VALUATION REPORT

JESSIE SQUARE AIRSPACE PARCEL
Mission Street
San Francisco, San Francisco County, California 94103
CBRE, Inc. File No. 13-231SF-0637-A

Tiffany Bohee
Executive Director
SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY AND
COUNTY OF SAN FRANCISCO, A PUBLIC
BODY, CORPORATE AND POLITIC
One Van Ness Avenue, 5th Floor
San Francisco, California 94103
June 12, 2013

Tiffany Bohee
Executive Director
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO, A PUBLIC BODY, CORPORATE AND POLITIC
One Van Ness Avenue, 5th Floor
San Francisco, California 94103

RE: Appraisal of Jessie Square Airspace Parcel
Mission Street
San Francisco, San Francisco County, California
CBRE, Inc. File No 13-231SF-0637-A

Dear Ms. Bohee:

At your request and authorization, CBRE, Inc. has prepared an appraisal of the market value of the referenced property. Our analysis is presented in the following Self-Contained Appraisal Report.

This appraisal report serves as an addendum to a prior appraisal prepared by CBRE on June 11, 2013. The previous CBRE file # is 13-231SF-0637.

The subject is a 3,690 square foot airspace parcel that is located above Jessie Square in the City of San Francisco, California. Jessie Square is a public plaza that is located on the north side of Mission Street, between Third and Fourth Streets. The subject is part of Assessor Block and Lot Number 3706-277, which is owned by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco. A portion of Assessor Block and Lot Number 3706-277 (known as parcel CB-1-MM) is proposed for development by an adjacent land owner (706 Mission Street Co., LLC) for a 43-story residential condominium project built over the Mexican Museum and supporting retail space. 706 Mission Street Co., LLC is pursing entitlements for this new project to include the subject airspace as part of the Mexican Museum proposed area.

The proposed tower will be adjacent to and physically connected to the existing 10-story Aronson Building, which is located at 700-706 Mission Street. The project will consist of 190 residential condominium units built over four floors occupied by the Mexican Museum with supporting ground level retail space. Floors two, three, and four of the Mexican Museum will cantilever over the Jessie Square Public Plaza into the airspace parcel, which is the subject of this report. The subject airspace parcel starts 12 feet and 8 inches above the ground. The dimensions of the subject are approximately
as follows: 123 feet long, 35 feet (3 stories) high, and 10 feet wide. This translates to an approximate volume of 43,050 cubic feet and an approximate square footage of 3,690 square feet.

The subject air space parcel is situated above Jessie Square. The prior appraisal prepared by CBRE on June 11, 2013, was based on the hypothetical condition that Jessie Square is deed restricted to be utilized as publically accessible open space. According to the owner (The Successor Agency to the Redevelopment Agency of the City and County of San Francisco), the deed restriction placed upon Jessie Square will allow for development of the subject airspace as a cultural facility as part of the adjacent proposed mixed-use, museum/residential project.

Based on the analysis contained in the following report, the market value of the subject is concluded as follows:

<table>
<thead>
<tr>
<th>MARKET VALUE CONCLUSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Premise</td>
</tr>
<tr>
<td>Hypothetical</td>
</tr>
</tbody>
</table>

Compiled by CBRE

Data, information, and calculations leading to the value conclusion are incorporated in the report following this letter. The report, in its entirety, including all assumptions and limiting conditions, is an integral part of, and inseparable from, this letter.

The following appraisal sets forth the most pertinent data gathered, the techniques employed, and the reasoning leading to the opinion of value. The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, our interpretation of the guidelines and recommendations set forth in the Uniform Standards of Professional Appraisal Practice (USPAP), the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. It also conforms to Title XI Regulations and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) updated in 1994 and further updated by the Interagency Appraisal and Evaluation Guidelines promulgated in 2010.

The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to non-client, non-intended users does not extend reliance to any other party and CBRE will not be responsible for unauthorized use of the report, its conclusions or contents used partially or in its entirety.

It has been a pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if CBRE, Inc. can be of further service, please contact us.
Respectfully submitted,

CBRE, Inc. - VALUATION & ADVISORY SERVICES

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Appraiser  
California Trainee License No. AT043226  
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Phone: (415)-986-1548  
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Email: Stan.Wolf@cbre.com

Elizabeth Champagne, MAI, MRICS  
Senior Managing Director  
CA Certification No. AG025144  
Phone: (415)-986-7395  
Fax: (415)-986-6862  
Email: Elizabeth.Champagne@cbre.com
CERTIFICATION OF THE APPRAISAL

We certify 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 or bias with respect to the property that is the subject of this report and have no personal interest in or bias with respect to the parties involved with this assignment.

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

5. 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.

6. This appraisal assignment was not based upon a requested minimum valuation, a specific valuation, or the approval of a loan.

7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as well as the requirements of the State of CA.

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

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

10. As of the date of this report, Stan E. Wolf, MAI and Elizabeth Champagne, MAI, MRICS have completed the continuing education program of the Appraisal Institute.

11. Thomas Corry, Stan E. Wolf, MAI, and Elizabeth Champagne, MAI, MRICS have made a personal inspection of the property that is the subject of this report.

12. No one provided significant real property appraisal assistance to the persons signing this report.

13. Valuation & Advisory Services operates as an independent economic entity within CBRE. Although employees of other CBRE divisions may be contacted as a part of our routine market research investigations, absolute client confidentiality and privacy were maintained at all times with regard to this assignment without conflict of interest.

14. Thomas Corry, Stan E. Wolf, MAI and Elizabeth Champagne, MAI, MRICS have not provided any services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
Thomas Corry  
California License No. AT043226

Elizabeth Champagne, MAI, MRICS
CA Certification No. AG025144

Stan E. Wolf, MAI  
California Certification No. AG044533
VIEW OF JESSIE SQUARE PLAZA AND SUBJECT AIRSPACE LOOKING NORTH
(JEISH MUSEUM IN BACKGROUND)

VIEW OF JESSIE SQUARE PLAZA AND SUBJECT AIRSPACE LOOKING SOUTHEAST
VIEW OF JESSIE SQUARE PLAZA AND SUBJECT AIRSPACE LOOKING NORTHEAST

VIEW OF PARCEL CB-1-MM (PROPOSED DEVELOPMENT SITE) LOOKING NORTH
VIEW OF MISSION STREET LOOKING WEST

VIEW OF MISSION STREET LOOKING EAST
SUMMARY OF SALIENT FACTS

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Jessie Square Airspace Parcel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Mission Street, San Francisco, San Francisco County, California 94103</td>
</tr>
<tr>
<td>Assessor’s Parcel Number</td>
<td>3706-277</td>
</tr>
<tr>
<td>Highest and Best Use As If Vacant</td>
<td>Assemblage with the adjacent property for development of a cultural facility as part of the adjacent proposed mixed-use, museum/residential project.</td>
</tr>
<tr>
<td>Property Rights Appraised</td>
<td>Fee Simple Estate</td>
</tr>
<tr>
<td>Airspace Area</td>
<td>0.08 AC 3,690 SF</td>
</tr>
<tr>
<td>Estimated Exposure/Marketing Time</td>
<td>12 Months</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VALUATION</th>
<th>Total</th>
<th>Per SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airspace Value</td>
<td>$90,000</td>
<td>$24.39</td>
</tr>
</tbody>
</table>

CONCLUDED MARKET VALUE

<table>
<thead>
<tr>
<th>Appraisal Premise</th>
<th>Interest Appraised</th>
<th>Date of Value</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothetical</td>
<td>Fee Simple Estate</td>
<td>April 30, 2013</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

EXTRAORDINARY ASSUMPTIONS

An extraordinary assumption is defined as “an assumption directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis.” ¹

- None noted

HYPOTHETICAL CONDITIONS

A hypothetical condition is defined as “that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions 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.” ²

- It is a hypothetical condition that the subject air space is deed restricted to be utilized as a cultural facility as part of the adjacent proposed mixed-use, museum/residential project.

¹ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 73.
² Dictionary of Real Estate Appraisal, 97.
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B  Qualifications
INTRODUCTION

PROPERTY IDENTIFICATION

The subject is a 3,690 square foot airspace parcel that is located above Jessie Square in the City of San Francisco, California. Jessie Square is a public plaza that is located on the north side of Mission Street, between Third and Fourth Streets. The subject is part of Assessor Block and Lot Number 3706-277, which is owned by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco. A portion of Assessor Block and Lot Number 3706-277 (known as parcel CB-1-MM) is proposed for development by an adjacent land owner (706 Mission Street Co., LLC) for a 43-story residential condominium project built over the Mexican Museum and supporting retail space. 706 Mission Street Co., LLC is pursuing entitlements for this new project to include the subject airspace as part of the Mexican Museum proposed area.

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The subject airspace parcel is situated above Jessie Square. The prior appraisal prepared by CBRE on June 11, 2013, was based on the hypothetical condition that Jessie Square is deed restricted to be utilized as publically accessible open space. According to the owner (The Successor Agency to the Redevelopment Agency of the City and County of San Francisco), the deed restriction placed upon Jessie Square will allow for development of the subject airspace as a cultural facility as part of the adjacent proposed mixed-use, museum/residential project.

OWNERSHIP AND PROPERTY HISTORY

The subject property is owned by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco. The subject site was previously part of the Yerba Buena Center (YBC) Redevelopment Project Area, which covered all or parts of 13 city blocks in an area generally bounded by Market Street on the north, Second Street on the east, Harrison Street on the south, and Fourth Street on the west. On February 1, 2012, the San Francisco Redevelopment Agency was dissolved pursuant to AB 26, approved by the Governor of California in June 2011 and the December 2011 decision of the California Supreme Court upholding AB 26. In its place, the City and County of San Francisco, as the successor agency to the San Francisco Redevelopment Agency (Successor Agency), assumed all responsibilities and obligations of the San Francisco Redevelopment
Agency, and has established an Oversight Board to exercise enforceable obligations for the former YBC Redevelopment Project Area. There are no other listings, options, or agreements of sale affecting the subject property within the past three years.

The project sponsor is 706 Mission Street Co., LLC, in partnership with the Successor Agency. 706 Mission Street Co., LLC owns the adjacent property to the east of the subject (Block and Lot No. 3706-093), which is proposed for development in conjunction with a portion of Block and Lot No. 3706-277. The project sponsor entered into an Exclusive Negotiation Agreement (ENA) with the San Francisco Redevelopment Agency on May 4, 2010, which provides information regarding the terms of the real estate transactions between the project sponsor and the Successor Agency related to this project proposal.

The Successor Agency would convey the subject airspace parcel to the project sponsor under the terms of the ENA.

**PREMISE OF THE APPRAISAL**

The following table illustrates the various dates associated with the valuation of the subject, the valuation premise(s) and the rights appraised for each premise/date:

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>Interest Appraised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Report:</td>
<td>June 12, 2013</td>
<td></td>
</tr>
<tr>
<td>Date of Inspection:</td>
<td>April 30, 2013</td>
<td></td>
</tr>
<tr>
<td>Date of Value Hypothetical:</td>
<td>April 30, 2013</td>
<td>Fee Simple Estate</td>
</tr>
</tbody>
</table>

**PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to estimate the market value of the subject property. The current economic definition of market value agreed upon by agencies that regulate federal financial institutions in the U.S. (and used herein) is as follows:

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

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

INTENDED USE OF REPORT

This appraisal is to be used for internal decision making purposes, and no other use is permitted.

INTENDED USER OF REPORT

This appraisal is to be used by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, a public body, corporate and politic, and no other user may rely on our report unless as specifically indicated in the report.

Intended Users - the intended user is the person (or entity) who the appraiser intends will use the results of the appraisal. The client may provide the appraiser with information about other potential users of the appraisal, but the appraiser ultimately determines who the appropriate users are given the appraisal problem to be solved. Identifying the intended users is necessary so that the appraiser can report the opinions and conclusions developed in the appraisal in a manner that is clear and understandable to the intended users. Parties who receive or might receive a copy of the appraisal are not necessarily intended users. The appraiser’s responsibility is to the intended users identified in the report, not to all readers of the appraisal report.

SCOPE OF WORK

The scope of the assignment relates to the extent and manner in which research is conducted, data is gathered and analysis is applied, all based upon the following problem-identifying factors stated elsewhere in this report:

- Client
- Intended use
- Intended user
- Type of opinion
- Effective date of opinion
- Relevant characteristics about the subject
- Assignment conditions

This appraisal of the subject has been presented in the form of a Self-Contained Appraisal Report, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of USPAP. That is, this report incorporates, to the fullest extent possible, practical explanation of the

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3 Office of Comptroller of the Currency (OCC), 12 CFR Part 34, Subpart C – Appraisals, 34.42 (g); Office of Thrift Supervision (OTS), 12 CFR 564.2 (g); Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 122-123. This is also compatible with the RTC, FDIC, FRS and NCUA definitions of market value as well as the updated Interagency Appraisal and Evaluation Guidelines promulgated in 2010.

data, reasoning and analysis that were used to develop the opinion of value. This report also includes thorough descriptions of the subject and the market for the property type. CBRE, Inc. completed the following steps for this assignment:

**Data Resources Utilized in the Analysis**

<table>
<thead>
<tr>
<th>RESOURCE VERIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Data</td>
</tr>
<tr>
<td>Airspace Area</td>
</tr>
<tr>
<td>Source(s)/Verification:</td>
</tr>
<tr>
<td>Compiled by CBRE</td>
</tr>
</tbody>
</table>

**Extent to Which the Property is Identified**

CBRE, Inc. collected the relevant information about the subject from the owner (or representatives), public records and through an inspection of the subject property. The property was legally identified through the following sources:

- postal address
- assessor’s records
- legal description
- environmental impact report (EIR)
- title report

**Extent to Which the Property is Inspected**

CBRE, Inc. inspected the subject and its surrounding environs on the effective date of appraisal.

**Type and Extent of the Data Researched**

CBRE, Inc. reviewed the micro and/or macro market environments with respect to physical and economic factors relevant to the valuation process. This process included interviews with regional and/or local market participants, available published data, and other various resources. CBRE, Inc. also conducted regional and/or local research with respect to the following:

- applicable tax data
- zoning requirements
- flood zone status
- demographics
- comparable data

**Type and Extent of Analysis Applied**

CBRE, Inc. analyzed the data gathered through the use of appropriate and accepted appraisal methodology to arrive at a probable value indication via each applicable approach to value. The steps required to complete each approach are discussed in the methodology section.
EXPOSURE/MARKETING TIME

The reasonable exposure period is a function of price, time, and use. It is not an isolated estimate of time alone. Exposure time is different for various types of real estate and under various market conditions.

Exposure time is the estimated length of time the property would have been offered prior to a hypothetical market value sale on the effective date of appraisal. It is a retrospective estimate based on an analysis of recent past events, assuming a competitive and open market. It assumes not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable marketing effort. Exposure time is therefore interrelated with appraisal conclusion of value.

The subject is unique as it represents airspace, which infrequently transfers. Based on the available information, an exposure time of 12 months is estimated for the subject property.
SAN FRANCISCO BAY AREA

Geography

The San Francisco Bay Area consists of the nine counties including San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Solano, Napa, Sonoma, and Marin, situated on the perimeter of San Francisco Bay and San Pablo Bay.

The large land area and highly diversified physical features of the Bay Area support a wide range of land uses. Land uses range from large agricultural areas to major urban centers, and environments range from mountain to marine. The mild climate of the Bay Area has played an important role in development and contributes to a desirable living environment.
Population Trends

The estimated population of the nine counties that make up the Bay Area is presented in the following table.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda County</td>
<td>1,443,741</td>
<td>1,505,300</td>
<td>1,549,800</td>
<td>1,626,100</td>
<td>1,705,900</td>
<td>1,787,300</td>
<td>1,874,600</td>
<td>1,966,300</td>
</tr>
<tr>
<td>Contra Costa County</td>
<td>948,816</td>
<td>1,023,400</td>
<td>1,090,300</td>
<td>1,130,700</td>
<td>1,177,400</td>
<td>1,225,500</td>
<td>1,273,700</td>
<td>1,322,900</td>
</tr>
<tr>
<td>Marin County</td>
<td>247,289</td>
<td>252,600</td>
<td>256,500</td>
<td>260,300</td>
<td>264,000</td>
<td>267,300</td>
<td>270,900</td>
<td>274,300</td>
</tr>
<tr>
<td>Napa County</td>
<td>124,279</td>
<td>133,700</td>
<td>138,800</td>
<td>142,300</td>
<td>144,600</td>
<td>146,300</td>
<td>147,500</td>
<td>148,800</td>
</tr>
<tr>
<td>San Francisco County</td>
<td>776,733</td>
<td>795,800</td>
<td>810,000</td>
<td>837,500</td>
<td>867,100</td>
<td>900,500</td>
<td>934,800</td>
<td>969,000</td>
</tr>
<tr>
<td>San Mateo County</td>
<td>707,163</td>
<td>721,900</td>
<td>733,300</td>
<td>766,900</td>
<td>801,300</td>
<td>832,400</td>
<td>862,800</td>
<td>893,000</td>
</tr>
<tr>
<td>Santa Clara County</td>
<td>1,692,585</td>
<td>1,763,000</td>
<td>1,822,000</td>
<td>1,945,300</td>
<td>2,043,100</td>
<td>2,185,800</td>
<td>2,310,800</td>
<td>2,431,400</td>
</tr>
<tr>
<td>Solano County</td>
<td>394,542</td>
<td>421,600</td>
<td>443,100</td>
<td>458,500</td>
<td>472,100</td>
<td>484,600</td>
<td>495,800</td>
<td>506,500</td>
</tr>
<tr>
<td>Sonoma County</td>
<td>458,614</td>
<td>479,200</td>
<td>497,900</td>
<td>509,900</td>
<td>522,500</td>
<td>535,200</td>
<td>548,400</td>
<td>561,500</td>
</tr>
<tr>
<td>Region (Total)</td>
<td>6,783,762</td>
<td>7,096,500</td>
<td>7,341,700</td>
<td>7,677,500</td>
<td>8,018,000</td>
<td>8,364,900</td>
<td>8,719,300</td>
<td>9,073,700</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009

During the 1960s and 1970s, the regional population grew at an average annualized rate of 1.9%. During the 1980s, the population grew by approximately 1.4% per year. Population growth during the period from 2010 through 2020 is projected at approximately 0.9% annually. The slowing in the rate of population growth reflects the diminishing supply of available land and the high cost of housing in the area. By 2035, the Bay Area’s population is forecasted to grow by approximately 23.6% over 2010 figures, or by about 1.73 million residents, for a total population of about 9.07 million people. Nearly 75% of this growth is projected to occur in Santa Clara, Alameda, and Contra Costa counties. ABAG projects that these three counties will remain the most populous in the region over the next two decades.

Economic Overview

The San Francisco MSA, which encompasses the Counties of San Francisco, San Mateo, and Marin, is the nation’s fourth largest metropolitan area. San Francisco is a main financial and business center in the western United States.

Beginning in late-1994 and early-1995, the strengthening high technology and computer-related industries located in the southern Bay Area began to lead the state out of its deep recession. In the second half of the 1990s, the local economy was driven by the growth in technology, particularly Internet, software, and other computer-related technology ventures. The technological advances during the mid- to late-1990s, coupled with a strong stock market and nearly limitless availability of capital provided an environment for surging employment growth, real estate values, and overall prosperity in the region. The explosion of the so-called dot.com industry, funded primarily from venture capital, fueled an economic boom in Bay Area in the late 1990’s and early 2000 of unprecedented proportion. As a result, every aspect of the real estate market experienced huge gains. Commercial and industrial vacancy rates became almost non-existent while lease rates doubled in some instances during this period. While sale prices never matched the increase in rents, there was
significant appreciation of commercial and industrial property sales prices. Apartment availability also became extremely tight with rents climbing 30% to 40%. Home prices surged, and appreciation was in the neighborhood of 25% to 35% in this short time period.

In March 2001 the tech-heavy NASDAQ declined significantly, followed by declines in the entire stock market. This trend continued further into 2001. The stock market downturn was compounded by the September 11, 2001 terrorist attacks and both the national and local economies contracted. Technology based companies were particularly impacted. The Bay Area, which is generally regarded as being top-heavy in the technology sector, suffered considerably. Many of the newer and more financially sensitive companies were put out of business, while the larger and more established companies, such as Cisco Systems, Hewlett-Packard and Oracle, had significant layoffs. A recovery started to take place in late 2004, and continued to build throughout early 2007, with historically low interest rates that helped the economy recover much more rapidly than in previous downturns.

The financial crisis that erupted in the summer of 2008 has lead to increases in the unemployment rate, declines in consumer and business spending, declines in the stock market, and significant softening in residential and commercial real estate.

**Employment Growth by Sector:** ABAG tracks employment by industry. In the Bay Area region, the industries with the highest percentage of jobs are the health, education and recreational service sector; followed by the financial and professional service sector. The following table summarizes historical and projected job data by industry for the region.

<table>
<thead>
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<tbody>
<tr>
<td>Agric. / Nat. Resources</td>
<td>24,470</td>
<td>24,170</td>
<td>24,520</td>
<td>24,870</td>
<td>25,070</td>
<td>25,270</td>
<td>25,470</td>
<td>25,490</td>
</tr>
<tr>
<td>Manuf., Wholesale &amp; Transp.</td>
<td>863,420</td>
<td>711,380</td>
<td>717,180</td>
<td>763,680</td>
<td>819,010</td>
<td>861,170</td>
<td>913,960</td>
<td>967,530</td>
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<tr>
<td>Retail</td>
<td>402,670</td>
<td>367,180</td>
<td>347,400</td>
<td>370,880</td>
<td>399,950</td>
<td>453,870</td>
<td>491,310</td>
<td>529,530</td>
</tr>
<tr>
<td>Financial &amp; Professional Service</td>
<td>851,610</td>
<td>780,260</td>
<td>766,860</td>
<td>824,190</td>
<td>893,550</td>
<td>990,840</td>
<td>1,076,540</td>
<td>1,166,260</td>
</tr>
<tr>
<td>Health, Edu. &amp; Rec. Service</td>
<td>1,056,030</td>
<td>1,053,510</td>
<td>1,120,700</td>
<td>1,216,120</td>
<td>1,322,650</td>
<td>1,403,080</td>
<td>1,529,930</td>
<td>1,659,740</td>
</tr>
<tr>
<td>Other</td>
<td>555,260</td>
<td>513,240</td>
<td>499,180</td>
<td>534,850</td>
<td>580,460</td>
<td>645,670</td>
<td>701,520</td>
<td>758,840</td>
</tr>
<tr>
<td>Total</td>
<td>3,753,460</td>
<td>3,449,740</td>
<td>3,475,840</td>
<td>3,734,590</td>
<td>4,040,690</td>
<td>4,379,900</td>
<td>4,738,730</td>
<td>5,107,390</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009

From 1990 to 2000, some sectors showed declines or very slight growth, reflecting the recession of the early-1990s. During the period from 1995 to 2000, there was a 14.3% increase in total employment, led by services, construction, and manufacturing. Only the government sector declined in employment during that period. The Bay Area region had a decline in employment between 2000 and 2005 due to soft economic conditions. Employment is projected to increase nominally between 2005 and 2010, with stronger growth anticipated between 2010 and 2015.

**Location of Employment Within the Region:** The region’s economy grew rapidly during the 1980s and, as a result of this growth, coupled with the density of development in San Francisco County, the surrounding counties experienced a marked increase in development. In particular, San Mateo County, which is on the San Francisco Peninsula directly south of San Francisco, experienced a
significant gain in office construction, and has become the primary suburban office market serving San Francisco. Further south, Santa Clara County achieved the largest economic growth of the region through the expansion of high technology industries. The East Bay counties of Contra Costa and Alameda also experienced significant growth, primarily through new residential and supporting commercial development.

Over the period from 2010 to 2035, Santa Clara County is expected to be the leader in jobs created, adding 506,350 jobs, or 31% of the new job totals during the period. The East Bay counties of Alameda and Contra Costa are projected to be strong creators of jobs as well. From 2010 to 2035, projected job growth the Alameda and Contra Costa Counties is expected to represent a total of 31% of the projected job growth.

**Household Income**

The following table summarizes mean household incomes for the Bay Area counties.

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</tr>
</thead>
<tbody>
<tr>
<td>Alameda County</td>
<td>$89,400</td>
<td>$88,800</td>
<td>$91,200</td>
<td>$98,300</td>
<td>$101,600</td>
<td>$107,200</td>
<td>$113,100</td>
<td>$119,400</td>
<td>34.5%</td>
</tr>
<tr>
<td>Contra Costa County</td>
<td>$100,500</td>
<td>$98,400</td>
<td>$102,000</td>
<td>$107,500</td>
<td>$113,500</td>
<td>$119,700</td>
<td>$126,200</td>
<td>$133,200</td>
<td>35.4%</td>
</tr>
<tr>
<td>Marin County</td>
<td>$126,500</td>
<td>$121,600</td>
<td>$127,200</td>
<td>$134,100</td>
<td>$141,600</td>
<td>$148,900</td>
<td>$157,700</td>
<td>$166,300</td>
<td>36.8%</td>
</tr>
<tr>
<td>Napa County</td>
<td>$85,600</td>
<td>$85,900</td>
<td>$94,500</td>
<td>$99,800</td>
<td>$105,300</td>
<td>$111,100</td>
<td>$117,200</td>
<td>$122,400</td>
<td>36.4%</td>
</tr>
<tr>
<td>San Francisco County</td>
<td>$98,300</td>
<td>$97,400</td>
<td>$102,200</td>
<td>$107,900</td>
<td>$113,500</td>
<td>$119,700</td>
<td>$126,200</td>
<td>$133,200</td>
<td>37.2%</td>
</tr>
<tr>
<td>San Mateo County</td>
<td>$118,400</td>
<td>$121,700</td>
<td>$123,300</td>
<td>$130,200</td>
<td>$137,300</td>
<td>$144,800</td>
<td>$152,700</td>
<td>$161,100</td>
<td>32.4%</td>
</tr>
<tr>
<td>Santa Clara County</td>
<td>$97,900</td>
<td>$108,700</td>
<td>$114,600</td>
<td>$120,900</td>
<td>$127,600</td>
<td>$134,600</td>
<td>$142,000</td>
<td>$149,400</td>
<td>45.0%</td>
</tr>
<tr>
<td>Solano County</td>
<td>$78,000</td>
<td>$84,400</td>
<td>$85,600</td>
<td>$90,100</td>
<td>$94,600</td>
<td>$99,300</td>
<td>$104,300</td>
<td>$110,400</td>
<td>29.6%</td>
</tr>
<tr>
<td>Sonoma County</td>
<td>$82,800</td>
<td>$82,600</td>
<td>$84,300</td>
<td>$89,000</td>
<td>$93,900</td>
<td>$99,100</td>
<td>$104,600</td>
<td>$110,300</td>
<td>33.5%</td>
</tr>
<tr>
<td>Region (Total)</td>
<td>$104,000</td>
<td>$97,300</td>
<td>$102,000</td>
<td>$107,600</td>
<td>$113,600</td>
<td>$119,800</td>
<td>$126,400</td>
<td>$133,400</td>
<td>37.1%</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009

The region's mean household income in 2000 was $104,000. In 2005 the estimated mean household income declined to $97,300 due to the slowdown in the economy. Mean household income for the region is projected to grow to $133,400 by 2035. San Mateo and Marin Counties, as of 2010, are projected to have estimated mean household incomes of $123,300 and $127,200, respectively, which are the highest figures of the nine counties noted in the prior chart. As of 2010, Sonoma County is projected to have an estimated mean household income of $84,300, which is the lowest in the nine county Bay Area.

**Residential Real Estate**

The Bay Area has some of the highest housing costs in the nation. When the comparison is made between household income and housing costs, the Bay Area remains one of the least affordable areas in the nation.

The median home price in the Bay Area, as of February 2013, was $405,000 based on figures from DataQuick.
Due to soft economic and housing conditions, new and existing median home prices declined between 2007 and 2010. However, the Bay Area housing market appears to have bottomed out in 2010, and home values have since been trending upward. The current median home price reflects a 24.6% increase from the prior year.

**Governmental Forces**

The Bay Area is comprised of nine separate counties. Each county has its own government, with incorporated cities within each county also having their own government. Between the city and county levels, interaction is limited. On a regional level, this concept is magnified, with limited intercounty planning. Local city and county governments within the region implement land use policies through the use of zoning laws and general plans. Support services, such as transportation, schools, health care, police, and fire protection are provided by local governments.

California’s land use and growth controls are among the most stringent in the United States. These local land use controls include zoning, growth management systems, subdivision regulations, development fees and environmental restrictions. These policies raise the cost and reduce the volume of land development, especially in coastal metropolitan areas.

**Education**

Within the Bay Area there are over 80 public and private colleges and universities; among them are over 30 community colleges, four California State University campuses, the University of California at Berkeley, and Stanford University in Palo Alto. The University of California at Berkeley, and Stanford University, attract well-educated people to the area and provide the nucleus of activity in bio-medical technology, genetic engineering, and software production.
**Transportation**

The San Francisco MSA has a highly diversified transportation system with good water, rail, trucking, highway, and air facilities. The Bay Area's transportation infrastructure includes 1,500 miles of highway, eight toll bridges, 17,000 miles of local streets, six public ports, five passenger ferries, and five commercial airports. Transportation in the Bay Area is diversified because of the trend toward decentralized work places. More and more people are commuting longer distances to work, putting a heavy burden on the region's transportation network.

Air transportation is available through a number of airports in the Bay Area. San Francisco International Airport, located in San Mateo County, is one of the most active commercial airports in the world and is served by over 62 airlines. Furthermore, a two billion-dollar airport expansion was completed that expanded international travel capabilities. Additionally, Oakland International Airport in Alameda County, and San Jose International Airport in Santa Clara County offer facilities for international travel, air taxi, charter and cargo.

The Bay Area Rapid Transit system (BART), a high-speed rail system with approximately 104 miles of track, is a major commuter transportation system which links stations in Alameda, Contra Costa, San Mateo, and San Francisco counties. In addition, BART travels to the San Francisco International Airport. CalTrans operates commuter trains which run from San Jose to San Francisco. Additional rail transportation for the Bay Area is provided by Amtrak and freight rail companies.

Historically, ongoing efforts to improve the roads and public transit systems in the Bay Area have lagged behind growth in the population. Traffic congestion, considered a major problem in the Bay Area, makes close in, conveniently accessed locations particularly desirable.

**Cultural and Recreational Resources**

San Francisco is the cultural center of the Bay Area. Cultural and entertainment activities include nationally renowned live theaters, art museums, local symphonies, operas, and dance companies. In addition, local theaters, symphonies and ballet companies are found in Oakland, San Jose and other communities. The area supports six major professional sports teams, as well as college-level athletic programs of the University of California at Berkeley, Stanford University, and other regional colleges and universities.

**CONCLUSION**

Locational advantages, outstanding higher educational facilities, and a skilled labor force benefit the nine-county San Francisco Bay Area. However, structural problems including affordable housing, transportation capacity, and water and sewer capacity, along with local slow growth initiatives, could impair the region's competitive position. The Bay Area's economy has shifted towards service orientation. Agriculture, construction, and manufacturing have become less dominant while trade,
finance, government, and business, professional and other services have grown in prominence. The one notable exception to this trend has been the high technology sector, particularly computer-related, and manufacturing. In the near-term, the outlook for local business conditions and real estate markets is uncertain. In the longer-term, based on ABAG statistics shown earlier, population and employment growth is projected in the Bay Area region.

SAN FRANCISCO COUNTY AND CITY

San Francisco is located at the northern end of the San Francisco Peninsula and is bordered by the Pacific Ocean on the west, San Francisco Bay on the north and east, and San Mateo County on the south. These boundaries encompass a small metropolis of only 46.6 square miles. San Francisco is considered the commercial and cultural center of the nine-county Bay Area and is the nation’s fourth largest metropolitan area. The hills in the city provide an excellent setting for the residential development and the surrounding waters of the Pacific Ocean and the San Francisco Bay contribute to the mild climate.

The following chart shows population, household, and person per household statistics.

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</thead>
<tbody>
<tr>
<td>Population</td>
<td>776,733</td>
<td>795,800</td>
<td>810,000</td>
<td>837,500</td>
<td>867,100</td>
<td>900,500</td>
<td>934,800</td>
<td>969,000</td>
</tr>
<tr>
<td>Average Annual Change</td>
<td>N/A</td>
<td>0.49%</td>
<td>0.36%</td>
<td>0.68%</td>
<td>0.71%</td>
<td>0.77%</td>
<td>0.76%</td>
<td>0.73%</td>
</tr>
<tr>
<td>Households</td>
<td>329,700</td>
<td>338,920</td>
<td>346,680</td>
<td>359,170</td>
<td>372,750</td>
<td>386,800</td>
<td>400,700</td>
<td>415,000</td>
</tr>
<tr>
<td>Average Annual Change</td>
<td>N/A</td>
<td>0.56%</td>
<td>0.46%</td>
<td>0.72%</td>
<td>0.76%</td>
<td>0.75%</td>
<td>0.72%</td>
<td>0.71%</td>
</tr>
<tr>
<td>Average Household Size</td>
<td>2.36</td>
<td>2.35</td>
<td>2.34</td>
<td>2.33</td>
<td>2.33</td>
<td>2.33</td>
<td>2.33</td>
<td>2.33</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009

The following table presents employment by industry for San Francisco from 2000 to 2035.

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</thead>
<tbody>
<tr>
<td>Agric. / Nat. Resources</td>
<td>1,040</td>
<td>1,020</td>
<td>1,020</td>
<td>1,020</td>
<td>1,020</td>
<td>1,020</td>
<td>1,020</td>
<td>1,020</td>
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<tr>
<td>Manuf., Wholesale &amp; Transpor.</td>
<td>77,300</td>
<td>55,640</td>
<td>53,910</td>
<td>57,540</td>
<td>61,890</td>
<td>64,740</td>
<td>68,890</td>
<td>72,930</td>
</tr>
<tr>
<td>Retail</td>
<td>57,400</td>
<td>47,210</td>
<td>45,000</td>
<td>47,890</td>
<td>51,080</td>
<td>58,470</td>
<td>63,070</td>
<td>68,070</td>
</tr>
<tr>
<td>Financial &amp; Professional Service</td>
<td>208,020</td>
<td>180,220</td>
<td>181,680</td>
<td>192,780</td>
<td>207,290</td>
<td>226,000</td>
<td>243,190</td>
<td>262,550</td>
</tr>
<tr>
<td>Other</td>
<td>105,860</td>
<td>88,400</td>
<td>88,320</td>
<td>94,300</td>
<td>100,260</td>
<td>110,220</td>
<td>119,070</td>
<td>128,920</td>
</tr>
<tr>
<td>Total</td>
<td>642,500</td>
<td>553,090</td>
<td>568,730</td>
<td>606,540</td>
<td>647,190</td>
<td>694,830</td>
<td>748,100</td>
<td>806,830</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009
The following table summarizes current and historical employment levels for the city, the state, and the country:

### UNEMPLOYMENT RATE INFORMATION

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</thead>
<tbody>
<tr>
<td>San Francisco City &amp; County</td>
<td>6.3% ²</td>
<td>7.4%</td>
<td>8.6%</td>
<td>9.5%</td>
<td>9.0%</td>
<td>5.4%</td>
<td>4.3%</td>
<td>4.2%</td>
<td>5.0%</td>
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<tr>
<td>California</td>
<td>9.7% ¹</td>
<td>10.5%</td>
<td>11.7%</td>
<td>12.4%</td>
<td>11.4%</td>
<td>7.2%</td>
<td>5.4%</td>
<td>4.9%</td>
<td>5.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>7.7% ¹</td>
<td>8.1%</td>
<td>8.9%</td>
<td>9.6%</td>
<td>10.1%</td>
<td>5.8%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>5.1%</td>
<td></td>
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</tr>
</tbody>
</table>

¹ Seasonally adjusted.  
² Not seasonally adjusted.  
Compiled by CBRE in April 2013.

Unemployment rates for San Francisco have historically been lower than for California. The unemployment rate trended sharply upwards during 2009 and 2010 for California as well as the local area. The August 2012 data shows the average unemployment rate across the United States as lower than California, which has been typical historically; the difference was relatively narrow during 2005-2006 and began to widen in 2007. The February 2013 unemployment rate is at the lowest levels since the average during 2008 in the City and County of San Francisco. The average unemployment rate in San Francisco is lower than the national average and the State of California. During 2012, the unemployment rate in San Francisco averaged 7.4% and improved significantly towards the end of the year. From January through August, the rate ranged from 7.4% to 8.1% (average 7.73%). From September through December, the unemployment rate in San Francisco ranged from 6.5% to 6.9% (average 6.75%). At year-end, the unemployment rate in San Francisco stood at 6.5%, 160 basis points lower than the January 2012 unemployment rate. The following table presents historical and projected household income figures for San Francisco from 2000 to 2035.

### MEAN HOUSEHOLD INCOME IN CONSTANT 2005 DOLLARS

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<tbody>
<tr>
<td>San Francisco</td>
<td>$ 98,300</td>
<td>$ 97,400</td>
<td>$ 102,200</td>
<td>$ 107,900</td>
<td>$113,800</td>
<td>$120,100</td>
<td>$126,700</td>
<td>$133,600</td>
<td>37.2%</td>
</tr>
</tbody>
</table>

Source: ABAG, Projections 2009

### CONCLUSIONS

The nine-county San Francisco Bay Area is one of the nation's most vital economic regions. As a result of economic and population growth since 1980, development moved outward from San Francisco to the surrounding counties.

While San Francisco remains the center of the region, the surrounding counties have developed economic centers of their own. Future projections by ABAG indicate increased growth in population...
and employment, albeit at a slower rate. Employment growth is expected to occur primarily in the service sector.

Locational advantages, outstanding higher educational facilities, and a skilled labor force benefit the Bay Area. However, structural problems including affordable housing, transportation capacity, and water and sewer capacity, along with local slow growth initiatives, could impair the region’s competitive position. However, the economic base is well diversified, and should provide for moderate future growth in the Bay Area.

The outlook for the area is for stable performance with moderate improvement over the next several years. As a result, the demand for existing developments is expected to be average. Generally, the area is expected to maintain a relatively stable growth pattern in the foreseeable future.

ECONOMY.COM

Moody’s Economy.com provides the following San Francisco, CA [Metropolitan Division] metro area economic summary as of December 2012.

### SAN FRANCISCO, CA [METROPOLITAN DIVISION] - ECONOMIC ANALYSIS

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Gross Metro Product (C$B)</td>
<td>120.3</td>
<td>123.8</td>
<td>125.5</td>
<td>127.0</td>
<td>121.4</td>
<td>124.2</td>
<td>127.6</td>
<td>132.2</td>
<td>137.0</td>
<td>144.0</td>
<td>150.7</td>
<td>156.0</td>
</tr>
<tr>
<td>% Change</td>
<td>2.9</td>
<td>2.9</td>
<td>1.4</td>
<td>1.2</td>
<td>-4.4</td>
<td>2.3</td>
<td>2.8</td>
<td>3.6</td>
<td>3.6</td>
<td>5.2</td>
<td>4.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Total Employment (000)</td>
<td>947.9</td>
<td>967.5</td>
<td>988.8</td>
<td>996.9</td>
<td>944.1</td>
<td>931.8</td>
<td>948.2</td>
<td>977.8</td>
<td>998.0</td>
<td>1,023.1</td>
<td>1,055.3</td>
<td>1,084.3</td>
</tr>
<tr>
<td>% Change</td>
<td>0.9</td>
<td>2.1</td>
<td>2.2</td>
<td>0.8</td>
<td>-5.3</td>
<td>-1.3</td>
<td>1.8</td>
<td>3.1</td>
<td>2.1</td>
<td>2.5</td>
<td>3.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.6</td>
<td>3.9</td>
<td>4.0</td>
<td>5.0</td>
<td>8.5</td>
<td>9.0</td>
<td>8.2</td>
<td>7.1</td>
<td>6.4</td>
<td>5.9</td>
<td>5.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Personal Income Growth</td>
<td>8.6</td>
<td>9.6</td>
<td>4.9</td>
<td>1.1</td>
<td>-8.1</td>
<td>3.1</td>
<td>7.6</td>
<td>5.5</td>
<td>2.5</td>
<td>6.2</td>
<td>6.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Population (000)</td>
<td>1,697.3</td>
<td>1,703.4</td>
<td>1,718.8</td>
<td>1,743.4</td>
<td>1,766.4</td>
<td>1,777.7</td>
<td>1,795.1</td>
<td>1,808.3</td>
<td>1,821.3</td>
<td>1,835.3</td>
<td>1,851.2</td>
<td>1,866.6</td>
</tr>
<tr>
<td>Single-Family Permits</td>
<td>1,028.0</td>
<td>897.0</td>
<td>987.0</td>
<td>556.0</td>
<td>384.0</td>
<td>349.0</td>
<td>374.0</td>
<td>481.4</td>
<td>902.0</td>
<td>1,398.4</td>
<td>1,466.5</td>
<td>1,419.3</td>
</tr>
<tr>
<td>% Change</td>
<td>2.9</td>
<td>2.9</td>
<td>1.4</td>
<td>1.2</td>
<td>-4.4</td>
<td>2.3</td>
<td>2.8</td>
<td>3.6</td>
<td>3.6</td>
<td>5.2</td>
<td>4.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Multifamily Permits</td>
<td>3,015.0</td>
<td>3,088.0</td>
<td>2,735.0</td>
<td>3,023.0</td>
<td>598.0</td>
<td>869.0</td>
<td>2,376.0</td>
<td>3,430.1</td>
<td>1,704.4</td>
<td>1,875.4</td>
<td>1,584.7</td>
<td>1,403.5</td>
</tr>
<tr>
<td>% Change</td>
<td>0.9</td>
<td>2.1</td>
<td>2.2</td>
<td>0.8</td>
<td>-5.3</td>
<td>-1.3</td>
<td>1.8</td>
<td>3.1</td>
<td>2.1</td>
<td>2.5</td>
<td>3.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Existing-Home Price ($Ths)</td>
<td>895.9</td>
<td>889.5</td>
<td>944.5</td>
<td>837.3</td>
<td>695.7</td>
<td>742.2</td>
<td>691.5</td>
<td>727.9</td>
<td>753.9</td>
<td>847.9</td>
<td>883.2</td>
<td></td>
</tr>
<tr>
<td>Mortgage Originizations ($Mil)</td>
<td>42,517.4</td>
<td>34,869.6</td>
<td>34,251.8</td>
<td>20,041.8</td>
<td>31,157.8</td>
<td>29,691.7</td>
<td>27,506.4</td>
<td>37,424.1</td>
<td>24,850.2</td>
<td>14,563.1</td>
<td>14,374.5</td>
<td>16,154.6</td>
</tr>
<tr>
<td>Net Migration (000)</td>
<td>-11.6</td>
<td>-7.6</td>
<td>0.2</td>
<td>15.6</td>
<td>15.1</td>
<td>3.3</td>
<td>9.2</td>
<td>3.9</td>
<td>3.2</td>
<td>4.0</td>
<td>5.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Personal Bankruptcies</td>
<td>5,976.0</td>
<td>1,346.0</td>
<td>1,841.0</td>
<td>2,693.0</td>
<td>4,491.0</td>
<td>5,584.0</td>
<td>5,105.0</td>
<td>4,231.3</td>
<td>3,686.7</td>
<td>3,632.9</td>
<td>3,573.7</td>
<td>3,621.3</td>
</tr>
</tbody>
</table>

Source: Moody’s Economy.com

RECENT PERFORMANCE

San Francisco’s recovery is strengthening, bolstered by technology, rising incomes, and an influx of visitors. Payrolls are growing because of service- and visitor-dependent industries. The unemployment rate has dipped below 7% even as the labor force continues to grow. The rate is the lowest among California’s major metro areas, signaling the advanced stage of San Francisco’s recovery.

The housing market is also improving. Amid a dwindling inventory of homes for sale, the median price for existing single-family homes is increasing. The issuance of multifamily permits has jumped.
TECH

Tech services geared toward internet and mobile-based applications will be the largest driver of near-term growth. Evidence of the still-positive tech outlook can be seen in San Francisco’s office market. The metro division’s increase in occupancy costs—rents plus local taxes and service charges—topped CBRE Group’s survey of global office markets with a 36% increase for the year ending September 30. Investment property sales are set to end the year at more than $6 billion, almost matching the metro area’s record of $8.5 billion set in 2007.

A permanent change to the City of San Francisco’s payroll tax will help to reduce the outflow of growing tech firms. Voters in November replaced the tax, the only one of its kind in California, with a tax on gross receipts. The new tax scheme will help to retain and attract startup tech firms in their cash-poor IPO phases.

TOURISM

Expanding technology and an influx of well-heeled international visitors will spur visitor-dependent industries in 2013 and 2014. Rising hotel occupancy, room rates and passenger volumes at San Francisco International Airport (SFO) are evidence that visitation is growing robustly. Year to date through October, the number of air passengers rose by 10%, well ahead of other Bay Area airports. Although downsized from original plans, preliminary America’s Cup races drew large crowds during the summer and bode well for attendance at the final series of races that will be held in the spring and summer.

With a strong tech and tourism outlook, the environment for investments in existing and new hotels is improving. The number of hotel sales increased in 2012, and many sold above their asking price, suggesting that they had been improved. SFO is proposing the construction of an onsite hotel by 2017, as it expects passenger volume to rise by 2% per year over the next five years.

GOVERNMENT

Despite the improved outlook for state higher education, the City College of San Francisco faces a dark budget outlook. A major near-term downside risk for San Francisco’s public institutions of higher education was averted in November when Californians approved an increase to the state sales tax rate and the highest marginal personal income tax rate, diverting mid-fiscal year spending cuts that would have hurt San Francisco’s University of California, Cal State, and community college campuses.

Nonetheless, amid declining student enrollment, CCSF faces the loss of state funding, accreditation, and possible closure in 2013. The college has laid off hourly staff, cut non-union wages, and shuttered some campuses.
CONCLUSION

San Francisco's recovery will deepen in 2013. Tech, tourism and other services will be the primary drivers, but financial services will weigh on improvements. The unemployment rate will fall below 6% by the middle of 2014, well ahead of the state and the nation. Longer term, San Francisco will benefit from its growing cluster of tech and R&D centers, which will help to offset slower growth in finance and its high business and living costs. As a result, the metro division will outpace the U.S. over most of the forecast horizon in output and employment gains.
NEIGHBORHOOD ANALYSIS

LOCATION

The neighborhood is located in the downtown section of the City of San Francisco, a built out urban location. Due to its location south of Market Street, the subject is located along the northeastern edge of the Yerba Buena submarket, bordering the South Financial District office submarket.

BOUNDARIES

The neighborhood boundaries are detailed as follows:

- **North:** Market Street
- **South:** Harrison Street
- **East:** San Francisco Bay (Embarcadero)
- **West:** 7th Street

LAND USE/GROWTH PATTERNS

Land uses surrounding the project site include convention, cultural, hotel, office, open space, recreation, residential, and retail uses. Major structures near the subject include St. Patrick’s Church (748 Mission Street), the San Francisco Marriott Marquis Hotel (55 Fourth Street), the Metreon entertainment and retail complex (101 Fourth Street), the Fifth and Mission Garage (833 Mission Street), the Westfield San Francisco Centre retail complex (865 Market Street), the Four Seasons Hotel and Residences (757 Market Street), the Contemporary Jewish Museum (736 Mission Street), the
Westin Hotel (50 Third Street), the Paramount residences (680 Mission Street), the St. Regis (125 Third Street), the San Francisco Museum of Modern Art (151 Third Street), the W Hotel (181 Third Street), the Yerba Buena Center for the Arts (701 Mission Street), and the Moscone Convention Center (747 Howard Street).

Open space and recreation facilities in the vicinity include Jessie Square (subject), the Yerba Buena Gardens Esplanade and Martin Luther King, Jr. Memorial (south of the subject across Mission Street), a carousel and the Yerba Buena Ice Skating and Bowling Center (one block south of the subject), Union Square (approximately 0.2 mile northwest of the subject), and Hallidie Plaza (approximately 0.25 mile west of the subject).

An additional large development in the area, known as City Place, was proposed on Market Street (between 5th and 6th Streets). The development, focused on value-oriented retail, was approved by the City in mid-2010. In early-2011, it was reported that the lender had filed notices of default on five parcels comprising the proposed project. Reportedly, the financial backer of this project, CommonFund Realty, had suspended investments in this development due to a restructuring of the fund that had invested in the project. In June 2012, it was announced that the parcels will be sold to a joint venture of Cypress Equities and Carlyle Group, which will proceed with the approved 5-story, 260,000-square-foot retail project. It has been reported in early-2013 that the new owners are in discussions with Nordstrom Rack concerning a possible anchor tenancy at the project.

**TRANSBAY REDEVELOPMENT PROJECT**

One of the most significant redevelopment proposals in the neighborhood is the Transbay project. The Transbay Terminal, located on the south side of Mission Street, between 1st and Fremont Streets, is a mass-transit hub for public transit systems serving the City of San Francisco, San Mateo County, Alameda County, Marin County, and Sonoma County.

Much of the land to be redeveloped is located on the northwest side of Folsom Street, between Spear and Ecker Streets, and also along the southwest side of Main Street, between Folsom and Mission Streets.

Current plans developed by the Transbay Joint Powers Authority (TJPA) call for construction of nearly 3,500 residential units, including a combination of market-rate and affordable units. The development, as currently conceived, would consist of approximately 72% for-sale and 28% rental units. Proposed development would consist of podium-style buildings and high-rise towers. The proposal also includes 59,000 square feet of ground-level retail space.

The redevelopment project would also include a “signature” tower on the South side of Mission Street, between 1st and Fremont Streets, adjacent to the transit terminal. A signature tower proposal by the developer Hines and the architect Caesar Pelli has been selected by the TJPA. On March 26, 2013 TJPA sold the 50,000 square foot parcel of land located at 101 1st Street to a joint venture between
Boston Properties (95% owner) and Hines (5% owner) for nearly $192 million. The planned office building will contain approximately 1.4 million square feet, approximately 1,070 feet in height, and will make it the tallest building on the West Coast. Construction could begin as early as Summer of 2013 with project completion in 2016, just before the opening of the new transit facility.

ACCESS AND PARKING

The neighborhood currently has excellent means of access from the delineating streets and freeways (Market Street, Interstate 80, and US 101) which connect to the city’s overall gridiron street pattern, and thereby, to the various public transportation means such as the Bay Bridge, the BART facility under Market Street, and the south-bound freeway routes. The subject neighborhood is well served by transportation with surface streets and sub-surface facilities (BART stations below Market Street at Montgomery Street and The Embarcadero) and all utility, vehicular and pedestrian means of transit.

Property managers in the neighborhood report strong demand for parking since the Transbay Terminal construction project began. A number of old surface lots are no longer available for public parking. Over time, many of the remaining surface lots will be replaced with new office buildings and multi-family projects (most of them under-parked). This will tip the supply-demand dynamic further to the favor of owners of parking garages.

DEMOGRAPHICS

Selected neighborhood demographics in 1-, 3-, and 5-mile radii from the subject are shown in the following table:
Population and household numbers are increasing in the surrounding area and are projected to continue due to the residential development activity in the neighborhood.

CONCLUSION

The neighborhood is in a revitalization phase of its life cycle. Office and supporting retail/services remains the mainstay although high-end multifamily development has replaced obsolescent office buildings and older industrial buildings over the past several years.

The most significant anticipated neighborhood change is the Transbay redevelopment project. The Transbay Terminal will be re-made into a transportation hub for the entire San Francisco Bay Area and will be the focal point of private sector redevelopment activity including new offices, multi-family projects, hotels, and retail. Secondarily, the planned City Place development, located on Market Street, between 5th and 6th Streets, is projected to add a large value retail anchor to the neighborhood and revitalize a long-neglected section of Market Street.

The neighborhood provides good support for office, retail, and residential uses.
MARKET ANALYSIS

The market analysis forms a basis for assessing market area boundaries, supply and demand factors, and indications of financial feasibility. The subject consists of an airspace parcel that is proposed to be developed in conjunction with a mixed use, retail/museum/residential project. It is a hypothetical condition that the subject is deed restricted for use as a cultural facility. As such, we have examined demographic and economic information for the subject’s area and the local and national cultural facility/museum market.

DEMOGRAPHIC ANALYSIS

Since the purpose of a cultural facility like the subject is to provide a forum for the public, it is important to be familiar with area demographics. We have reviewed demographic and economic information for the area.

**Housing, Population and Household Formation**

The following table illustrates the population and household changes for the subject neighborhood with primary focus on the one-mile radius.

<table>
<thead>
<tr>
<th>Populations and Households Projections</th>
<th>1 Mile Radius</th>
<th>3 Mile Radius</th>
<th>5 Mile Radius</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 Population</td>
<td>126,602</td>
<td>414,824</td>
<td>689,175</td>
</tr>
<tr>
<td>2013 Population</td>
<td>118,452</td>
<td>394,711</td>
<td>659,444</td>
</tr>
<tr>
<td>2010 Population</td>
<td>113,144</td>
<td>382,610</td>
<td>642,028</td>
</tr>
<tr>
<td>2000 Population</td>
<td>95,200</td>
<td>361,744</td>
<td>620,840</td>
</tr>
<tr>
<td>Annual Growth 2013-2018</td>
<td>1.34%</td>
<td>1.00%</td>
<td>0.89%</td>
</tr>
<tr>
<td>Annual Growth 2000-2013</td>
<td>0.35%</td>
<td>0.24%</td>
<td>0.21%</td>
</tr>
<tr>
<td>Annual Growth 2000-2010</td>
<td>1.74%</td>
<td>0.56%</td>
<td>0.34%</td>
</tr>
<tr>
<td><strong>Households</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 Households</td>
<td>69,582</td>
<td>214,119</td>
<td>316,628</td>
</tr>
<tr>
<td>2013 Households</td>
<td>64,946</td>
<td>202,658</td>
<td>301,312</td>
</tr>
<tr>
<td>2010 Households</td>
<td>62,035</td>
<td>195,687</td>
<td>292,125</td>
</tr>
<tr>
<td>2000 Households</td>
<td>51,578</td>
<td>182,535</td>
<td>278,417</td>
</tr>
<tr>
<td>Annual Growth 2013-2018</td>
<td>1.39%</td>
<td>1.11%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Annual Growth 2000-2013</td>
<td>0.35%</td>
<td>0.27%</td>
<td>0.24%</td>
</tr>
<tr>
<td>Annual Growth 2000-2010</td>
<td>1.86%</td>
<td>0.70%</td>
<td>0.48%</td>
</tr>
</tbody>
</table>

Source: Nielsen/Claritas

As shown, the subject’s neighborhood is experiencing moderate positive increases in both population and households.
**Income Distributions**

Household income available for expenditure on consumer items is a primary factor in determining the retail supply and demand levels in a given market area. In the case of this study, a projection of household income identifies (in gross terms) the market from which the subject submarket draws. The following table illustrates estimated household income distribution for the subject neighborhood.

<table>
<thead>
<tr>
<th>HOUSEHOLD INCOME DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households by Income Distribution - 2013</td>
</tr>
<tr>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>Less than $15K</td>
</tr>
<tr>
<td>$15K - $25K</td>
</tr>
<tr>
<td>$25K - $35K</td>
</tr>
<tr>
<td>$35K - $50K</td>
</tr>
<tr>
<td>$50K - $75K</td>
</tr>
<tr>
<td>$75K - $100K</td>
</tr>
<tr>
<td>$100K - $150K</td>
</tr>
<tr>
<td>$150K - $250K</td>
</tr>
<tr>
<td>$250K - $500K</td>
</tr>
<tr>
<td>$500K or more</td>
</tr>
</tbody>
</table>

Source: Nielsen/Claritas

The following table illustrates the median and average household income levels for the subject neighborhood.

<table>
<thead>
<tr>
<th>HOUSEHOLD INCOME LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>2013 Median HH Inc</td>
</tr>
<tr>
<td>2013 Estimated Average Household Income</td>
</tr>
<tr>
<td>2013 Estimated Per Capita Income</td>
</tr>
</tbody>
</table>

Source: Nielsen/Claritas

Household income levels within a one mile radius are lower than surrounding areas (3 and 5 mile radius). An analysis of the income data indicates that the submarket is generally comprised of low to middle-income economic cohort groups.

**Outlook**

Based on this analysis, the immediate area surrounding the subject is projected to experience moderate, positive growth relative to households and population into the near future. Given the area demographics, it appears that demand for the subject will continue to be favorable.
MUSEUM OVERVIEW

The Mexican Museum will occupy the floors 1 through 4 of the proposed development, which includes the subject airspace parcel. Founded in 1975, The Mexican Museum has a collection of over 12,000 pieces of Mexican and Chicano art. From 1982 until 2006, the museum occupied gallery space at Fort Mason Center. In 2006, the museum closed the Fort Mason gallery and focused on fundraising efforts for a new permanent home. Following the closure of the Fort Mason gallery, the museum held temporary exhibitions at other locations in the San Francisco Bay Area. In December 2009, the museum reopened the Fort Mason gallery and is open Wednesday through Sunday, typically from noon to 4:00 PM. The integration of museum space into the proposed project would provide a new permanent home for the museum.

The International Council defines a Museum as: “A non-profit making, permanent institution in the service of society and of its development, and open to the public, which acquires, conserves, researches, communicates and exhibits, for purposes of study, education and enjoyment, material evidence of people and their environment.” Museums are not typical commercial properties which are owned for their income producing characteristics; rather museums are perceived to provide a benefit to the community.

Museums range from small organizations run by volunteers to large institutions with paid professional staff. A good museum is well planned and the people in charge have vision and an understanding of all aspects of running a museum.

Museums are set up by specialist groups, historical societies, local councils, state and commonwealth governments or individual enthusiasts. Early museums began as the private collections of wealthy individuals, families, or institutions of art and rare or curious natural objects and artifacts. Usually, people want to set up museums for good reasons: they have a commitment to the preservation of cultural heritage of a particular type or in a particular subject area. However, despite good intentions, a museum may not last if it is set up in an ad hoc way, or if it duplicates existing museums in the same area. Museums are usually not run for the purpose of making a profit, unlike private galleries which more often engage in the sale of objects. There are governmental museums, non-governmental or non-profit museums, and privately owned or family museums. Museums can be a reputable and generally trusted source of information about cultures and history.

There are various types of museums: archaeology, art, history, maritime, military and war, cultural, children’s, natural history, open air, science, virtual, zoological parks and botanic gardens. Within these categories many museums specialize further, e.g. museums of modern art, local history, aviation history, agriculture or geology. The subject is considered to be a cultural museum.
**Museum Funding**

According to the American Association of Museums, the median cost of serving a museum visitor is $23.35 per person, while the median cost for museum attendance is $6 and, on average, visitors only spend an additional $1.55 in museum stores and $0.81 for food service. In all, a museum’s earned income generates only about 1/3 of the cost of serving a museum visitor. Private charitable donations are the largest source of operating income for museums (about 35%). Government funding provides just under 25%, and investment income about 10%.

**Local Museum/Cultural Facilities**

The subject is located within an area with a high concentration of cultural institutions and public structures. The following cultural uses are located within three blocks of the subject:

- California Historical Society (678 Mission Street);
- Cartoon Art Museum (655 Mission Street);
- Contemporary Jewish Museum (736 Mission Street);
- Museum of the African Diaspora (685 Mission Street);
- Museum of Craft and Folk Art (51 Yerba Buena Lane);
- San Francisco Museum of Modern Art (151 Third Street);
- Society of California Pioneers (300 Fourth Street);
- Yerba Buena Center for the Arts (701 Mission Street), which includes a gallery and a theater; and
- The Children’s Creativity Museum18 (221 Fourth Street), a children’s art and technology museum.

**Museum Admission Fees**

According to the American Association of Museums, approximately 60 percent of museums charge a general admission fee. Of these, approximately half charge between $5.00 and $9.00, and the overall median admission fee to all museums that do charge is $6.00 for a non-member adult. Museums most often provide for special fees or discounts to children (86 percent), seniors (77 percent), and members (76 percent). Further, more than 60 percent of all museums offer a “free admission” day.

The Mexican Museum is currently located in the Fort Mason Center and does not charge a daily fee. Memberships, which provide special events and exhibits are available and range from $25 to $5,000 per year. We are unaware if the Mexican Museum will charge a daily rate after its relocation to the subject proposed building.
Admission rates at the cultural museums vary. A summary of the museum rates at nearby facilities is as follows.

<table>
<thead>
<tr>
<th>Museum</th>
<th>Location</th>
<th>Standard Adult Admission</th>
<th>Senior/Student Admission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children's Creativity Museum</td>
<td>221 4th Street</td>
<td>$11.00</td>
<td>Free</td>
</tr>
<tr>
<td>Jewish Museum</td>
<td>736 Mission Street</td>
<td>$12.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>Museum of African Diaspora</td>
<td>685 Mission Street</td>
<td>$10.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>Museum of Modern Art</td>
<td>151 3rd Street</td>
<td>$18.00</td>
<td>$13.00</td>
</tr>
</tbody>
</table>

Admission for nearby museums ranges from $10.00 to $18.00 per day for the general public and from $0.00 to $13.00 per day for seniors or students. Small children are generally free with age restrictions varied by museum.

**Community Benefits of Museums**

Museums are viewed as tourism generators for their communities which enhance their local economies each year by attracting visitors and employing workers. Museums also provide communities with an additional education forum for students to visit and enjoy onsite education program. Teachers are educated as well and profit from training workshops and effective teaching materials.

**Conclusion – Museum**

The subject is situated in a neighborhood with a high concentration of cultural facilities. In addition, it benefits from a centralized location in the City of San Francisco with excellent access to public transit and freeway systems. Overall, the subject is well positioned for a cultural facility/museum use.
SITE ANALYSIS

The following chart summarizes the salient characteristics of the subject site.

<table>
<thead>
<tr>
<th>SITE SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Physical Description</strong></td>
</tr>
<tr>
<td>Gross Site Area (Entire Parcel)</td>
</tr>
<tr>
<td>Net Site Area (Entire Parcel)</td>
</tr>
<tr>
<td>Subject Airspace Area</td>
</tr>
<tr>
<td>Primary Road Frontage (Entire Parcel)</td>
</tr>
<tr>
<td>Secondary Road Frontage (Entire Parcel)</td>
</tr>
<tr>
<td>Excess Land Area</td>
</tr>
<tr>
<td>Surplus Land Area</td>
</tr>
<tr>
<td>Shape</td>
</tr>
<tr>
<td>Topography</td>
</tr>
<tr>
<td>Zoning District</td>
</tr>
<tr>
<td>Flood Zone</td>
</tr>
<tr>
<td>Adjacent Land Uses</td>
</tr>
<tr>
<td>Earthquake Zone</td>
</tr>
</tbody>
</table>

Source: Various sources compiled by CBRE

COMMENTS

The subject is a 3,690 square foot air space parcel that is situated on Block and Lot No. 3706-277. The subject airspace parcel starts 12 feet and 8 inches above the ground. Block and Lot No. 3706-277 consists of 46,841 square feet of land area and is comprised of the Jessie Square Public Plaza, Parcel CB-1-MM (Mexican Museum Parcel), and the Jessie Square parking garage (a 4-level subterranean parking garage). This parcel is irregular shaped and the northern (rear) portion of the site is traversed by Block and Lot No. 3706-276 (Jewish Museum). Lot 277 includes a triangular 313 square foot space that is located on the north side of Lot 276. Lot 277 also contains the air space both above and below Lot 276 (Jewish Museum) and a 135 square foot rectangular area between the Jewish Museum and St. Patrick’s Church.

**Jessie Square**

The subject is positioned 12 feet and 8 inches above Jessie square. Jessie square is located on the north side of Mission Street and is bound by a Church to the west, the Jewish Museum to the north, and Parcel CB-1-MM to the east. Jessie Square consists of 38,000 square feet and is generally rectangular shaped. Jessie Square is a public plaza that is improved with asphalt paving, landscaping, and numerous park benches. Landscaping consists of trees, bushes, grass, and planter boxes with flowers. There is a water feature located near the northeastern portion of Jessie Square, which is served by water filtration and pumps located below grade in the Jessie Square Garage. Jessie Square is situated above the Jessie Square Garage and extends to the heavens.
AIRSPACE AREA

The dimensions of the subject are approximately as follows: 123 feet long, 35 feet (3 stories) high, and 10 feet wide. This translates to an approximate volume of 43,050 cubic feet and an approximate square footage of 3,690 square feet. Please refer to the Resource Verification table within the Scope of Work for the source of the land area size.

SHAPE AND FRONTAGE

Block and Lot 3706-277 is irregular shaped and has approximately 239 feet of frontage along the north side of Mission Street, and approximately 20 feet of frontage along the south side of Stevenson Street.

EASEMENTS AND ENCROACHMENTS

A title policy dated January 30, 2013, produced by Chicago Title Company was provided for this report and is included in the addenda. Block and Lot 3706-277 is encumbered by a number of easements. However, the easements are considered typical for the subject public parking garage and public open space uses and do not appear to negatively impact the site. It is recommended that the client/reader review the title policy outlining all easements and encroachments on the property, if any, prior to making a business decision.

COVENANTS, CONDITIONS AND RESTRICTIONS

There are no known covenants, conditions or restrictions impacting the site that are considered to affect the marketability or highest and best use. It is recommended that the client/reader obtain a copy of the current covenants, conditions and restrictions, if any, prior to making a business decision.

UTILITIES AND SERVICES

The site is within the jurisdiction of San Francisco County or the City of San Francisco and is provided all municipal services, including police, fire and refuse garbage collection.

FLOOD ZONE

San Francisco does not participate in the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Mapping program.

SEISMIC HAZARDS (EARTHQUAKE)

All properties in California are subject to some degree of seismic risk. The Alquist-Priolo special Studies Zone Act of 1972 was enacted by the State of California to regulate development near active earthquake faults. The Act required the State Geologist to delineate “special studies zones” along known active faults in California. Cities and Counties affected by the identified zones must limit
certain development projects within the zones unless geologic investigation demonstrates that the sites are not threatened by surface displacement from future faulting.

According to “Fault-Rupture Hazard Zones in California” published in 1992 by the California Department of Conservation, Department of Mines and Geology, the subject is not within an area affected by the Alquist-Priolo Special Studies Zone Act. Related development limitations, therefore, do not apply.

ENVIRONMENTAL ISSUES

CBRE, Inc. is not qualified to detect the existence of potentially hazardous material or underground storage tanks which may be present on or near the site. The existence of hazardous materials or underground storage tanks may affect the value of the property. For this appraisal, CBRE, Inc. has specifically assumed that the property is not affected by any hazardous materials that may be present on or near the property.

ADJACENT PROPERTIES

The adjacent land uses are summarized as follows:

- **North:** Contemporary Jewish Museum/Westin Hotel/The Four Seasons
- **South:** Yerba Buena Gardens/Yerba Buena Center for the Arts (across Mission Street)
- **East:** Parcel CB-1-MM (Portion of 3706-277)/10-story office over retail building (Aronson Building)
- **West:** St. Patrick’s Church

CONCLUSION

Block and Lot 3706-277 is well-located and afforded good access and visibility from roadway frontage. The size of the site is typical for the area and use. There are no known detrimental uses in the immediate vicinity. Overall, there are no known factors that would prevent the site from being developed to its highest and best use, as if vacant, or are adverse to the existing use of the site.
The subject is a 3,690 square foot airspace parcel that is not currently improved. However, the subject is part of a proposed development of a 43-story residential condominium project built over the Mexican Museum and supporting retail space.

The proposed development is for a new 43-story, 510-foot-tall tower (a 480-foot-tall building with a 30-foot-tall elevator/mechanical penthouse), with two floors below grade. The new tower will be adjacent to and physically connected to the existing 10-story, 154-foot-tall Aronson Building (a 144-foot-tall building with a 10-foot-tall mechanical penthouse), which is located at 700-706 Mission Street. As part of the proposed project, the historic Aronson Building would be restored and rehabilitated. The existing 10-foot-tall mechanical penthouse on the roof of the Aronson Building would be removed, and a 15-foot-tall solarium would be constructed, resulting in an overall building height of 159 feet. The proposed development would contain 537,770 gross square feet of residential space (190 residential condominium units), 22,200 gross square feet of residential amenity space, 52,285 gross square feet of museum space (Mexican Museum), 4,800 gross square feet of retail space, 15,552 square feet of storage space, 44,369 gross square feet of other (building core, mechanical, service, etc.) space, and 384 gross square feet for the ramp that leads out of the Jessie Square Parking Garage to Mission Street.

Floors two, three, and four of the Mexican Museum will cantilever over the Jessie Square Public Plaza into the airspace parcel, which is the subject of this report. The dimensions of the subject are approximately as follows: 123 feet long, 35 feet (3 stories) high, and 10 feet wide. This translates to an approximate volume of 43,050 cubic feet and an approximate square footage of 3,690 square feet.

The project sponsor anticipates that the proposed project would include a combination of two-bedroom and three-bedroom units. All of the proposed units would be condominiums (ownership units). The proposed cultural/museum space would be occupied by The Mexican Museum, and the proposed ground-floor commercial space could include a variety of uses, such as a retail use, a restaurant, or any other use that is permitted in the C-3-R District. The project sponsor estimates that construction of the proposed project would take up to 36 months at an estimated cost of $170 million.
ZONING

The following chart summarizes the subject’s zoning requirements.

<table>
<thead>
<tr>
<th>ZONING SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Zoning</td>
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<tr>
<td>Legally Conforming</td>
</tr>
<tr>
<td>Uses Permitted</td>
</tr>
<tr>
<td>Zoning Change</td>
</tr>
</tbody>
</table>

Source: Planning & Zoning Dept.

The subject airspace is deed restricted and can only be utilized for a cultural facility as part of the adjacent proposed mixed-use, museum/residential development.
In California, privately held real property is typically assessed at 100% of full cash value (which is interpreted to mean market value of the fee simple estate) as determined by the County Assessor. Generally, a reassessment occurs only when a property is sold (or transferred) or when new construction occurs (as differentiated from replacing existing construction). In the case of long-term ground leases, the general rule is that a reassessment is made at the time of assigning or terminating a lease where the remaining term is more than 35 years. For reassessment purposes, the lease term includes all options to extend. Assessments for properties that were acquired before the tax year 1975-1976 were stabilized as of the tax year 1975-1976. Property taxes are limited by state law to 1% of the assessed value plus voter-approved obligations and special assessments. If no sale (or transfer) occurs or no new building takes place, assessments may not increase by more than 2% annually. The following table summarizes the actual and pro forma assessment values.

<table>
<thead>
<tr>
<th>AD VALOREM TAX INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessor's Market Value 2012/2013</td>
</tr>
<tr>
<td>3706-277</td>
</tr>
<tr>
<td>Subtotal</td>
</tr>
<tr>
<td>Assessed Value @ 100%</td>
</tr>
<tr>
<td>General Tax Rate (per $100 A.V.)</td>
</tr>
<tr>
<td>General Tax:</td>
</tr>
<tr>
<td>Special Assessments:</td>
</tr>
<tr>
<td>Effective Tax Rate (per $100 A.V.)</td>
</tr>
<tr>
<td>Total Taxes</td>
</tr>
</tbody>
</table>

The base tax rate in the City of San Francisco is 1.1691%. However, the subject is owned by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco and therefore is exempt from real estate taxes.

CONCLUSION

For purposes of this analysis, CBRE, Inc. assumes that all taxes are current. If the subject sold for the value estimate in this report, a reassessment at that value would most likely occur, with tax increases limited to two percent annually thereafter until the property is sold again. The consequences of this reassessment have been considered in the appropriate valuation sections.
HIGHEST AND BEST USE

In appraisal practice, the concept of highest and best use represents the premise upon which value is based. The four criteria the highest and best use must meet are:

- legally permissible;
- physically possible;
- financially feasible; and
- maximally productive.

The highest and best use analysis of the subject is discussed on the following pages.

AS VACANT

Legally Permissible

The subject airspace is deed restricted and can only be utilized for a cultural facility as part of the adjacent proposed mixed-use, museum/residential development.

Physically Possible

The subject parcel Block and Lot No. 3706-277 is adequately served by utilities, and has an adequate shape and size, sufficient access, etc., to be a separately developable site. However, the deed restriction hinders the physical possibility for development of the subject airspace. A cultural facility as part of the adjacent proposed development is the only physically possible use of the subject site.

Financially Feasible

The determination of financial feasibility is dependent primarily on the relationship of supply and demand for the legally probable land uses versus the cost to create the uses. The subject is deed restricted and not legally permissible to be developed with any use other than a cultural facility. The subject has a good centralized location in San Francisco with excellent access to public transit, major thoroughfares, and close proximity to ancillary use. The subject’s immediate area is improved with a high concentration of museum/cultural institutions, which offer evidence for the financially feasibility of a cultural facility at the subject’s location.

Condominium development in San Francisco is beginning to revive after a slowdown of several years following the peak and decline of the for-sale housing market. Since 2007, the supply of projects already selling or under construction has been worked-off with little new supply brought to market. Several condominium projects (Argenta, One Ecker Place, and 818 Van Ness) were removed from the for-sale market and operated as rentals. During 2010, two of those (One Ecker Place and 818 Van Ness) were returned to the for-sale market and have sold-out (as of early 2013, 818 Van Ness Avenue was reported to have 9 units in escrow and none remaining available for sale).
Brokers report that there is steady demand for new condominium units; new product and available resale inventory has been inadequate to satisfy the demand. The subject has a strong location near the downtown core of San Francisco. This area has become a popular residential location in the city and is well supported by attractive retail and services. The demand for condominiums is especially strong in this neighborhood and any new condominium units would be considered to be readily marketable to unit buyers.

The proposed mixed-use museum/residential development, which includes the subject airspace parcel, is believed to be financially feasible.

*Maximally Productive*

The final test of highest and best use of the site as vacant is that the use be maximally productive, yielding the highest return to the land. In the case of the subject as if vacant, the analysis has indicated that the adjacent proposed residential condominium development built above four floors of the Mexican Museum, which encompasses the subject airspace parcel, would be most appropriate.

**CONCLUSION: HIGHEST AND BEST USE AS VACANT**

Based on the information presented above, we conclude that the highest and best use of the subject as if vacant, would be for assemblage with adjacent property for development of a cultural facility as part of the proposed mixed-use, museum/residential project.
APPRAISAL METHODOLOGY

In appraisal practice, an approach to value is included or omitted based on its applicability to the property type being valued and the quality and quantity of information available.

COST APPROACH

The cost approach is based on the proposition that the informed purchaser would pay no more for the subject than the cost to produce a substitute property with equivalent utility. This approach is particularly applicable when the property being appraised involves relatively new improvements that represent the highest and best use of the land, or when it is improved with relatively unique or specialized improvements for which there exist few sales or leases of comparable properties.

SALES COMPARISON APPROACH

The sales comparison approach utilizes sales of comparable properties, adjusted for differences, to indicate a value for the subject. Valuation is typically accomplished using physical units of comparison such as price per square foot, price per unit, price per floor, etc., or economic units of comparison such as gross rent multiplier. Adjustments are applied to the physical units of comparison derived from the comparable sale. The unit of comparison chosen for the subject is then used to yield a total value. Economic units of comparison are not adjusted, but rather analyzed as to relevant differences, with the final estimate derived based on the general comparisons.

INCOME CAPITALIZATION APPROACH

The income capitalization approach reflects the subject’s income-producing capabilities. This approach is based on the assumption that value is created by the expectation of benefits to be derived in the future. Specifically estimated is the amount an investor would be willing to pay to receive an income stream plus reversion value from a property over a period of time. The two common valuation techniques associated with the income capitalization approach are direct capitalization and the discounted cash flow (DCF) analysis.

METHODOLOGY APPLICABLE TO THE SUBJECT

The subject consists of an airspace parcel; thus, the cost approach and income approaches to value are not applicable. In valuing the subject, only the sales comparison approaches is applicable and has been used.
AIRSPACE VALUE

The subject is a 3,690 square foot airspace parcel that is located above Jessie Square in the City of San Francisco, California. Jessie Square is a public plaza that is located on the north side of Mission Street, between Third and Fourth Streets. The subject is part of Assessor Block and Lot Number 3706-277, which is owned by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco. A portion of Assessor Block and Lot Number 3706-277 is proposed for development by an adjacent land owner (706 Mission Street Co., LLC) for a 43-story residential condominium project built over the Mexican Museum and supporting retail space. 706 Mission Street Co., LLC is pursuing entitlements for this new project to include the subject airspace as part of the Mexican Museum space.

The proposed tower will be adjacent to and physically connected to the existing 10-story Aronson Building, and will consist of 190 residential condominium units built over four floors occupied by the Mexican Museum with supporting ground level retail space. Floors two, three, and four of the Mexican Museum will cantilever over the Jessie Square Public Plaza into the airspace parcel, which is the subject of this report. The dimensions of the subject are approximately as follows: 123 feet long, 35 feet (3 stories) high, and 10 feet wide. This translates to an approximate volume of 43,050 cubic feet and an approximate square footage of 3,690 square feet.

It is a hypothetical condition that the subject airspace is deed restricted to be utilized as a cultural facility as part of the adjacent proposed mixed-use, museum/residential development.

Transferrable Development Rights

Transferrable development rights (TDRs) are units of gross floor area that may be transferred from one lot to another. The City of San Francisco has a transferrable development rights program that allows owners of historic or significant buildings to sell the potential development rights to any parcel owner within the same zoning district. Each one square foot of gross floor area is one unit of TDR. Transferring unused or excess TDR units allows a structure on a developable lot to be built that exceeds the basic floor area ratio, and, in return, enables the Preservation Lot to sell “excess” TDR units as an extra financial incentive towards the preservation of that structure.

As the subject consists of airspace that is located above a public plaza that is deed restricted for use as publically accessible open space, the most similar unit of comparison to the subject are TDRs. In valuing the subject airspace parcel, we have reviewed recent sales of TDRs as well as interviewed local market participants.
AIR RIGHTS SALES

In order to develop an opinion of value of the subject airspace, we have investigated the local market for sales of TDRs. Our investigation revealed two sales of development rights in San Francisco as detailed below.

**TDR Sale One – Transbay Office Tower**

According to the buyer’s broker, Boston Properties and Heinz (Joint Venture) purchased roughly 50,000 square feet of development rights in the first quarter of 2013 from Beacon Properties for $24.00 per TDR. It was reported that the TDRs were transferred from a property that Beacon Properties owns on Spear Street. The buyer’s broker indicated that development rights in San Francisco typically transfer from $24.00 to $25.00 per TDR and that this transaction represents the low end due to the larger tract of development rights.

The buyer will use the TDRs to construct a “signature” office tower within the Transbay Terminal area on the South side of Mission Street, between 1st and Fremont Streets in San Francisco. The planned office building will contain approximately 1.4 million square feet, approximately 1,070 feet in height, and will make it the tallest building on the West Coast.

**TDR Sale Two – City Place Retail Project**

Our files indicate that the developer of the proposed City Place Retail purchased 7,385 square feet of development rights in July of 2008 for $173,555, or $23.50 per TDR. It was not reported what property that the development rights transferred from. The City Place project is located on Market Street, between 5th and 6th Streets in San Francisco and is planned for the development of a 5-story, 260,000-square-foot retail project.

**CONCLUSION**

Comparable No. 1 represents a recent transaction of development rights that sold for $24.00 per square foot (TDR). Due to this comparable’s larger size in comparison to the subject, we anticipate the subject would trade at a unit value above this comparable.

Comparable No. 2 represents an older transaction of development rights that sold for $23.50 per square foot (TDR). Due to this comparable’s older sale date and larger size in comparison to the subject, we anticipate the subject would trade at unit value above this comparable.
MARKET PARTICIPANTS

As part of our analysis, we spoke with Edward Suharski, a real estate broker and developer with Fortress Property Group and Daniel Frattin, an attorney with Reuben, Junius and Rose.

Mr. Suharski has extensive experience with TDRs and has reportedly brokered or aided in the transaction of over 100 TDR sales in the City of San Francisco. According to Mr. Suharski, development rights in San Francisco are currently trading at $24.00 to $25.00 per TDR. He stated that he is not aware of any TDR sales ever occurring that are similar in size to the subject (3,690 sf). He believes that the subject would transfer at a value above the current going range, and estimated at $28.00 per TDR due to the subject’s small size.

Mr. Frattin is an attorney, who specializes in real estate transactions in San Francisco. Mr Frattin quoted a development rights value range from $24.00 to $25.00 per TDR in San Francisco.

The information provided by the local market participants is well supported by the Sale Comparables analyzed.

OVERALL CONCLUSION

Equal weight is given to the information provided by the local market participants and the Sale Comparables in our value conclusion. In consideration of the subject’s centralized location in San Francisco and small size of 3,690 square feet, as well as its deed restriction for cultural facility, we have concluded with an airspace value at $25.00 per square foot for the subject.

The following table presents the valuation conclusion:

<table>
<thead>
<tr>
<th>CONCLUDED LAND VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ PSF</td>
</tr>
<tr>
<td>$25.00</td>
</tr>
</tbody>
</table>

Indicated Value (Rounded): $90,000

Compiled by CBRE
RECONCILIATION OF VALUE

Based on the foregoing, the market value of the subject has been concluded as follows:

<table>
<thead>
<tr>
<th>Appraisal Premise</th>
<th>Interest Appraised</th>
<th>Date of Value</th>
<th>Value Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothetical</td>
<td>Fee Simple Estate</td>
<td>April 30, 2013</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

Compiled by CBRE
ASSUMPTIONS AND LIMITING CONDITIONS

1. Unless otherwise specifically noted in the body of the report, it is assumed that title to the property or properties appraised is clear and marketable and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. CBRE, Inc. is not aware of any title defects nor has it been advised of any unless such is specifically noted in the report. CBRE, Inc., however, has not examined title and makes no representations relative to the condition thereof. Documents dealing with liens, encumbrances, easements, deed restrictions, clouds and other conditions that may affect the quality of title have not been reviewed. Insurance against financial loss resulting in claims that may arise out of defects in the subject’s title should be sought from a qualified title company that issues or insures title to real property.

2. Unless otherwise specifically noted in the body of this report, it is assumed: that the existing improvements on the property or properties being appraised are structurally sound, seismically safe and code conforming; that all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; that the roof and exterior are in good condition and free from intrusion by the elements; that the property or properties have been engineered in such a manner that the improvements, as currently constituted, conform to all applicable local, state, and federal building codes and ordinances. CBRE, Inc. professionals are not engineers and are not competent to judge matters of an engineering nature. CBRE, Inc. has not retained independent structural, mechanical, electrical, or civil engineers in connection with this appraisal and, therefore, makes no representations relative to the condition of improvements. Unless otherwise specifically noted in the body of the report: no problems were brought to the attention of CBRE, Inc. by ownership or management; CBRE, Inc. inspected less than 100% of the entire interior and exterior portions of the improvements; and CBRE, Inc. was not furnished any engineering studies by the owners or by the party requesting this appraisal. If questions in these areas are critical to the decision process of the reader, the advice of competent engineering consultants should be obtained and relied upon. It is specifically assumed that any knowledgeable and prudent purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems. Structural problems and/or building system problems may not be visually detectable. If engineering consultants retained should report negative factors of a material nature, or if such are later discovered, relative to the condition of improvements, such information could have a substantial negative impact on the conclusions reported in this appraisal. Accordingly, if negative findings are reported by engineering consultants, CBRE, Inc. reserves the right to amend the appraisal conclusions reported herein.

3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. CBRE, Inc. has no knowledge of the existence of such materials on or in the property. CBRE, Inc., however, is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

We have inspected, as thoroughly as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representation is made as to these matters unless specifically considered in the appraisal.

4. All furnishings, equipment and business operations, except as specifically stated and typically considered as part of real property, have been disregarded with only real property being considered in the report unless otherwise stated. Any existing or proposed improvements, on or off-site, as well as any alterations or repairs considered, are assumed to be completed in a workmanlike manner according to standard practices based upon the information submitted to CBRE, Inc. This report may be subject to amendment upon re-inspection of the subject subsequent to repairs, modifications, alterations and completed new construction. Any estimate of Market Value is as of the date indicated; based upon the information, conditions and projected levels of operation.

5. It is assumed that all factual data furnished by the client, property owner, owner’s representative, or persons designated by the client or owner to supply said data are accurate and correct unless otherwise specifically noted in the appraisal report. Unless otherwise specifically noted in the appraisal report, CBRE, Inc. has no reason to believe that any of the data furnished contain any material error. Information and data referred to in this paragraph include, without being limited to, numerical street addresses, lot and block numbers, Assessor’s Parcel Numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any material error in any of the above data could have a substantial impact on the conclusions reported. Thus, CBRE, Inc. reserves the right to amend conclusions reported if made aware of any such error. Accordingly, the client-addressee should...
carefully review all assumptions, data, relevant calculations, and conclusions within 30 days after the date of delivery of this report and should immediately notify CBRE, Inc. of any questions or errors.

6. The date of value to which any of the conclusions and opinions expressed in this report apply, is set forth in the Letter of Transmittal. Further, that the dollar amount of any value opinion herein rendered is based upon the purchasing power of the American Dollar on that date. This appraisal is based on market conditions existing as of the date of this appraisal. Under the terms of the engagement, we will have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of the appraisal. However, CBRE, Inc. will be available to discuss the necessity for revision resulting from changes in economic or market factors affecting the subject.

7. CBRE, Inc. assumes no private deed restrictions, limiting the use of the subject in any way.

8. Unless otherwise noted in the body of the report, it is assumed that there are no mineral deposits or subsurface rights of value involved in this appraisal, whether they are gas, liquid, or solid. Nor are the rights associated with extraction or exploration of such elements considered unless otherwise stated in this appraisal report. Unless otherwise stated it is also assumed that there are no air or development rights of value that may be transferred.

9. CBRE, Inc. is not aware of any contemplated public initiatives, governmental development controls, or rent controls that would significantly affect the value of the subject.

10. The estimate of Market Value, which may be defined within the body of this report, is subject to change with market fluctuations over time. Market value is highly related to exposure, time promotion effort, terms, motivation, and conclusions surrounding the offering. The value estimate(s) consider the productivity and relative attractiveness of the property, both physically and economically, on the open market.

11. Any cash flows included in the analysis are forecasts of estimated future operating characteristics are predicated on the information and assumptions contained within the report. Any projections of income, expenses and economic conditions utilized in this report are not predictions of the future. Rather, they are estimates of current market expectations of future income and expenses. The achievement of the financial projections will be affected by fluctuating economic conditions and is dependent upon other future occurrences that cannot be assured. Actual results may vary from the projections considered herein. CBRE, Inc. does not warrant these forecasts will occur. Projections may be affected by circumstances beyond the current realm of knowledge or control of CBRE, Inc.

12. Unless specifically set forth in the body of the report, nothing contained herein shall be construed to represent any direct or indirect recommendation of CBRE, Inc. to buy, sell, or hold the properties at the value stated. Such decisions involve substantial investment strategy questions and must be specifically addressed in consultation form.

13. Also, unless otherwise noted in the body of this report, it is assumed that no changes in the present zoning ordinances or regulations governing use, density, or shape are being considered. The property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report is based, unless otherwise stated.

14. This study may not be duplicated in whole or in part without the specific written consent of CBRE, Inc. nor may this report or copies hereof be transmitted to third parties without said consent, which consent CBRE, Inc. reserves the right to deny. Exempt from this restriction is duplication for the internal use of the client-addresssee and/or transmission to attorneys, accountants, or advisors of the client-addresssee. Also exempt from this restriction is transmission of the report to any court, governmental authority, or regulatory agency having jurisdiction over the party/parties for whom this appraisal was prepared, provided that this report and/or its contents shall not be published, in whole or in part, in any public document without the express written consent of CBRE, Inc. which consent CBRE, Inc. reserves the right to deny. Finally, this report shall not be advertised to the public or otherwise used to induce a third party to purchase the property or to make a “sale” or “offer for sale” of any “security”, as such terms are defined and used in the Securities Act of 1933, as amended. Any third party, not covered by the exemptions herein, who may possess this report, is advised that they should rely on their own independently secured advice for any decision in connection with this property. CBRE, Inc. shall have no accountability or responsibility to any such third party.

15. Any value estimate provided in the report applies to the entire property, and any pro ration or division of the title into fractional interests will invalidate the value estimate, unless such pro ration or division of interests has been set forth in the report.

16. The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. Component values for land and/or buildings are not intended to be used in conjunction with any other property or appraisal and are invalid if so used.

17. The maps, plats, sketches, graphs, photographs and exhibits included in this report are for illustration purposes only and are to be utilized only to assist in visualizing matters discussed within this report. Except as specifically stated, data relative to size or area of the subject and comparable properties has been obtained from sources deemed accurate and reliable. None of the exhibits are to be removed, reproduced, or used apart from this report.
18. No opinion is intended to be expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers. Values and opinions expressed presume that environmental and other governmental restrictions/conditions by applicable agencies have been met, including but not limited to seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, licenses, etc. No survey, engineering study or architectural analysis has been made known to CBRE, Inc. unless otherwise stated within the body of this report. If the Consultant has not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranty is made concerning obtaining these items. CBRE, Inc. assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

19. Acceptance and/or use of this report constitutes full acceptance of the Contingent and Limiting Conditions and special assumptions set forth in this report. It is the responsibility of the Client, or client’s designees, to read in full, comprehend and thus become aware of the aforementioned contingencies and limiting conditions. Neither the Appraiser nor CBRE, Inc. assumes responsibility for any situation arising out of the Client’s failure to become familiar with and understand the same. The Client is advised to retain experts in areas that fall outside the scope of the real estate appraisal/consulting profession if so desired.

20. CBRE, Inc. assumes that the subject analyzed herein will be under prudent and competent management and ownership; neither inefficient nor super-efficient.

21. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.

22. No survey of the boundaries of the property was undertaken. All areas and dimensions furnished are presumed to be correct. It is further assumed that no encroachments to the realty exist.

23. The Americans with Disabilities Act (ADA) became effective January 26, 1992. Notwithstanding any discussion of possible readily achievable barrier removal construction items in this report, CBRE, Inc. has not made a specific compliance survey and analysis of this property to determine whether it is in conformance with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect on the value estimated herein. Since CBRE, Inc. has no specific information relating to this issue, nor is CBRE, Inc. qualified to make such an assessment, the effect of any possible non-compliance with the requirements of the ADA was not considered in estimating the value of the subject.

24. Client shall not indemnify Appraiser or hold Appraiser harmless unless and only to the extent that the Client misrepresents, distorts, or provides incomplete or inaccurate appraisal results to others, which acts of the Client approximately result in damage to Appraiser. Notwithstanding the foregoing, Appraiser shall have no obligation under this Section with respect to any loss that is caused solely by the active negligence or willful misconduct of a Client and is not contributed to by any act or omission (including any failure to perform any duty imposed by law) by Appraiser. Client shall indemnify and hold Appraiser harmless from any claims, expenses, judgments or other items or costs arising as a result of the Client’s failure or the failure of any of the Client’s agents to provide a complete copy of the appraisal report to any third party. In the event of any litigation between the parties, the prevailing party to such litigation shall be entitled to recover, from the other, reasonable attorney fees and costs.
ADDENDUM A

CLIENT CONTRACT INFORMATION
SECOND AMENDMENT TO
PERSONAL SERVICES CONTRACT

This SECOND AMENDMENT TO PERSONAL SERVICES CONTRACT (“First Amendment”) is entered into as of June 7, 2013 (the “Effective Date”) by and between the SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO, a public body, corporate and politic (the “Successor Agency”), and CBRE, Inc. (the “Contractor”). This Second Amendment is entered into based upon the following facts, intentions and understandings of the parties:

RECITALS

A. The City and County of San Francisco (the “City”) and Successor Agency have an ongoing need for services from real estate appraisal firms to provide valuation and evaluation services regarding a variety of real estate properties and interests throughout the City and in all redevelopment project areas under the Successor Agency's jurisdiction.

B. A Request for Qualifications (“RFQ”) for Real Estate Appraisal Services was issued by the City’s Department of Real Estate on January 8, 2008.

C. On March 11, 2008, a Notice of Intent (“NOI”) was issued to the firms selected to be on the pre-qualified real estate appraisal panel. The Contractor was one of the firms on the list.

D. On April 9, 2013, the Successor Agency and Contractor entered into a Personal Services Contract (the “Contract”) in an amount not to exceed $20,000 for the valuation of certain properties that the Successor Agency owns in San Francisco, California. These properties are commonly known as (1) the Jessie Square Garage; (2) Parcel CB-1-MM; and (3) Jessie Square, as such properties are more particularly described in the Scope of Development attached hereto as Attachment A. The Successor Agency is considering sale of the Jessie Square Garage and Parcel CB-1-MM to 706 Mission Street Co LLC (the “Developer”) as part of a planned mixed-use residential/museum/retail project to be constructed on Parcel CB-1-MM and an adjacent property that is owned by the Developer and is commonly known as 706 Mission Street (the “Project”). Pursuant to the Exclusive Negotiation Agreement between the Successor Agency and Developer (the “ENA”), the Developer is responsible for paying all of the Successor Agency’s project-related transaction costs, which include the Contract and any amendments to the Contract.

E. The Successor Agency and the Contractor entered into a First Amendment to the Contract to increase the maximum Contract amount by $6,000, for a total aggregate amount not to exceed $26,000, so that the Contractor could value an airspace parcel above Jessie Square, which the Successor Agency may also convey to Developer as part of the Project.

F. The Successor Agency and the Contractor desire to enter into this Second Amendment to increase the maximum Contract amount by $2,000, for a total aggregate amount not to exceed $28,000, to update the valuation of Parcel CB-1-MM to reflect the fact that the height of the Project, as approved by the Planning Commission on May 23, 2013, has been reduced to 480 feet (plus a 30-foot-tall elevator/mechanical penthouse), and to make certain other modifications to the Scope of Services.
G. Under the Redevelopment Dissolution Law successor agencies only have the authority to enter into new contracts in compliance with enforceable obligations that existed prior to June 28, 2011 and in accordance with Health and Safety Code 341773 (a). The Successor Agency has determined that the Contract complies with the terms of the ENA, an existing enforceable obligation that commenced on July 15, 2008.

NOW, THEREFORE, the Successor Agency and the Contractor agree as follows:

1. The Contract shall be amended as follows:
   a. The first sentence of Section 3.A. is hereby deleted in its entirety and replaced with the following:

   “The maximum amount payable under this Contract is Twenty-Eight Thousand Dollars ($28,000.00).”

   b. Attachment A (“Scope of Services”) to the Contract is hereby deleted in its entirety and the document at Exhibit A hereto is substituted in lieu thereof.

   c. Attachment B (“Budget and Fee Schedule”) to the Contract is hereby deleted in its entirety and the document at Exhibit B hereto is substituted in lieu thereof.

2. Miscellaneous.
   a. This Second Amendment constitutes a part of the Contract and any reference to the Contract shall be deemed to include a reference to the Contract as amended by this Second Amendment.

   b. Except as otherwise amended hereby, all terms, covenants, conditions and provisions of the Contract shall remain in full force and effect.

   c. This Second Amendment shall be binding upon and inure to the benefit of the successors and assigns of the Agency and the Contractor, subject to the limitations set forth in the Contract.

   d. This Second Amendment may be executed in any number of counterparts, all of which, together, shall constitute the original agreement.

[ REMAINDER OF PAGE INTENTIONALLY BLANK ]
IN WITNESS WHEREOF the Successor Agency and Contractor have executed this First Amendment as of the date first above written.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO, a public body corporate and politic

By: ________________________________
   Tiffany J. Bohee
   Executive Director

CBRE, INC., a Delaware corporation

By: ________________________________
   Federal Tax Identification No. ____________

APPROVED AS TO FORM:

By: ________________________________
   Heidi J. Gewertz
   Deputy City Attorney
EXHIBITS

Exhibit A: Attachment A2 – Amended Scope of Services
Exhibit B: Attachment B2 – Amended Budget and Schedule
ATTACHMENT A2: AMENDED SCOPE OF SERVICES

Task A:

The Contractor shall prepare a self-contained narrative summary appraisal report (in accordance with the Appraisal Institute’s Standards Rule 2-2 (a)) on three Successor Agency-owned properties in the former Yerba Buena Center Redevelopment Project Area: (1) Jessie Square Garage; (2) Parcel CB-1-MM; and (3) Jessie Square, each as more particularly described below. Each of these three (3) parcels shall be separately appraised. The reasons, purposes and requirements for the appraisal report are as described below.

The appraisal report shall be prepared in full compliance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation, and the Code of Professional Ethics including the Standards of Professional Appraisal Practice (SPP) as established by the Appraisal Institute. Notwithstanding anything in the Contract to the contrary, Contractor shall have no liability in connection with any incorrect or misleading information provided by or on behalf of the Successor Agency.

1. Jessie Square Garage

The Jessie Square Garage (Block 3706, Lot 275 and portion of Lot 277) is a below grade parking garage that currently contains approximately 442 spaces of public parking over four subterranean levels and is managed by a professional garage operator. Of those 442 spaces, 70 spaces are leased to an adjacent property owner for reserved parking for a health club and there are letter agreements with several of the neighboring property owners for use of the garage. The Successor Agency is considering selling the Jessie Square Garage to 706 Mission Street Co LLC (the “Developer”) as part of a planned mixed-use residential/museum/retail project on CB-1-MM Parcel and the adjacent 706 Mission Street Parcel (“706 Mission Mixed-Use Project”).

The Successor Agency wants to know the current “fair market value” of the fee simple interest of the Jessie Square Garage, as the term “fair market value” is professionally defined in the real estate community. For the purposes of this Contract, the “Jessie Square Garage” is comprised of (a) the existing 442-space garage, including that certain portion of the garage area below the existing Jewish Museum and adjacent to the mezzanine level of the garage, and (b) the Stevenson Street ramp for the Jessie Square Garage (which is a separate legal parcel) (the “Ramp Parcel”), and (c) all land below the Jessie Square Garage without a lower vertical limit, in each case together with all appurtenant easements and other rights related thereto.

2. Parcel CB-1-MM

Parcel CB-1-MM (Block 3706, portion of Lot 277) is also known as the Mexican Museum Parcel. Parcel CB-1-MM is an approximately 9,778-square-foot parcel fronting Mission Street between 706 Mission Street and Jessie Square, and is improved with an approximately 18,000 gsf, two level substructure that was constructed when the Jessie Square Garage was built. The Mission Street exit ramp from the Jessie Square Garage runs through Parcel CB-1-MM pursuant to an easement agreement. The Successor Agency is considering selling Parcel CB-1-MM to the Developer as part of the 706 Mission Mixed-Use Project.
The Successor Agency wants to know the following:

1. The current “fair market value” of the fee simple interest of Parcel CB-1-MM, as the term “fair market value” is professionally defined in the real estate community.

2. The “restricted use value” of the fee simple interest of Parcel CB-1-MM assuming a deed restriction requiring a cultural facility of not less than 35,000 NSF on the site.

For the purposes of the Contract, Parcel CB-1-MM shall extend from the center of the earth to the heavens (i.e., Parcel CB-1-MM shall have no upper or lower vertical limits), and shall be deemed to include all appurtenant easements and other rights related thereto.

3. Jessie Square

Jessie Square (Block 3706, portion of Lot 277) is a 38,000-square-foot public plaza situated between St. Patrick's church, the Jewish Museum, and Parcel CB-1-MM, and shall be deemed to include all appurtenant easements and other rights related thereto, but shall exclude (a) all real property interests that constitute the Jessie Square Garage (since Jessie Square is located in part above the Jessie Square Garage), and (b) the Jessie Square Airspace Parcel. The Successor Agency is required to dispose of Jessie Square pursuant to AB 1484, although a potential Buyer has not yet been identified. The Successor Agency wants to know the “restricted use value” of the fee simple interest of Jessie Square, which will be deed restricted as publically accessible open space.

Prior to finalizing the appraisal report, Contractor shall provide an administrative draft to the Successor Agency and Developer, and the Successor Agency and Developer shall have five (5) business days to review and provide any comments to Contractor (a copy of the Successor Agency’s comments will also be sent to Developer and a copy of the Developer’s comments will also be sent to the Successor Agency) regarding such administrative draft. Contractor agrees to in good faith consider and address in the final appraisal report any such comments provided by Successor Agency and/or Developer within such period.

Task B:

As an addendum to the appraisal report prepared pursuant to Task A above, the Contractor shall prepare a self-contained narrative summary appraisal report (in accordance with the Appraisal Institute’s Standards Rule 2-2 (a)) on the Jessie Square Airspace Parcel, as more particularly described below. The reasons, purposes and requirements for the appraisal report are as described below.

The appraisal report shall be prepared in full compliance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation, and the Code of Professional Ethics including the Standards of Professional Appraisal Practice (SPP) as established by the Appraisal Institute. Notwithstanding anything in the Contract to the contrary, Contractor shall have no liability in connection with any incorrect or misleading information provided by or on behalf of the Successor Agency.
1. **Jessie Square Airspace Parcel**

The Jessie Square Airspace Parcel is a small airspace parcel at the eastern boundary of Jessie Square that encompasses the portion of the proposed museum/tower that would otherwise encroach into Jessie Square airspace. The dimensions of the Jessie Square Airspace Parcel are approximately as follows: 123 feet long, 35 feet (3 stories) tall, and 10 feet wide. This translates to an approximate volume of 43,050 cubic feet and an approximate square footage of 3,690 square feet. The Successor Agency wants to know the “restricted use value” of the fee simple interest of the Jessie Square Airspace parcel, which will be deed restricted as a cultural facility.

Prior to finalizing the appraisal report, Contractor shall provide an administrative draft to the Successor Agency and Developer, and the Successor Agency and Developer shall have five (5) business days to review and provide any comments to Contractor (a copy of the Successor Agency’s comments will also be sent to Developer and a copy of the Developer’s comments will also be sent to the Successor Agency) regarding such administrative draft. Contractor agrees to in good faith consider and address in the final appraisal report any such comments provided by Successor Agency and/or Developer within such period.

**Task C**

1. As an addendum to the appraisal report prepared pursuant to Task A above, the Contractor shall update the appraisal report for Parcel CB-1-MM to reflect the following:

   - First, since the Contract was originally entered into by the parties, the Developer has reduced the height of the proposed tower component of the Project from 520 feet (plus a 30-foot-tall elevator/mechanical penthouse) to 480 feet (plus a 30-foot-tall elevator/mechanical penthouse). The number of floors in the proposed tower was reduced from 47 floors to 43 floors. As a result of this reduction in height, the maximum number of dwelling units that the Project would provide was reduced from 215 dwelling units to 190 dwelling units. At least 18 of those dwelling units will be located in the Aronson Building that is owned by the Developer. The reduced height Project would contain a total of approximately 677,360 gsf (not including Jessie Square Garage), with approximately 537,770 gsf of residential uses, approximately 22,200 gsf of residential amenity space, approximately 52,285 gsf of cultural/museum space, approximately 4,800 gsf of retail/restaurant space, approximately 15,552 gsf of storage space, and approximately 44,369 gsf of building core, mechanical, and service space. The Contractor shall update the Parcel CB-1-MM appraisal report so that it is consistent with the reduced height of the Project.

   - Second, in determining the fair market value of Parcel CB-1-MM, the appraisal report assumed that the entire tower, and all of the dwelling units in the proposed tower (up to 187 under the originally proposed Project), would be constructed on Parcel CB-1-MM. The proposed tower, however, would in fact be constructed partially on Parcel CB-1-MM and partially on the Aronson Building Parcel (Block 3706, Lot 093), which is owned by the Developer. More specifically, approximately 73.1% (9,500 square feet) of the footprint of the proposed tower is within Parcel CB-1-MM, and the remaining approximately 26.9% (3,490 square feet) of the tower footprint is located within the Aronson Building parcel.
Because the maximum total number of residential units under the reduced height Project is 190 units, and because the minimum number of those 190 units that would be located within the Aronson Building is 18 units, the maximum number of units that could be constructed in the 480 foot tall tower is 172 units. In addition, the appraisal need to take into consideration that only approximately 73.1% (9,500 square feet) of the footprint of the proposed tower is within Parcel CB-1-MM, and the remaining approximately 26.9% (3,490 square feet) of the tower footprint is located within the Aronson Building parcel that is owned by the Developer.

2. As part of, or as a supplemental addendum to, the Jessie Square Airspace Parcel addendum prepared pursuant to Task B above, the Contractor shall update the appraisal report for the Jessie Square Airspace Parcel to reflect the reduced size of the Project, as described in Part C.1 above.
ATTACHMENT B2: AMENDED BUDGET AND SCHEDULE

A. **Budget.** The amount payable under this Contract is Twenty-Six Thousand Dollars ($26,000). Compensation shall be paid in one or more payments, based upon completion of the mutually agreed upon “Scope of Services” (Attachment A). All expenses of Contractor are included, and no expenses shall be reimbursed separately.

B. **Schedule.** The Scope of Services for Task A shall be completed within three (3) weeks of the Effective Date of the Contract. The Scope of Services for Task B shall be completed within two (2) weeks of the Effective Date of the First Amendment. The Scope of Services for Task C shall be completed within one (1) week of the Effective Date of the Second Amendment.
ADDENDUM B

QUALIFICATIONS
QUALIFICATIONS OF

ELIZABETH CHAMPAGNE, MAI, MRICS
Senior Managing Director

CBRE, Inc., Valuation & Advisory Services
350 Sansome Street, Suite 840
San Francisco, California 94104
T: (415) 986-7395
F: (415) 986-6862
Elizabeth.Champagne@cbre.com

EDUCATIONAL

Bachelor of Science Degree, Horticulture, Washington State University, Pullman, Washington
Successfully completed all the necessary courses to qualify for the MAI designation, and to meet
continuing education requirements.

LICENSE(S)/CERTIFICATION(S)

California OREA Certified General Real Estate Appraiser No. AG025144 Expires 11/17/14

PROFESSIONAL

Appraisal Institute
Designated Member (MAI), Certificate No. 9390

Royal Institution of Chartered Surveyors
Designated Member (MRICS), Certificate No. 1277002

EMPLOYMENT EXPERIENCE

Over 20 years of professional experience in the fee preparation/review of real estate appraisals,
feasibility studies, rent analyses and market studies of commercial and residential properties.
Primary experience encompasses a wide variety of property types including office, retail, industrial,
multifamily, hotel, medical office, skilled nursing facility, residential care, restaurant, parking
garage, car wash, residential subdivision, bank branch and special purpose.

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<th>Position</th>
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<td>CBRE, Inc.</td>
<td>Senior Managing Director</td>
<td>San Francisco, CA</td>
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<td>1994-1997</td>
<td>The Property Sciences Group Inc.</td>
<td>Senior Vice President</td>
<td>Pleasant Hill, CA</td>
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<td>The Codman Company</td>
<td>Senior Appraiser &amp; Manager</td>
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<td>The Krupp Company</td>
<td>Acquisitions Analyst</td>
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<td>City of Newton</td>
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<td>1977-1981</td>
<td>USDI Fish and Wildlife Service</td>
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<td>1975-1977</td>
<td>USDA Farmers Home Admin. and HUD</td>
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Business, Transportation & Housing Agency
OFFICE OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

M. Elizabeth Champagne

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

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

OREA APPRAISER IDENTIFICATION NUMBER:  AG 025144

Effective Date:  November 18, 2012
Date Expires:  November 17, 2014

Jim Martin, Director, OREA
QUALIFICATIONS OF

STAN WOLF, MAI
Vice President

CBRE, Inc., Valuation & Advisory Services
350 Sansome Street, Suite 840
San Francisco, California 94104
T: (415) 986-1548
F: (415) 986-6862
Stan.Wolf@cbre.com

EDUCATIONAL

Bachelor of Science Degree, Business (major), Communications (minor)
Southern Oregon State College, Ashland, Oregon

Master of Science Degree, Business Management
Troy State University, Troy, Alabama

Successfully completed all the necessary courses to qualify for the MAI designation, and to meet continuing education requirements.

LICENSE(S)/CERTIFICATION(S)

California OREA Certified General Real Estate Appraiser No. AG044533 Expires 05/16/14

PROFESSIONAL

Appraisal Institute
Designated Member (MAI), Certificate No. 11474

EMPLOYMENT EXPERIENCE

Approximately 20 years of professional experience in the fee preparation/review of real estate appraisals, feasibility studies, rent analyses and market studies of commercial, industrial and residential properties. Primary experience encompasses a wide variety of property types including office, retail, industrial, restaurant, multifamily, medical office, manufacturing home communities, mini-storage, and subdivision. Experience also includes special purpose properties such as skilled nursing facility, residential care, parking garage, regional malls, service stations, churches, banks, schools, etc.

2010-Present  CBRE, Inc. – Staff Appraiser  San Francisco, CA
2007-2010  PGP Valuation, Inc. – Managing Director  Dallas, TX
1999-2007  CB Richard Ellis – Staff Appraiser  Seattle, WA
1994-1999  Hermann & Company – Staff Appraiser  Portland, OR
1992-1994  Powell, Goss & Hermann – Staff Appraiser  Portland, OR
1991-1992  Mark D. Barry & Associates - Staff Appraiser  Portland, OR
STATE OF CALIFORNIA

Business, Transportation & Housing Agency

OFFICE OF REAL ESTATE APPRAISERS

REAL ESTATE APPRAISER LICENSE

STANLEY E. WOLF

has successfully met the requirements for a license as a general real estate appraiser in the State of California and is, therefore, entitled to use the title "Certified General Real Estate Appraiser".

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

OREA APPRAISER IDENTIFICATION NUMBER

AG044533

Date Issued: May 17, 2012
Date Expires: May 16, 2014

Diane Westphal
Deputy Director, OREA

Audit No. 140117
QUALIFICATIONS OF

Thomas A. Corry
Appraiser

CBRE, Inc., Valuation & Advisory Services
350 Sansome Street, Suite 840
San Francisco, California 94104
T: 415.986.7258
F: 415.986.6862
Tom.Corry@cbre.com

EDUCATIONAL

Bachelor of Science in Agricultural Business
California Polytechnic State University, San Luis Obispo, CA

LICENSE(S)/CERTIFICATION(S)

Appraiser Trainee License: State of California (No. AT043226)

EMPLOYMENT EXPERIENCE

Professional experience in providing real estate valuation and consulting services for a wide variety of property types including office, retail, industrial, multifamily, land, and special purpose facilities.

2011 - Present  Appraiser; CBRE, Inc.  San Francisco, CA
2007 - 2011  Appraiser; Dunn & Associates  Walnut Creek, CA
2005 - 2007  Project Administrator; Walsh Construction Co.  Sacramento, CA
TOM A. CORRY

has successfully met the requirements for trainee licensing as a real estate appraiser in the State of California and is, therefore, entitled to use the title "Real Estate Trainee Appraiser".

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

OREA APPRAISER IDENTIFICATION NUMBER  AT043226

Date Issued:  October 31, 2011
Date Expires:  October 30, 2013

Bob Clark

Director, OREA

Audit No. 136709