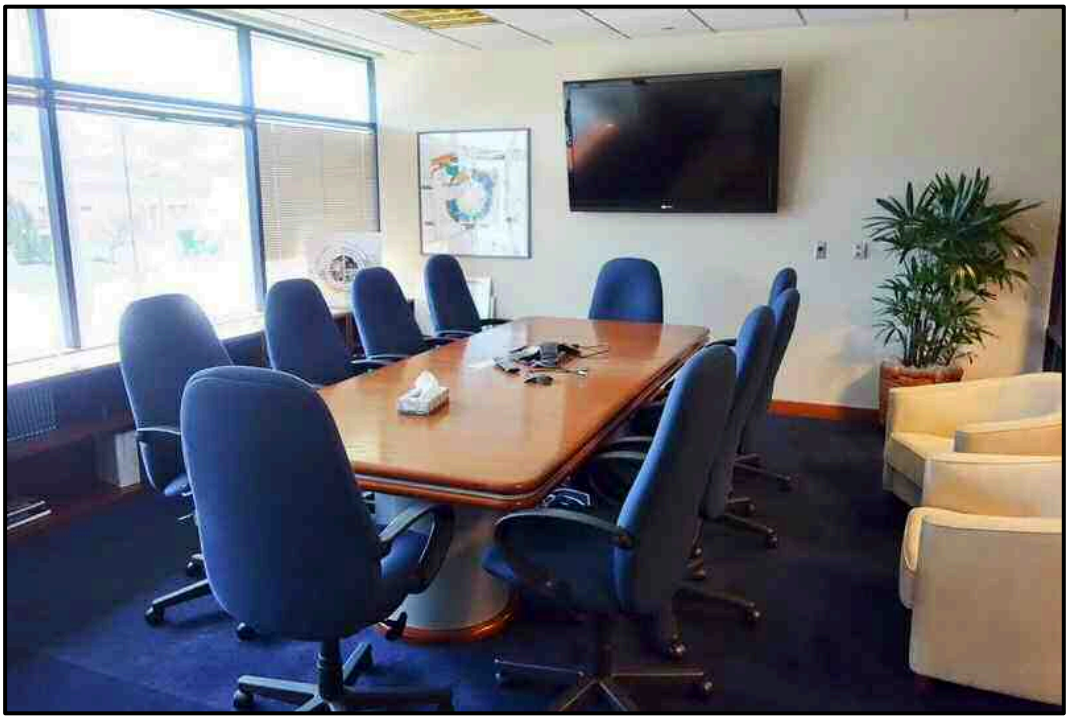
SUBJECT INTERIOR PHOTOGRAPHS



Large conference/meeting room off main lobby.

Typical office/team meeting room. There are several similar rooms on the first floor.

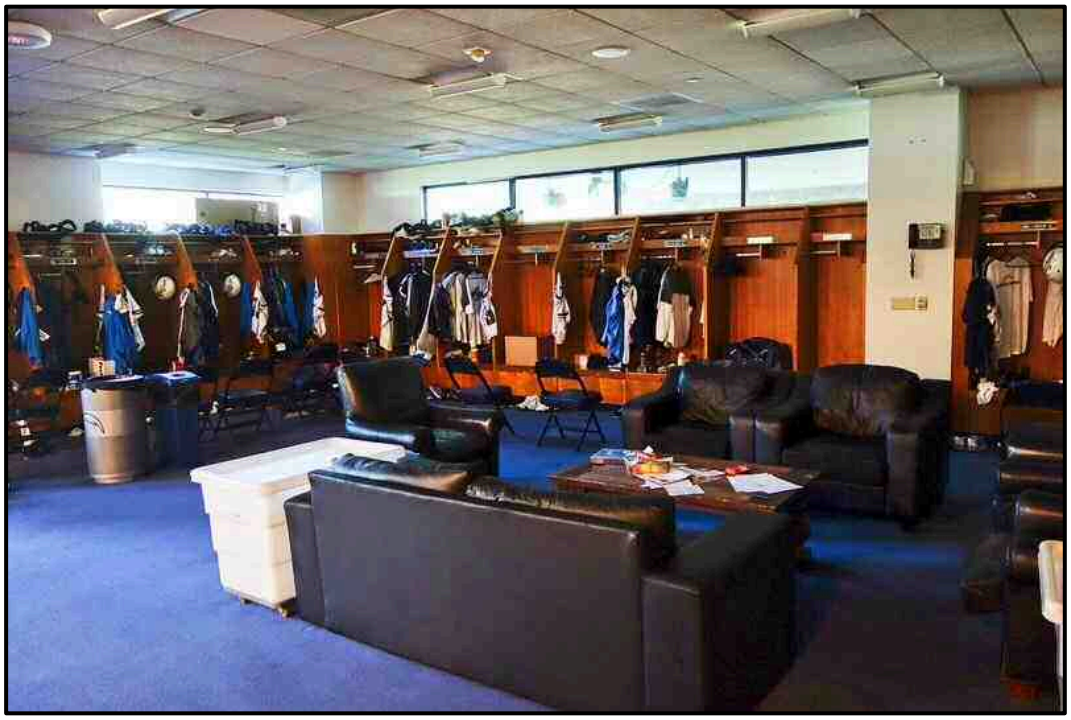
SUBJECT INTERIOR PHOTOGRAPHS



Typical second floor conference room.

Lunch room on the second floor.

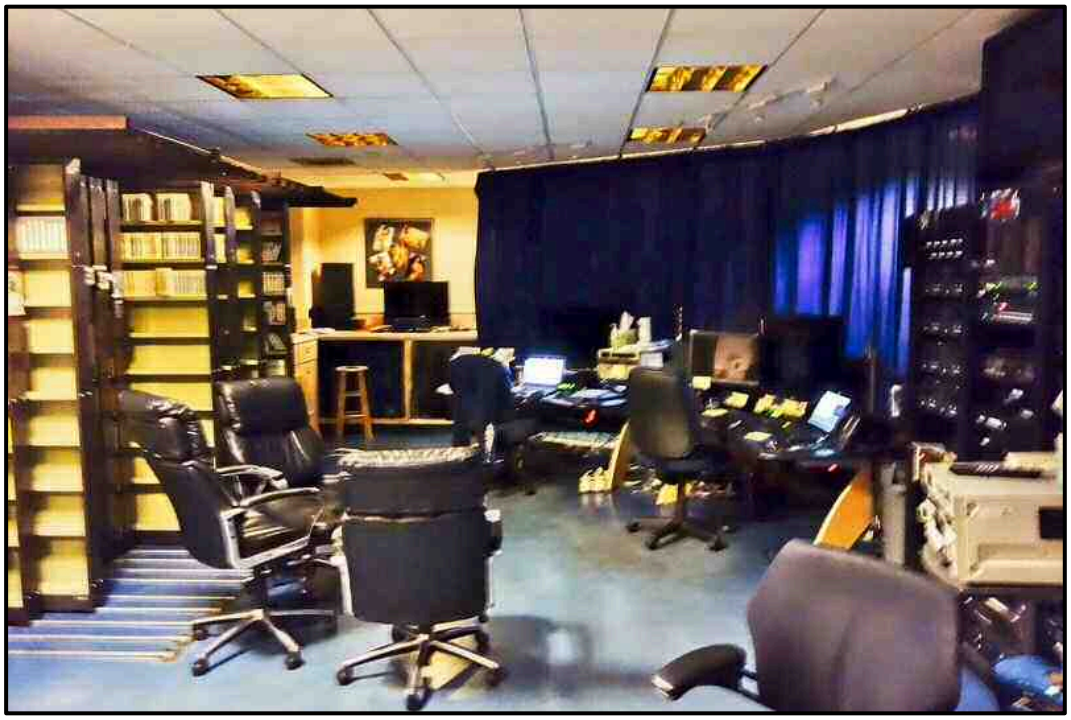
SUBJECT INTERIOR PHOTOGRAPHS



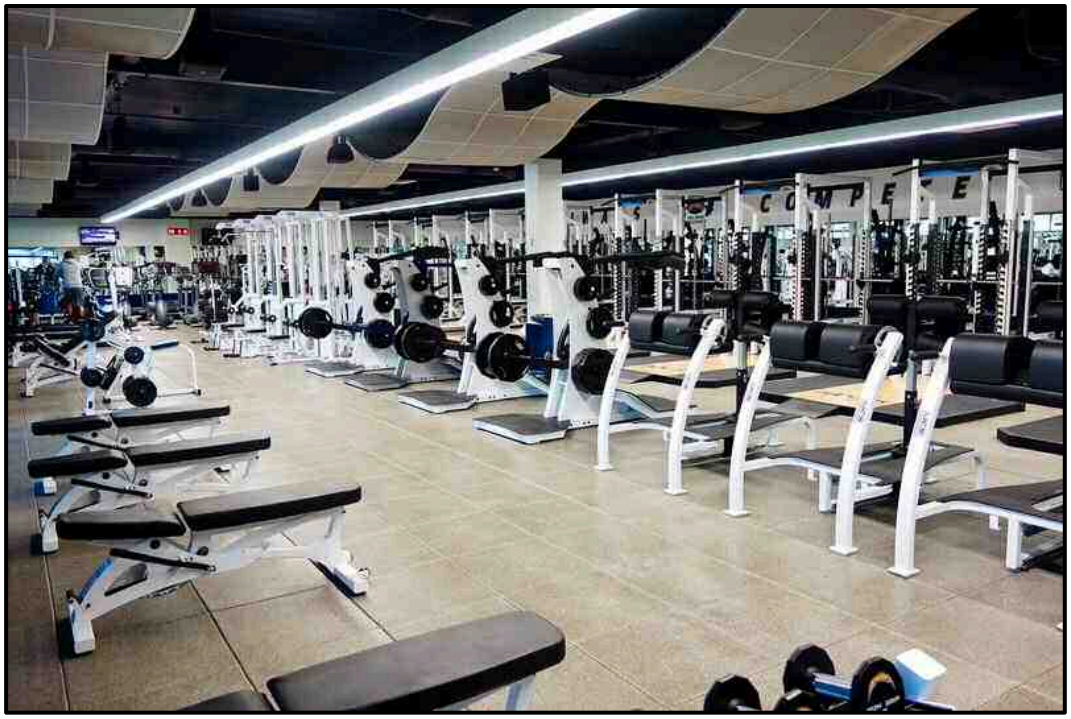
Team locker room on the first floor.

Mail room on the second floor.

SUBJECT INTERIOR PHOTOGRAPHS



Video editing room on the second floor.



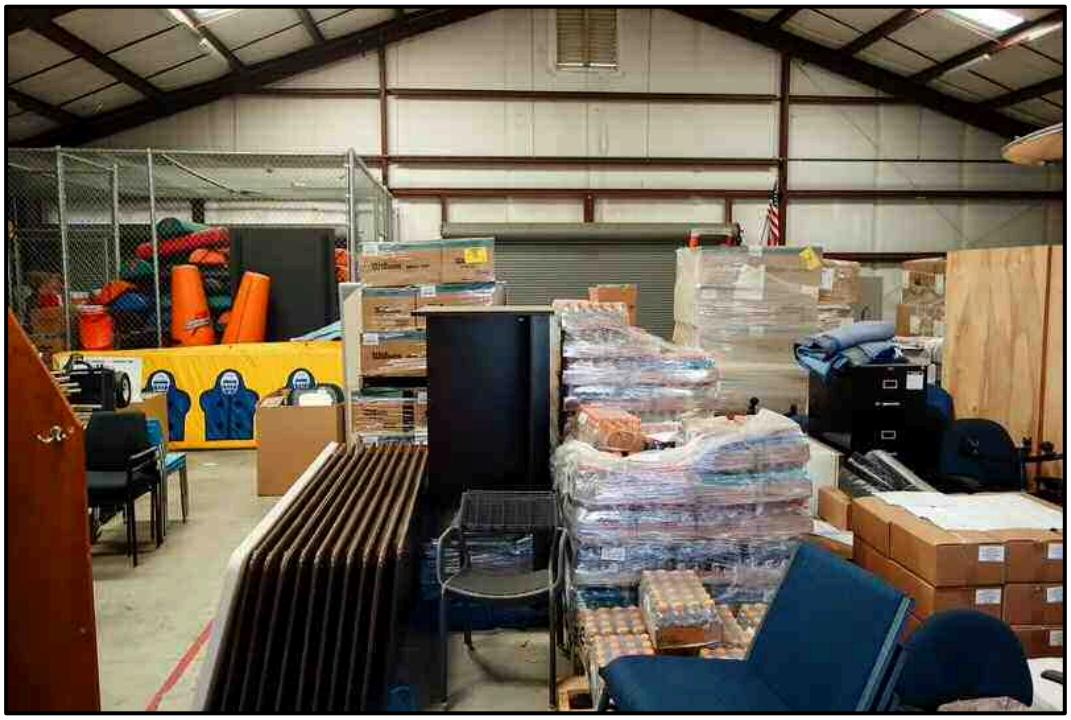
Weight room on the first floor.

SUBJECT INTERIOR PHOTOGRAPHS

Lavatory area off the main locker room on the first floor.

Laundry room on the first floor.

SUBJECT INTERIOR PHOTOGRAPHS

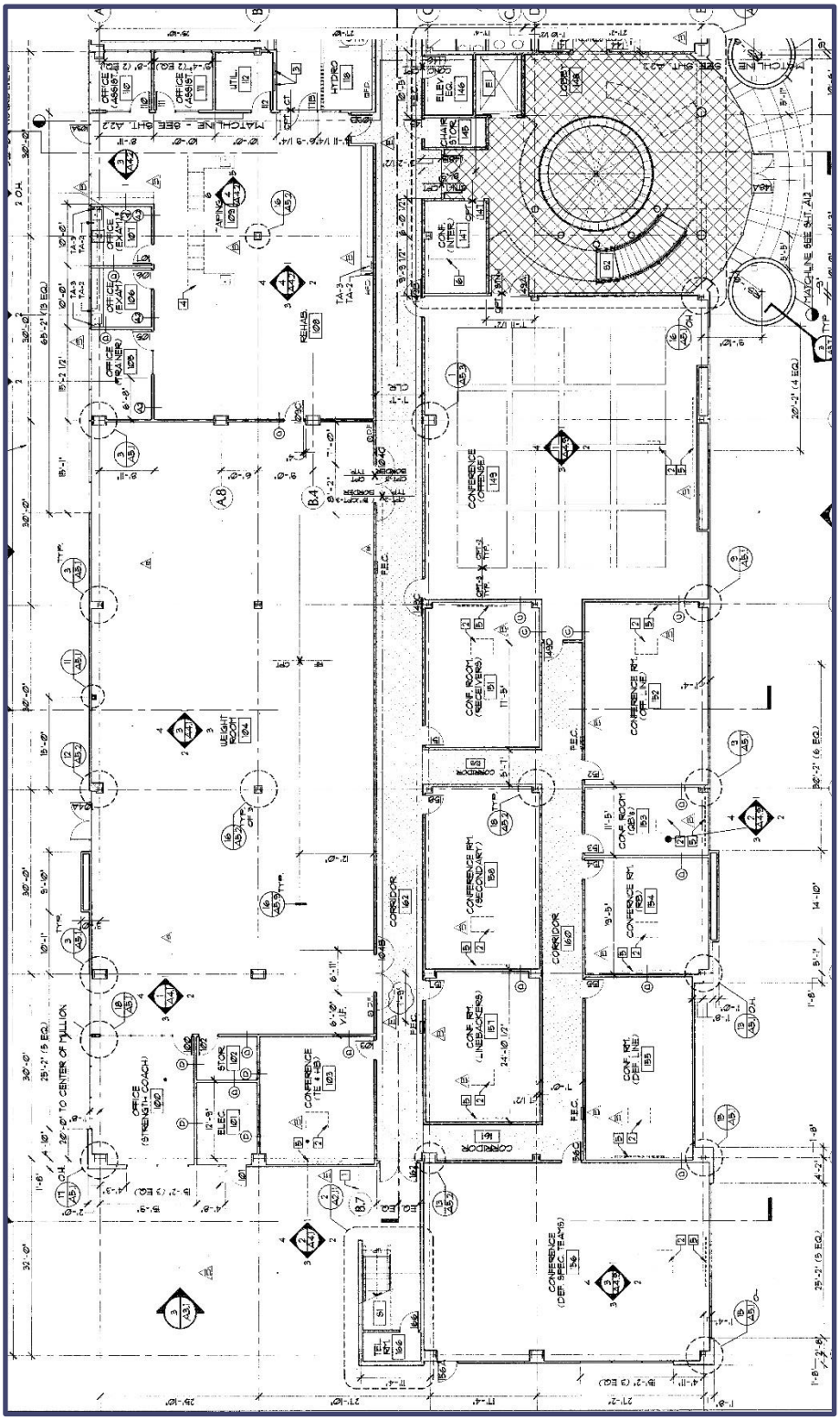


Interior of the City's maintenance building. Currently in use mainly for storage.

Interior of City's garage building. Currently in use for storage.

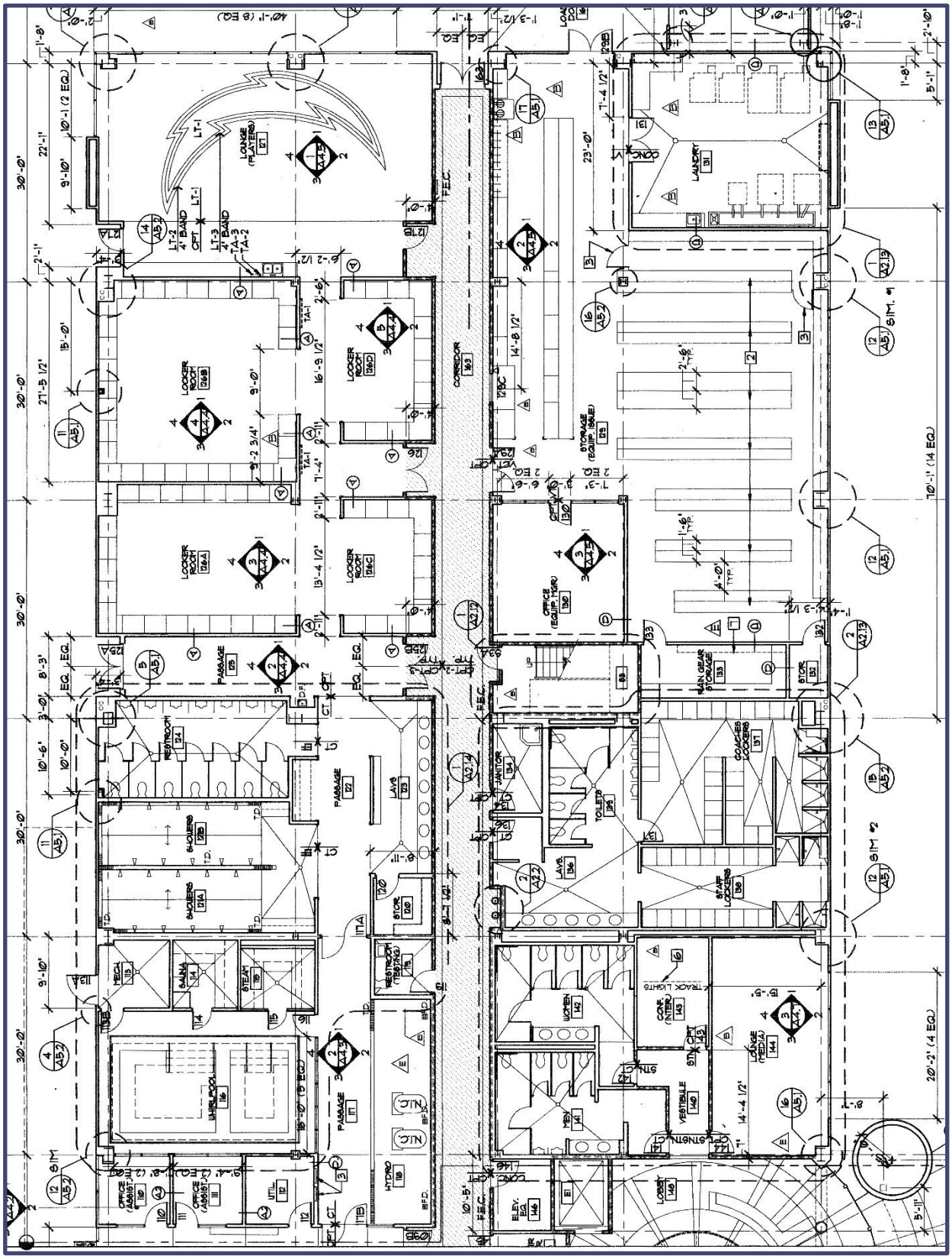
BUILDING SKETCH

The following floorplans were extracted from a set of construction plans for the subject building. Measurements taken during our inspection of the property indicate that the building size shown in those plans is appropriate.



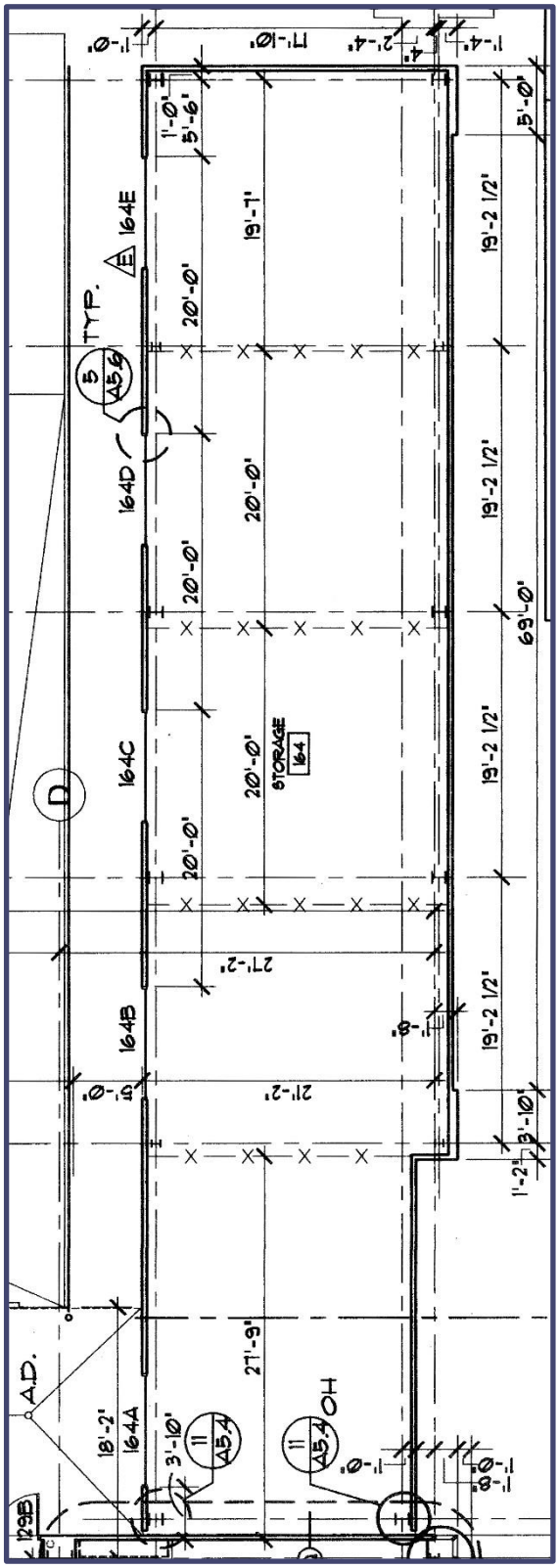
First Floor South

BUILDING SKETCH



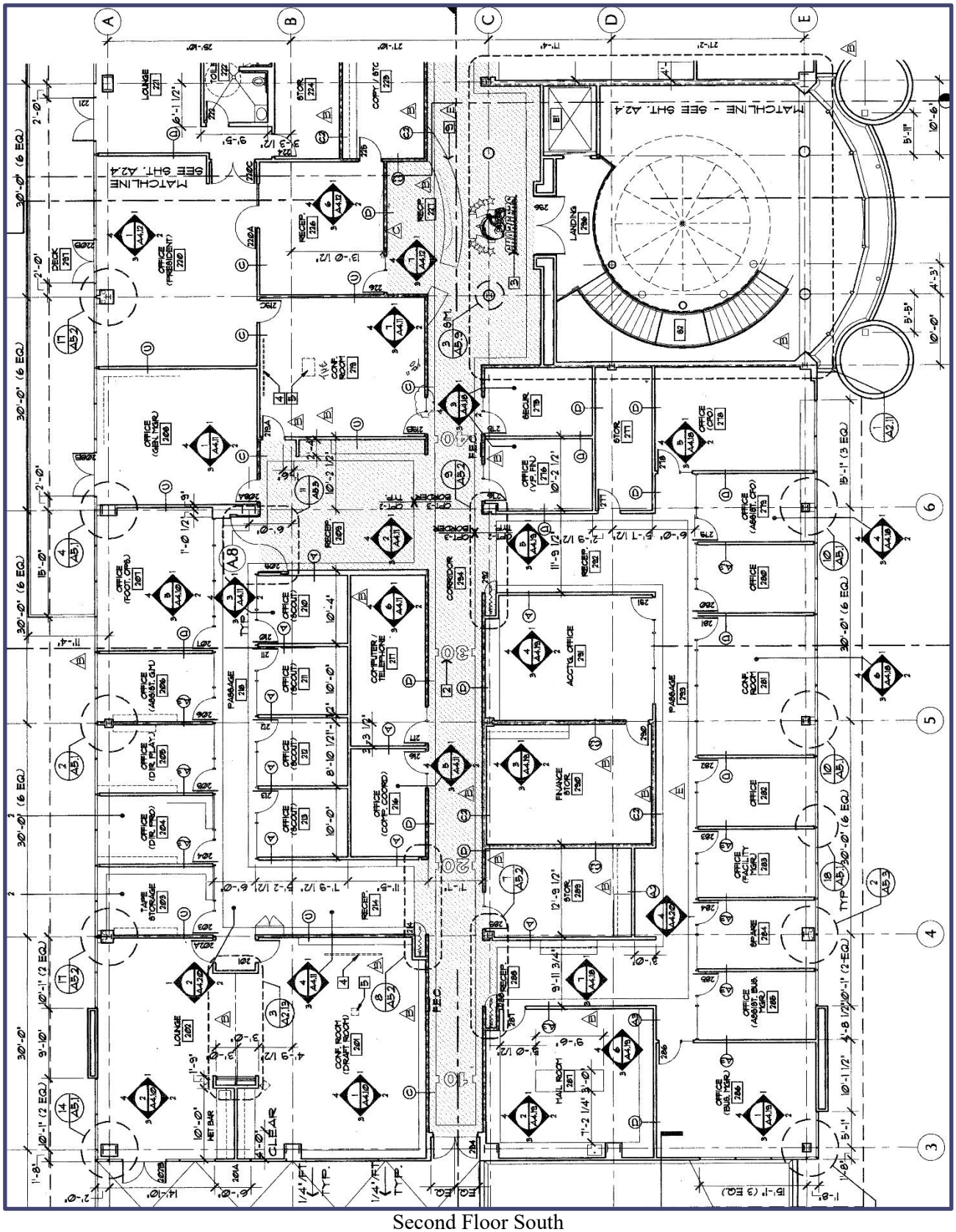
First Floor North

BUILDING SKETCH



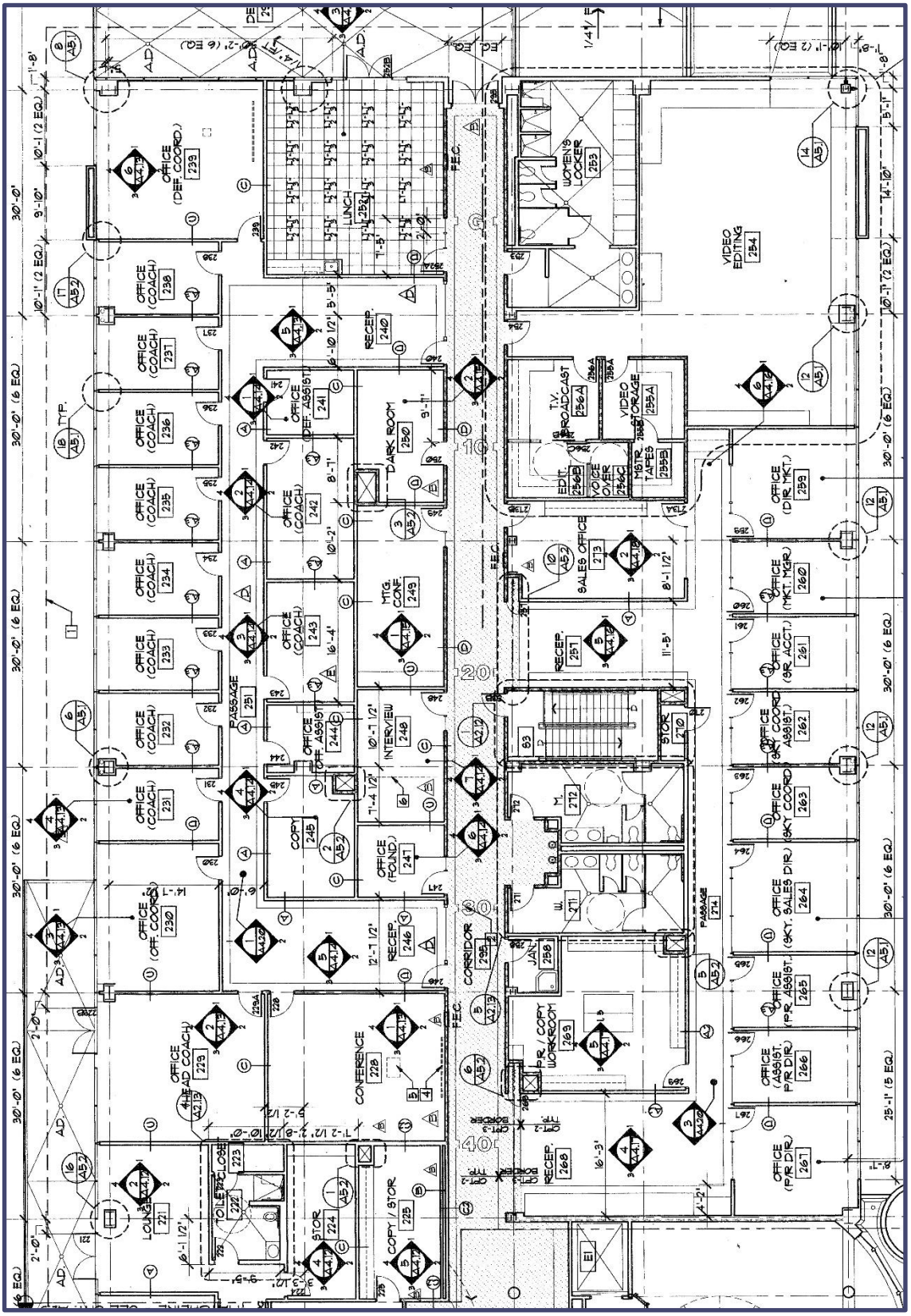
First Floor Storage Area (North End of Building)

BUILDING SKETCH



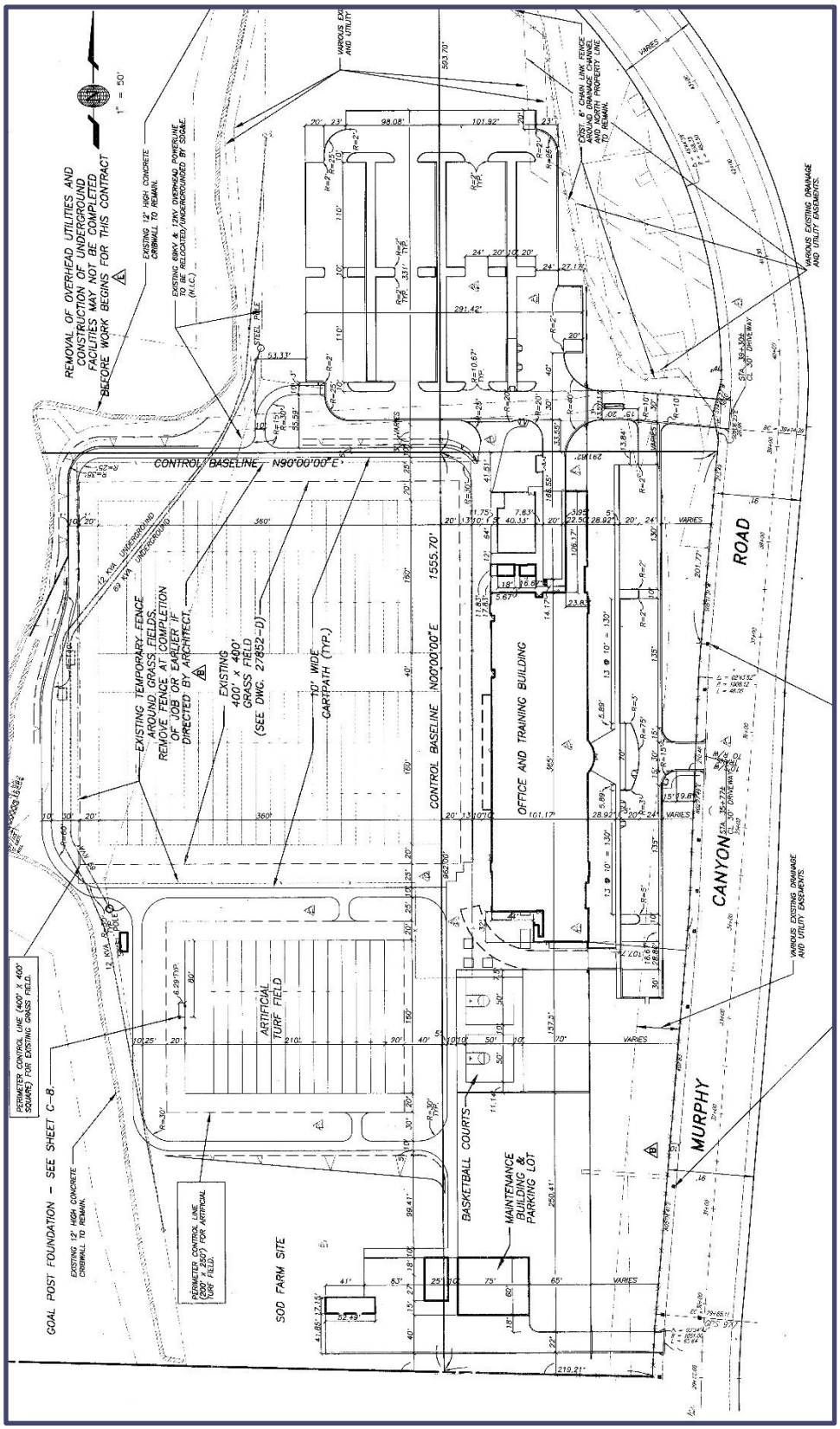
Second Floor South

BUILDING SKETCH



Second Floor North

SITE PLAN



Site plan extracted from original construction drawings.

IMPROVEMENT DESCRIPTION

The following descriptions of the improvements have been developed from an onsite inspection of the property on April 22, 2017, and review of construction plans for the property.

Office Building Description

General Description – The subject is a freestanding, two story office building currently configured for a single user that is an NFL team's headquarters and practice facility. It is a Class B, steel frame office building considered to be of average quality and in average condition.

Year Built – Available public records do not indicate the construction date of the subject building, however, construction blueprints were dated June 24, 1996. It is considered reasonable to estimate that the building was completed some time in 1997/1998 and is approximately 20 years old.

Building Size – The construction plans indicate that the gross building area is 69,078 square feet. The building was roughly measured during inspection of the property, and the area indicated on the plans was deemed reasonable.

Foundation – Reinforced concrete slab on grade with reinforced concrete footings and moisture barriers.

Walls – Exterior bearing walls are stucco with windows around the periphery of the building. Windows on the first floor of the street side of the building are walled over on the inside. There are clerestory windows in the locker room and weight room on the first floor. Windows on the second floor are functional.

Roof – Built-up rolled composition. The appraisers were not provided access to the roof but we could observe a small portion of the roof from a second floor patio at the south end of the structure. The roof appears to be in average condition. The maintenance supervisor, who accompanied us on our inspection, stated that the roof remains intact with no leaks, but is nearing the end of its useful life.

HVAC – Heat pump units provide temperature control throughout the building.

Sprinklers and Fire Prevention – The interior of the building has a dedicated sprinkler system for fire protection.

Interior Finish and Office Buildout

Flooring –Commercial grade carpeting throughout office portion of the building. Tile flooring was used in the restrooms and shower areas of the building. The weight room has a cork tile floor and the lunch room has a vinyl floor.

Walls – Interior walls in the office portion of the first floor are primarily textured/painted drywall. Walls in the whirlpool room, hydro area and showers are ceramic tile. On the second floor the interior demising walls are a combination of painted drywall and glass with steel columns.

Ceilings – Ceilings in most of the building are suspended acoustic tiles. There are painted drywall ceilings in the shower and restroom areas. The overhead in the weight room is open to the building structure.
Lighting – The subject has a combination of open fluorescent fixtures and recessed fluorescent fixtures. The majority of the office spaces are equipped with motion detectors which turn the lights on when someone enters the room.

Elevators – There are two elevators in the building, one in the main entrance lobby and a second at the north end outside the building structure on the patio area.

Comments – The building has an attractive entrance lobby/reception area at the main entrance. Roughly 25% of the first floor is configured with relatively typical offices used for team meeting rooms. The remainder of the first floor is specifically configured for use by an NFL team. This area includes a large weight room, a rehab area, whirlpool and hydro rooms, a locker room and shower areas, equipment storage and issue rooms, staff lockers and media areas. The second floor is primarily demised into multiple offices for use by team support staff, senior staff, coaches, video editing and a small lunch room area.

Interior Buildout

Please refer to the building sketches presented previously. Note that the building sketches were extracted from a set of construction plans which were drawn at the time the structure was built. In the intervening years, the team has made several minor changes to the configuration of spaces in the building, however, none of them substantially altered the utility of the interior buildout.

Maintenance Building/Garage

There is an approximately 4,200 square foot, low cost metal maintenance building and an approximately 1,125 square foot metal garage located at the south end of the subject larger parcel. Both are considered to be of average quality and in average condition. Both are built on concrete slab foundations. The maintenance building has two manual roll-up doors and the garage has one manual roll-up door. Approximately 430 square feet on the west side of the maintenance building is demised into an office, two storage rooms and a toilet.

There are also two modular structures, one approximately 7,600 square feet and the other approximately 2,150 square feet, near the south end of the larger parcel that belong to the team, and which the team will be required to remove from the property. At the request of the client, these structures are not considered in our analysis.

Site Improvements

The site is configured for use by a professional football team as their practice facility. A large portion of the site comprises practice fields including two full size grass football fields and one approximately half size Astroturf field. Other site improvements include approximately 131,000 square feet of asphalt pavement, approximately 31,000 square feet of concrete pavement and approximately 66,000 square feet of landscaped area comprising mainly grass with numerous shrubs and trees.

There is an approximately half Olympic size swimming pool south of the main building. The pool was constructed at the request of the team at the time the main building was built. It is situated on a separate legal lot from those on which the main building is sited. It is considered likely that any potential buyer of the property would consider it to be a detriment to be removed from the site prior to any redevelopment. We do not believe it contributes any value to the property in the mind of a potential buyer.

Overall Property Comments

The City of San Diego built this facility for the team as part of negotiations for a 17 year extension of the team's lease of Qualcomm Stadium. The team has occupied the facility continuously since its completion in 1997/1998. As such the approximately 19 acre developable portion of the 50.12-acre site has been designed for a single user which requires substantial open area for practice fields, parking and other related uses. The maintenance building and garage at the south end of the property are used by the City of San Diego which is responsible for all maintenance of the facility. Due to the large tenant specific requirement for open area, the FAR of the building is very low at approximately 8.3% or the developable area. The subject property comprises six legal lots, of which only two are improved with the main building. Those two lots total approximately 4.18 acres, and are sufficient in size to support the existing improvements as a stand alone office property. Considering only those two lots, the FAR of the subject building would increase to about 38%.

The four remaining legal lots have a total area of approximately 14.83 acres of developable area and could be developed either independently or in conjunction with one another. As currently configured, the four lots have somewhat constrained utility due to the shapes of the two northerly lots. However, while the lots remain in City ownership, relatively minor lot line adjustments could reconfigure the remaining lots into a more utilitarian configuration. The two lots containing the subject building would require a small lot line adjustment to resolve an encroachment into the lot to the north. One potential reconfiguration would result in the lots ranging in size from approximately 2.6 acres to about 4.8 acres.

HIGHEST AND BEST USE

Highest and best use may be defined as:

> *The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.*

In the analysis of pertinent data, four criteria are applied in the following order to develop adequate support for the appraiser's highest and best use determination:

1. **Legally Permissible** – What uses are permitted, given existing deed and lease restrictions, zoning, building codes, historic controls, and environmental regulations?

2. **Physically Possible** – What uses of the site are possible, given the physical characteristics as revealed in the site analysis?

3. **Financially Feasible** – Which possible and permissible uses will produce positive net income from the development of the site after paying operating expenses and other financial obligations?

4. **Maximally Productive** – Which financially feasible use will provide the highest value or rate of return on investment.

These criteria are generally considered sequentially; however, the tests of physical possibility and legal permissibility can be applied in either order, but they both must be applied before the tests of financial feasibility and maximum productivity.

HIGHEST AND BEST USE – AS THOUGH VACANT

The determination of the Highest and Best Use of a property as though vacant is contingent upon the proposed use being legally permissible, physically possible, financially feasible, and maximally productive.

Legally Permissible - Land uses and zoning in the subject area are governed by the City of San Diego General Plan, Municipal Code and individual community plans. The subject property is zoned IL-3-1 by the City. The purpose of the IL zones is to provide for a wide range of manufacturing and distribution activities. The development standards of this zone are intended to encourage sound industrial development by providing an attractive environment free from adverse impacts associated with some heavy industrial. IL-3-1 is among the most liberal of the industrial zones. It allows a mix of light industrial, office, and commercial uses. Most of the surrounding area has been developed mainly with two to three story class B office improvements. Per the Kearny Mesa Community Plan, the subject area is identified for Industrial and Business Park use and Open Space. Office and commercial uses are also permitted. Residential uses are not permitted.

The subject property is located approximately three quarters of a mile east of the closest runway at the Montgomery Field general aviation airport. However, per the Airport Element of the Kearny Mesa Community Plan, the subject property is not in either the Montgomery Field "Area of Influence" or the Montgomery Field "Flight Activity Zones". It is also not on the extended centerline of any runway at Montgomery Field. Thus, there are no known development restrictions related to the proximity of the airport.

Review of the preliminary title report identified that the property is encumbered with various easements for utilities, drainage, open space and building restricted purposes. The latter two types of easements encumber only the non-developable portion of the property. Using the easement locations plotted on an Assessor's plat map by Chicago Title Company, we estimated that approximately 6.25 acres of the developable area is unavailable for building improvements. This area could, however, be used for parking and some other site improvements. These easements will have an impact on how building improvements are placed on the property, but they will not preclude its development. Therefore, considering the property's legal attributes, the site could be developed with any of its legally permissible uses, ranging from office, R&D and a variety of industrial uses.

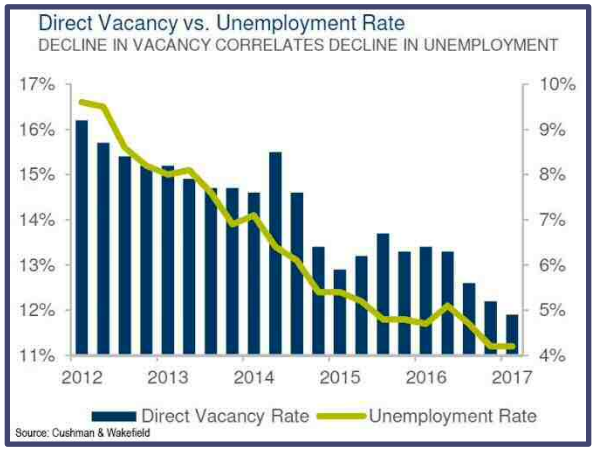
Physically Possible - The subject site comprises approximately 50.12 gross acres in size. Information provided by the client indicates that approximately 19.01 acres is developable, most of the remainder being encumbered by either open space easements or by "building restricted" easements. The developable area is irregular in shape with good site utility and a generally level buildable area. As noted, some of the utility and drainage easements encumber approximately 6.25 acres of the developable portion of the property and will affect the placement of building improvements on the property, but will not preclude its development. The property as a whole has 2,080± lineal feet of frontage on the west side of Murphy Canyon Road, however, the northerly 1,000± lineal feet of the frontage is not available for access. The southerly 1,080± lineal feet is accessible from either direction on Murphy Canyon Road. The subject property has good exposure to traffic passing on Murphy Canyon Road, but only very limited exposure to traffic on Interstate 15 to the east. The developable portion of the property is not visible at all from Balboa Avenue to the north. No soils report was provided for review, however, there is no reason to suspect that the load bearing capacity of the site is inadequate to support improvements similar to those on other properties in the area. Nearly all of the developable portion of the site is located in Flood Zone A, Flood Zone AE or Grey Flood Zone X. Flood Zones A and AE are both in the 1% annual chance (100 year) flood plain, Grey Zone X is in the 0.2% annual chance (500 year) flood plain. As previously noted, it is assumed as a limiting condition of this appraisal that any future development of the property could satisfy the City of San Diego requirements for development in a flood zone. The developable portion of the site is also not impacted by geologic or environmental issues.

Overall, the site has good site utility and benefits from its exposure along Murphy Canyon Road. Neighboring properties are primarily developed with good quality office buildings. The subject community plan would allow for development to a maximum of 0.5 FAR; however, it unlikely that the site would be developed to that density given the space required for parking and the easements encumbering the property. That density would require multiple story buildings to minimize the building footprint, and possibly a parking structure which would likely be cost prohibitive. Considering the physical attributes of the site with a net buildable area of 19.01± acres and good market

demand for office buildings in the subject area, development of the site with an office project with an FAR in the range of 0.30 to 0.50 is considered the physically possible use of the site.

Financially Feasible and Maximally Productive - A proposed property improvement must be able to deliver an income return that generates the market value sufficient to pay for the developmental costs, the risks involved, and profit appropriate for the type of development.

The office real estate market continues to show strength as indicated by a number of office projects under construction or proposed for construction in the central San Diego County area. As of the 4th Quarter of 2016 there was 187,000± square feet of office space under construction in the central County.[7] While none of that space is currently under construction in the Kearny Mesa area, Sunroad Enterprises is currently planning two additional 11 story office towers in their Centrumplace complex in the former General Dynamics plant in Kearny Mesa.



The Kearny Mesa Submarket had net office space absorption of 295,000± square feet in 2016.[8] Job growth in 2016 for the County was 30,900±. 6,400± of those were office using jobs which grew at an annual rate of 2%.[9] The office vacancy rate for the Kearny Mesa area in the 4th quarter was 10.8%, down from 12% in the previous quarter. As expected, the vacancy rates declined as the unemployment rate declined.

The subject property comprises 19.01± acres of generally level developable area. The remainder of the 50.12± acre site comprises steep hillsides and canyons. The property is divided into six legal lots, identified as Lots 11 through 16 on Map No. 11502 which created the Murphy Canyon Gateway Unit 1 subdivision. As currently mapped, the lots range in size from 1.67 acres to 32.36 acres. All of lots 11 through 14, which range in size from 1.67 to 2.51 acres, are in the developable area of the site. Lots 15 and 16 total 42.03± acres in size and have developable areas estimated at 9.00 acres and 1.92 acres, respectively.

It is a common characteristic of real estate that, as the size of a property increases, the per unit value tends to decrease. To determine the maximally productive use of the subject land as though vacant, the appraisers reviewed office land sales in San Diego County. Two data sets were considered, parcels less than five acres in size and parcels more than 5 acres in size. The following tables display the results of that survey for office land sales since the beginning of 2014 in both San Diego County and the City of San Diego.

[7] Colliers International Office Market Overview Q4 2016
[8] Ibid.
[9] CBRE San Diego Office Marketview Q4 2016

Office Land Sales Under 5 Acres			
Number of Sales	26		Acres
Average $/SF	15.61	Average Size	2.91
Median $/SF	15.46	Median Size	2.64
Minimum $/SF	1.64	Minimum Size	1.01
Maximum $/SF	35.88	Maximum Size	4.96

Office Land Sales Over 5 Acres			
Number of Sales	15		Acres
Average $/SF	12.55	Average Size	7.24
Median $/SF	14.22	Median Size	6.98
Minimum $/SF	1.24	Minimum Size	5.20
Maximum $/SF	21.00	Maximum Size	11.80

The tables demonstrate that smaller sized parcels generate somewhat greater per unit values than larger parcels.

Reconciliation as Though Vacant

Based on our analysis, it is our opinion that the highest and best use of the subject land as though vacant would be to develop the property with office improvements similar to those on surrounding properties on an individual lot basis rather than as a single 19.01± acre site.

HIGHEST AND BEST USE – AS IMPROVED

Consistent with the "as though vacant" analysis, the four tests of highest and best use are also applied considering the existing improvements. Consideration was given to the continued existing use of the subject, as well as potential alternative uses of the property. Potential alternative uses include demolition, expansion, conversion, or renovation. As referenced previously, the subject property is currently improved with a 69,078 square foot office building. The office building is a two story, free-standing, single user building constructed in 1997/1998. It is a steel frame, Class B office building which is considered to be of average quality and in average condition. The property is owned by the City of San Diego and, since it was constructed, has been occupied by an NFL team as its headquarters and practice facility. If the entire 19.01 acres of developable area is considered, the floor area ratio is a very low 8.3%. However, if only the two legal lots the building occupies are considered, the floor area ratio increases to about 37.9%. The five improved sales have FARs ranging from 0.43 to 0.74. As currently configured the property has significant functional obsolescence and the site's utility is not being maximized.

The City's municipal code states that for IL-3-1 zoning, five parking spaces are required for each 1,000 square feet building improvements. However, the Planned Industrial Development for the subject, which was approved by the City, states that parking on all six of the subject legal lots is to be provided at a rate of one space per 330 square feet of building, or 3.03± spaces per 1,000 square feet of building. The existing office building is situated on Lots 13 and 14 in the Murphy Canyon Gateway Unit 1 subdivision. Those lots as currently configured total 4.18 acres in size and provide more than enough area to satisfy the existing parking requirements, thus the building on the two lots could be sold separately from the rest of the site. A minor lot line adjustment along the northern line of Lot 14 would be required to eliminate a small encroachment of the north end of the building into Lot 15 to the north. That adjustment would increase those lots to a total size of about 4.50 acres. The upper aerial photo to the right shows the approximate locations of the existing lot lines in the developable area with the exception that the tentative lot line adjustment at the north end of Lot 14 is included. Lot 15, the large very irregular shaped lot is considered to have its utility constrained by its shape. Lot 16 at the north end is also somewhat oddly shaped, and is the only one of the six lots with no frontage on Murphy Canyon Road.

In our view, making additional lot line adjustments to Lot 16 at the north end, and Lots 11 and 12 at the south end of the property would enhance the utility and marketability of the four vacant lots on the property. That potential reconfiguration is shown in the lower aerial photo to the right. If those adjustments were made, the five lots (Lots 13 and 14 combined into one), would range in size from approximately 2.65 acres to approximately 4.80 acres. In our view, this would be a more marketable configuration than under the current map. Under this configuration Lot 16 would still not have direct frontage on Murphy Canyon Road, but it would abut an existing entry driveway.

The feasibility of multiple different buildout and lot split scenarios was tested to ascertain the maximally productive use of the property as improved. The scenarios ranged from demolition of all the existing improvements for redevelopment of the site to retaining the improvements and developing the four vacant lots individually. Comparison of selling prices of office land and existing office buildings similar to the subject suggests that the building adds considerable value to the property as a whole. Thus, demolition is not considered to be a feasible option. Since the building was specifically configured for a single user, an NFL team, for use as their training facility and headquarters, significant portions of the building will have to be reconfigured. That analysis will be addressed in the valuation section of the report.

Reconciliation of Highest and Best Use

After feasibility analysis and consideration of multiple scenarios, the concluded highest and best use, as improved, is to retain the existing building on Lots 13 and 14, make the lot line adjustments needed to improve the marketability of the vacant lots, and develop those lots individually. As of the date of report, the appraisers are unaware of any other professional sports team that might have an interest in either leasing or purchasing the subject property in its current configuration. Accordingly, we have concluded that, since the building adds value to the property as a whole, the highest and best use of the property is to retain the existing building on Lots 13 and 14, and develop Lots 11, 12, 15 and 16 individually or in combination with one another.

VALUATION OF SUBJECT PROPERTY

At the request of the client, the fee simple interest in the subject property is being appraised. The subject property is a 69,078± square foot office building currently situated on a large, 50.12 gross acre holding of land with developable area totaling 19.01± acres. The property was vacant land at the time of purchase by the City in 1996. The City then constructed the building and configured the remainder of the developable area in a manner specifically intended to meet the needs of an NFL team for use as their headquarters and practice facility. The entire 50.12 acre property was subdivided into legal lots 11 through 16 on Subdivision Map 11502. The remaining 31.11 acres of the property comprise mainly steep hillsides and canyons with native vegetation, and nearly the entire area is encumbered by open space and building restricted easements. The developable area includes all or portions of all six legal lots. The existing office building sits on lots 13 and 14. Lots 11, 12, 15 and 16 are essentially vacant land. Our concluded highest and best use was to retain the existing building and develop the four vacant lots independently.

The subject building is currently configured for a single user NFL team and significant portions of the building will require reconfiguration in order to appeal to a typical office user. Our valuation methodology focused on appraising the building as though it had been reconfigured and at stabilized occupancy, then deducting estimated costs for reconfiguring the tenant improvements, and allowing for rent loss and leasing commissions during lease up to stabilized occupancy. The existing building and lots 13 and 14 have been appraised separately as an improved office property, then our opinion of the land value of the remaining lots was developed.

Typically, when developing an opinion of the market value of a property, three approaches to value are used: the Sales Comparison Approach, the Income Approach, the cost approach.

The Sales Comparison Approach compares the subject property with similar properties which have sold recently. Comparison of the similarities and dissimilarities of comparable properties to the subject provides an indication of value that is derived directly from the actions of buyers and sellers in the marketplace. The Sales Comparison Approach has been used to develop an opinion of the market value of the office property on lots 13 and 14, and also to develop an opinion of the value of the remaining four land parcels.

The Income Approach analyzes the economic characteristics of a property through its ability to produce income. This approach generally involves direct capitalization of a property's one-year stabilized net operating income using a market derived overall capitalization rate to develop an opinion of the market value of the subject property. Consideration was given to the associated risk of investment when selecting an appropriate capitalization rate. The Income Approach was used to develop an opinion of the market value of the subject office building.

The cost approach is useful in valuing new or proposed improvements which represent the Highest and Best Use of the site, or special use properties that are not frequently exchanged in the market. This valuation method relates the value of the subject property to the cost of a similar site and the replacement cost of the improvements. However, in the case of the subject valuation, prospective buyers in the subject's market area typically do not utilize the depreciated cost method in making their decision to purchase an office building similar to the subject property. Therefore, the cost approach was not considered appropriate for this analysis.

The final step in the valuation process involves reconciling the approaches used into an opinion of market value by considering the relative strengths and weaknesses of each approach and assigning the most weight to the approach most commonly utilized by typical investors in arriving at their investment decision.

SALES COMPARISON APPROACH – OFFICE BUILDING

The Sales Comparison Approach is based on the principal 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 the subject market, the predominant unit of comparison is the sale price per square foot. The Sales Comparison Approach is a typical method of analysis that a potential investor or owner/user purchaser would use in the decision making process involving a property of this type.

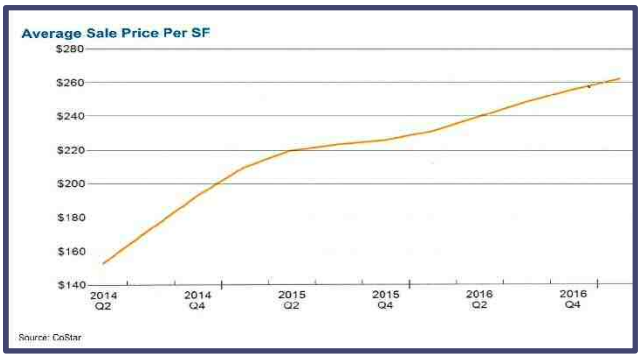
As noted previously, the existing office building is being appraised consistent with the concluded highest and best use as improved. This portion of the subject property is improved with a single user office building that comprises approximately 69,078 square feet situated on a proposed 4.50± acre parcel. The building was built in approximately 1997/98 and is in average condition and of average quality. The quality of the interior office buildout is considered typical overall.

A search for listings, pending sales, and recent sales of similar office buildings was conducted. The market data research included the use of published sales information services, public records, and interviews with buyers, sellers, and other real estate professionals active in the Kearny Mesa real estate submarket.

The search focused primarily on sales of office buildings located in the Kearny Mesa submarket and of generally similar age, quality and size as the subject property. Four suitable sales in the subject's immediate Kearny Mesa/Mission Valley location were found and included in our analysis. The comparable search resulted in a total selection of six comparable sale properties which recorded between April 2016 and March 2017. The selected comparables had similar physical characteristics and bracketed the subject in age, appeal and gross building area.

Comparability Factors

The following discussion identifies the comparability factors that were considered in the valuation process of the subject property.



Market Conditions – The Kearny Mesa office market has shown solid improvement over the last two to three years with low vacancy levels, strong leasing activity, and capitalization rate declines. As a result, sale prices have also appreciated throughout the Kearny Mesa submarket for improved office properties. Price trending analysis, shown in the accompanying chart, indicates steady upward price movement from 4th quarter 2015 to 1st quarter 2017. Similar analysis for the county as a whole indicates much less robust price growth with prices moving only very slightly upward since the end of 2014, suggesting that the San Diego County office market is at or near its peak.

Based on market analysis and the opinions of brokers and investors active in the Kearny Mesa submarket, an upward adjustment of 10% per year is considered appropriate for improving market conditions. The sale comparables were adjusted from their recording date to the date of value of this appraisal.

Location - The subject property and three of the sale comparables are located in the Kearny Mesa submarket and did not require adjustment for location. The remaining sales are located in Mission Valley, Scripps Ranch and Rancho Bernardo, areas with generally similar locational characteristics.

Improvement Size - The gross building area of the subject property is approximately 69,078 square feet. The comparable sales selected ranged in size from 20,300± to 92,463± square feet. Market analysis and economies of scale indicate that there is an inverse relationship between size and price per square foot. As size increases, price per square foot typically declines. In the analysis, appropriate consideration was given to the comparables' improvement sizes as they compare to the subject on a price per square foot basis.

Floor Area Ratio / Parking Ratio – The price per square foot of building area is inversely related to the floor area ratio. Typically, the higher the floor area ratio the lower the price per square foot of building, conversely, the lower the floor area ratio the higher the price per square foot of building. Properties with lower FARs will have more area available for parking, site amenities, storage, and landscaping. Additionally, consideration was given to properties' parking ratios. For office buildings typical parking ratios are 4± spaces per 1,000 square feet of building area. Properties with lower parking ratios are considered slightly under parked and are less desirable. The subject building, as though situated on Lots 13 and 14 only, has a floor area ratio of 35% and there is ample room on the proposed 4.5± acre site to provide a parking ratio of 4 spaces/1,000 SF. Consideration was given to the comparable properties' FARs and parking ratios as they compare to the subject property.

Office Buildout – The subject building is assumed to be fully built out with office interior improvements in this portion of our analysis. The existing office spaces in the building are considered average and typical of tenant improvements in competing buildings, and it is assumed that the reconfigured portions of the property will be of similar quality. All of the comparable sales were 100% office space and no adjustments were needed.

Age/Condition - The subject property was built in approximately 1997/98 and is 20± years old. The building has been adequately maintained and is considered to be in average condition. Consideration was given to the comparables' age and condition as they compare to the subject property.

Quality -This category considers the overall building quality of the comparable properties as they compare to the subject property. Properties with more attractive exterior façade with higher quality construction, and site amenities are more desirable.

View Potential – As previously described, west facing offices in the subject property are afforded a pleasing view of the open space hillsides in the non-developable portion of the subject property. The hillside areas are designated open space and will be left in their natural state. Views of this area are considered more desirable than views of

adjacent buildings available at typical office properties. Appropriate consideration was given to the comparables for this factor.

The table on the following page summarizes the improved sales, and the considerations and adjustments that were made. A detailed discussion follows regarding the comparability of each sale to the subject with respect to property rights, financing, conditions of sale, market conditions, geographic location, building area, floor area ratio, office buildout, age, condition, quality, parking ratio and view potential.

IMPROVED SALE SUMMARY AND ANALYSIS							
PROPERTY INFORMATION	SUBJECT	SALE 1	SALE 2	SALE 3	SALE 4	SALE 5	SALE 6
Property Location	4020 Murphy Canyon Road	9797 Aero Drive	1843 Hotel Circle South	3444 Kearny Villa Road	3540 Aero Court	9715 Business Park Ave	15373 Innovation Drive
	San Diego	San Diego	San Diego	San Diego	San Diego	San Diego	San Diego
Owner/Seller	City of San Diego	9797 Aero Dr Assoc LLC	NBTK Holdings LP	Telfair Corp	Coleman University	9715 Business Park LLC	BRE CA Office Owner LLC
Buyer		Avid Center	CA Voluntqary Emp Ben	3444 KVR Investors LLC	Yongzhi Assets Mgt	WD-40 Company	CVOP Associates LLC
Assessor Parcel Number	421-392-01, 02	421-340-08	443-040-01	421-320-20	421-320-24	363-072-20	313-400-20
Recording Date		01/10/17	09/30/16	07/19/16	04/29/16	09/13/16	03/17/17
Document Number		0012868	0522216	0360006	0201038	0204574	0123313
PROPERTY CHARACTERISTICS:							
Land Area (AC)	4.50	3.21	0.83	1.89	0.68	2.23	4.69
Building Area	69,078	92,463	26,700	38,665	20,300	42,706	77,559
Year Built / Actual Age	1997 - 29	1995 - 22	1984 - 33	1985 - 31	2010 - 7	1985 - 32	1985 - 32
Quality / Condition	Average - Average	Good - Good	Above Average - Average	Good - Average	Average - Average	Above Average - Average	Average - Average
Office Buildout	100%	100%	100%	100%	100%	100%	100%
Floor Area Ratio (FAR)	0.35	0.43	0.74	0.47	0.69	0.44	0.38
No. Parking Spaces / Ratio	276, 4.0/1,000 SF	431 - 4.66/1,000 SF	100 - 3.75/1,000 SF	148 - 3.83/1,000 SF	95 - 4.7/1,000 SF	171 - 4/1,000 SF	259 - 3.34/1,000 SF
Zoning / Land Use	IL-3-1, Business Park	IL-2-1	MVPD-MV-M/SP	CO-1-2	CO-1-2	IP-2-1	IL-2-1
View Potential	Open Space Hills	Distant Mountains	Area Only	Area Only	Minimal	Minimal	Minimal
Flood Zone	In A, AE, Grey X	Not in flood zone	Not in flood zone	Near A but bldg not in	Not in flood zone	Not in flood zone	Not in flood zone
Current Use/	Office	Office	Office	Medical Office	Office	Office	Office
Highest & Best Use	Office	Office	Office	Office	Office	Office	Office
Comments	Assumes reconfitguration from its current special use as an NFL team headquarters. Lots 13 & a4 provide ample room for a parking ratio of 4 spaces per 1,000 SF of building.	Formerly the FBI headquarters building. Class A office Renovated in 2015. Bought by a non-profit organization	Class B building was 33% occupied at time of sale. Buyer is an owner-user and planned to occupy the remainder of the space.	Class B medical office building was 90% leased at time of sale. Purchased by a group of doctors and private investors.	Class B steel office building sold by a non-profit.	Class B steel office building. Reported to be high vacancy AT OS, but purchased by owner user as corporate HQ.	Class B steel multi-tenant office building. Reported to be 96% occupied AT OS.
Sales Price		$30,125,000	$6,375,000	$12,450,000	$4,800,000	$10,676,500	$17,000,000
Price per Building Sq. Ft.		$325.81	$238.76	$322.00	$236.45	$250.00	$219.19
COMPARABILITY ANALYSIS							
Conditions of Sale/Market:							
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Subtotal							
Financing		0	0	0	0	0	0
Subtotal							
Condition of Sale		0	0	0	0	0	0
Subtotal							
Market Conditions		0%	4%	6%	8%	4%	0%
Adjusted Price Per Sq. Ft.		$325.81	$248.31	$341.32	$255.37	$260.00	$219.19
Physical Characteristics:							
Location	Kearny Mesa	Similar	Similar	Similar	Similar	Similar	Similar
Building Area	69,078	Slgt Inferior	Slgt Superior	Slgt Superior	Slgt Superior	Slgt Superior	Similar
Floor Area Ratio / Parking	.0352 - 3.03/1,000 SF	Similar - Slgt Superior	Slgt Inferior - Similar	Similar - Similar	Slgt Inferior - Slgt Superior	Similar - Similar	Similar
Office Buildout	100%	Similar	Similar	Consid Superior	Similar	Similar	Similar
Age / Condition	20 - Average	Superior	Similar	Slgt Inferior	Similar	Slgt Inferior	Slgt Inferior
View Potential	Open Space Hills	Slgt Inferior	Slgt Inferior	Slgt Inferior	Slgt Inferior	Similar	Similar
Building Quality	Average	Superior	Slgt Superior	Superior	Similar	Slgt Superior	Slgt Inferior
Overall Comparability		**Consid Superior**	**Generally Similar**	**Consid Superior**	**Slgt Superior**	**Slgt Superior**	**Inferior**

Improved Sale No. 1 **9797 Aero Drive, San Diego, CA**

This is the January 2017 sale of a four story Class A office building configured for multiple tenants. It was formerly the San Diego headquarters for the FBI, but they left the property in 2014. The following year the building was renovated with an upscale interior which includes a fitness center with showers and lockers. The selling price was $30,125,000, or approximately $325.81 per square foot. The property totals 92,463 square feet in size and is considered to be in good condition and of good quality. According to the confirming source, the building was about 38% leased at the time of sale, but the buyer planned to occupy approximately 50,000 square feet, bringing the occupancy up to 93%. The building is situated on a 3.21 acre parcel which yields a FAR of 0.43. There are 431 on-site parking spaces, 100 of them covered, for a parking ratio of 4.66 spaces per 1,000 square feet of building. The property has good exposure to traffic passing on Aero Drive which can be very busy during morning and evening rush hours. The interior of the building is fully built-out with good quality office improvements This very recent sale transaction does not need adjustment for differing market conditions as of the date of sale.

This sale comparable is considered slightly superior to the subject as to its parking ratio. It is superior in terms of its quality and condition. It is slightly inferior to the subject in terms of its larger building size on a dollars per square foot basis and its limited pleasing views. It is considered generally similar to the subject in other respects including its Kearny Mesa location. Overall, this sale property is considerably superior to the subject and indicates a subject value of considerably less than $325.81 per square foot.

Improved Sale No. 2 **1843 Hotel Circle South, San Diego, CA**

This is the September 2016 sale of a three story Class B office building configured for multiple tenants. The selling price was $6,375,000, or approximately $238.76 per square foot. The property totals 26,700 square feet in size and is considered to be in average condition and of above average quality. According to the confirming source, the building was about 33% leased at the time of sale, but the buyer planned to occupy all of the remaining space, bringing the occupancy up to 100%. The building is situated on a 0.83 acre parcel which yields a FAR of 0.74. There are 100 on-site parking spaces, 50 of them covered, for a parking ratio of 3.75 spaces per 1,000 square feet of building. The property is accessible from either direction on Hotel Circle South, a frontage road on the south side of Interstate 8. It has good exposure to traffic passing on Hotel Circle South , a moderately traveled two lane street. It is also visible from traffic passing on Interstate 8. The interior of the building is fully built-out with average quality office improvements. This sale was adjusted upward to $248.31/SF for differing market conditions as of the date of sale.

This sale comparable is considered slightly superior to the subject as to its building quality and its smaller overall size on a dollars per square foot basis. It is slightly inferior to the subject in terms of its view potential and FAR. It is considered generally similar to the subject in other respects. Overall, after offsetting considerations, this sale property is considered generally similar to the subject and indicates a subject value in the range of $248.31 per square foot.

Improved Sale No. 3 **3444 Kearny Villa Road, San Diego, CA**

This is the July 2016 sale of a three story Class B medical office building configured for multiple tenants. The selling price was $12,450,000, or approximately $322.00 per square foot. The property totals 38,665 square feet in size and is considered to be in average condition and of medical office quality. According to the confirming source, the building was about 90% leased to 11 tenants, most of them medical oriented, at the time of sale. The building was purchased by a group of doctors and investors operating as Genesis Healthcare Partners, a tenant in the building. The building is situated on a 1.89 acre parcel which yields a FAR of 0.47. There are 148 on-site surface parking spaces for a parking ratio of 3.83 spaces per 1,000 square feet of building. The property is accessible from either direction on Kearny Villa Road via a signaled intersection. It has good exposure to traffic passing on Kearny Villa Road, a moderately traveled four lane street. The interior of the building is fully built-out with medical quality office improvements This sale was adjusted upward to $341.32/SF for differing market conditions as of the date of sale.

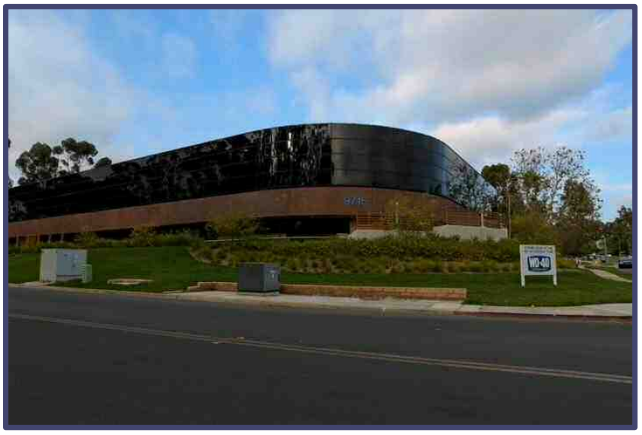
This sale comparable is considered slightly superior to the subject as to its smaller overall size on a dollars per square foot basis and superior relative to quality. It is considerably superior in terms of its medical office build out. It is slightly inferior in terms of its age and limited view potential. It is considered generally similar to the subject in other respects. Overall, this sale property is considerably superior to the subject and indicates a subject value of considerably less than $341.32 per square foot.

Improved Sale No. 4 **3540 Aero Court, San Diego, CA**

This is the April 2016 sale of a two story Class B office building configured for multiple tenants. The selling price was $4,800,000, or approximately $236.45 per square foot. The property totals 20,300 square feet in size and is considered to be in average condition and of average quality. According to the confirming source, the building was owner occupied by Coleman University at the time of sale. The building is situated on a 0.68 acre parcel which yields a FAR of 0.69. There are 95 on-site parking spaces, 50 of them covered, for a parking ratio of 4.68 spaces per 1,000 square feet of building. The property is accessible from the north on Aero Court, a two lane cul-de-sac street extending south from Aero Drive. The interior of the building is fully built-out with average quality office improvements. This sale was adjusted upward to $255.37/SF for differing market conditions as of the date of sale.

This sale comparable is considered slightly superior to the subject as to its smaller overall size on a dollars per square foot basis and its parking ratio. It is slightly inferior to the subject in terms of its view potential and its floor area ratio. It is considered generally similar to the subject in other respects. Overall, this sale property is considered slightly superior to the subject and indicates a subject value of slightly less than $255.37 per square foot.

Improved Sale No. 5 **9715 Businesspark Avenue, San Diego, CA**



This is the September 2016 sale of a three story Class B office building configured for multiple tenants. The selling price was $10,676,500, or approximately $250.00 per square foot. The property totals 42,706 square feet in size and is considered to be in average condition and of above average quality. According to the confirming source, the building was a high vacancy property at the time of sale, however, the buyer was an owner user that intended to use the property as its corporate headquarters. The building is situated on a 2.23 acre parcel which yields a FAR of 0.44. There are 171 open on-site parking spaces for a parking ratio of 4.00 spaces per 1,000 square feet of building. The property has a corner location and is accessible from either direction on both streets on which it fronts. It has average exposure to passing traffic. The interior of the building is fully built-out with average quality tenant improvements This sale was adjusted upward to $260.00/SF for differing market conditions as of the date of sale.

This sale comparable is considered slightly superior to the subject as to its smaller overall size on a dollars per square foot basis and its building quality. It is slightly inferior to the subject in terms of its age. It is considered generally similar to the subject in other respects. Overall, this sale property is considered slightly superior to the subject and indicates a subject value of slightly less than $260.00 per square foot.

Improved Sale No. 6 **15373 Innovation Drive, San Diego, CA**

This is the March 2017 sale of a three story Class B office building configured for multiple tenants. The selling price was $17,000,00, or approximately $219.19 per square foot. The property totals 77,559 square feet in size and is considered to be in average condition and of below average quality. According to the confirming source, the building was approximately 95% occupied at the time of sale. The building is situated on a 4.69 acre parcel which yields a FAR of 0.38. There are 36 covered and 223 open on-site parking spaces for a parking ratio of 3.34 spaces per 1,000 square feet of building. The property is accessible from either direction on Innovation Drive, a two lane asphalt paved street. It has average exposure to passing traffic. The interior of the building is fully built-out with average quality tenant improvements This very recent sale requires no adjustment for differing market conditions as of the date of sale.

This sale comparable is considered slightly inferior to the subject in terms of its age and its overall building quality. It is considered generally similar to the subject in other respects. Overall, this sale property is considered inferior to the subject and indicates a subject value of more than $219.19 per square foot.

The following table summarizes the comparability of the comparable sales to the subject property, from the most inferior to the most superior.

IMPROVED SALE COMPARABLE SUMMARY					
Comp #	**Address (San Diego)**	**Sale Date**	**Size (SF)**	**Price/SF***	**Comparability**
IS-6	15373 Innovation Drive	03/17/17	77,559	$219.19	Inferior
IS-2	1843 Hotel Circle South	09/30/16	26,700	$248.31	Generally Similar
Subject	4020 Murphy Canyon Road		69,078	$250.00	
IS-4	3540 Aero Court	04/29/16	20,300	$255.37	Slightly Superior
IS-5	9715 Businesspark Avenue	09/13/16	42,706	$270.00	Slightly Superior
IS-1	9797 Aero Drive	01/10/17	92,463	$325.81	Considerably Superior
IS-3	3444 Kearny Villa Road	07/19/16	38.665	$341.32	Considerably Superior

* Market Conditions adjusted price per square foot.

After consideration of economic, physical, and locational differences which have an influence on value, the comparable sale properties indicate a market conditions adjusted price range from $248.31 to $255.37 per square foot. Comparables IS-2, IS-4 and IS-5 were given primary consideration in our analysis, as they were market transactions of competing office properties with generally similar attributes as the subject property. The remaining three sales provided additional secondary support. Based on the bracketing effect of the comparable sales, and discussions with knowledgeable sources in the area, it is our opinion that the value of the subject property is $250

per square foot. Extending that unit value to the 69,078 square feet of subject building indicates a value for the renovated and stabilized office property on the proposed 4.50± acres of land of $17,269,500.

INDICATED STABILIZED VALUE BY THE
SALES COMPARISON APPROACH..... Rounded: $17,270,000

INCOME APPROACH – OFFICE BUILDING

The Income Approach is based on the premise that a relationship exists between the net income a property can produce and its value. Real estate value under this approach is the present worth of the benefits of ownership as anticipated by typical prospective purchasers who constitute the market for a property type. Capitalization is the procedure of expressing such anticipated future benefits of ownership in dollars and converting them into their present worth at a rate which is attracting purchase capital to similar investments.

Direct capitalization requires analysis of a property's income generation potential, consideration of an allowance for vacancy and collection loss, and consideration of operating expenses. The allowance and the expenses are deducted from the potential gross income to arrive at net operating income. An overall capitalization rate is used to convert net operating income into an indication of overall property value. The overall capitalization rate reflects the relationship between a single year's net operating income and the total property value.

The Income Approach is typically a preferred valuation method for multi-tenant buildings, which are typically purchased by investors for a return on invested capital. The subject property is currently configured as a single user building, however, our analysis at this point assumes that the building has been renovated in such a manner as to make it suitable for multi-tenant use similar to competing buildings in the submarket.

Potential Gross Income Analysis

As of the date of valuation the subject property was fully occupied by an single tenant, an NFL team, under the provisions of a master lease for Qualcomm Stadium and the subject practice facility. As noted previously, the existing lease is disregarded in our analysis at the request of the client. Therefore, no contract rental data was considered. At the request of the client, the fee simple interest in the property is being appraised, and potential gross income will be developed based upon market rent.

Market Rental Income

To determine a market rental rate for the subject property, a rental survey was conducted of similar aged buildings in the Kearny Mesa submarket that were of similar condition and quality, and recently leased. The subject property is currently configured for a single user, with a gross building area of 69,078 square feet. As previously noted, the building is currently configured specifically for the use of a professional football team, but we are initially appraising the building as though it has been reconfigured to support a more typical multi-tenant office use, and is at stabilized occupancy. Appropriate adjustments for costs of reconfiguration, rent loss during lease up and leasing commissions will be addressed later.

Based on interviews with leasing agents actively marketing office properties in the Kearny Mesa submarket, current monthly rental rates have increased over the last year and are leasing in the $1.80 to $2.70 per square foot range, gross net of utilities. The limited supply of office space and increased demand has shifted the negotiating power to landlords and rental concessions have normalized, with typical 3% to 3.5% fixed rent escalators and lower levels of rent abatement. As discussed previously in the Market Dynamics section of this report, the office market has continued to show improvement throughout 2015, 2016 and into the first quarter 2017 with declining vacancy and increased leasing interest and activity.

As noted, lease rates for multi-tenant office properties are typically negotiated on either a full service or gross net of utilities basis. Gross net of utilities leases are common in the Kearny Mesa submarket, and all of the leases researched were on that basis. Owner expenses typically include administrative/management expense, janitorial, common area utilities, grounds maintenance, building maintenance, insurance, security, reserves for replacement and property taxes.

In the current market, the prevalent lease term length for tenant spaces is in the range of four to six years for office properties, frequently with multiple options to extend. Annual rent escalators are typical and generally in the range of 3% to 3.5% per year.

The table on the following page summarizes the rent comparables, and the considerations and adjustments that were made. A discussion follows regarding the comparability of each rent comparable property to the subject with respect to exposure, access, quality/tenant appeal, age/condition, office buildout, and off-street parking.

RENT COMPARABLE SUMMARY AND ANALYSIS					
PROPERTY INFORMATION	**Subject**	**Rent Comp No. 1**	**Rent Comp No. 2**	**Rent Comp No. 3**	**Rent Comp No. 4**
Property Location	4020 Murphy Cyn Rd	9210 Sky Park Ct. #220	3750 Convoy Street #309/311	8965 Balboa Avenue Entire Building	3760 Convoy Street #118
	San Diego, CA	San Diego, CA	San Diego, CA	San Diego, CA	San Diego, CA
		369-170-46	356-380-37	369-163-09-01	
Lessor		Omninet Capital	MIG Real Estate	LBA Realty	MIG Real Estate
Lessee	N/A	KMEA	Women's Healthcare	County of San Diego	Dorian Polson, PhD
Lease Date		02/01/17	04/01/17	03/01/17	03/01/17
Leased Area	69,078	4,738	1,087	26,914	1,819
Age/Condition	20 Years/Average	34 Years/Average	Est 30 years/Average	30 Years/Average	Est 30 years/Average
Tenant Appeal	Average	Average	Above Average	Good	Average
Office Buildout	100%	100%	100%	100%	100%
Parking Ratio	3.03/1,000 SF Bldg	3.41/1,000 SF Bldg	3.37/1,000 SF Bldg	4.72/1,000 SF Bldg	3.37/1,000 SF Bldg
Expense Basis		Gross Plus Utilities	Gross Plus Utilities	Gross Plus Utilities	Gross Plus Utilities
Lease Term		64 Months	63 Months	72 Months	72 Months
T.I. Allowance/SF		$20	$40	$8.17	$40
Rent Abatement		4 Months	3 Months	None	None
Rent Escalator	CPI	3.5% per year	3% per year	3% per year	3% per year
Monthly Lease Rate/SF		$1.85	$2.44	$2.60	$2.15
Comments		New lease, Tenant pays half rent montys 2-9. One five year option to extend. Includes non-exclusive monument signage.	Expansion space. Tenant is Women's Healthcare Research Group. Medical industry.	Lease renewal. Freestanding, two story single tenant building. County has one five year option to renew. Health & Human Services Dept.	New lease, Office space in the healthcare industry. Building sits back from the street.
COMPARABILITY ANALYSIS					
Physical Characteristics:					
Location	Kearny Mesa	Similar	Similar	Similar	Similar
Age/Condition	20 Years/Average	Inferior	Slgt Inferior	Slgt Inferior	Slgt Inferior
Tenant Appeal	Average	Inferior	Superior	Superior	Similar
Office Buildout	100%	Similar	Similar	Similar	Similar
Expense Basis	Gross Plus Utilities	Similar	Similar	Similar	Similar
Lease Term	5± Years	Similar	Similar	Similar	Similar
Overall Comparability		**Consid Inferior**	**Sim to Slgt Superior**	**Slgt Superior**	**Slgt Inferior**

Rent Comparable 1 **9210 Sky Park Court, San Diego, CA**

This Class B rent comparable is located in the Montgomery Business Center, a business park approximately two thirds of a mile southwest of the subject property. The building is located at the end of a cul-de-sac street and has limited exposure. It is a two story office building with average quality tenant improvements. It was built approximately 34 years ago. The building improvements are considered of average quality and in average condition. Per the confirming source, Suite 220 (4,738 SF) was leased at a monthly rental rate of $1.85 per square foot for a 64-month term, gross net of utilities, in February 2017. The tenant was given four months free rent, paid as half rent for months two through nine, and the rent includes non-exclusive monument signage. The parking ratio at this property is approximately 3.41 spaces per 1,000 square feet of building. The lease has a rent escalator of 3.5% per year and the tenant received one five year option to extend the lease.

This rent comparable is considered inferior to the subject property as to its older age and its tenant appeal. Overall, this rent comparable is considerably inferior to the subject property and indicates a monthly rental rate of considerably more than $1.85 per square foot, net of utilities for the subject property.

Rent Comparable 2 **3750 Convoy Street, San Diego, CA**

This Class B rent comparable is located in the Kearny Mesa Crossroads development slightly over two miles west of the subject property. The building is located on the west side of Convoy Street at its intersection with Aero Drive. It is a three story office building with above average quality tenant improvements. The building improvements are considered of above average quality and of average condition. The building is estimated to be approximately 30 years old. According to the confirming source, suites 309 & 311 (1,087 square feet) were leased at a monthly rental rate of $2.44 per square foot, gross plus utilities, in April 2017. This lease was reportedly an expansion of space occupied by the tenant. The lease term was 63 months and the tenant was given three months free rent. This is a two building complex with a shared parking lot. The combined parking ratio is approximately 3.37 spaces per 1,000 square feet of building.

This rent comparable is considered superior to the subject property as to its overall tenant appeal as it has good exposure and better views. It is slightly inferior to the subject in age. Overall, after consideration of offsetting factors this rent comparable is considered generally similar to slightly superior to the subject property and indicates a monthly rental rate in the range of $2.44 per square foot, net of utilities for the subject property.

Rent Comparable 3 **8965 Balboa Avenue, San Diego, CA**

This Class B rent comparable is located in the Balboa Tech Center development approximately one mile west of the subject property. The building is located on the south side of Balboa Avenue and is one building of a three building office complex It is a two story office building with good quality tenant improvements. The building improvements are considered of good quality and of average condition. The building is approximately 30 years old. According to the confirming source, the entire building (26,914 square feet) was leased at a monthly rental rate of $2.60 per square foot, gross plus utilities, in March 2017. This lease was reportedly the renewal of an existing lease to the tenant. The lease term was 72 months and the tenant was given one five year option to extend the lease. There is a shared parking lot and a four level parking structure serving the three buildings. The combined parking ratio is estimated at 4.7 spaces per 1,000 square feet of building.

This rent comparable is considered superior to the subject property as to its quality and its overall tenant appeal. It is slightly inferior to the subject in age. Overall, after consideration of offsetting factors this rent comparable is considered slightly superior to the subject property and indicates a monthly rental rate of slightly less than $2.60 per square foot, net of utilities for the subject property.

Rent Comparable 4 **3760 Convoy Street, San Diego, CA**

This Class B rent comparable is located in the Kearny Mesa Crossroads development slightly over two miles west of the subject property. The building is located on the west side of Convoy Street at its intersection with Aero Drive. This building is set back from the street and has somewhat limited exposure and limited views. It is a three story office building with above average quality tenant improvements. The building improvements are considered of above average quality and in average condition. The building is estimated to be approximately 30 years old. According to the confirming source, suite 118 (1,819 square feet) was leased at a monthly rental rate of $2.15 per square foot, gross plus utilities, in March 2017. This was reportedly a new lease with a term of 72 months. There was no free rent, and the lease escalates at a rate of 3% per year. This is a two building complex with a shared parking lot. The combined parking ratio is approximately 3.37 spaces per 1,000 square feet of building.

This rent comparable is considered slightly inferior to the subject property as to its age. It is generally similar in other respects, including tenant appeal being set back from the street with limited exposure and views. Overall, this rent comparable is considered slightly inferior to the subject property and indicates a monthly rental slightly rate of more than $2.15 per square foot, net of utilities for the subject property.

Summary of Market Rents

The following table summarizes each of the lease comparables, in order from most inferior to most superior, and their comparability to the subject property.

RENT COMPARABLES					
Comp #	**Address** (Kearny Mesa Submarket)	**Lease Date**	**Leased SF**	**Lease Rate** (SF/Month)	**Comparability**
RC-1	9210 Sky Park Court #220	02/01/17	4,738	$1.85 GNU	Considerably Inferior
RC-4	3760 Convoy Street #118	03/01/17	1,819	$2.15 GNU	Slightly Inferior
Subject	4020 Murphy Canyon Road		69,078	$2.40 GNU	
RC-2	3750 Convoy Street #309/311	04/01/17	1,087	$2.44 GNU	Similar to Slightly Superior
RC-3	8965 Balboa Avenue	03/01/17	26,914	$2.60 GNU	Slgt Superior

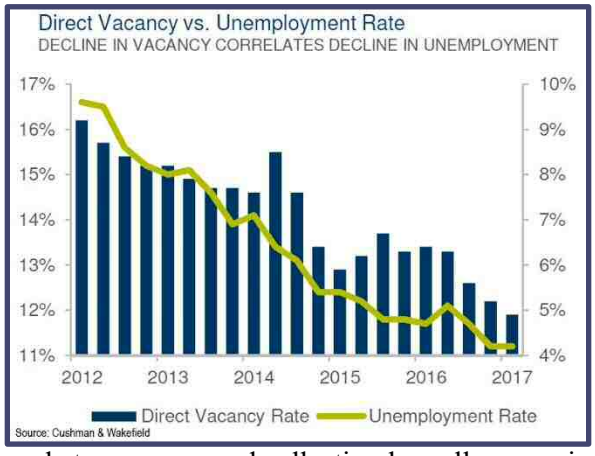
After consideration of physical and economic characteristics of the rent comparables as compared to the subject property, the rent comparables are concluded to be good indicators of an appropriate rental range for the subject property. Additionally, all the rent comparables are located within two miles the subject. RC-2, RC-3 and RC-4 bracket the subject in a range from $2.15/SF to $2.44/SF and were given primary consideration in the analysis. All of the leases commenced within slightly over a month of the date of value. Secondary consideration was given to the remaining comparable, which had similar attributes to the subject. Considering the subject's multi-tenant office configuration, we have concluded that market rent for the subject property is $2.40 per square foot per month, gross net of utilities. The subject's potential gross income is calculated as follows:

Potential Gross Income ..... 69,078 SF x $2.40/SF/month x 12 months $1,989,446

Vacancy and Collection Loss

Vacancy and collection loss is an allowance for reductions in potential gross income due to periods of vacancy, tenant turnover, and the nonpayment of rent. Factors that can influence the allowance are the type and characteristics of the property, the credit worthiness of the tenants, current and future supply and demand projections, and current and future macro-economic conditions. This allowance represents the typical vacancy rate to be realized at stabilization through an extended holding period from the date of value into the future. Consideration was given to the long-term market vacancy rates in the Kearny Mesa office submarket.

The Kearny Mesa submarket has seen declines in office vacancy rates over the past several quarters. The appraisers studied market reports from Cushman & Wakefield, Colliers International, CBRE, Voit Real Estate Services and Jones, Lang and LaSalle. Vacancy rates reported for the Kearny Mesa and Central County areas ranged from a low of about 7% to a high of slightly over 15%. The differing rates are likely a result of different survey areas and methodologies. The most prevalent rates reported were in the 11% to 13% range.



Considering the subject's good location in the Kearny Mesa submarket a vacancy and collection loss allowance in the range of 11% including consideration of collection loss is appropriate for this analysis.

Operating Expenses

The subject property is included as part of a master lease between the City of San Diego and a professional football team for Qualcomm Stadium and the subject building and practice facility. As a result, typical office building operating income and expense information was not available. In addition, no income or expense information was made available for any of the five sale comparable properties. As an alternative, the appraisers used the 2016 Experience Exchange Report (EER) for office buildings published by the Building Owners and Managers Association (BOMA). The 2017 report is not yet available. The 2016 report is based on data collected in 2015. To account for the time difference, the expense numbers were adjusted upward by 2%, the amount the San Diego CPI increased between the second half of 2015 and the second half of 2016.

The EER compiles actual income and expense data reported for buildings in the San Diego market. As part of our research, the appraisers surveyed suburban buildings with less than five stories with the result that expense data from 29 buildings was included in the report. Note that not all buildings showed expenses in all of the categories addressed below.

The EER provides both mean and median values for the expenses in the buildings surveyed, with the note that for smaller buildings the expenses tend toward the median and for larger buildings expenses tend toward the mean. At 69,078 square feet, the subject building falls between what would be considered small or large. We have concluded that a blended expense value somewhat closer to the median is appropriate for our analysis.

Our concluded expenses are also supported by the Penner Expense Guide for office buildings. The following paragraphs address expenses on a category by category basis. The mean and median expenses values noted below were extracted from the EER published by BOMA.

Administrative Expenses – This category includes consideration of payroll taxes, management fees, professional fees, and general office expenses. The mean and median expenses reported were $1.63/SF and $1.08/SF, respectively. After the adjustments noted above, we have concluded that $1.25/SF is appropriate for the subject.

Janitorial – This category includes routine cleaning contracts, window washing, specialized contracts, supplies and trash removal. The mean and median expenses reported were $1.56/SF and $1.31/SF, respectively. After the adjustments noted above, we have concluded that $1.40/SF is appropriate for the subject.

Common Area Utilities - This category includes electricity, gas and water and sewer. The mean and median expenses reported were $1.89/SF and $1.52/SF, respectively. However, the EER includes all utility expenses whether or not they are passed through to tenants. Since we are analyzing the property on a gross net of utilities basis, only the common area utility expenses are included. According to Colliers International, typical office building core factors range from approximately 12% to 20%. Other sources frequently apply a 15% core factor for typical buildings. Our utility expense allowance is based on 15% of the total utility expense levels reported in the EER. After the adjustments noted above, we have concluded that $0.25/SF is appropriate for the subject.

Grounds Maintenance – This category typically includes landscaping, parking lot repairs, site signage and site lighting. The mean and median expenses reported were $0.41/SF and $0.35/SF, respectively. After the adjustments noted above, we have concluded that $0.40/SF is appropriate for the subject. Based on the proposed lot size of 4.5 acres for the subject, there is approximately 160,000 square feet of the site not covered by the building footprint.

Building Maintenance – This category includes contracted services for elevator, HVAC, electrical, structural/roof, plumbing, fire and life safety expenses and other building maintenance and supplies. The mean and median expenses reported were $2.13/SF and $1.43/SF, respectively. After the adjustments noted above, we have concluded that $1.65/SF is appropriate for the subject.

Building Insurance – This is a sub-category under fixed expenses, which also includes property taxes, in the EER. Property taxes will be addressed separately. Building insurance typically covers fire, casualty and errors and omissions. In this case, the subject building is located in Flood Zones A and AE, both defined as Special Flood Hazard Areas (SHFA). Federally regulated lenders are mandated to require flood insurance when lending on properties in an SHFA, and we have added 20% to the insurance expense to account for this factor. The mean and median expenses reported were $0.25/SF and $0.27/SF. After the adjustments noted, we have concluded that $0.35/SF is appropriate for the subject.

Security – This category typically includes security contracts and equipment maintenance. The mean and median expenses reported were $0.37/SF and $0.24/SF, respectively. After the adjustments noted above, we have concluded that $0.25/SF is appropriate for the subject.

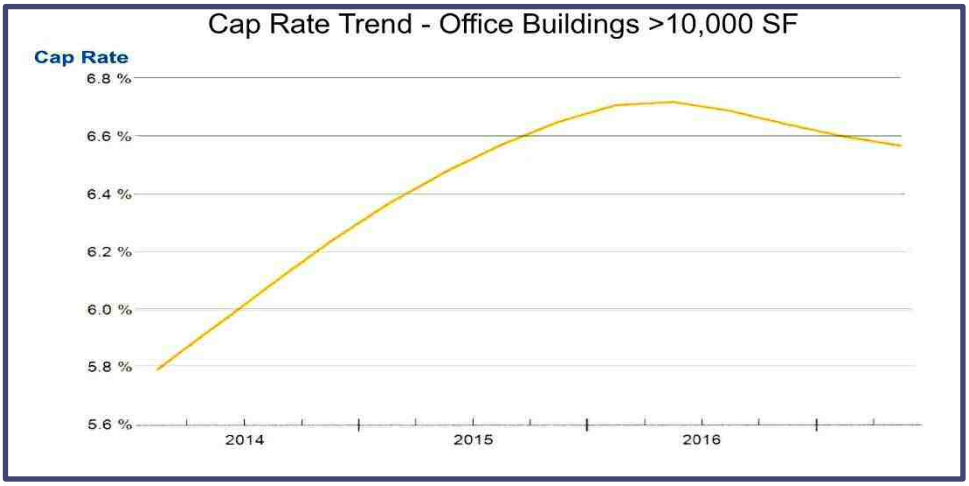
Replacement Reserves – Reserves are funds set aside that provide for the periodic replacement of building components that wear out more rapidly than the building itself and therefore must be replaced during the building's economic life (short lived items). Whether or not reserves should be included in net operating is a matter of some debate and depends on one's point of view. Listing agents typically omit reserves from pro-formas in order to boost NOI and in turn, value. Potential buyers tend to be more conservative, as do lenders who will nearly always include reserves in pro-formas when determining the maximum loan amount. As appraisers, we attempt to mirror the market driven actions. Thus, we will include reserves at a rate of 2% of EGI, in our analysis.

Property Taxes – Property taxes in California are based on the assessed value of a property, and properties are only reassessed when they are sold. Since our analysis assumes a sale of the property, the property taxes should be based on the concluded value by the Income Approach. This is accomplished through the use of a loaded capitalization rate technique in which all operating expenses *except* property taxes are capitalized at a rate which is the sum of the market derived capitalization rate and the subject's tax rate. The subject is owned by the City of San Diego and is not taxed. For this analysis we used the tax rate for the office property immediately south of the subject, 1.17432%. This process yields a value for the subject as if the actual property taxes had been included in the NOI. To determine the actual property taxes, the concluded value is multiplied by the tax rate.

Overall Capitalization Rate (OAR)

The final step in the Income Approach is to capitalize the stabilized net annual income at a market derived overall capitalization rate. Direct capitalization is based on the relationship between a single year's net income and market value interpreted in terms of an overall capitalization rate. The overall rate provides for return on and of the investment.

The preferred method of establishing an overall capitalization rate is extraction of the rate from sales in the subject's competing market area. Unfortunately, a study of sales since the beginning of 2014 in the Kearny Mesa submarket produced very limited capitalization rate data and was insufficient to conclude to a capitalization rate for the subject. The area studied was expanded to the City of San Diego and the following chart displays a smoothed overall capitalization rate trend line developed using CoStar.com analytics. Rates peaked at about 6.7% in late 2015 and have been declining slowly to slightly less than 6.6% since that time. The appraisers also reviewed the 4Q16 PWC Real Estate Investor Survey which corroborated the CoStar data.



Trending Analysis

A trending analysis of the San Diego market was also considered. The analysis included 33 investment sales from the 1st quarter of 2014 to date of value. The capitalization rates ranged from a low of 4.01% to a high of 8.60%, the average rate was 6.51% and the median of 6.60%. The data used in the analysis appears in the following table.

Property Address	Bldg SF	Sale Date	Sale Price	Cap Rate
4379 30th St	8,364	2/13/2015	$1,395,000	5.00%
4375 Jutland Dr	31,530	4/30/2015	$9,275,000	7.80%
1939-1949 Avenida Del Mexico	180,168	6/9/2015	$7,450,000	6.00%
5670 Oberlin Dr	18,236	7/28/2015	$7,250,000	7.40%
4747 Morena Blvd	39,950	9/3/2015	$6,300,000	6.31%
2811 Nimitz Blvd	9,722	10/9/2015	$3,000,000	6.40%
7830 Clairemont Mesa Blvd	11,300	11/17/2015	$2,425,000	6.50%
315-319 10th Ave,	380,322	2/3/2016	$975,000	6.12%
10089 Willow Creek Rd	113,933	2/5/2016	$19,750,000	8.60%
9855 Erma Rd	32,556	3/1/2016	$9,650,000	7.00%
2870 5th Ave	7,865	3/10/2016	$2,965,000	4.01%
525 B St	447,159	3/17/2016	$122,200,000	5.50%
3615 Kearny Villa Rd	25,372	3/30/2016	$7,000,000	8.00%
10065 Old Grove Rd	21,400	4/20/2016	$4,450,000	7.50%
3540 Aero Ct	20,300	4/29/2016	$4,800,000	5.21%
10277 Scripps Ranch Blvd	69,900	4/29/2016	$17,837,500	6.82%
10731 Treena St	17,151	7/12/2016	$3,300,000	5.77%
11650 Iberia Pl	13,660	7/19/2016	$2,780,000	5.75%
10174 Old Grove Rd	25,000	7/25/2016	$3,325,000	7.75%
4375 Jutland Dr	31,530	8/5/2016	$11,100,000	7.06%
4379 30th St	8,364	8/31/2016	$2,100,000	5.13%
4141 Jutland Dr	39,406	9/2/2016	$6,400,000	7.25%
17065 Camino San Bernardo	19,200	9/8/2016	$4,200,000	6.69%
1200 4th Ave	25,000	9/9/2016	$7,250,000	6.60%
1353-1359 6th Ave	4,448	9/29/2016	$1,315,000	6.00%
8943-8951 Complex Dr	13,288	10/10/2016	$2,700,000	7.80%
3960 3rd Ave	7,975	10/11/2016	$2,200,000	6.00%
11250 El Camino Real	23,595	12/6/2016	$9,850,000	7.44%
5230 Carroll Canyon Rd	39,993	3/13/2017	$6,100,000	6.46%
15373 Innovation Dr	77,559	3/17/2017	$17,000,000	6.90%
5015 Shoreham Pl	25,600	4/7/2017	$11,200,000	6.75%
Minimum	4,448			4.01%
Maximum	447,159			8.60%
Average	57,737			6.57%
Median	25,000			6.60%

Reconciliation of Capitalization Rate

There was sufficient investment sales data available in the San Diego market to opine an appropriate capitalization rate for the subject property. Additional consideration was given to the age/condition of the property and its potential income producing attributes, relating to the quality and durability of its potential income streams.

After consideration of the collected data and conversations with market participants and investment surveys, an overall capitalization rate in the range of 6.25% to 6.75% is appropriate for the subject property. A reconciled overall rate of 6.50% is used in our analysis.

Following is a summary of the Income Approach.

INCOME APPROACH SUMMARY 4020 Murphy Canyon Road , San Diego, CA					
Potential Gross Income					
69,078	SF x	$2.40	/SF	x 12 Mo =	$1,989,446
Less Vacancy @		11%	=	$218,839	
Effective Gross Income					$1,770,607
Operating Expenses					
Admin/Mgt @		$1.25	/SF	$86,348	
Janitorial @		1.40	/SF	96,709	
Comm Area Util @		0.25	/SF	17,270	
Grounds Maint @		0.40	/SF	64,000	
Building Maint @		1.65	/SF	113,979	
Insurance @		0.35	/SF	24,177	
Security @		0.25	/SF	17,270	
Reserves @ 2% of EGI				35,412	
Prop Tax @ 1.17432%				201,288	
Total Expenses					$656,453
Net Operating Income					$1,114,154
Capitalize @		6.50%			$17,140,833
Stabilized Value by the Income Approach:				Rounded:	$17,140,000

RECONCILIATION OF THE FEE SIMPLE VALUE – OFFICE BUILDING

As noted in the Scope of Work section, the client has requested that we appraise the fee simple interest in the subject property. As discussed earlier, the subject building is currently configured for use by a professional football team and will require significant reconfiguration to be made marketable as traditional multi-tenant office space. At this point in our analysis we have developed an opinion of the hypothetical value of the subject building as though the reconfiguration has been completed and the building is operating at stabilized occupancy. Deductions for the costs of reconfiguration, rent loss during lease up and leasing commissions will be addressed in the next section of the report.

Opinions of value of the fee simple interest in the subject office building were developed by applying the Sales Comparison and Income Approaches. The value conclusions of the two approaches were derived by following accepted appraisal practices and principles. Value differences are a result of variations in the market data and the valuation methodology used. The strengths and weaknesses of each approach were considered with focus given to the purpose of the report, reliability of the approach, quantity and quality of the data, methods used, and the importance and acceptability of the approach by typical buyers and sellers in the subject marketplace The two approaches were given generally equal consideration in our reconciliation. The results of each analysis are indicated below.

Value by Sales Comparison Approach:	$17,270,000
Value by Income Approach:	$17,140,000
Reconciled Stabilized Value	**$17,200,000**

AS-IS VALUE OF THE SUBJECT BUILDING

The subject building is currently leased to a single user that is expected to vacate the building by July 31, 2017. At that point it will be a vacant building configured for use by a professional football team and will require significant renovation to be suitable for a multi-tenant office building use. To develop an opinion of the as-is value, the appraisers considered the cost of renovating the space, as well as rent loss during the lease up period and leasing commissions to be paid by the owner.

Building Renovation

As previously noted, the subject building is currently configured for a single user, professional football team. The interior build out on the first floor includes a very large weight room, two jacuzzi style pools, a hydrotherapy pool, a locker room with a large restroom, shower and lavatory areas, a large equipment issue and storage area and an area specifically set up for media use. These areas comprise approximately 75% of the ground floor and will require major renovation in order to attract typical office space users. The remainder of the first floor and the entire second floor are currently configured as average quality office space for a single user. Significantly less renovation will be required in this portion of the building to reconfigure the space for multi-tenant use.

To develop an opinion of the costs of the tenant improvements, the appraisers reviewed available information relating to the cost of tenant improvements published by a number of office real estate oriented firms including Colliers International, Hughes Marino, Keyser Company, Perillo Construction, the PWC Real Estate Investor Survey and others. We also discussed the cost of tenant improvements with some individuals contacted during confirmation of sales and rents. Opinions varied somewhat, but the general consensus was that a major remodel of first floor space would cost in the range of $35/SF to $50/SF, higher if more upscale finishes are used. Opinions of the costs for the remodel of existing office space ranged from $15/SF to $25/SF.

According to the building plans, the first floor of the subject building is 38,108 square feet in size. As noted, approximately 75% of that space, 28,581 square feet, will require major renovation. As part of that renovation, the

jacuzzi and hydrotherapy pools will require removal. Additionally, access points to various newly configured suites and demising walls will need to be constructed. As such, it is our view that it is appropriate to conclude to a renovation cost at the upper end of the indicated range, or $50 per square foot for average quality tenant improvements similar to the existing office space.

Deducting 28,581 square feet from the 69,078 total building size leaves 40,497 square feet of existing office space that will require moderate renovation to be suitable for multi-tenant use. The remaining 25% of the first floor and all of the second floor is already configured with office space and appropriate hallways providing access to those offices. Some modifications to interior demising walls and door locations would allow this area to be partitioned into various sized suites for a multi-tenant use. Based on our research, these changes could be made at a cost in the upper half of the indicated range, or $22 per square foot.

The total cost of the renovation is calculated as follows.

Major renovation	28,581 SF x $50/SF =	$1,429,050
Moderate renovation	40,497 SF x $22/SF =	$ 890,934
Total		$2,319,984
		Rounded: $2,320,000

Rent Loss During Renovation, Lease Up and Leasing Commissions

The cost of the renovation was addressed above. To estimate the rent loss during renovation and lease up, as well as the cost of leasing commissions, the appraisers used discounted cash flow analysis (DCF) on a quarter by quarter basis. The parameters used in developing the DCF were as follows.

1. The renovation is estimated to require six months to complete. The total cost of the renovation was allocated equally in the first two quarters of the analysis at $1,160,000 each.
2. The starting rental rate was the same rate, $2.40/SF/Mo concluded in the Income Approach previously presented.
3. Vacancy and collection loss was estimated at 11% of gross scheduled income, as in the Income Approach. It was used to determine that 61,749 square feet represents stabilized occupancy.
4. 3% per year is commonly used as an annual rent escalation factor and was the rate included in three of the four leases used as rent comparables. The fourth lease used 3.5% per year. In our analysis, rent was increased at a rate of 0.75% per quarter (3% per year), rounded to the nearest penny in the DCF.
5. Gross scheduled income increases each quarter based on the starting rental rate for that quarter.
6. No rental income is scheduled until the renovation has been completed in the third quarter of the analysis. The DCF assumes that 20% of the available space will be pre-leased, and will be occupied in the third quarter.

7. The Kearny Mesa submarket had nearly 295,000 square feet of net office absorption in 2016[10], the second highest amount in the county. However, there are indications that the office market in San Diego is nearing the end of an expansion phase[11]. The appraisers also discussed absorption rates when confirming sales and rentals for this assignment. Based on our research, we have concluded that, once renovated, the subject building will require approximately 18 months to lease up to stabilized occupancy. That lease up period, six quarters, is used in our DCF analysis. An estimated 9,500 square feet of space is assumed to be leased each quarter, starting with the third quarter, until there is less than 9,500 square feet remaining to lease.

8. The lease term for the new leases used as rent comparables ranged from four to six years, a length that was verified as typical for the market by leasing agents contacted. We used a term of five years for the purpose of calculating leasing commissions in our DCF.

9. The appraisers reviewed discount rates presented in both the Realty Rates 1Q17 Investor Survey and the PWC Real Estate Investor Survey 4Q16. Realty Rates provides information only on a national scale while PWC provides information for both nationwide and individual market areas including San Diego. The current range of discount rates identified for the San Diego market was 6.25% to 10.5%, with an average of just under 8%. We used a rate of 8% in our DCF analysis.

10. Leasing commissions are typically paid by the building owner at the commencement of a lease and are based on the total rent consideration for the term of the lease. Review of available information and conversations with leasing agents indicate that commissions for most leases typically range from 4% to 6% of the total rent anticipated. Commissions for long term leases in upscale space are more commonly negotiated between the landlord and the leasing agent. We used a leasing commission rate of 5% in our analysis.

Our DCF analysis is presented on the following page.

[10] Colliers International San Diego County Office Report 4Q16
[11] PWC Real Estate Investor Survey, 4Q16

Quarter	1	2	3	4	5	6	7	8
Renovation Cost	$1,160,000	$1,160,000						
Gross Scheduled Income	$497,362	$501,506	$505,651	$509,796	$513,940	$518,085	$522,230	$526,374
Stabilized Occupancy (SF)	61,479	61,479	61,479	61,479	61,479	61,479	61,479	61,479
Space Leased/Qtr	0	0	23,316	9,500	9,500	9,500	9,500	163
Remaining Space	61,479	61,479	38,163	28,663	19,163	9,663	163	0
Starting Rental Rate	$2.40	$2.42	$2.44	$2.46	$2.48	$2.50	$2.52	$2.54
Rental Income/Qtr	0	0	170,673	240,783	311,463	382,713	454,533	455,775
Rent Loss/Qtr	$497,362	$501,506	$334,978	$269,013	$202,477	$135,372	$67,697	$70,599
Leasing Commissions	$0	$0	$170,673	$70,110	$70,680	$71,250	$71,820	$1,242
Total Reno, Rent Loss, Leasing	$1,657,362	$1,661,506	$505,651	$339,123	$273,157	$206,622	$139,517	$71,841
Discount Factor	0.980392	0.961169	0.942322	0.923845	0.905731	0.887971	0.87056	0.85349
PV of Cash Flow	$1,624,864	$1,596,988	$476,486	$313,297	$247,407	$183,474	$121,458	$61,316
Total Rent Loss/Reno/Lease Comm	$4,625,290							
Rounded:	$4,630,000							

Input Parameters	
Building Size (SF)	69,078
Starting Rent/SF	$2.40
Starting Gross Scheduled Income	$497,362
Vacancy & Collection Loss	11.00%
Stabilized Occupancy (SF)	61,479
Rent Escalation/Yr	3.00%
Rent Escalation/Qtr	0.75%
Pre-leases	20%
Major Renovation SF	28,581
Major Renovation $/SF	$50.00
Moderate Renovation SF	40,497
Moderate Renovation $/SF	$22.00
Total Renovation Cost	$2,320,000
Construction Period (Mo)	6
Lease Up Period (Mo)	18
Discount Rate	8.00%
Space Leased/Qtr (SF)	9,500
Typical Lease Term (Yrs)	5
Leasing Commission Rate	5.00%

Reconciled Value of the As-Is Fee Simple Interest Office Building on Lots 13 and 14

We began our analysis by developing an opinion of the hypothetical fee simple value of the office building as though renovated to make it suitable for a multi-tenant use and leased up to stabilized occupancy. Both the Sales Comparison Approach and the Income Approach were used in that analysis and both were given generally equal consideration in our final conclusion of the stabilized value, $17,200,000.

In order to value the building in its current configuration, we developed opinions of the cost of renovation of the building to make it suitable for a typical multi-tenant use, rent loss during the lease up period and leasing commissions to be incurred by the owner. The total present value of those factors was developed using a DCF analysis presented on the preceding pages, $4,630,000. The As-Is value of the subject building on Lots 13 and 14 is calculated as follows.

Hypothetical Stabilized Value	$17,200,000
Less Renovation, Rent Loss & Leasing Commissions	4,630,000
Fee Simple As-Is Value	$12,570,000

EXCESS LAND VALUATION

The subject property comprises 50.12 gross acres of land, of which 19.01 acres is developable. The entire 50.12 acres was subdivided into six legal lots on Subdivision Map 11502. The 31.11 acres outside the developable area is predominantly steep hillsides and canyons which, under the provisions of the Planned Industrial Development, must be left in their natural state. Nearly all of that area is encumbered by open space or building restricted easements. All six legal lots include portions of the developable area. Lots 11 and 12 are entirely in the developable portion of the property. Lots 15 and 16 both have developable area, and also contain all of the non-developable portion of the whole property including the slopes. As discussed in the highest and best use section of this report, it is our opinion that the current configuration of the six legal lots does not represent the most effective configuration from a marketability standpoint, and that relatively minor lot line adjustments to create the configuration shown here would improve marketability of the lots. Please refer to the highest and best use section of this report for a more detailed discussion.

The Sales Comparison Approach was used to develop an opinion of value for the four vacant subject lots in the proposed configuration. In that configuration the four lots range in size from about 2.6 acres to 4.8 acres. There is a swimming pool on Lot 12 and low cost metal garage and maintenance buildings on Lot 11. It is considered likely that a potential buyer would see no value in those improvements and would remove them as part of developing the sites. We valued the lots as though vacant.

With respect to the non-developable portions of Lots 15 and 16, it is our opinion that these areas contribute open space and view desirability to all four vacant lots, but no independent value since development rights have been exacted from them. The intrinsic value of the desirability of the open space and views have been included in our concluded site value analysis.

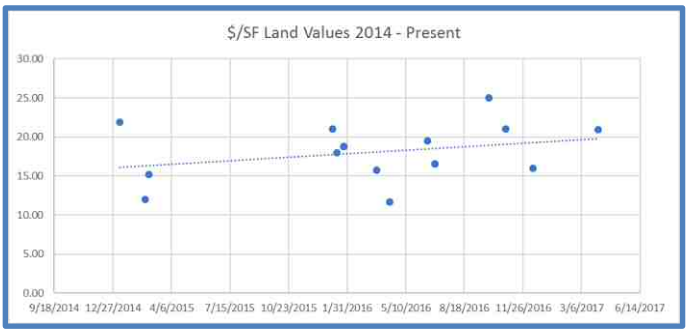
Excess Land is defined as: "Land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land has the potential to be sold separately and is valued separately."[12]

Methodology

A search for office land sales in the immediate subject area revealed only two similarly zoned sales in the Kearny Mesa submarket since the beginning of 2015. This is a function of the very limited supply of vacant office/R&D land in this submarket. When the search was expanded to include the entire county, two additional sales in the Carlsbad area, a sale in the Towne Centre area and a current listing in the north Kearny Mesa/Scripps Ranch west area were considered reasonable indicators of subject value and included in the following analysis. The primary data sources used for market research included CoStar.com and LoopNet, firms which specialize in publishing real estate sales data, as well as conversations with brokers and buyers of similar land.

Considering the lack of available land in the subject area, the six land comparables were considered the most appropriate for use in developing an opinion of the subject land value. All of the sales had generally similar zoning and land use designations, similar development potential, and many other similar physical attributes. These sales were researched, analyzed, and confirmed.

Market Conditions



The five sales transpired between January 2015 and April 2017. The appraisers reviewed sales of office land parcels in San Diego County reported by CoStar.com during that period on the basis of their dollars per square foot selling prices. Only sales of parcels one acre or larger and considered generally comparable to the subject were included. The trend line in the scatter chart to the right shows gradually increasing dollars per square foot selling prices for the period from January 2015 to April 2017. The trend line increases from approximately $16.00/SF to $20.00/SF in that time, indicating an annual increase of about 11%. Additionally, we reviewed data from available sources, including conversations with knowledgeable market participants, which indicated land value increases in the range of 8% to 11% per year for similar use properties. Based upon our research, it is our opinion that a reasonable rate to adjust for differing market conditions between the dates of sale and the date of value is 10% per year.

Unit of Comparison

The unit of comparison employed in this analysis is the price per square foot as this is the unit of measure typically employed by participants in the market for business park finished sites.

[12] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

Elements of Comparison

The comparable properties were compared to the subject based on the following items: location, overall site size, shape/site utility, topography, zoning/land use, exposure, offsite improvements, and development potential/use. With respect to parcel size, when considering a property on a dollars per square foot basis, typically larger parcel sizes are considered inferior to smaller parcel sizes due to a more limited pool of potential buyers and different buyer motivation.

Since the Kearny Mesa submarket is essentially completely built out, we also considered the supply of available land in our comparisons. The availability of land has an inverse relationship with land value. The lower the supply, the more a property can command from a potential buyer. The two land sales in the Carlsbad area are considered to be inferior to varying degrees overall due to the much larger supply of graded sites available in that area compared to the subject's Murphy Canyon/Kearny Mesa area. Appropriate adjustments for this factor were made in location to account for this factor.

The appraisers are aware of similarly zoned land parcels in the Kearny Mesa and Miramar areas with per square foot selling prices in the range of approximately $35 to $45. Most of the sales in the Kearny Mesa area were parcels of one acre or less in size with different potential buyer profiles, which typically command higher per unit selling prices and have a larger pool of potential buyers competing to purchase them. These much smaller parcels sold in the mid to upper $30/SF range. The sales in the Miramar area that sold in the $40/SF range generally front on Miramar Road which offers dramatically better exposure than the subject. Additionally, most of the improvements along Miramar Road are commercial in nature, also considered superior to the subject's office orientation. None of the sale properties were proposed for office use. For the reasons noted, we did not consider these sales to be appropriate indicators of subject value.

The Land Sale Comparison Summary & Analysis is presented on the following page.

LAND SALE SUMMARY AND ANALYSIS

	SUBJECT	LS-1	LS-2	LS-3	LS-4	LS-5	LS-6
Property Location	Murphy Canyon Road	3630 Afton Road	SWC Gateway & Palomar	Whiptail Loop	5902 Kearny Villa Rd	9779 Towne Center	Kearny Mesa Road
	South of Balboa Avenue	Kearny Mesa	Airport Rd (Lots 38 & 39)	(Lot 20)			Scripps West Business Park
Business Park	Murphy Canyou Gateway	None	Bressi Ranch	Carlsbad Oaks North		Eastgate Technology Park	North Kearny Mesa
City	San Diego	San Diego	Carlsbad	Carlsbad	San Diego	San Diego	San Diego
Owner/Seller	City of San Diego	Int'l Union of Op Engineers	Weeks Group LLC	Techbuild Const Corp	Cook Inlet Region, Inc.	LPL Holdings, Inc	Scripps Park West LLC
Buyer	N/A	Soille SD Hebrew Day School	JT-Bressi LLC	Build to Suit Limited LP	State of California	Towne Centre Drive LLC	N/A
Assessor Parcel Number	Multiple	421-040-13	213-263-19, 20	209-120-15 & -16	369-082-24	343-121-40	341-230-82
Recording Date		01/08/15	03/15/16	04/03/17	02/02/15	9/23/2014	Current Listing
Document No.		0008257	0113928	0146433	0044736	0411185	N/A
Land Area (Net Acres)	2.65 to 4.30	1.05	5.31	2.30	5.93	4.50	3.05
Topography	Generally level	Generally level	Generally level	Level Pad	Generally level	Level Pad w/downbank	Level Pad
Zoning/Land Use	IL-3-1	IP-2-1	P-M / PI	P-M / PI	IL-2-1, San Diego	IP-1-1	IP-2-1
Exposure	Average	Average	Good	Average	Good (Freeway)	Average	Good (Freeway)
Access	1 Street	1 street	2 street	1 street	2 street	1 street	1 street
View Potential	Some	Area View	Area View	Good views	Area View	Good views	Area View
Offsites	All in	All in	All in	All in	All In	All in	All in
Devel Status	Graded	Rough Graded	Rough Graded	Rough Graded	Rough Graded	Rough Graded	Rough Graded
Proposed Use/	Office	R&D/Flex	Office, R&D/Flex	Office, R&D/Flex	Office	Office	Office, R&D/Flex
Highest & Best Use	Office	R&D/Flex	Office, R&D/Flex	Office, R&D/Flex	Office	Office	Office, R&D/Flex
Comments	Four contiguous developable lots ranging in size from 2.65 acres to 4.80 acres. Could be developed independently or together.	Industrial park/office zoned parcel purchased by the adjacent property owner.The proposed use was not disclosed.	This was the purchase of two adjacent parcels in the upscale Bressi Ranch Corporate Center.	The buyer, a developer, purchased this property with the intention of constructing a 30,000 SF build to suit office for a client. Projected FAR is 0.30.	The S/P was based on a prior appraisal when property was being entitled for an office twoer. CHP paid the appraised value which was reported to be ±20% above market value.	This is the sale of a 4.5 acre portion of a 9.14 gross acre parcel. The remaining area is at the back of the site and is a steep down bank designated as open space.	This is the current listing of a 3.05 net acre parcel of IP zoned land in the west Scripps.area of San Diego
Price		$1,000,000	$5,551,500	$2,100,000	$10,819,000	$6,200,000	$3,995,000
Per SF		$21.86	$24.00	$20.96	$41.88	$31.63	$30.07
COMPARABILITY ANALYSIS							
Conditions of Sale/Market:							
Property Rights	Fee-Simple						
Subtotal		$21.86	$24.00	$20.96	$41.88	$31.63	$30.07
Financing	Cash Equivalent						
Subtotal		$21.86	$24.00	$20.96	$41.88	$31.63	$30.07
Condition of Sale	Market	-5.00%			-20.00%		-10.00%
Subtotal		$20.77	$24.00	$20.96	$33.51	$31.63	$27.06
Market Conditions	Improving	22%	9%	0%	21%	24%	0%
Market Condition Adj. Price		$25.34	$26.16	$20.96	$40.54	$39.22	$27.06
PHYSICAL CHARACTERISTICS							
General Location	Kearny Mesa	Similar	Inferior	Inf to Consid Inferior	Similar	Sup to Consid Superior	Similar
Site Size (Net Acres)	2.65 to 4.30	Slgt Superior	Similar	Similar	Similar	Similar	Similar
Shape / Site Utility	Varies / Average	Similar	Similar	Similar	Similar	Similar	Similar
Topography	Generally level	Similar	Similar	Similar	Similar	Similar	Similar
Access/Exposure	Average	Similar/Inferior	Similar/Slgt Superior	Similar/Similar	Superior/Superior	Similar/Similar	Similar/Slgt Superior
View Potential	Some	Similar	Similar	Slgt Superior	Similar	Superior	Similar
Offsites	Graded	Similar	Similar	Similar	Similar	Similar	Infer
Devel Potential / Use	Office/R&D	Similar	Similar	Similar	Similar	Similar	Similar
OVERALL COMPARABILITY		**Slgt Inferior**	**Slgt Inferior**	**Inf to Consid Inferior**	**Sup to Consid Superior**	**Sup to Consid Superior**	**Slgt Inferior**

Land Sale 1 **3630 Afton Road, San Diego, CA**

This is the January 2015 sale of an approximately 1.05 net acre site located approximately 1.8 miles southwest of the subject property, in the Kearny Mesa subarea. It is a dated sale of a much smaller parcel, included due to its proximity to the subject. The selling price was $1,000,000, or approximately $21.86 per square foot. The site is located on the west side of Afton Road about a block south of Aero Drive. It has one street exposure and access. The site's access and exposure is considered average overall. It is a level site with good utility. The property is zoned IP-2-1 (Industrial Park) and has a land use designation of Industrial. Office and R&D improvements are permitted under this zoning classification. All typical utilities are available to the property. Offsite improvements include: concrete curbs, gutters, sidewalks, and overhead lights. This was an assemblage sale, the buyer being a faith based school on the adjacent parcel to the north. Development plans were not disclosed. The site remains vacant as of our inspection. This sale occurred in a weaker market and was adjusted upward to $26.67/SF to account for differing market conditions as of the date of sale, then discounted to $25.34 to account for the assemblage purchase.

This sale property is considered slightly superior to the subject relative to its small overall size on a dollars per square foot basis. It is inferior in exposure. It is considered generally similar to the subject in other respects including close proximity to the subject property. Overall, this sale is considered slightly inferior to the subject site and indicates a subject value of slightly more than $25.34 per square foot.

Land Sale 2 **Bressi Ranch (Lots 38 & 39), Carlsbad, CA**

This is the March 2016 sale of an approximately 5.31 acre site located in the Bressi Ranch Corporate Center Business Park, in the City of Carlsbad. The selling price was $5,551,500, or approximately $24.00 per square foot. The site is located at the southwest corner of Gateway Road and Palomar Airport Road, and has three-street frontage and exposure. It is located in an upscale business park with moderately limited supply competition. The site has two-street access from Gateway Road, as it wraps around the southern and eastern boundaries of the site. Palomar Airport Road is a major thoroughfare in the area and the site benefits from good overall exposure, frontage, and access. The property is zoned P-M (Planned Industrial) and has a land use designation of PI (Planned Industrial). Business and professional offices are permitted in this zoning classification. All typical utilities are available to the property. Offsite improvements include: concrete curbs, gutters, sidewalks, and overhead lights. As of our inspection no site

work had been completed, though this site is planned to be developed with an office building. This sale occurred in a weaker market and was adjusted upward to $26.16/SF to account for differing market conditions as of the date of sale.

This sale property is considered inferior to the subject due to its general Carlsbad location in an area with a greater supply of land than the subject. This is slightly offset as this specific business park has less overall supply than Carlsbad in general. It is slightly superior to the subject as to its greater exposure to passing traffic. It is considered generally similar to the subject in other factors. Overall, this sale is considered slightly inferior to the subject site and indicates a subject value of slightly more than $26.16 per square foot.

Land Sale 3 **Whiptail Loop (Lot 20), Carlsbad, CA**

This is the April 2017 sale of an approximately 2.30 net acre site located in the Carlsbad Oaks North Business Park, in east Carlsbad. The selling price was $2,100,000, or approximately $20.96 per square foot. The site has single street frontage and access from Whiptail Loop, an interior, two-lane business park road. The site's exposure, frontage, and access, is considered average overall. This is an elevated site that offers pleasing view potential to the south and west. The property is zoned P-M (Planned Industrial) and has a land use designation of PI (Planned Industrial). Business and professional offices are permitted in this zoning classification. All typical utilities are available to the property. Offsite improvements include: concrete curbs, gutters, sidewalks, and streetlights. The property was purchased by a developer for the purpose of constructing an approximately 30,000 square foot build to suit industrial building for a client. The proposed FAR is approximately 0.30. As of our inspection no site work had been completed. This recent sale did not require an adjustment to account for differing market conditions as of the date of sale.

This sale property is considered inferior to considerably inferior to the subject in terms of its location in an area with a greater supply of vacant industrial/R&D zoned land, and in a business park more oriented to industrial/R&D improvements than the subject. It is considered slightly superior to the subject as to its view potential. It is considered generally similar to the subject in other respects. Overall, this sale is considered inferior to considerably inferior to the subject site and indicates a subject value considerably greater than $20.96 per square foot.

Land Sale 4 **5902 Kearny Villa Road, San Diego, CA**

This is the February 2015 sale of a 5.93± net acre site located at the northwest corner of Kearny Villa Road and Ruffin Road, a signalized intersection, in the Kearny Mesa community of the City of San Diego. The property is located just south of State Route-52, a short distance east of State Route-163, and west of Interstate-15. The selling price was $10,819,000, or approximately $41.88 per square foot. The site benefits from two street frontage and access, as well as, good exposure from all frontage streets and State Route 52. The site is accessible primarily via its frontage on Kearny Villa Road. The property is zoned IL-2-1 by the City of San Diego, an industrial zoning classification which permits a variety of industrial development along with office and commercial development. All typical utilities are available to this property, and all usual offsite improvements were in place with the exception of sidewalks on the sale property's side of the street.

This property was entitled for an approximately 175,000 square foot office building at the time of sale. It was reported that the selling price was determined by a previous appraisal which was based on a potential lot split. The lot split was subsequently made, but only the eastern portion was developable due to sensitive habitat on the western portion. The buyer, the State of California, is processing their own development of the site for a Highway Patrol dispatch center, a desirable use given the site's proximity to multiple freeways. They paid the selling price based on the prior appraisal which was reportedly considered to be about 20% above market value for this property's proposed large, multi-tenant office building. As of our inspection no site work had been completed. This sale was adjusted downward to $33.51 to account for the over market purchase price, and upward to $40.54/SF to account for differing market conditions as of the date of sale.

This sale property is considered superior to the subject in terms of both its good two street access and its good exposure. It is considered generally similar to the subject in other respects. Overall, this sale is considered superior to considerably superior to the subject site and indicates a subject value considerably less than $40.54 per square foot.

Land Sale 5 **9779 Towne Centre Drive, San Diego, CA**

This is the September 2014 sale of an approximately 4.50 net acre site located in the Eastgate Technology Park, in the University Towne Centre area of San Diego. The selling price was $6.200,000, or approximately $31.63 per square foot based on the usable area. The site has single street frontage and access from Town Centre Drive, an interior, two-lane business park road. The site's exposure, frontage, and access, are considered average overall. The back half of this site slopes steeply downward from the pad level and the site offers pleasing view potential to the northeast. The property is zoned IP-1-1 (Industrial Park). Business and professional offices are permitted in this zoning classification and are common in this area. All typical utilities are available to the property. Offsite improvements include: concrete curbs, gutters, sidewalks, and streetlights. As of our inspection the buyer had completed construction of an approximately 96,400 square foot, three story office building on the site. The FAR is approximately 0.24. This sale was adjusted upward to $39.22/SF to account for differing market conditions as of the date of sale.

This sale property is considered superior to considerably superior to the subject as to its location in the upscale University Towne Center area, and superior relative to its excellent view potential. It is considered generally similar to the subject in other respects. Overall, this sale is considered superior to considerably superior to the subject site and indicates a subject value considerably less than $39.22 per square foot.

Land Comp 6 (Listing) **Kearny Mesa Road, San Diego, CA**

This is the current listing of an approximately 3.05 net acre site located at the north end of Kearny Mesa Road in the north Kearny Mesa/west Scripps area of the City of San Diego. It is located slightly over five miles north of the subject in a similar office/R&D business park to the subject. The listing price is $3,995,000, or approximately $30.07 per square foot. The site is located on the west side of Interstate 15 a short distance south of Via Excelencia. This property is accessible via a proposed cul-de-sac at the north end of Kearny Mesa Road, currently a paper street shown on Assessor's maps. It is also accessible from Via Excelencia via the parking lot of the property to the north. It has good exposure as it is visible from I-15. The property is zoned IP-2-1 (Industrial Park) and has a land use designation of Industrial. Business and professional office uses are permitted in this zoning classification. All typical utilities are available to the property. Offsite improvements on the existing portion of Kearny Mesa Road are limited to asphalt paving with

partial curbs, gutters and sidewalks. As of our inspection this property was vacant. This is a current listing and was adjusted downward to $27.06 per square foot to account for conditions of sale.

This currently listed property is considered slightly superior to the subject site as to its freeway exposure. It is inferior to the subject in terms of its offsite improvements. It is generally similar to the subject in other respects. Overall, this property is considered slightly inferior to the subject site and indicates a subject value of slightly more than $27.06 per square foot.

Land Value Reconciliation

The following table arrays the land sale comparables in order from most *inferior* to most *superior*.

Land Sale Comparable Summary					
Comp No.	**Address**	**Sale Date**	**Size (Ac)**	**Price/SF***	**Comparability**
LS-3	Whiptail Loop (Lot 20), Carlsbad	04/03/17	2.30	$20.96	Inf to Consid Inferior
LS-1	3630 Afton Road, San Diego	01/08/15	1.05	$25.34	Slightly Inferior
LS-2	SWC Gateway & Palomar, Carlsbad	03/15/16	5.31	$26.16	Slightly Inferior
LS-6	Kearny Mesa Road, San Diego	Listing	3.05	$27.06	Slightly Inferior
Subject	Murphy Canyon Road, San Diego		2.65 – 4.80	$28-$30	
LS-5	9779 Towne Centre Drive, San Diego	09/23/14	4.50	$39.22	Sup to Consid Superior
LS-4	5902 Kearny Villa Road, San Diego	02/02/15	5.93	$40.54	Sup to Consid Superior

*Market condition adjusted selling price per square foot.

The comparables discussed in the preceding paragraphs are considered to be the best available for use in developing an opinion of the market value of the typical subject vacant land parcel. Limited sales have occurred in the immediate subject area due to this submarket's nearly fully developed status. The comparables bracket the subject lots in physical characteristics, economic characteristics and selling price. The indicated market value for the subject property falls in the range of $28.00/SF to $30.00/SF. All the land comparables are considered reasonably good indicators of subject land value. Based on the bracketing effect of the comparables and our market research which included conversations with multiple market participants, with consideration given to the scarcity of office sites in the subject subarea, the concluded value of the subject vacant lots, as of the date of value, were $30.00 per square foot for the two smaller lots, and $28.00 per square foot for the two larger lots. The individual lot values are calculated as follows.

Lot 11	2.65 Ac (115,434 SF) x $30.00/SF =	$3,463,020
Lot 12	2.90 Ac (126,324 SF) x $30.00/SF =	$3,789,720
Lot 15	4.80 Ac (209,088 SF) x $28.00/SF =	$5,854,464
Lot 16	4.16 Ac (181,210 SF) x $28.00/SF =	$5,073,869
Total Vacant Lot Value		**$18,181,073**
		Rounded: $18,180,000

The values of the four lots noted above assume that previously discussed lot line adjustments have been made. Also, removal of site improvements on the vacant parcels, which include two small, low cost metal buildings, a swimming pool, two and a half practice football fields and an asphalt paved parking lot, are likely to be viewed by potential buyers as minor demolition costs in relation to the entire project. As such, we have not backed out these costs from our overall concluded land values due to their limited cost impact and the scarcity of available land in the subject office subarea.

Lot finishing costs were also not deducted as a line item from our opined value as the subject lots are nearly level requiring minimal grading and they are generally similar to the graded but not finished status of the comparables as of their dates of sale. Some degree of finishing costs and associated risk is included in the entrepreneurial incentive addressed below.

The appraisers considered discounting the market values of the vacant lots to account for the time required to market and sell the four lots. However, due to the limited number of lots and the previously discussed scarcity of available land in Kearny Mesa, the marketing period is expected to be relatively short. Additionally, land values in the subarea have been increasing over the past two years and will likely continue this trend during the sellout period. Future price appreciation is considered likely to offset any discounting that would be applied to the current values, and we opted to not discount the concluded land values as a specific line item. Marketing risk is partially built into the entrepreneurial incentive referenced below.

It is considered most likely that the vacant lots would be purchased by a developer who would complete the work necessary to create finished lots ready for sale. Entrepreneurial incentive represents the developer's expected profit considering the investment return and risks associated with the anticipated site finishing costs, marketing expenses and overhead. Entrepreneurial incentive typically ranges from 15% to 25% depending on the size of the project, topography and other unknowns for land development projects. Considering the subjects' good location, size of the project and the scarcity of available land, it is our view that a discount of 15% from the retail lot value would be sufficient to entice a developer to purchase the vacant lots.

Sales commissions also need to be deducted from the retail land value. There is no set formula for determining the broker's sales commission, however, they typically decline as the overall size of the sale increases. Depending on whether the four lots are sold individually or in bulk, it is our opinion that sales commissions in the range of 3% to 5% would be appropriate for the subject lots. We used a commission of 4% which includes some degree of marketing.

The discount for entrepreneurial incentive, marketing and sales commissions totals 19%. Following below is a summary of the current value of the subject excess land.

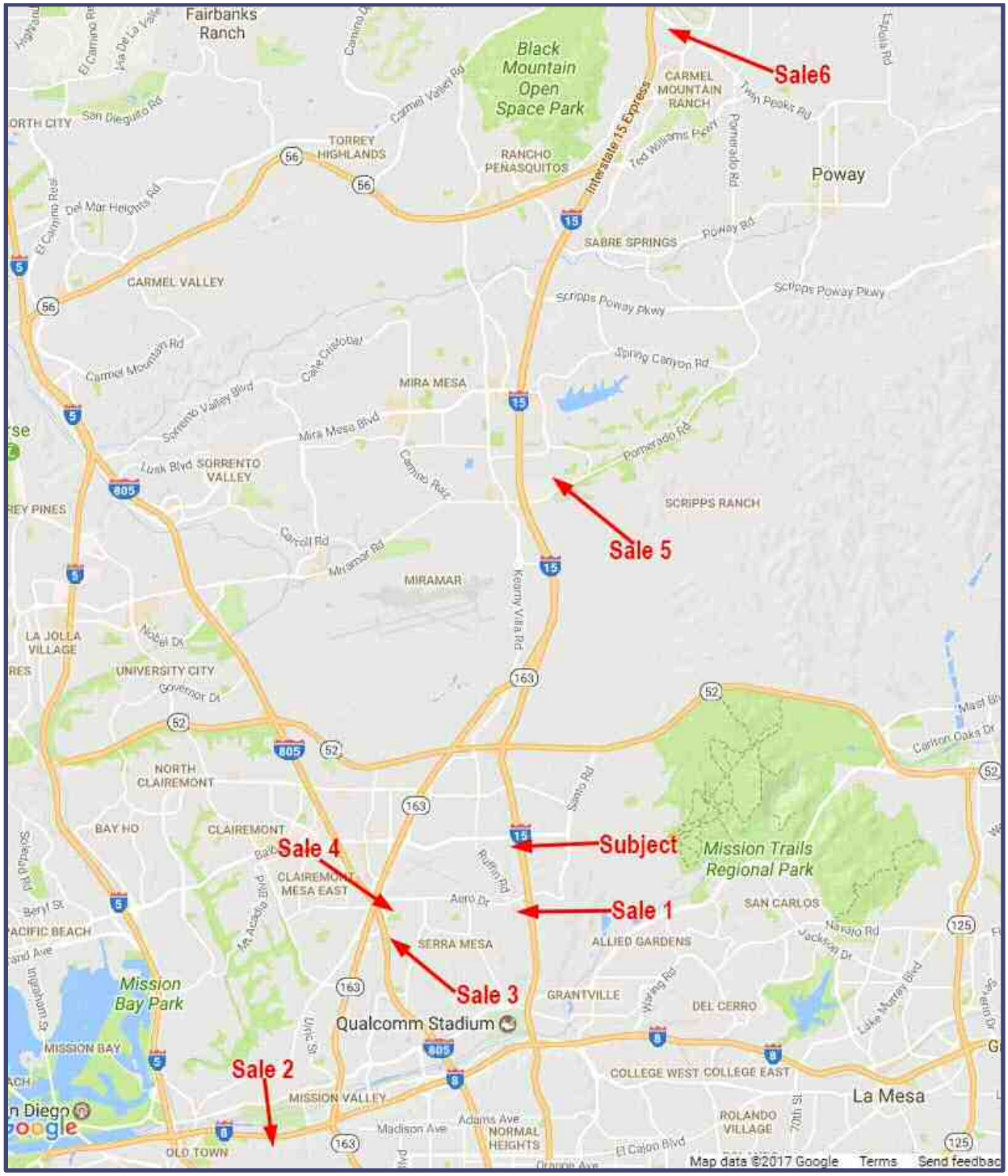
Lot 11	$3,463,020 x 81% =	$2,805,046
Lot 12	$3,789,720 x 81% =	$3,069,673
Lot 15	$5,854,464 x 81% =	$4,742,116
Lot 16	$5,073,869 x 81% =	$4,109,834
Total Excess Land Value		**$14,726,669**
		Rounded: $14,730,000

RECONCILED SUBJECT VALUE

Office Building on Lots 13 & 14, As-Is Value	**$12,570,000**
Vacant Lots 11, 12, 15 & 16	**$14,730,000**
Total As-Is Subject Value	**$27,300,000**

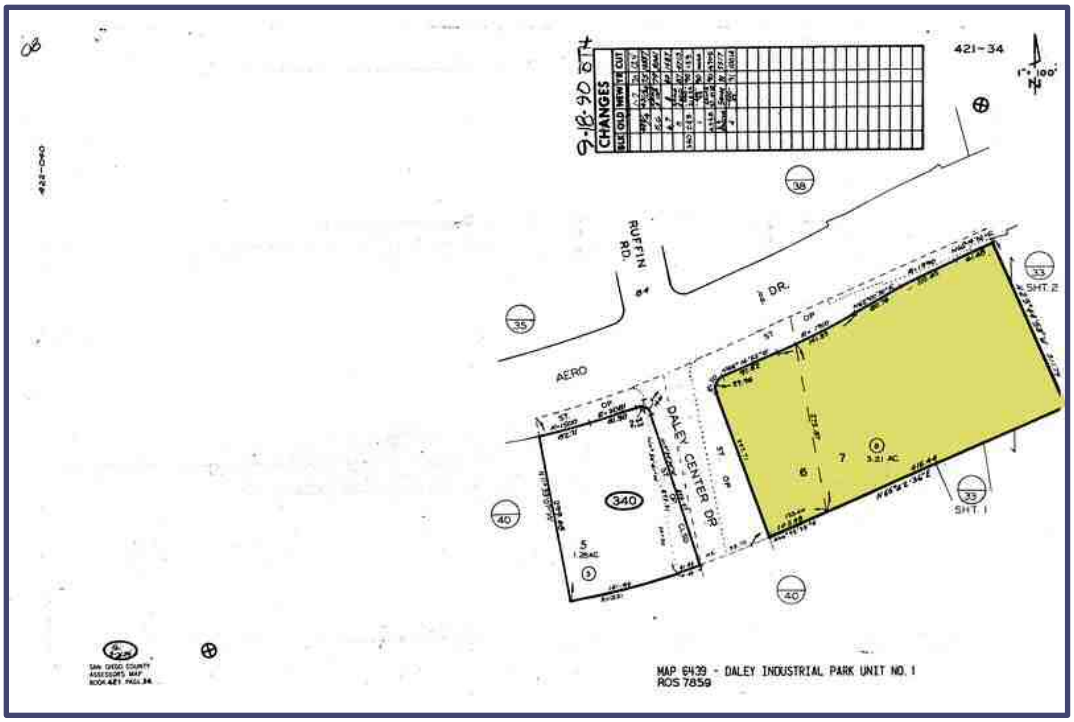
MARKET DATA ADDENDA

IMPROVED COMPARABLE SALE MAP

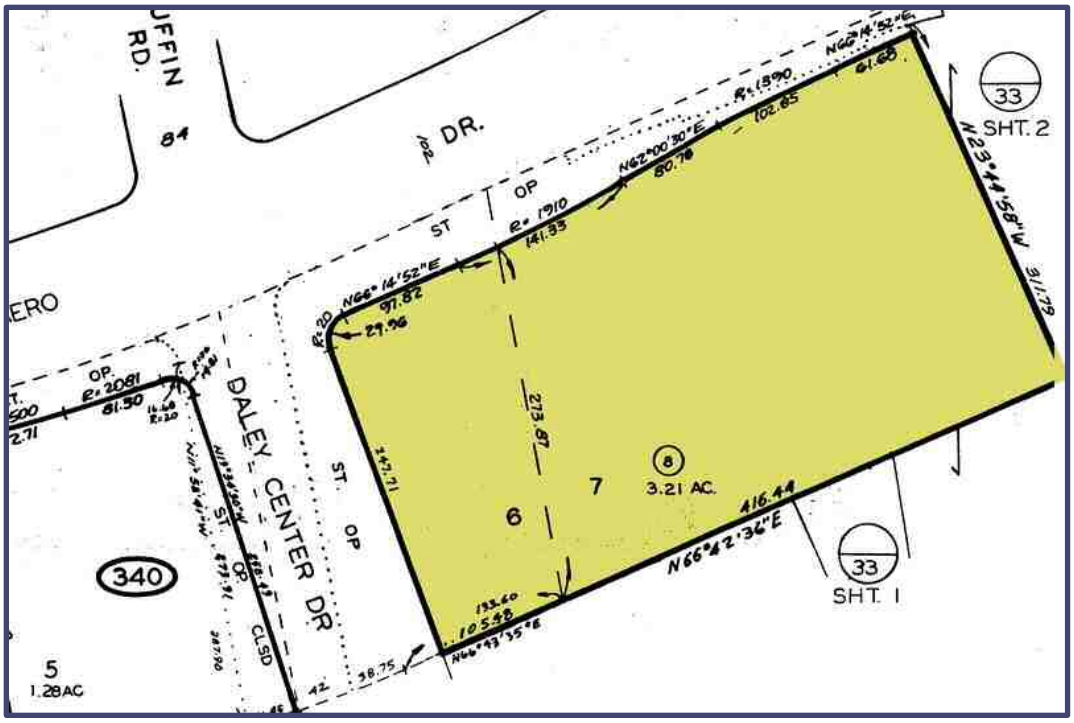


Improved Sale 1

9797 Aero Drive, San Diego, CA

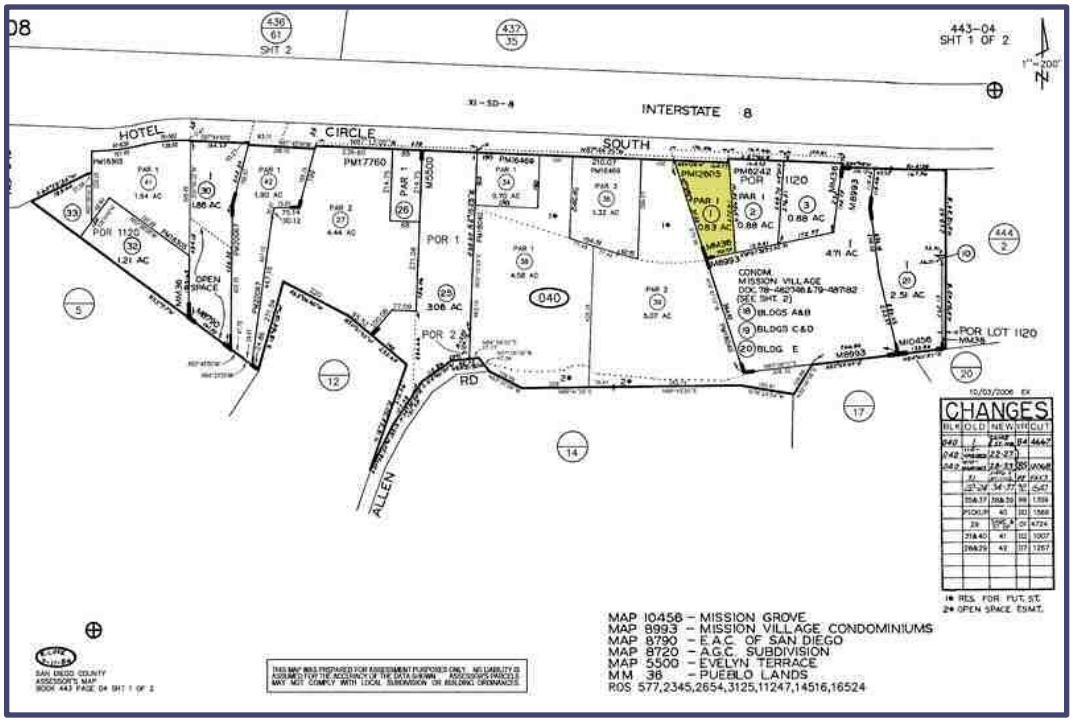


Improved Sale 1

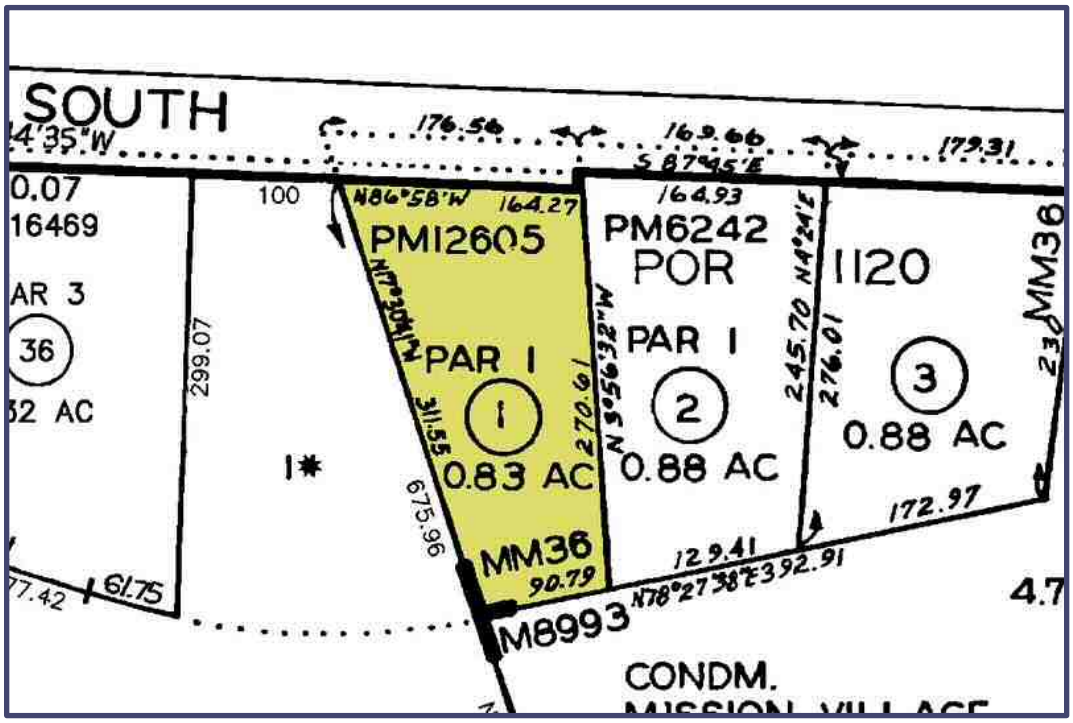


Improved Sale 2

1843 Hotel Circle South, San Diego, CA

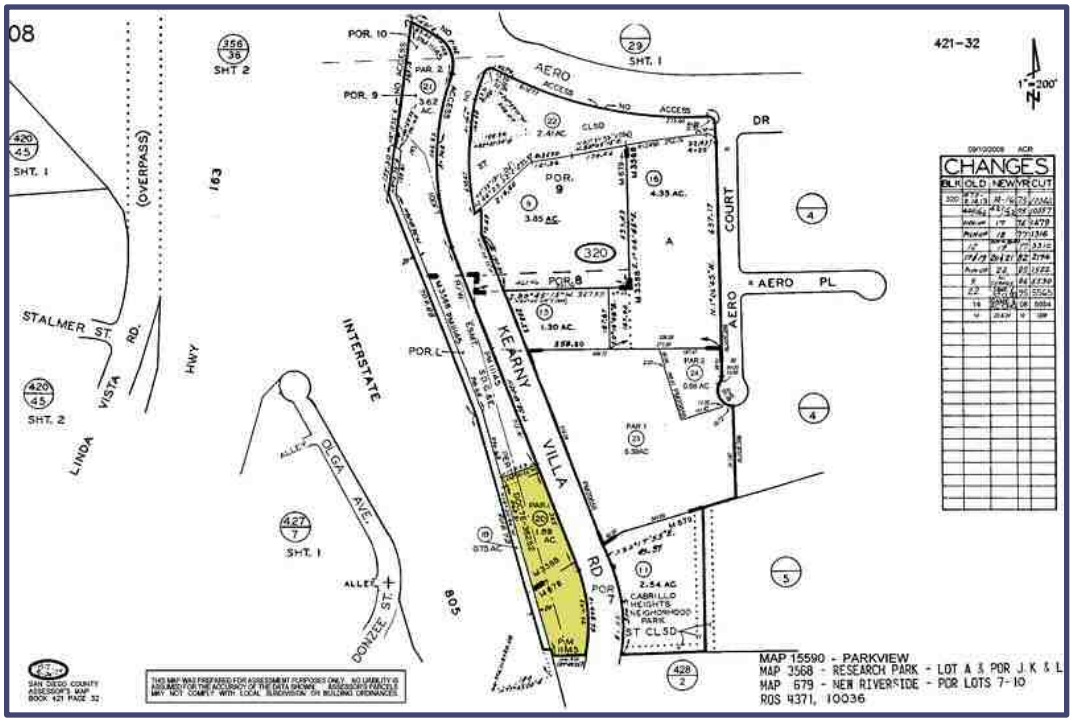


Improved Sale 2

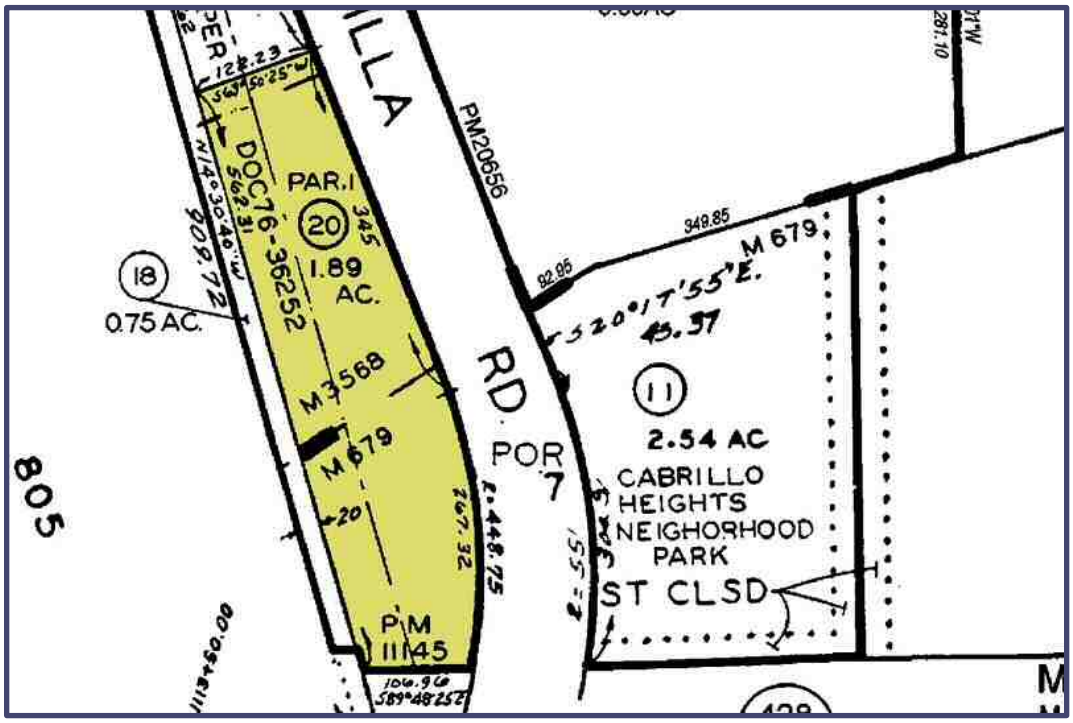


Improved Sale 3

3444 Kearny Villa Road, San Diego, CA

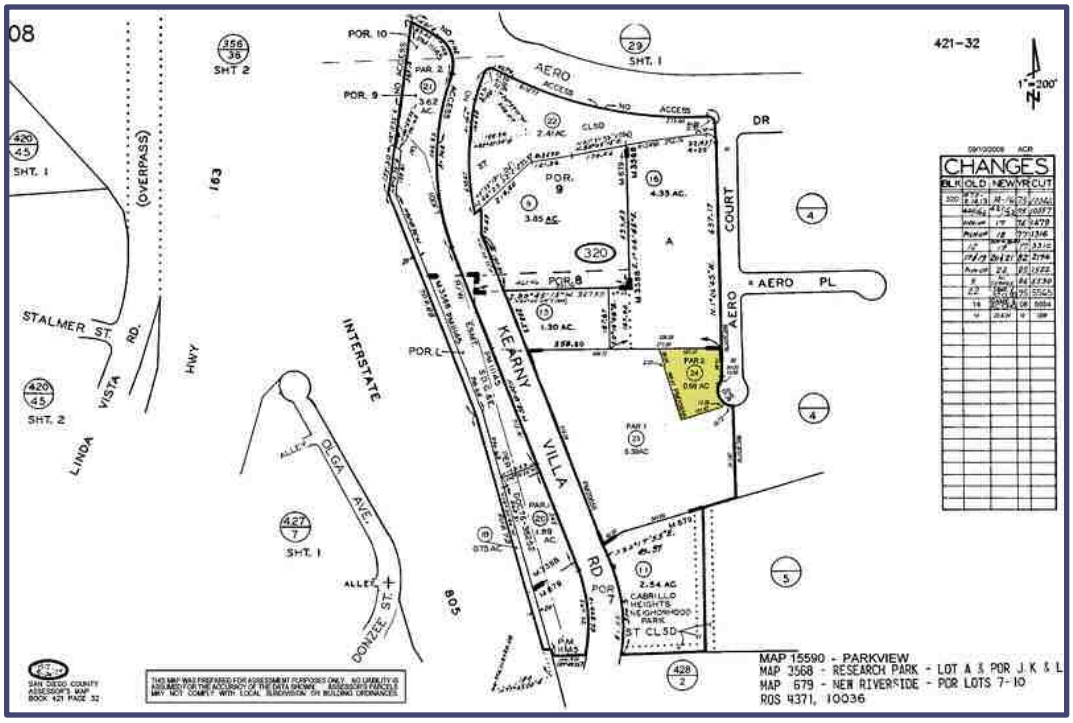


Improved Sale 3

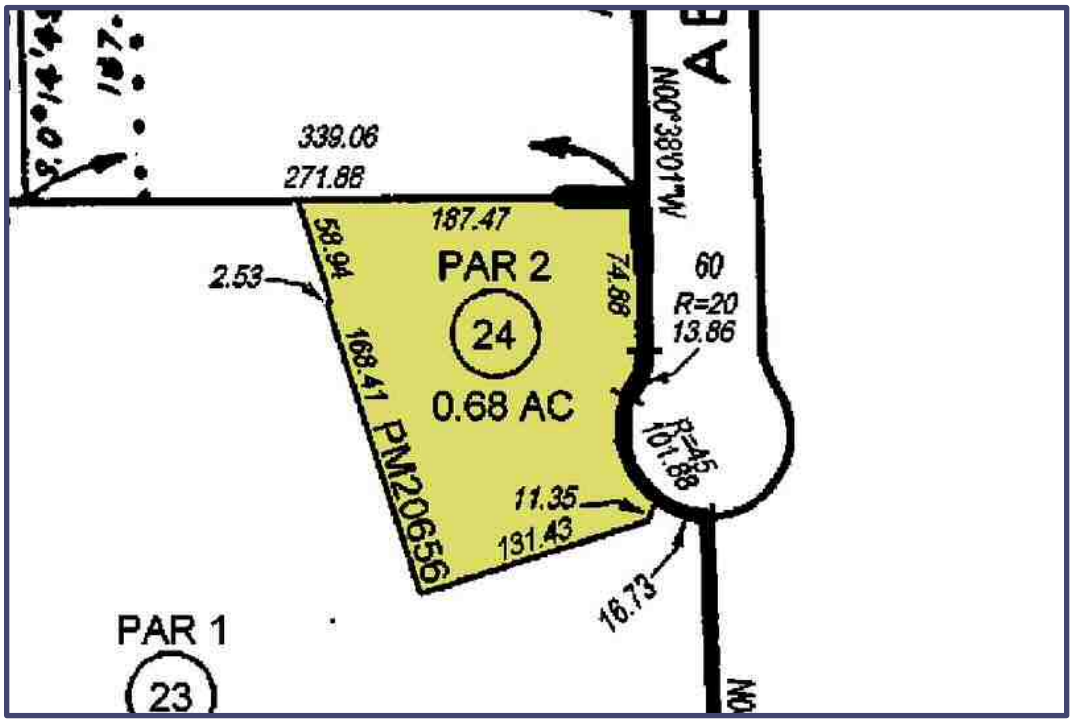


Improved Sale 4

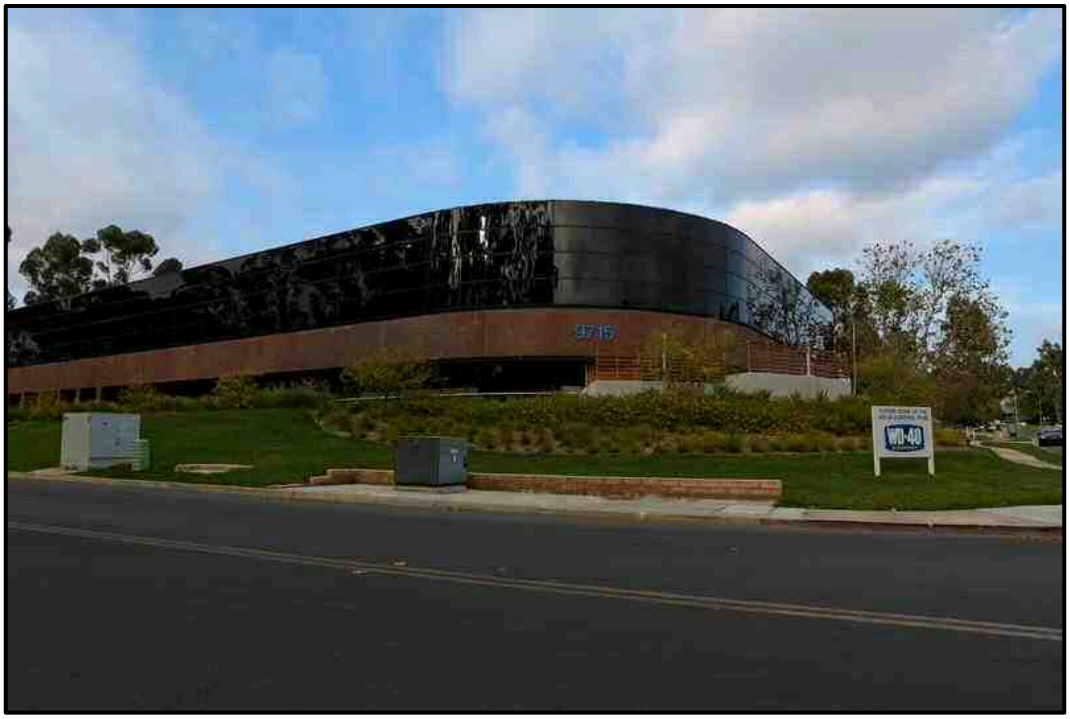
3540 Aero Court, San Diego, CA



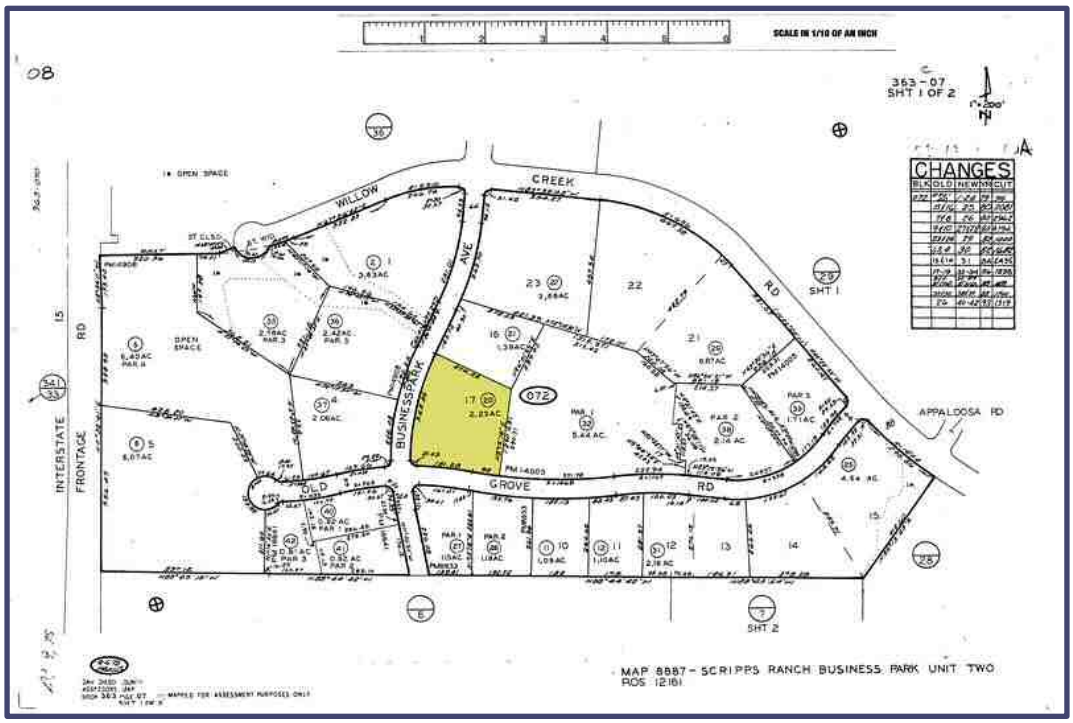
Improved Sale 4



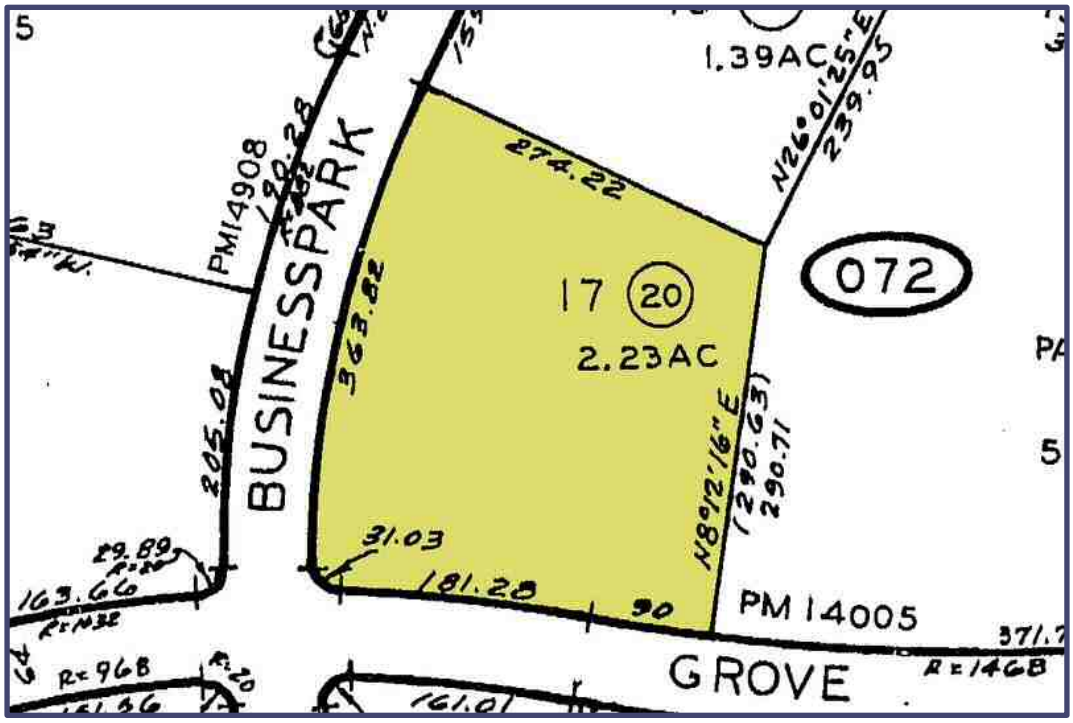
Improved Sale 5



9715 Businesspark Drive, San Diego, CA

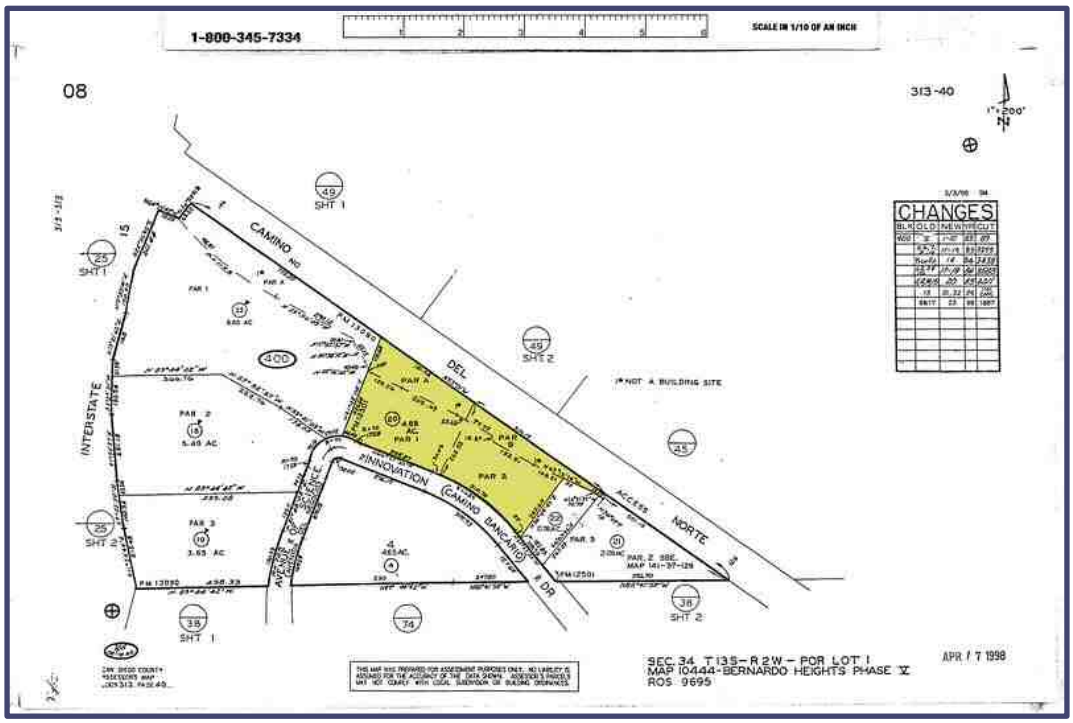


Improved Sale 5

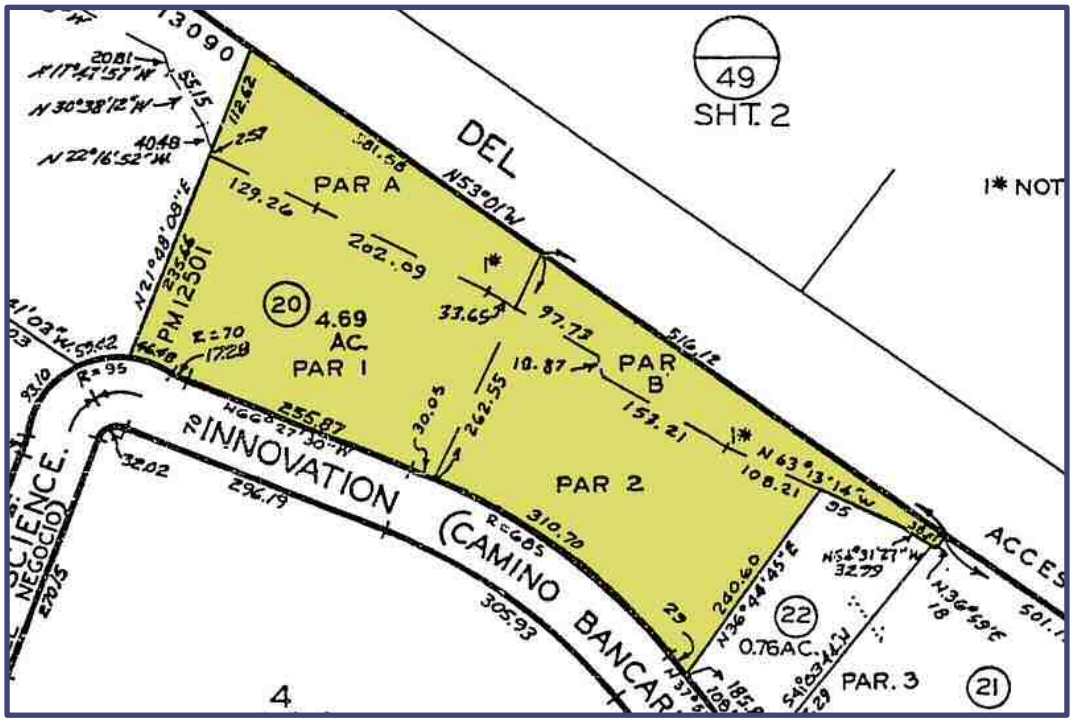


Improved Sale 6

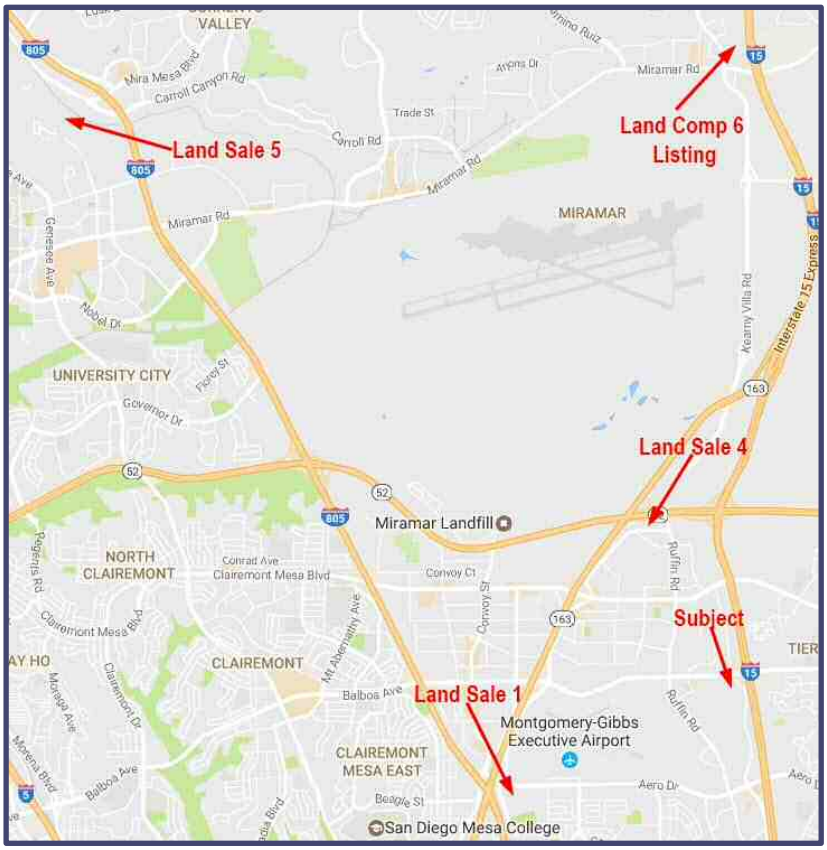
9715 Businesspark Drive, San Diego, CA



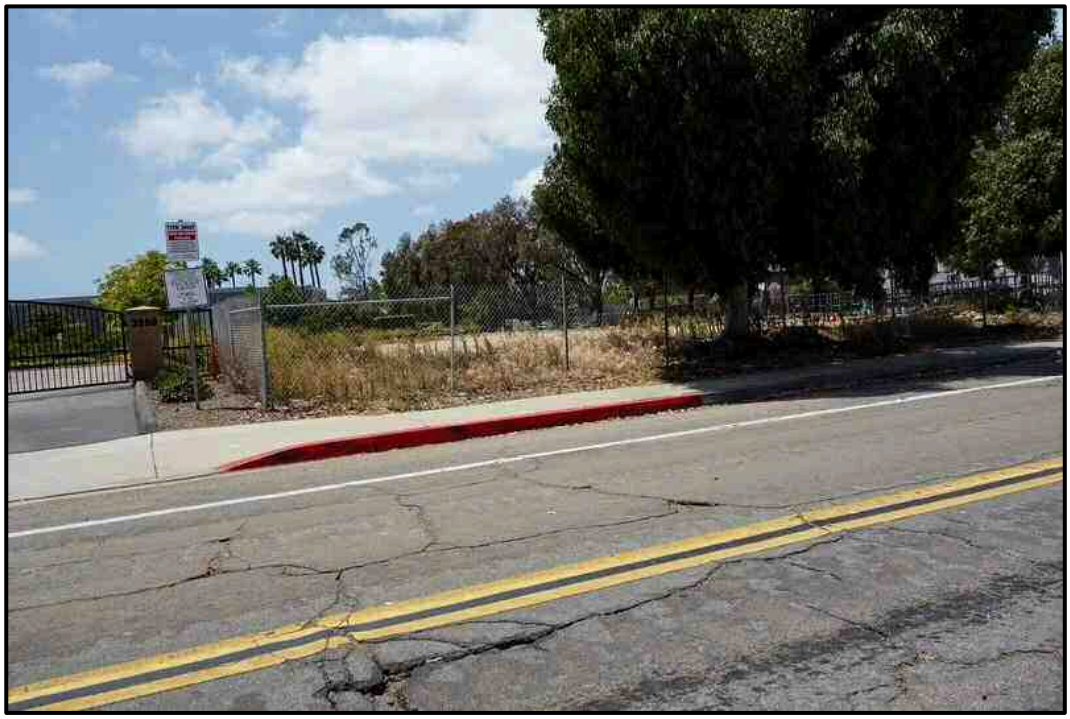
Improved Sale 5



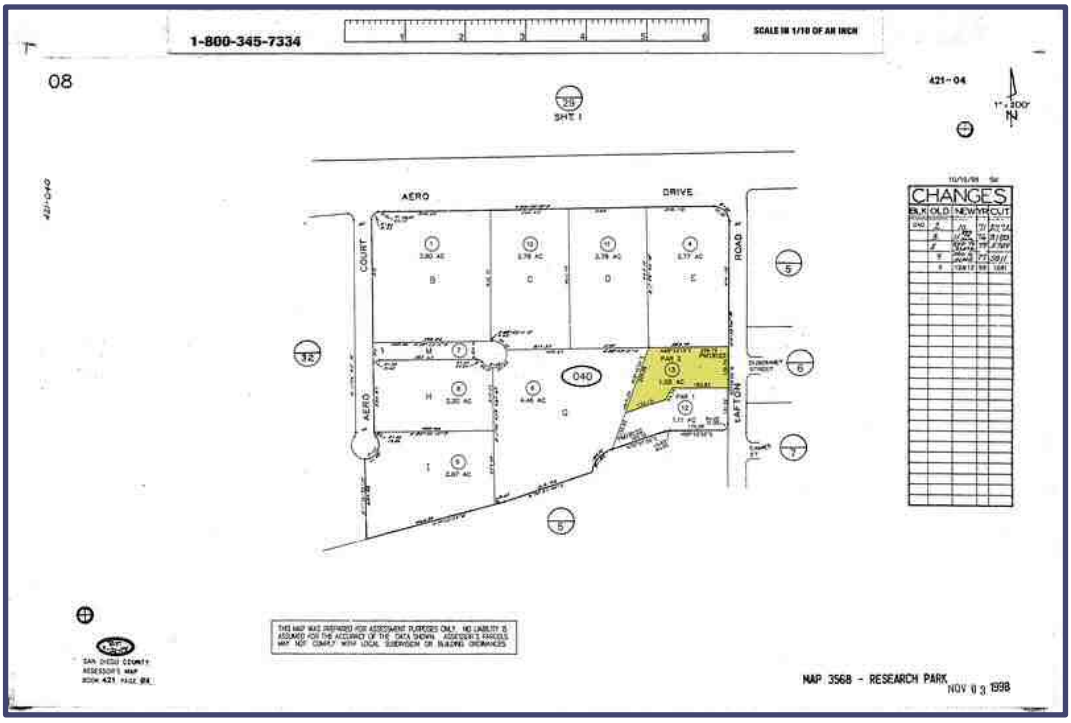
LAND SALE MAPS



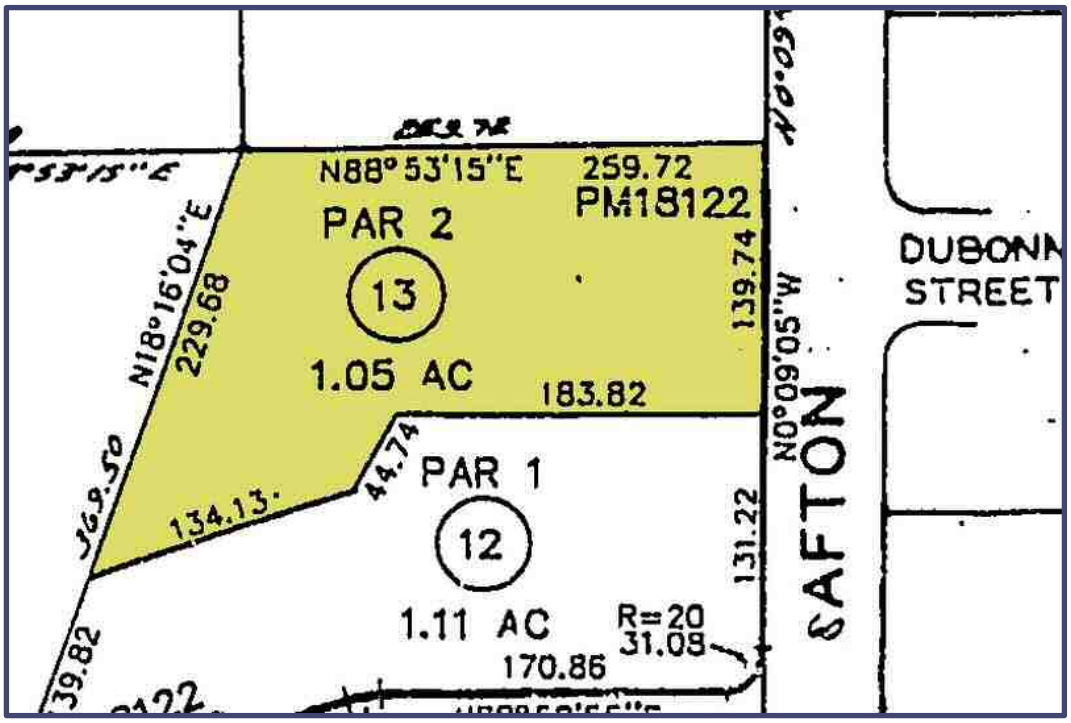
Land Sale 1



3630 Afton Road, San Diego, CA

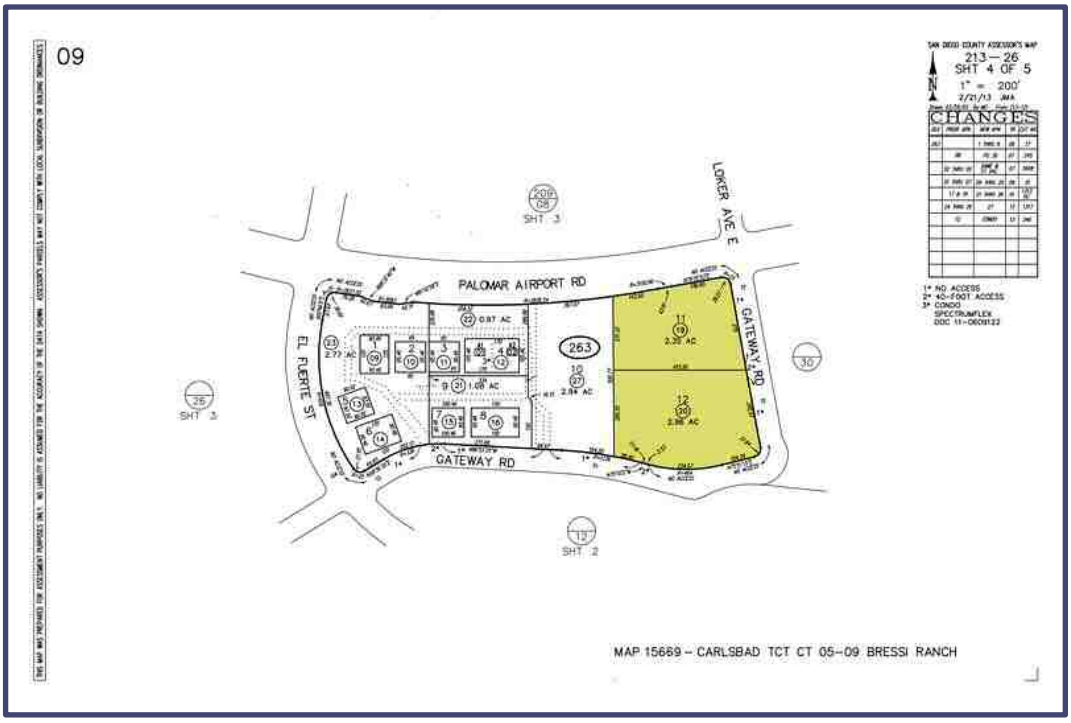


Land Sale 1

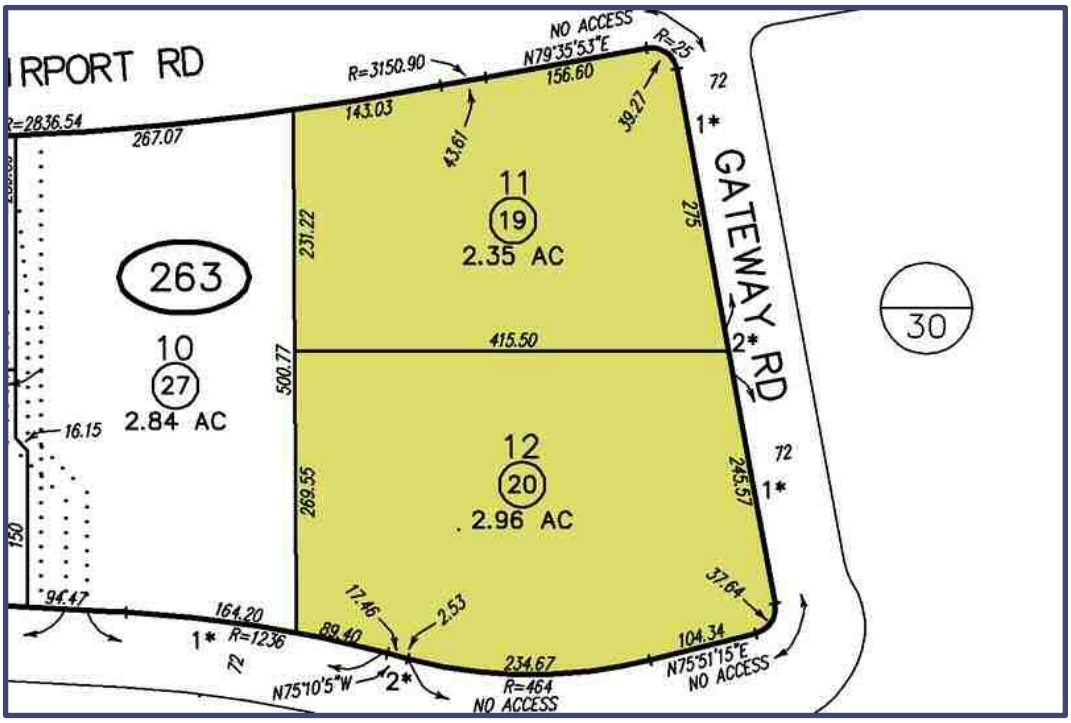

N88° 53'15"E
259.72
PM18122
PAR 2
13
1.05 AC
183.82
139.74
N0°09'05"W
N18°16'04"E
229.68
369.50
134.13
44.74
PAR 1
12
1.11 AC
131.22
R=20
31.08
170.86
39.82
SAFTON
DUBONN
STREET

Land Sale 2

Lots 38 & 39, Gateway Road, Carlsbad, CA

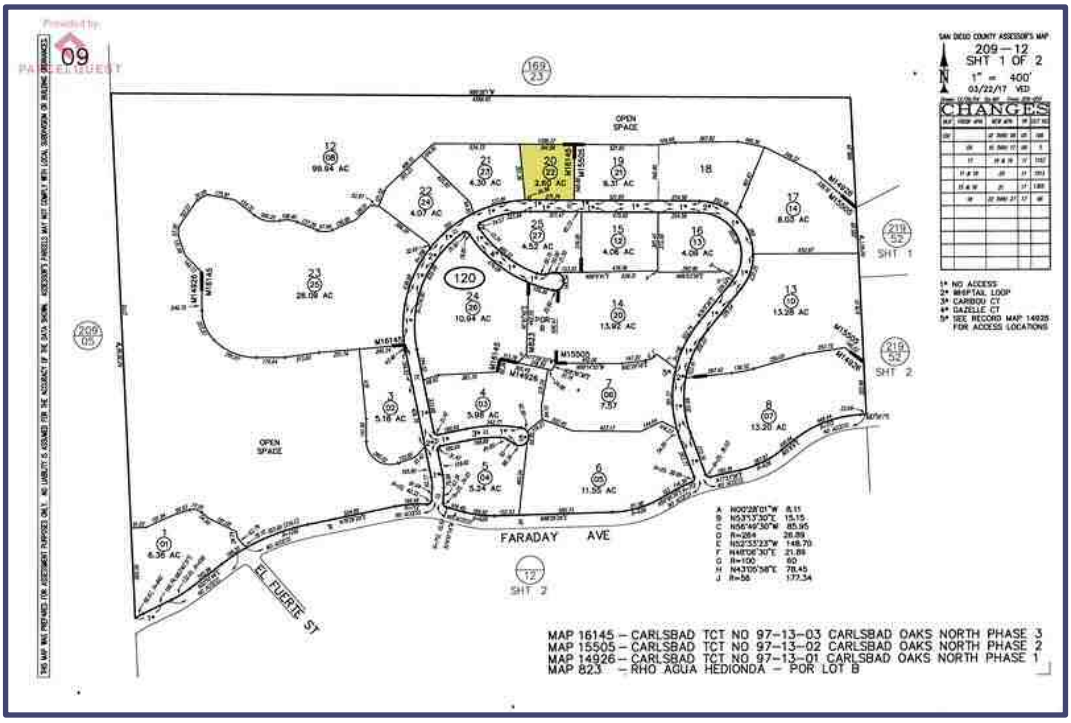


Land Sale 2

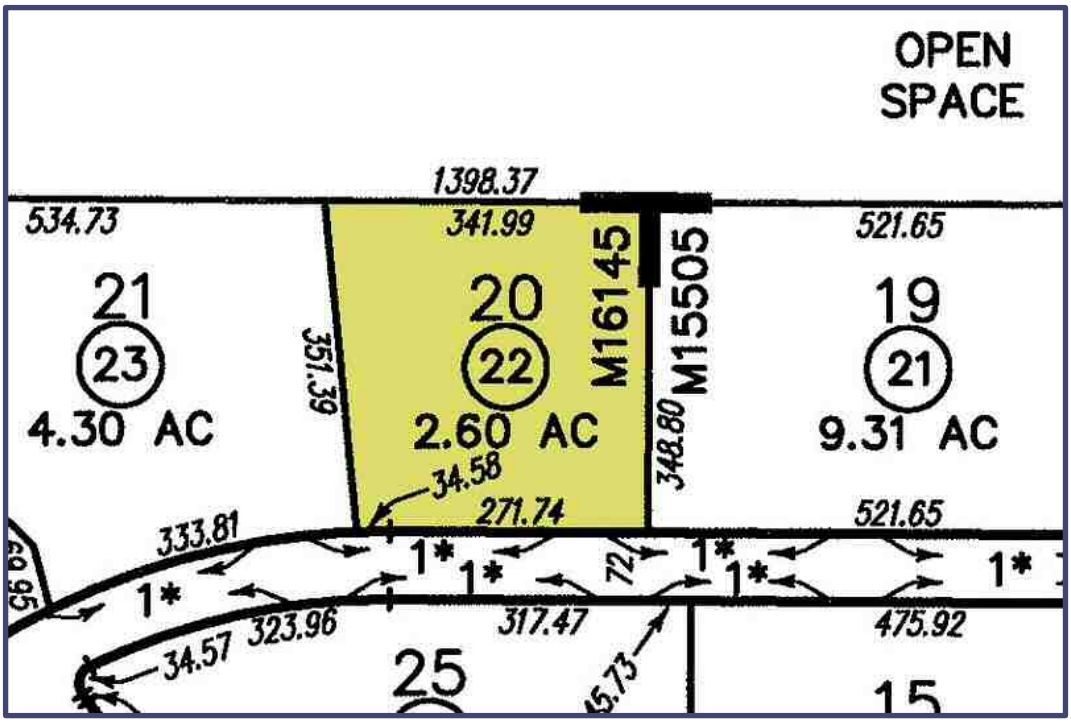

RPORT RD
R=2836.54
267.07
R=3150.90
143.03
43.61
NO ACCESS
N79°35'53"E
156.60
R=25
39.27
72
1*
GATEWAY RD
11
19
2.35 AC
231.22
275
263
10
27
2.84 AC
500.77
415.50
2*
30
16.15
12
20
2.96 AC
269.55
245.57
72
1*
150
94.47
164.20
R=1236
1*
72
17.46
2.53
89.40
N75°10'5"W
2*
234.67
R=464
NO ACCESS
104.34
37.64
N75°51'15"E
NO ACCESS

Land Sale 3

Lot 20, Whiptail Loop, Carlsbad, CA

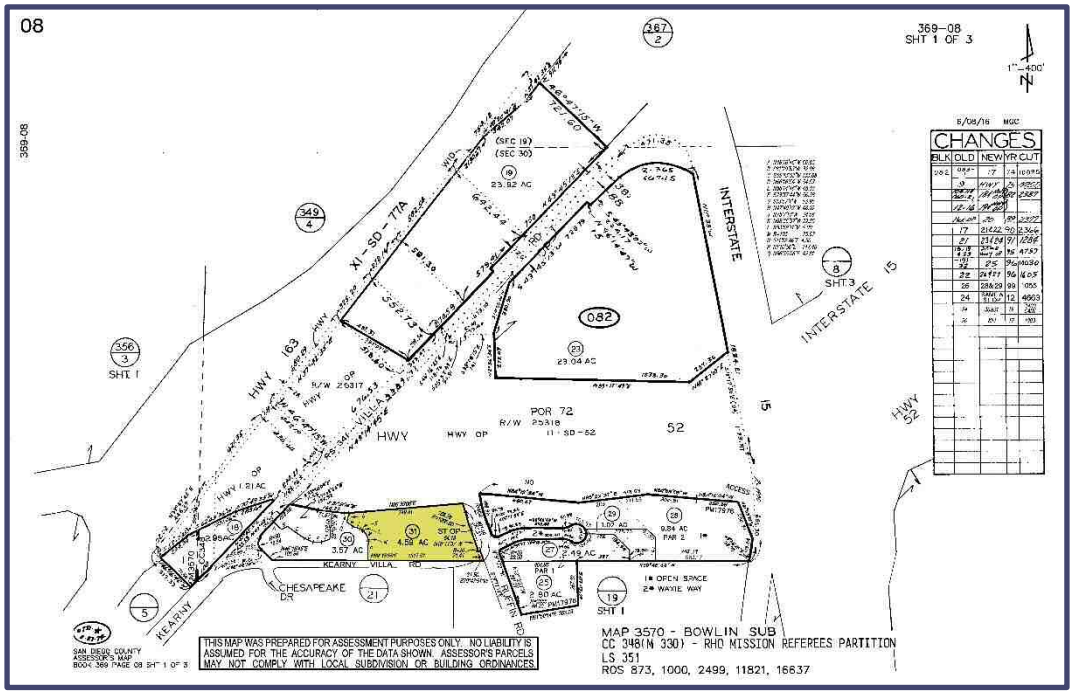


Land Sale 3


OPEN SPACE
1398.37
534.73
341.99
521.65
21
23
4.30 AC
20
22
2.60 AC
M16145
M15505
19
21
9.31 AC
351.39
348.80
34.58
271.74
521.65
333.81
323.96
317.47
475.92
34.57
25
15

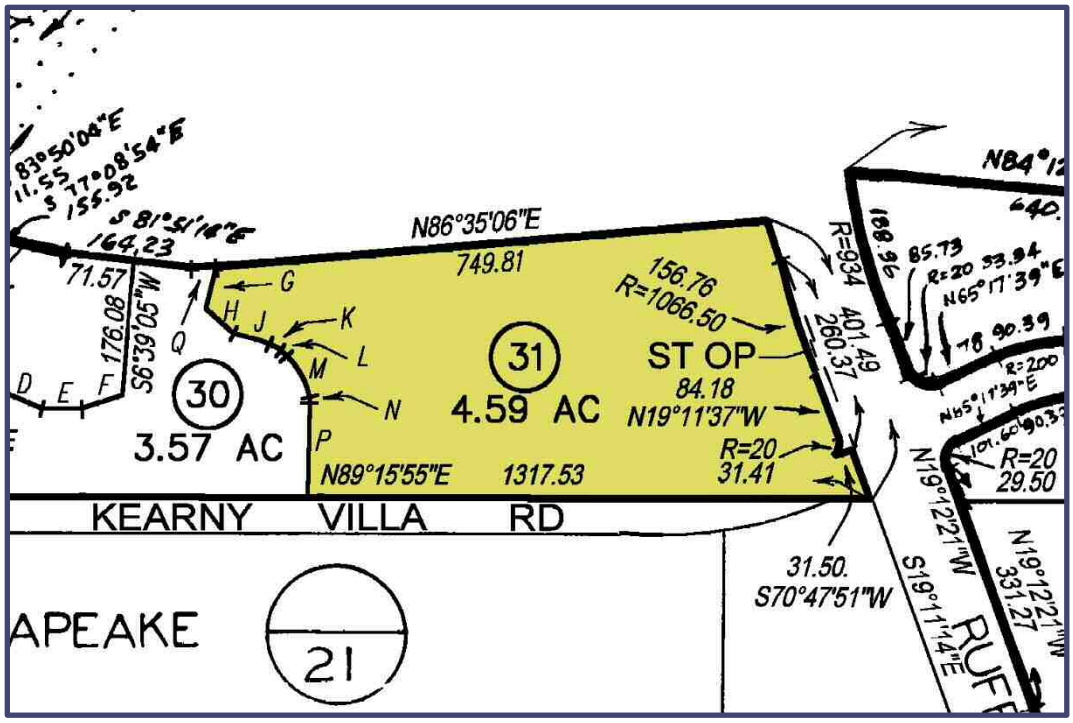
Land Sale 4

5902 Kearny Villa Road, San Diego, CA



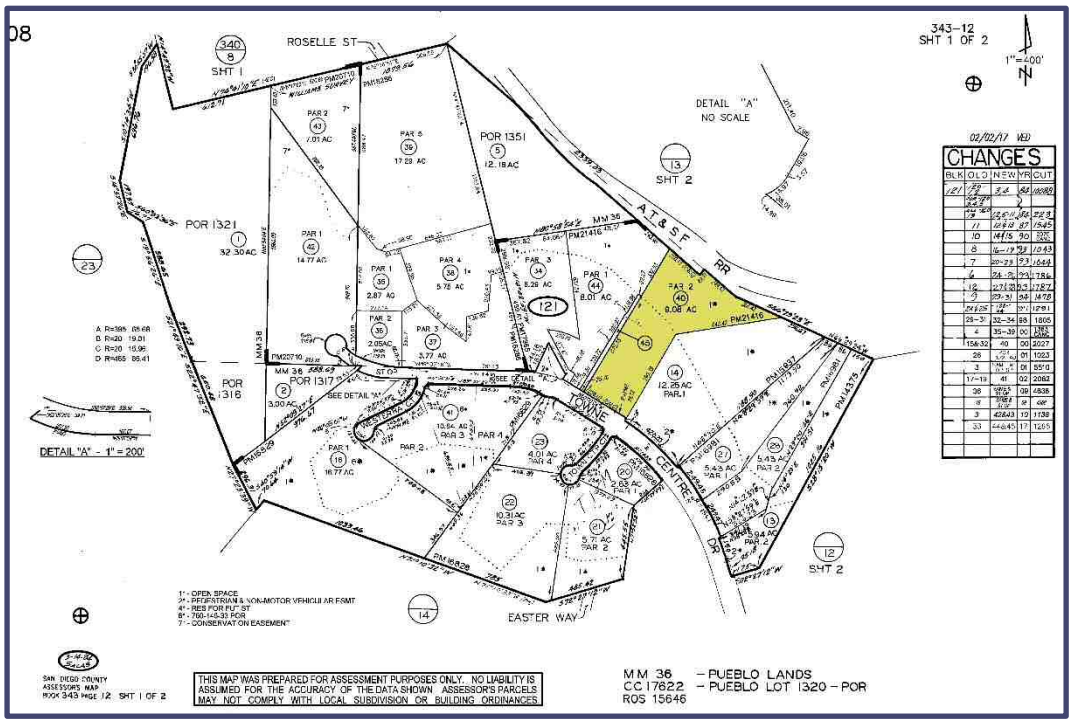
Assessor's data shows this parcel as 4.59 acres. The legal description on the deed shows the size as 5.931 acres, and we have used that size in our analysis.

Land Sale 4

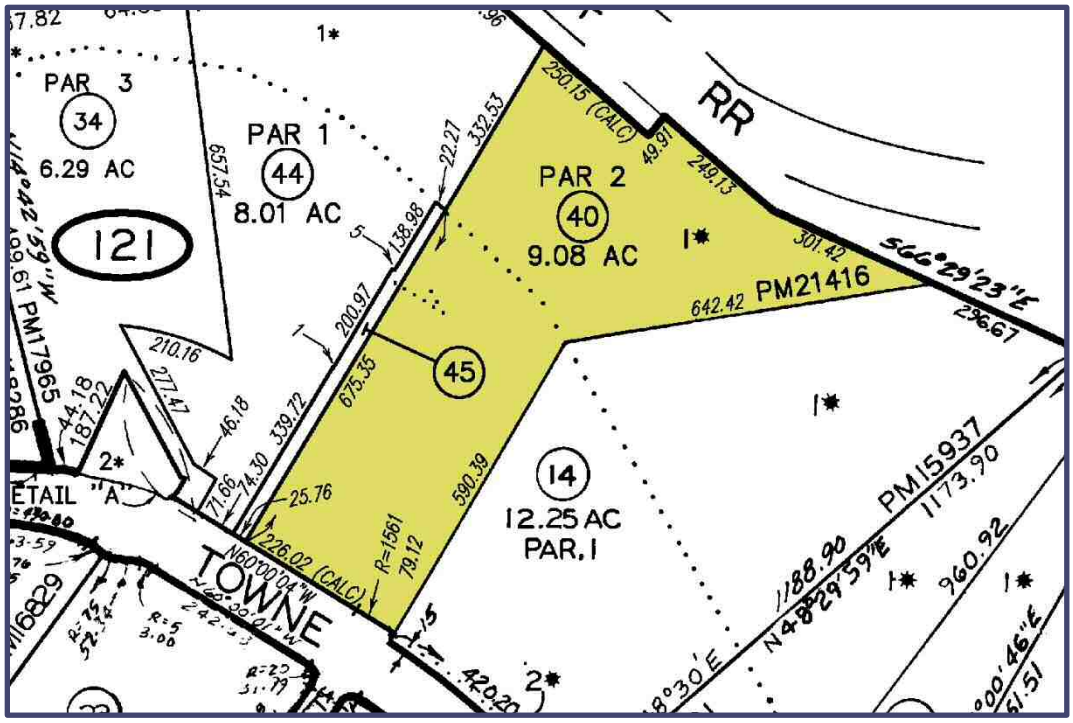

N86°35'06"E
749.81
156.76
R=1066.50
ST OP
84.18
N19°11'37"W
31
4.59 AC
30
3.57 AC
N89°15'55"E
1317.53
R=20
31.41
KEARNY VILLA RD
31.50.
S70°47'51"W
21
R=934
401.49
260.37
R=20
29.50
N19°12'21"W
331.27
S19°11'14"E
71.57
176.08
S6°39'05"W
164.23
G
H
J
K
L
M
N
P
Q
D
E
F

Land Sale 5

9779 Towne Centre Drive, San Diego, CA

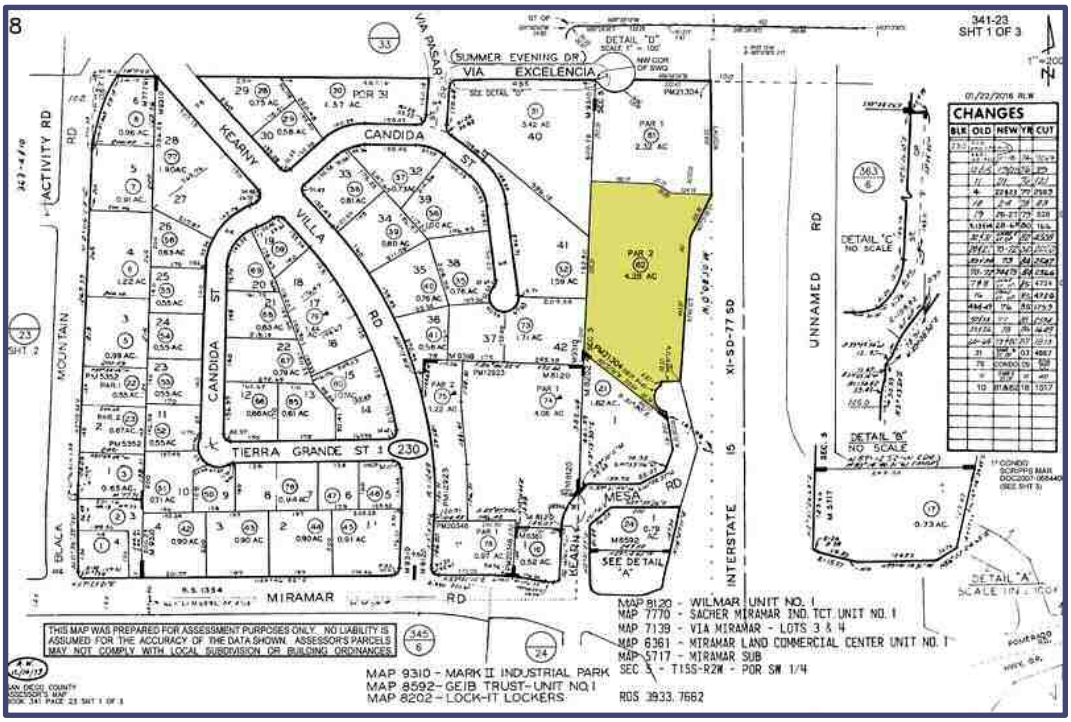


Land Sale 5

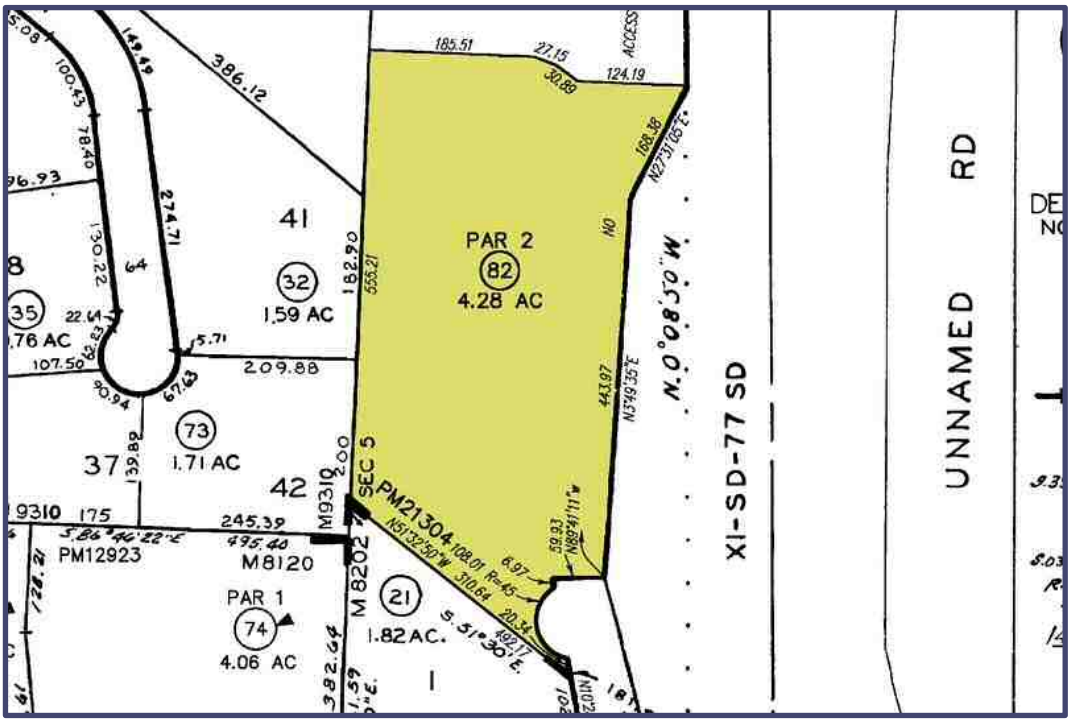

PAR 3
34
6.29 AC
PAR 1
44
8.01 AC
121
PAR 2
40
9.08 AC
45
14
12.25 AC
PAR. 1
RR
PM21416
PM15937
PM17965
TOWNE
DETAIL "A"
S66°29'23"E
N48°29'59"E
N60°00'04"W
250.15 (CALC)
226.02 (CALC)
R=1561
642.42
1188.90
1173.90
960.92
420.20
296.67
301.42
675.35
590.39
657.54
210.16
277.47
339.72
200.97
138.96
332.53
249.13
49.91
22.27
46.18
25.76
79.12
74.30
71.66
44.18
187.22

Land Comp 6 (Listing)

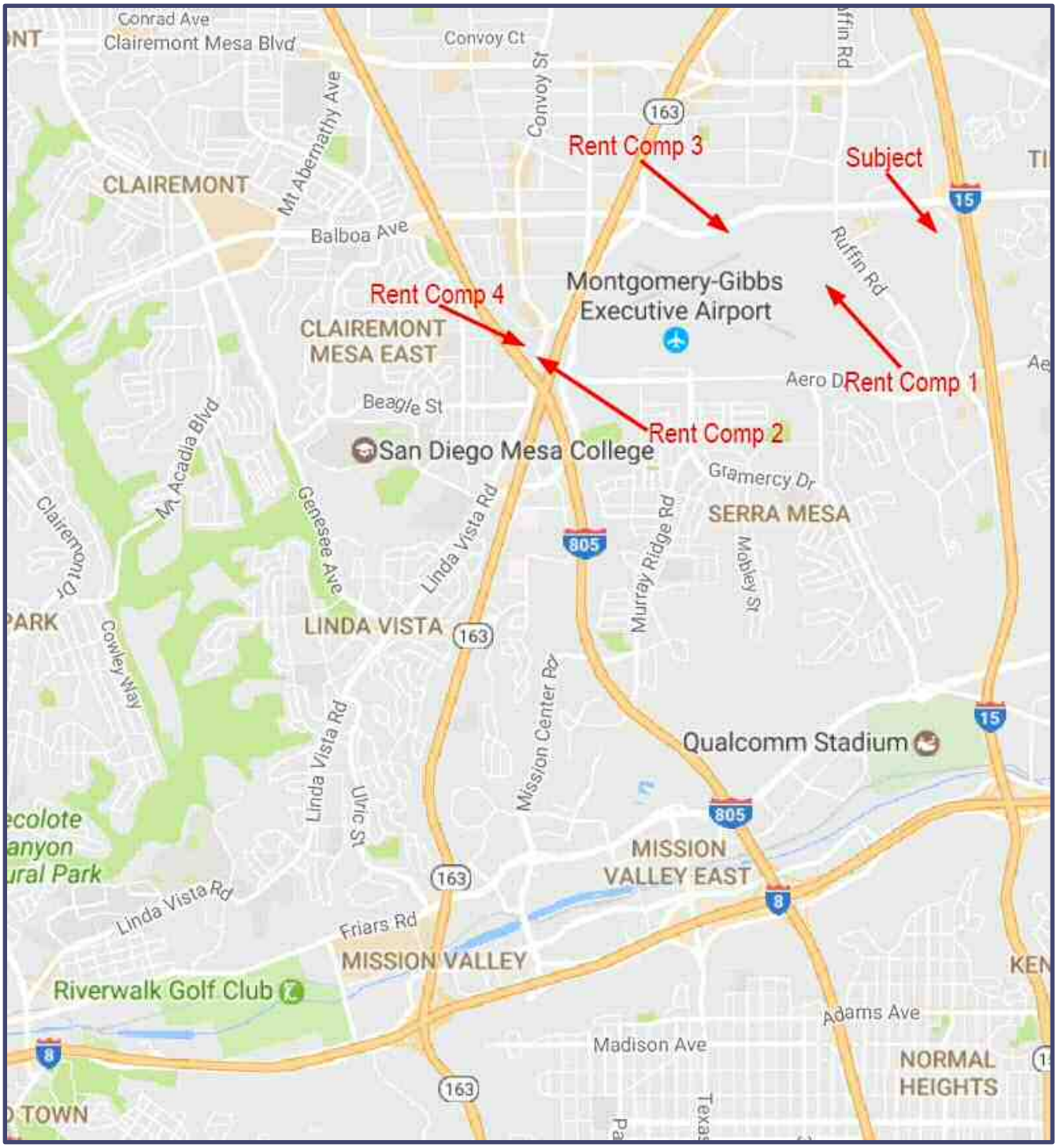
Kearny Mesa Road, San Diego, C



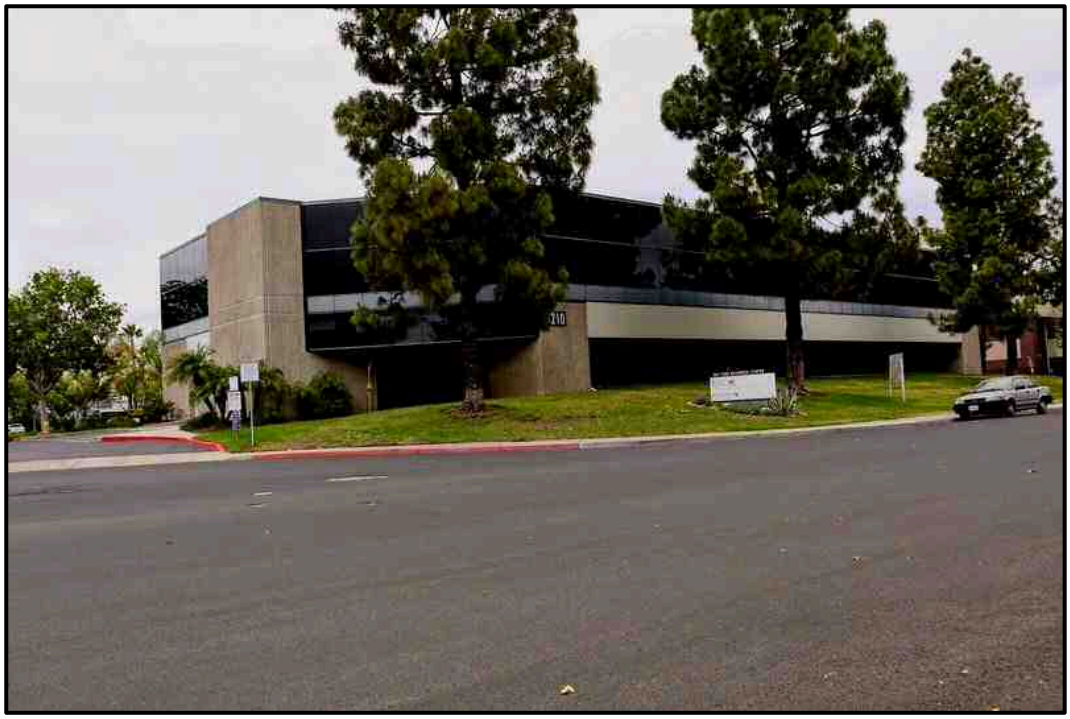
Land Comp 5 (Listing)



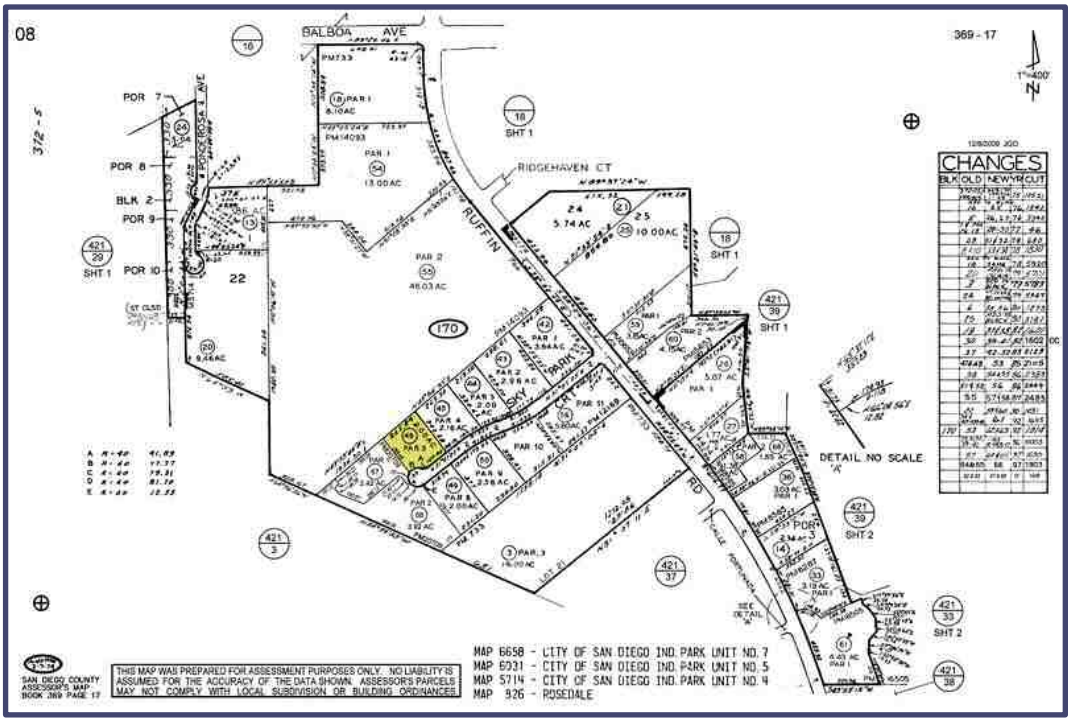
RENT COMPARABLES MAP



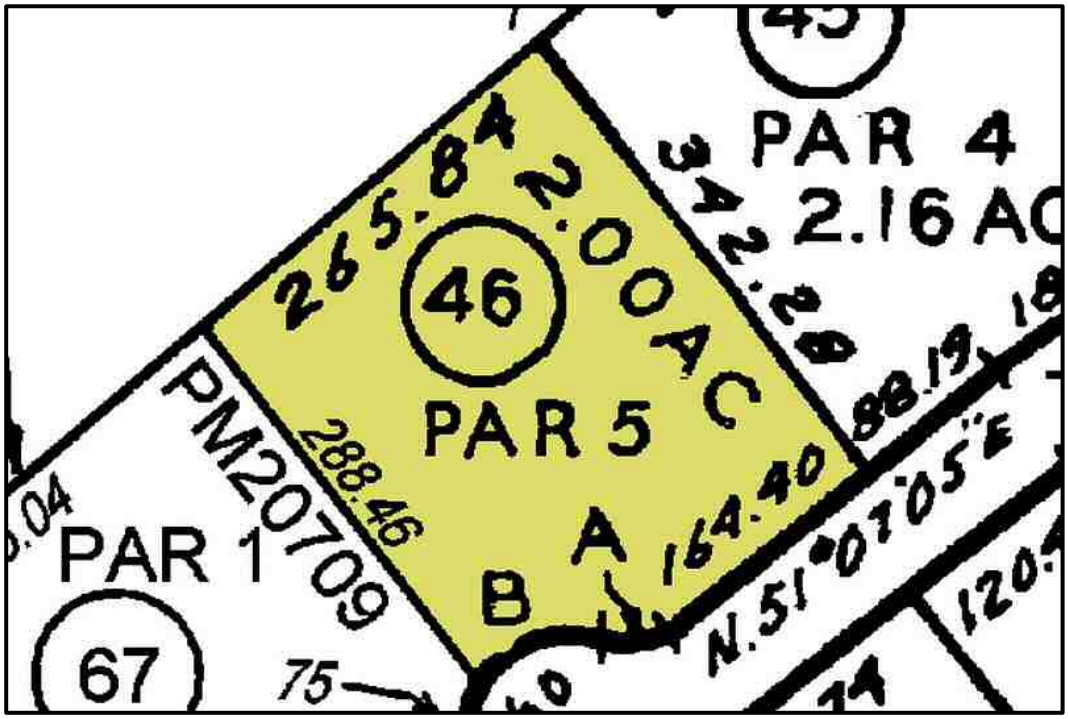
Rent Comparable 1



9210 Sky Park Court, San Diego, CA



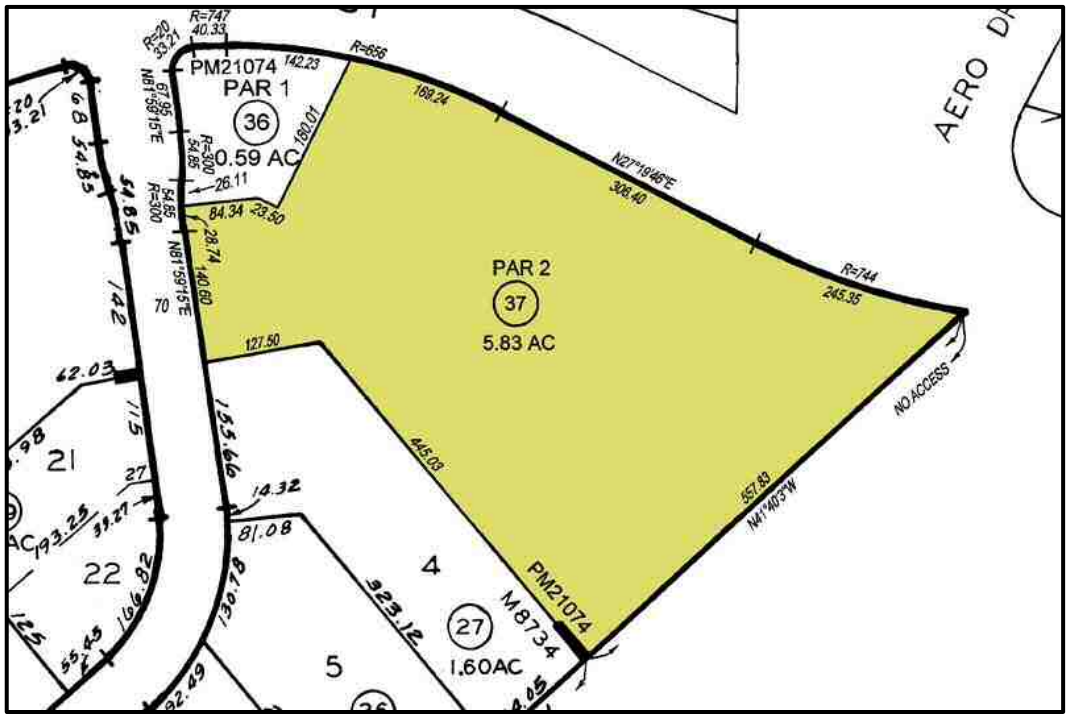
Rent Comparable 1



Rent Comparable 2

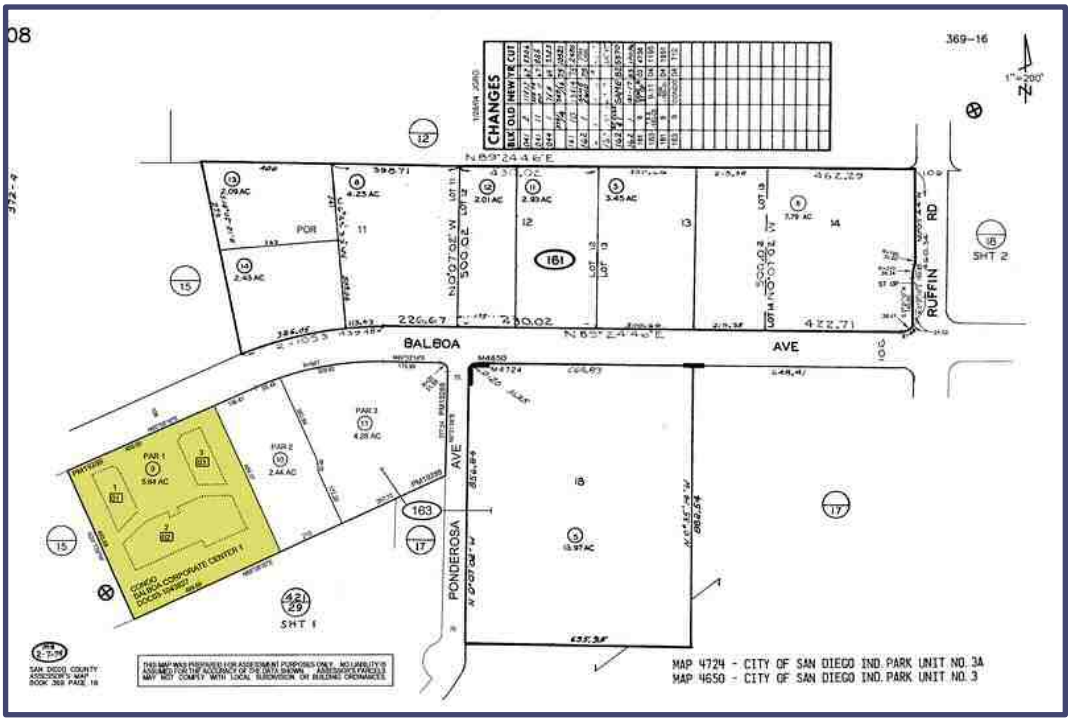
3750 Convoy Street, San Diego, CA

Rent Comparable 2

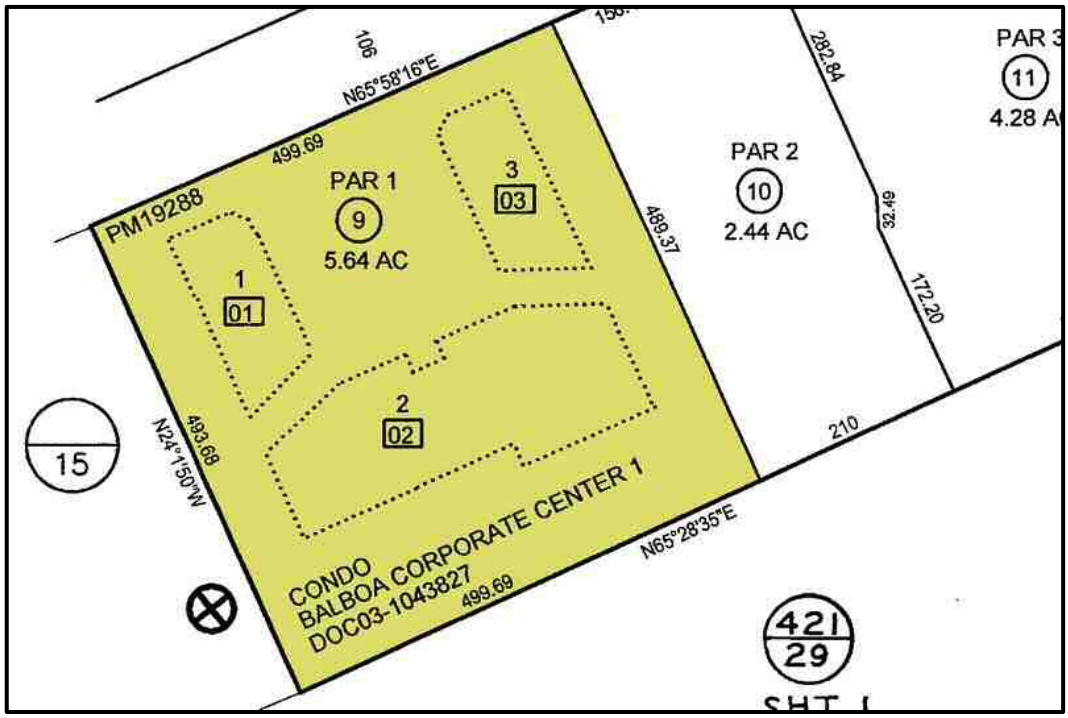


Rent Comparable 3

8965 Balboa Avenue, San Diego, CA



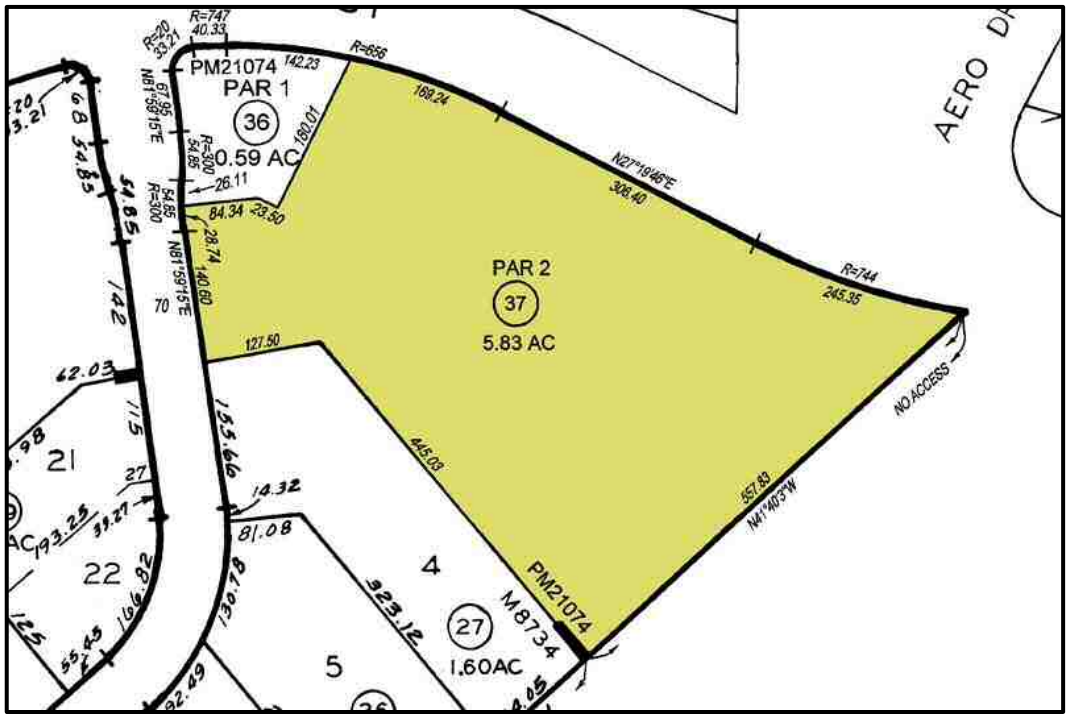
Rent Comparable 3



Rent Comparable 4

3760 Convoy Street, San Diego, CA

Rent Comparable 4



GENERAL ADDENDA

HENDRICKSON APPRAISAL COMPANY, INC.

Hendrickson Appraisal Company, Inc. is a midsized appraisal firm that was incorporated in 1986 to provide professional consultation on matters relating to valuation of real estate and real property. The firm specializes in valuation of commercial, industrial, entitled and unentitled vacant land, and subdivision properties.

Appraisers within the firm provide valuation consultation and expert witness testimony relating to several legal matters involving: eminent domain property acquisitions, estate matters, real property misrepresentation matters and partnership disputes, bankruptcy and foreclosure matters, and diminution of value matters involving construction defects, soils subsidence and hazardous waste issues. In addition to court testimony, arbitration and mediation services are provided to facilitate settlement on valuation issues, as appropriate.

The firm specializes in appraisal of office buildings, retail centers, industrial properties, restaurants, marinas, multi-use properties, special use properties, large entitled and unentitled vacant land holdings, many of which involve sensitive habitat issues, and residential subdivision and golf course oriented planned residential developments. Detailed sensitivity analysis, including discounted cash flow analysis on income producing properties (offices, retail and industrial) and multi-phased residential subdivision cash flow analysis, is a specialty area of the firm.

In addition to valuation of properties based upon their highest and best use as developed from market analysis, Hendrickson Appraisal Company, Inc. provides consulting services relating to alternative uses for various properties, under differing use scenarios.

Following is a summary of the organization of the company. Ted G. Hendrickson, MAI, the principal valuation expert within the firm has over 30 years of appraisal experience, primarily oriented toward commercial and subdivision appraising. He has extensive expert witness experience having testified many times in arbitration and court proceedings. Associate appraisers in the company are either MAI designated or advanced candidates for the MAI designation and are State of California Certified General appraisers. The average experience level of the firm's staff appraisers is 15 years, with primary emphasis on appraisal of all types of commercial properties, large land holdings and residential subdivisions at various densities.

QUALIFICATIONS

TED G. HENDRICKSON, MAI

APPRAISAL EXPERIENCE:

1986-Present: *Hendrickson Appraisal Company, Inc.*
President; Real estate appraiser, reviewer, consultant, analyst, and expert witness
Full range of Appraisal/Consulting services, including mediation and arbitration services
Right of Way Eminent Domain Valuation Specialist

1984-1986: *Independent Appraiser* specializing in appraisal and feasibility analysis of commercial, industrial, offices, multi-phased subdivisions and income properties.

1973-1983: *Home Federal*:

1973-1979: *Appraiser Analyst* specializing in appraisals of subdivisions, commercial, retail centers, office and industrial properties.

1979-1983: *Appraisal Dept. Manager*, Vice President. Responsible for reviewing and appraising commercial, residential, and industrial properties.

1970-1973: *California Department of Transportation*. Staff appraiser specializing in valuation of residential and commercial properties for right of way eminent domain purposes.

EDUCATION: Undergraduate and post graduate professional studies
California State University, Northridge - B.S. degree in Real Estate Finance
University of Southern California (Graduate School of Business)
University of Washington (Graduate School of Business)

Appraisal Institute Courses and Seminars: (Courses taken at various universities throughout the U.S.)

- Industrial Appraising
- Appraisal of Income Properties
- Investment Analysis
- Capitalization Theory
- Litigation Testimony
- Skills of Expert Testimony
- Real Estate Risk and Analysis
- Discounted Cash Flow Analysis
- Valuation of Partial Interests
- Subdivision Analysis and Feasibility
- Analysis of Money Market Rates
- Standards of Professional Practice
- Valuation of Easements
- Impact of Hazardous Substances on Real Estate
- Highest and Best Use Analysis
- Market Land Use Analysis
- Financial Forecasting
- Environmental and Biological Issues
- Cost Analysis
- Master Planned Communities/Land Planning
- Mitigation Land Analysis
- Standards for Federal Lands Acquisitions (USFLA)
- Valuation of Lease Interests
- Eminent Domain Law

PROFESSIONAL: Membership and Service

MAI Designation (#6603) with the Appraisal Institute
California Certified General Appraiser (AG004974)
California Real Estate Broker's License (#530471)
Member of the International Right of Way Association (#1148112)
Chairman and member of several Appraisal Institute committees
Past President of the San Diego Chapter of the Appraisal Institute

COURT EXPERIENCE: Qualified Expert Witness

Testified in California State Superior Court and U.S. Federal Court
Testified in Arbitration and Mediation Proceedings - government agencies and private corporations

QUALIFICATIONS

EDWARD A. BEAVER

APPRAISAL EXPERIENCE:

1987-Present Associate Appraiser, Hendrickson Appraisal Company, Inc.

Residential: Appraisal of all types of residential properties ranging from senior citizen condominiums to large custom estate properties, both existing and proposed. Appraisal of all types of residential properties for public acquisition under eminent domain law including full and partial fee acquisitions, permanent and temporary easement acquisitions and analysis of just compensation for severance damages and benefits.

Income property: Appraisal of large residential income properties, multi-phased planned industrial park properties, vacant land intended for multi-unit residential properties, improved industrial properties, commercial/retail properties, proposed residential subdivision properties and appraisal of leasehold interests. Appraisal of complex commercial and residential income properties for public acquisition under eminent domain law including full and partial fee acquisitions, permanent and temporary easement acquisitions and analysis of just compensation for severance damages and benefits.

Experience includes giving sworn testimony during arbitration proceedings.

PROFESSIONAL:

Practicing Affiliate in the Appraisal Institute.
State of California Certified General Appraiser #AG009555.

EDUCATION:

Elmhurst College, Elmhurst, Illinois – B.S. degree in Mathematics.

National University, San Diego, California – MBA degree with emphasis in Computer Management.

Appraisal Institute Courses/Seminars

Basic Valuation Procedures
Standards of Professional Practice A
Standards of Professional Practice B
Capitalization Theory and Techniques A
Capitalization Theory and Techniques B
Case Studies in Real Estate Valuation
Appraising from Blueprints and Specs
Planning and Land Use
Apartment Valuations
Appraisal Regulations of Federal Banking Agencies
OREA Laws and Regulations
Applying Economic Forecasts
Environmental Risk and Analysis
Property Profile of Operating Expenses
Master Planned Communities
Easement Valuation
Expert Witness Testimony
Leasehold Analysis
Eminent Domain Law
Litigation Valuation
7 Hour National USPAP Update
Uniform Appraisal Standards for Federal Land Acq.
Real Estate Finance Statistics and Valuation Modeling
Operating Expense Seminar
Supporting Capitalization Rates
Appraisal Applications of Regression Analysis
Stats and Graphs 1
Review Theory – General