

**Integra Realty Resources**

**Metro LA**

**In Association with Valbridge Property Advisors | Hilberg and Associates, Inc.**

**Appraisal Of Real Property**

**A Retail Building**

701 10th Street

Modesto, Stanislaus County, California 95354

Client Reference Number: 50-H1-2013-3-15-007

**Prepared For:**

Administrative Office of the Courts

**Effective Date of the Appraisal:**

April 15, 2013

**IRR - Metro LA**

File Number: 165-2013-0249





May 1, 2013

Ed Peterson  
Portfolio Administration Analyst  
Administrative Office of the Courts  
455 Golden Gate Avenue 8th Floor (OCCM)  
San Francisco, California 94102

SUBJECT: Fair Market Value Appraisal  
A Retail Building  
701 10th Street  
Modesto, Stanislaus County, California 95354  
Client Reference Number: 50-H1-2013-3-15-007  
Integra Metro LA File No. 165-2013-0249

Dear Mr. Peterson:

Integra Realty Resources – Metro LA is pleased to submit the accompanying appraisal of the referenced property. Appraisers of Valbridge Property Advisors | Hulberg and Associates, Inc. based in Modesto, CA prepared the report. The purpose of the appraisal is to develop an opinion of the fair market value of the fee simple interest of the referenced property. The client for the assignment is the Administrative Office of the Courts, and the intended use is for property acquisition purposes.

The appraisal is intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, applicable state appraisal regulations, and the appraisal guidelines of the Department of General Services.

To report the assignments results, the summary report option of Standards Rule 2-2 of USPAP is used. Accordingly, this report contains summary discussions of the data, reasoning, and analyses that are used in the appraisal process.

Based on the data and valuation analysis in the accompanying report, and subject to the definitions, assumptions, and limiting conditions that follow, I accept the opinion of value as follows:


VALUE CONCLUSION			
Appraisal Premise	Interest Appraised	Date of Value	Value Conclusion
Fair Market Value - 701 10th Street, Modesto, CA	Fee Simple	April 15, 2013	\$270,000

Ed Peterson  
Administrative Office of the Courts  
May 1, 2013  
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If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

**INTEGRA REALTY RESOURCES - METRO LA**



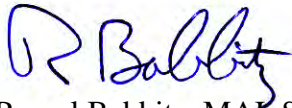
Russel Babbitz, MAI, SRA  
Certified General Real Estate Appraiser  
California Certificate # AG005174  
Telephone: (714) 665-6515  
Email: rbabbitz@kileycompany.com

## Certification

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We have previously reviewed and accepted the value opinion that Hulberg & Associates prepared for the property that is the subject of this report. This was done for the current client within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. The 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 applicable state appraisal regulations.
9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. Russel Babbitz, MAI, SRA did not make a personal inspection of the property that is the subject of this report.
12. The accompanying report was wholly prepared by the undersigned appraisers of Vaslbridge Property Advisors | Hulberg and Associates, Inc. who signed a separate certification.
13. I have experience in appraising properties similar to the subject and am in compliance with the Competency Rule of USPAP.

14. As of the date of this report, Russel Babbitz, MAI, SRA, has completed the continuing education program of the Appraisal Institute.



Russel Babbitz, MAI, SRA  
Certified General Real Estate Appraiser  
California Certificate # AG005174



**Valbridge**  
PROPERTY ADVISORS

## APPRAISAL REPORT

701 10<sup>th</sup> Street  
Modesto, California



PREPARED FOR  
Mr. Ed Peterson  
Portfolio Administration Analyst  
Judicial Council of California  
Administrative Office of the Courts  
455 Golden Gate Avenue, 8th Floor (OCCM)  
San Francisco, CA 94102

PREPARED BY  
Valbridge Property Advisors  
Hulberg & Associates, Inc.

OUR FILE NUMBER  
CA05-13-0040-003 CVs

**Valbridge Property Advisors  
Hulberg & Associates, Inc.**

2813 Coffee Road, Suite E-2  
Modesto, CA 95355  
209-569-0450  
209-569-0451 fax  
*valbridge.com*

May 1, 2013

Mr. Ed Peterson  
Portfolio Administration Analyst  
Judicial Council of California  
Administrative Office of the Courts  
455 Golden Gate Avenue, 8<sup>th</sup> Floor (OCCM)  
San Francisco, CA 94102

RE: Appraisal of 701 10th Street, Modesto, California

Dear Mr. Peterson:

As requested, we have prepared an appraisal of the above referenced property. Notably, we appraised the subject property for you in July 2011, and this appraisal is considered effectively an extension of that prior assignment. This report will reflect a current valuation analysis resulting in our value conclusion, but for the sake of brevity, much of the descriptive content has been minimized. Please find a copy of the prior 2011 appraisal report in the addendum. This prior report contains all of the descriptive detail not contained herein.

The physical address of the subject of this appraisal is 701 10th Street, Modesto, California. The subject is further identified as Stanislaus County Assessor's Parcel Number 106-042-007. The property is located at the northwest corner of 10th & G Streets. The underlying site measures approximately 0.32 acres, or about 13,939 square feet. The site is improved with a commercial building of 7,048 square feet, plus a partial second level of 952 square feet. The building was previously occupied by a Greyhound bus station, which vacated several years ago. Although it is currently vacant, a portion is utilized by the current owner as storage/garage space.

The purpose of this appraisal assignment is to develop and communicate our opinion of the current fair market value of the subject property. The effective date of valuation is April 15, 2013. Although the property is leased, the property rights appraised are those of the fee simple estate (i.e. all of the legal property rights of ownership). The property is appraised free and clear of liens and encumbrances, such as mortgages or assessments outstanding.

Judicial Council of California, Administrative Office of the Courts is the client in this assignment and is the sole intended user of the appraisal and report. The intended use of the results of our work is to aid in negotiating a possible purchase price for the subject property.

The appraisal was developed and this report was prepared in compliance with the requirements of The Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include The Uniform Standards of Professional Appraisal Practice (USPAP), and the Requirements of the General Services Appraisal Specifications, as we understand them.

This is a summary appraisal report, with much of the descriptive information reflected in the prior appraisal report contained in the addendum. The depth of discussion contained in this report is specific to the needs of the client and for the intended use. The appraisers are not responsible for unauthorized use of this report.



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**ADDENDUM**

# Certification

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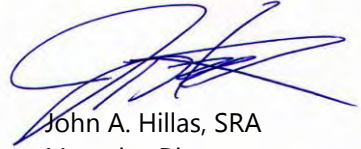
We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We previously appraised the subject property but have performed no other services, as an appraiser or in any other capacity, regarding the property that is the subject of the appraisal within the three-year period immediately preceding acceptance of this assignment.
5. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. Our analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. John A. Hillas, SRA made a personal inspection of the property that is the subject of this report. Norman C. Hulberg, MAI has not physically viewed the subject of this appraisal.
10. Benny J. Denice and Georgia Kuhnhoff assisted in the compilation and confirmation of market data. No one else provided significant real property appraisal assistance to the persons signing this certification.
11. 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 the Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

13. As of the date of this report, I, John A. Hillas, SRA, have completed the continuing education program for Designated Members of the Appraisal Institute.
  
14. As of the date of this report, I, Norman C. Hulberg, MAI, have completed the continuing education program for Designated Members of the Appraisal Institute.



Norman C. Hulberg, MAI  
Senior Managing Director  
California Certified General R. E. Appraiser  
Certificate No.: AG003542 (06/26/2014)



John A. Hillas, SRA  
Managing Director  
California Certified General R. E. Appraiser  
Certificate No.: AG002432 (01/21/2015)

# Assumptions & Limiting Conditions

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## GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following:

1. No responsibility is assumed for matters legal in character, nor is any opinion rendered by us to title which is assumed to be marketable. All existing liens and encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management unless otherwise noted.
2. The stamps and/or consideration placed on deeds used to indicate sales are in correct relationship to the actual dollar amount of the transaction.
3. Unless otherwise noted, it is assumed there are no encroachments, zoning violations or restrictions existing in the subject property.
4. The appraiser is not required to give testimony or attendance in court by reason of this appraisal, unless previous arrangements have been made.
5. Unless expressly specified in this Agreement, the fee for this appraisal does not include the attendance or giving of testimony by Appraiser at any court, regulatory, or other proceedings, or any conferences or other work in preparation for such proceeding. If any partner or employee of Valbridge Property Advisors | Hulberg & Associates, Inc. is asked or required to appear and/or testify at any deposition, trial, or other proceeding about the preparation, conclusions or any other aspect of this assignment, client shall compensate Appraiser for the time spent by the partner or employee in appearing and/or testifying and in preparing to testify according to the Appraiser's then current hourly rate plus reimbursement of expenses.
6. The values for land and/or improvements, as contained in this report, are constituent parts of the total value reported and neither is (or are) to be used in making a summation appraisal of a combination of values created by another appraiser. Either is invalidated if so used.
7. The dates of value to which the opinions expressed in this report apply are set forth in this report. We assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions.
8. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraiser has made no survey of the property and assumed no responsibility in connection with such matters.
9. The information, estimates and opinions which were obtained from sources outside of this office, are considered reliable. However, no liability for them can be assumed by the appraiser.

10. The Valbridge Property Advisors office responsible for the preparation of this report is independently owned and operated by Hulberg & Associates, Inc. Valbridge Property Advisors, Inc. has not been engaged to provide this report, does not provide valuation services, and has taken no part in the preparation of this report.
11. Possession of this report, or a copy thereof, does not carry with it the right of publication. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to property value, the identity of the appraisers, professional designations, reference to any professional appraisal organization or the firm with which the appraisers are connected), shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval.
12. No claim is intended to be expressed for matters of expertise which would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers. We claim no expertise in areas such as, but not limited to, legal, survey, structural, environmental, pest control, mechanical, etc.
13. This appraisal was prepared for the sole and exclusive use of the client. Any party who is not the client or intended user identified in the appraisal or engagement letter is not entitled to rely upon the contents of the appraisal without express written consent of Valbridge Property Advisors | Hulberg & Associates, Inc. and Client. The appraiser assumes no liability for unauthorized use of the appraisal report by a third party.
14. This appraisal shall be considered in its entirety. No part thereof shall be used separately or out of context.
15. The value opinion provided herein is subject to any and all predications set forth in this report.
16. If required by governmental authorities, any environmental impact statement prepared for the subject property will be favorable and will be approved.
17. Unless otherwise noted in the body of this report, this appraisal assumes that the subject property does not fall within the areas where mandatory flood insurance is effective. Unless otherwise noted, we have not completed nor have we contracted to have completed an investigation to identify and/or quantify the presence of nontidal wetland conditions on the subject property. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
18. If the appraisal is for mortgage loan purposes 1) we assume satisfactory condition of improvements if construction is not complete, 2) no consideration has been given rent loss during rent-up unless otherwise noted in the body of this report, and 3) occupancy at levels consistent with our "Income & Expense Projection" are anticipated.
19. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

20. Our inspection included an observation of the land and improvements thereon only. It was not possible to observe conditions beneath the soil or hidden structural components within the improvements. We inspected the buildings involved, and reported damage (if any) by termites, dry rot, wet rot, or other infestations as a matter of information, and no guarantee of the amount or degree of damage (if any) is implied. Condition of heating, cooling, ventilation, electrical and plumbing equipment is considered to be commensurate with the condition of the balance of the improvements unless otherwise stated.
21. This appraisal does not guarantee compliance with building code and life safety code requirements of the local jurisdiction. It is assumed that all required licenses, consents, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value conclusion contained in this report is based unless specifically stated to the contrary.
22. When possible, we have relied upon building measurements provided by the client, owner, or associated agents of these parties. In the absence of a detailed rent roll, reliable public records, or "as-built" plans provided to us, we have relied upon our own measurements of the subject improvements. We follow typical appraisal industry methods; however, we recognize that some factors may limit our ability to obtain accurate measurements including, but not limited to, property access on the day of inspection, basements, fenced/gated areas, grade elevations, greenery/shrubbery, uneven surfaces, multiple story structures, obtuse or acute wall angles, immobile obstructions, etc. Professional building area measurements of the quality, level of detail, or accuracy of professional measurement services are beyond the scope of this appraisal assignment.
23. We have attempted to reconcile sources of data discovered or provided during the appraisal process, including assessment department data. Ultimately, the measurements that are deemed by us to be the most accurate and/or reliable are used within this report. While the measurements and any accompanying sketches are considered to be reasonably accurate and reliable, we cannot guarantee their accuracy. Should the client desire a greater level of measuring detail, they are urged to retain the measurement services of a qualified professional (space planner, architect or building engineer). We reserve the right to use an alternative source of building size and amend the analysis, narrative and concluded values (at additional cost) should this alternative measurement source reflect or reveal substantial differences with the measurements used within the report.
24. In the absence of being provided with a detailed land survey, we have used assessment department data to ascertain the physical dimensions and acreage of the property. Should a survey prove this information to be inaccurate, we reserve the right to amend this appraisal (at additional cost) if substantial differences are discovered.
25. If only preliminary plans and specifications were available for use in the preparation of this appraisal, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and we reserve the right to amend this appraisal if substantial differences are discovered.

26. This appraisal is not intended to be used, and may not be used, on behalf of or in connection with a real estate syndicate or syndicates. A real estate syndicate means a general or limited partnership, joint venture, unincorporated association or similar organization formed for the purpose of, and engaged in, an investment or gain from and interest in real property, including, but not limited to a sale or exchange, trade or development of such real property, on behalf of others, or which is required to be registered with the United States Securities and Exchange Commission or any state regulatory agency which regulates investments made as a public offering. It is agreed that any user of this appraisal who uses it contrary to the prohibitions in this section indemnifies the appraiser and the appraiser's firm and holds them harmless of and from all claims, including attorney's fees, arising from said use.
27. 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 appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value conclusion is predicted 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.
28. We have not made a specific compliance survey of the property to determine if it is in conformity with the various requirements of the Americans with Disabilities Act ("ADA") which became effective January 26, 1992. It is possible that a compliance survey of the property, together with an analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in developing an opinion of value.
29. This appraisal applies to the land and building improvements only. The value of trade fixtures, furnishings, and other equipment, or subsurface rights (minerals, gas, and oil) were not considered in this appraisal unless specifically stated to the contrary.
30. If any claim is filed against any of Valbridge Property Advisors, Inc. a Florida Corporation, its affiliates, officers or employees, or the firm providing this report, in connection with, or in any way arising out of, or relating to, this report, or the engagement of the firm providing this report, then (1) under no circumstances shall such claimant be entitled to consequential, special or other damages, except only for direct compensatory damages and (2) the maximum amount of such compensatory damages recoverable by such claimant shall be the amount actually received by the firm engaged to provide this report.
31. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated, unless specifically stated to the contrary.
32. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute prediction of future operating results. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance.

33. Any estimate of insurable value, if included within the scope of work and presented herein, is based upon figures developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and noninsurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage. This analysis should not be relied upon to determine insurance coverage and we make no warranties regarding the accuracy of this estimate.
34. It is your responsibility to read the report and to inform the appraiser of any errors or omissions of which you are aware, prior to utilizing the report.
35. This report and any associated work files are subject to evaluation by Valbridge Property Advisors, Inc. for quality control purposes.
36. All disputes shall be settled by binding arbitration in accordance with then then-existing commercial arbitration rules of the American Arbitration Association (the "AAA").
37. Acceptance of and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions.

## **EXTRAORDINARY ASSUMPTIONS**

1. No responsibility is assumed for the legal description provided. The legal description used in this report is assumed to be correct.
2. The analyses and conclusions presented within this report are predicated on the assumption that all data provided by others are factual and correct.
3. The appraisers are not engineers, building contractors or repair cost estimators. We assume that there are no hidden defects or issues present that would detract from the value. We have included estimates herein for improvements/repairs but these are subject to revision based upon review of any estimates from an engineer or contractor.

The public records reflect the building size as 7,744 square feet. Our measurements indicate a floor area of 7,048 square feet plus a partial second level of 952 square feet.

## **HYPOTHETICAL CONDITIONS**

1. None.

## Summary of Salient Facts

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Property Type:	Commercial Building
Property Location:	701 10 <sup>th</sup> Street, Modesto, CA 95354
Assessor's Parcel No:	106-042-007
Census Tract:	0018.00
Zoning:	"DC", Downtown Core
General Plan:	Redevelopment Planning District
Site Size:	0.32 acres, (13,939 square feet)
Improvement Description:	The subject is improved with a commercial building constructed in 1941.
Building Area:	7,048 square feet of gross and net rentable building area.
Floor Area Ratio:	(7,048 gross s.f. / 13,939 s.f. land area) = 51%
Occupancy Status:	The building is vacant.
Flood Zone:	"X", Community Panel No. 06099C0340E, dated September 26, 2008. Mandatory flood insurance does not apply.
Earthquake Issues:	Not within an Alquist Priolo Special Study Zone
Environmental Issues:	None identified
Property Rights Appraised:	Fee Simple
Effective Valuation Date:	April 15, 2013
Date of Report Preparation:	May 1, 2013
Estimated Exposure Period:	Six to nine months

**VALUE INDICATIONS & CONCLUDED VALUES**

	<b>As Is</b>
<b>Valuation Date:</b>	<b>April 15, 2013</b>
<b>Cost Approach</b>	<b>N/A</b>
<b>Income Approach</b>	<b>\$245,000</b>
<b>Sales Comparison Approach</b>	<b>\$270,000</b>
<b>Market Value</b>	<b>\$270,000</b>

# Section I – Introduction

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## EFFECTIVE DATES OF VALUE

The effective date of value is April 15, 2013. We inspected the property on April 15, 2013.

## DATE OF REPORT

The date of this report is May 1, 2013, the date of the letter of transmittal. Our conclusions are reflective of current market conditions.

## TYPE AND DEFINITION OF VALUE

We have developed the following value opinions for the subject property.

### VALUATION SCENARIOS

Valuation	Completed
"As Is"	Yes
"Upon Completion"	No
"Upon Stabilization"	No
"Insurable Value"/"Replacement Cost"	No

The purpose of this appraisal was to develop our opinion of the market value of the subject property. Market Value, as used in this appraisal, is defined as

- (a) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.
- (b) The fair market value of property taken for which there is no relevant market is its value on the date of valuation as determined by any method of valuation that is just and equitable.<sup>1</sup>

The "As Is" value of the property is the market value in its present condition under market conditions prevalent on the date of the appraisal. No hypothetical conditions, assumptions, or qualifications concerning the physical or legal aspects of the property are to be observed.

## REAL PROPERTY INTEREST APPRAISED

The property rights appraised are those of the "fee simple" estate in the subject property. Fee simple estate includes all the legal property rights of ownership. The property is appraised free and clear of liens and encumbrances such as mortgages and/or assessments outstanding.

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<sup>1</sup> Section 1263.320 of the Code of Civil Procedure

## CLIENT AND OTHER INTENDED USERS OF THE APPRAISAL

Judicial Council of California, Administrative Office of the Courts is the client in this assignment and is the sole intended user of the appraisal and report.

## INTENDED USE OF THE APPRAISAL

The intended use of the results of our work is to aid in negotiating a possible purchase price for the subject property.

## SCOPE OF WORK

The scope of this appraisal assignment is to prepare an appraisal of the market value of the subject property, and communicate the results of the appraisal in this appraisal report. The report format is that of a summary appraisal report, as reflected in USPAP Standards Rule 2-2(b). The depth of discussion contained in this report is specific to the needs of the client and for the intended use. The appraisers are not responsible for unauthorized use of this report. The appraisal was developed and this report was prepared in compliance with the requirements of The Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include The Uniform Standards of Professional Appraisal Practice (USPAP), the requirements of the State of California for State Certified Appraisers, and the Requirements of the General Services Appraisal Specifications, as we understand them.

John A. Hillas has previously viewed the interior of the property, but has only viewed the exterior of the improvements in the performance of this current assignment. Norman C. Hulberg, MAI has not physically viewed the property. Georgia Kuhnhoff and Benny J. Denice assisted in the compilation and confirmation of market data, and assisted in the preparation of this report.

Data required in the appraisal process relates to the political and economic environment in the region and competing market area of the subject property. Data is also required relating to the physical, legal, and economic characteristics of the site and the highest and best use of the property. In the development of this appraisal, local and regional market conditions and the supply and demand situation for this property type were researched. In an effort to develop a reasonable opinion of value, information on numerous real property sales and leases were gathered and analyzed. The data regarding these transactions was considered in the manner in which it was provided to the appraisers. Only information which is believed to be accurate has been relied upon.

With the problem defined and the data collected and analyzed, value indications are then developed via one or more of the three traditional approaches to value: Cost, Sales Comparison, and Income Approaches.

The Cost Approach would not be a primary method of valuation for a prospective purchaser of the subject. This is primarily due to the age of the subject improvements and the need to estimate accrued depreciation from all sources. The depreciated cost method would not produce a meaningful indication of market value and this is why market participants and other analysts would not consider the Cost Approach applicable in this instance.

Two of the three traditionally accepted approaches to value for industrial property have been employed in this appraisal, the Sales Comparison Approach and Income Approach. These two approaches are those

that would be considered pertinent and relevant by other market analysts, observers, and participants. These approaches are then reconciled to arrive at a final opinion of value. All data and analysis used to value the property are clearly presented and discussed in the body of this report.

Refer to the Assumption and Limiting Conditions in this report for additional comments affecting the scope of work in this assignment. The appropriate approaches to value were used, and reconciled, based on their relative strengths and weaknesses, including the quantity and quality of the data available for use within each approach, to arrive at the final opinion of value.

## **USE OF REAL ESTATE AS OF THE EFFECTIVE DATE OF VALUE**

As of the date of valuation, the subject property exists as an industrial building.

## **USE OF REAL ESTATE AS OF THE DATE OF THIS REPORT**

Same as above.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

General Assumptions and Limiting Conditions are assumed in virtually every appraisal and reflected in every appraisal report. Extraordinary assumptions, hypothetical conditions, and notable observations (if any) specific to this assignment are identified below. Please refer to the Assumptions and Limiting Conditions section of this report for a complete list of general assumptions and limiting conditions, extraordinary assumptions and hypothetical conditions.

### **Hypothetical Conditions:**

None

### **Extraordinary Assumptions:**

1. No responsibility is assumed for the legal description provided. The legal description used in this report is assumed to be correct.
2. The analyses and conclusions presented within this report are predicated on the assumption that all data provided by others are factual and correct.
3. The appraisers are not engineers, building contractors or repair cost estimators. We assume that there are no hidden defects or issues present that would detract from the value. We have included estimates herein for improvements/repairs but these are subject to revision based upon review of any estimates from an engineer or contractor.

The public records reflect the building size as 7,744 square feet. Our measurements indicate a floor area of 7,048 square feet plus a partial second level of 952 square feet.

## COMPETENCY STATEMENT

We have previously appraised this property type and have the knowledge and experience necessary to complete this appraisal assignment. Please see the appraisers' qualification summaries in the Addendum of this appraisal report for additional information.

## REAL ESTATE IDENTIFICATION

The subject property is located at the northwest corner of 10th and G Streets. The legal address is 701 10th Street, Modesto, in the County of Stanislaus, California. It is further identified as Stanislaus County Assessor's Parcel Number 106-042-007.

No personal property is included in valuation.

## OWNERSHIP AND SALES HISTORY

According to the Stanislaus County Assessor's Office, title to the subject parcel is vested in:

### BUBECK TRUST

The subject property is not currently listed for sale. We are unaware of any sales, listings, or offers for any portion of the subject property within three years of the valuation date. We have considered and analyzed the known history of the property in the development of this appraisal.

## ASSESSED VALUATION AND TAXES

The 2012/2013 assessed valuation and taxes for the subject property by Stanislaus County are as follows:

APN	106-042-007	
<b>Assessed Value</b>		
Land		\$272,301.00
Improvements		\$20,097.00
<b>Total</b>		<b>\$292,398.00</b>
	<b>Rate</b>	
<b>General Taxes</b>	1.0000%	\$2,923.98
MODESTO ELEM - BOND 2001	0.0305%	\$89.30
MODESTO HIGH-BOND 2001	0.0382%	\$111.56
YCCD - BOND 2007 C	0.0209%	\$61.08
YCCD - BOND 2010 D	0.0004%	\$1.16
YCCD - BOND 2012 REF	0.0075%	\$21.84
<b>Total General Taxes</b>	<b>1.0974%</b>	<b>\$3,208.92</b>
<b>Direct Assessments</b>		
		\$0.00
<b>Total Direct Assessments</b>		<b>\$0.00</b>
<b>Total 2012 / 2013 Taxes</b>		<b>\$3,208.92</b>

## General Taxes

The amount of General Taxes due is quantified by multiplying the assessed value by the tax rate. In the State of California, real estate is assessed at 100% of market value as determined by the County Assessor's Office. The tax rate consists of a base rate of 1% plus any bonds or fees approved by the voters. The County Tax Rate for the subject property is 1.0974%.

## Direct Assessments

Direct assessments are tax levies that are not dependent upon the assessed value of the property. They are levied regardless of assessment. According to the Stanislaus County Tax Collector's Office, the subject has no direct assessments.

## Current and Future Taxes

Taxes are due in two equal installments each year. According to the Stanislaus County Tax Collector's Office, the second installment for the current year is unpaid. There are no known changes in the tax rate or direct assessments forthcoming.

Proposition 13 was passed by voters in June 1978 and substantially changed the taxation of real estate in California. This constitutional amendment rolled back the base year for assessment purposes to the tax year 1975-1976. Annual increases in assessed value are limited to 2% per year, regardless of the rate of inflation. Real estate is subject to re appraisal to current market value upon a change in ownership or new construction. Within the definition of "market value," the property is assumed to be reassessed for tax purposes for this appraisal.

Clear title is assumed in our valuation.

## Section II - Descriptive Information

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**PLEASE REFER TO PRIOR REPORT IN THE ADDENDUM**

## Section III – Valuation

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## THE APPRAISAL PROCESS

The valuation of real estate involves a systematic process in which the appraisal problem is defined and the data required is gathered, analyzed, and interpreted into an opinion of value. Traditionally, three methods of valuation have been used in appraising: the Cost, Sales Comparison, and Income Approaches.

The valuation of real estate involves a systematic process in which the appraisal problem is defined and the data required is gathered, analyzed, and interpreted into an opinion of value. Traditionally, three methods of valuation have been used in appraising: the Cost, Sales Comparison, and Income Approaches.

The Cost Approach would not be a primary method of valuation for a prospective purchaser of the subject. This is primarily due to the age of the subject improvements and the need to estimate accrued depreciation from all sources. The depreciated cost method would not produce a meaningful indication of market value and this is why market participants and other analysts would not consider the Cost Approach applicable in this instance.

Two of the three traditionally accepted approaches to value for commercial property have been employed in this appraisal; the Sales Comparison Approach and Income Approach. These two approaches are those that would be considered pertinent and relevant by other market analysts, observers, and participants.

The value indications based on these two applicable methods are then reconciled into a final value opinion. In the reconciliation, the significance of each approach must be considered in relation to the type of property being appraised and the adequacy of the data analyzed. One approach with more reliable support may be given greater weight in the final value conclusion.

All data and analysis used to value the property are clearly presented and discussed in the body of this report.

## SALES COMPARISON APPROACH

This approach involves making an analysis of the property being appraised based on actual sales of comparable properties. To a lesser degree, this procedure may also consider the asking prices of current listings. The Sales Comparison Approach presumes that a prospective purchaser would pay no more for a property than the amount with which he or she could buy another of equal utility. The reliability of this technique is determined by: 1) the availability of comparable sales; 2) the comparability of sales in terms of date of sale, location, size, or other physical characteristics; and, 3) the verification of the sales data.

We have made an investigation for comparable sales in the Modesto area, and due to the slow level of activity, we have extended our search throughout the region. From the sales researched, we selected six sales for comparison with the subject property. These comparables are summarized in the table that follows along with a Location Map. The exhibits are followed by a discussion of adjustments and Adjustment Grid. These sales are compared to the subject property on the basis of sale price per square foot of rentable building area.

### Adjustment Discussion

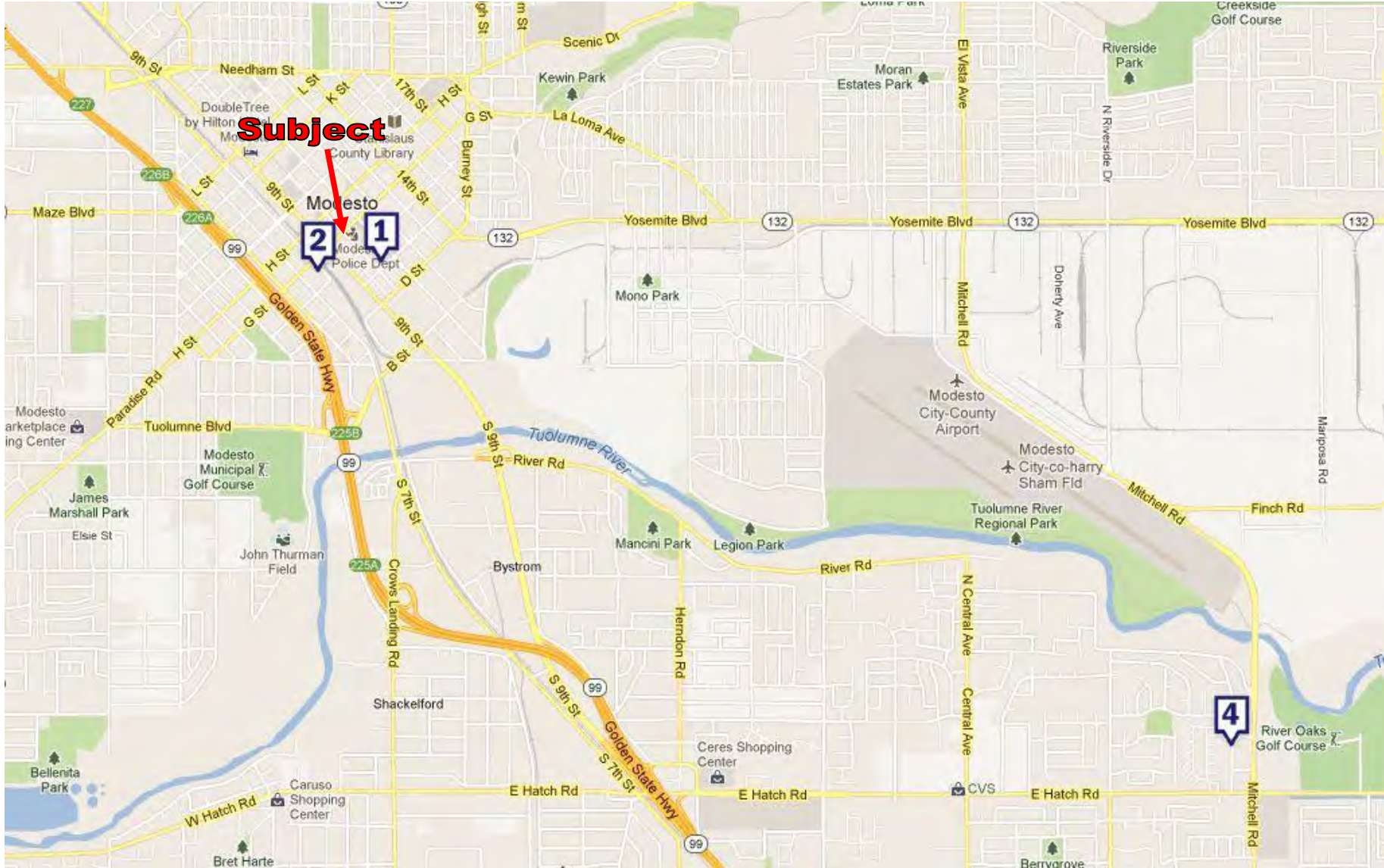
The appraiser must make adjustments to each comparable to account for dissimilarities between the individual sales and the subject property. For income-producing properties, the appraiser usually makes adjustments based on one or more units of comparison. Typical units of comparison are sale price per square foot, net income per square foot, gross income multiplier, etc. The price per square foot is the relevant unit of measure in this instance. Although this approach relies on past sales, it provides direct evidence of actions of both buyers and sellers.

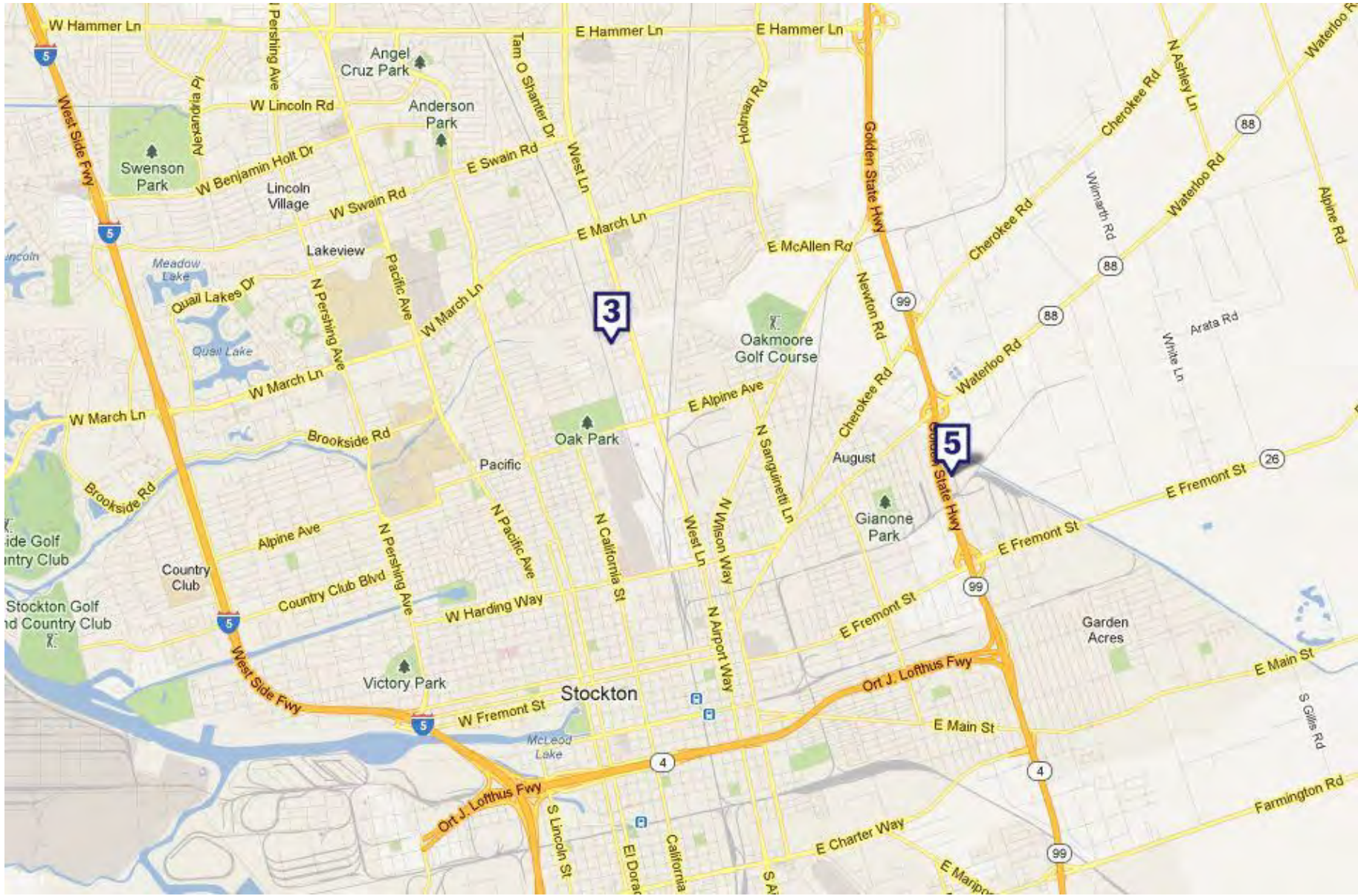
The sales are arranged in descending order by sale date. Sales 1, 2 and 4 are located in Modesto, while Sales 3 and 5 are in Stockton.

Because of the difficulty in adjusting the comparable sales to the subject property, we have included a Building Adjustment Grid. The Building Adjustment Grid is not a scientific method in adjusting the comparable sales in comparison to the subject property. It is merely presented as an explanation to help the reader follow the appraiser's judgment in the adjustment process. While the amount of individual adjustments can be argued, they do help provide an order of magnitude and an adjustment direction based on the market data presented. Primarily, consideration was given to property rights conveyed, financing, conditions of sale, market conditions at date of sale, location, size, tenant improvements, quality/appeal, parking/FAR, age/condition, and tenancy/occupancy.

**BUILDING SALES SUMMARY**

Sale	Location	Yr. Bld.	Bldg.	Land	Sale Date	Sale Price	Price/S.F.	Comments
1	502 10th St. Modesto, CA	1948	7,500	10,454 72%	Mar-13	\$300,000	\$40.00	Concrete block walls, man doors, roll up grade level doors, currently occupied by an automotive repair shop and coffee/tea supplier, high FAR, minimal parking,
2	720 G Street Modesto	1950	15,570	71,757 22%	Dec-12	\$750,000	\$48.17	Single tenant masonry commercial building with fenced/paved yard. Building is 38% finished with balance as shop space. Buyer will owner occupy as house of worship
3	4203 Coronado Ave. Stockton, CA	1980	13,080	29,185 45%	Sep-12	\$666,250	\$50.94	Multi-tenant masonry & metal industrial building with adequate parking and circulation, grade level roll up doors, man doors
4	1325 Angie Ave Modesto	1976	9,000	22,216 41%	Jul-12	\$360,000	\$40.00	Single-tenant metal industrial building was vacant at time of sale.
5	1500 Shaw Road Stockton, CA	Est. 1960s	7,800	38,768 20%	Feb-12	\$200,000 <i>\$400,000</i> <i>AS IF REPAIRED</i>	\$25.64 \$51.28	Concrete tilt-up industrial building, plain exterior, few roll up doors and man doors, large fenced in yard used for storage and parking, close to HWY 99, roof was replaced by the buyer - broker estimates cost at \$50,000, buyer incurred cost associated with environmental and site clean up - broker estimates cost at \$150,000. [\$200,000 + \$200,000 in repairs = \$400,000 or \$51.28/sf] Broker estimates that the property would have been worth \$425,000 if it was not in such poor condition.
	<b>Subject</b> 701 10th Street Modesto	1941	7,048	13,939 51%				Former bus station in state of disrepair, most recently used as storage/shop space. Building has a partial 2nd level of 952sf.





## Improved Sale 1



General Data	
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<b>Property Type:</b>	Industrial
<b>Property Sub Type:</b>	Warehouse
<b>Address:</b>	502 10th Street Modesto, California 95354
<b>Municipality:</b>	Stanislaus
<b>Tax ID:</b>	106-039-003

Sale Data	
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<b>Sale Status:</b>	Recorded
<b>Sale Price:</b>	\$300,000
<b>Adjusted Sale Price:</b>	\$300,000
<b>Recording Date:</b>	03-19-2013
<b>Grantor:</b>	Douglass B. Stevenson
<b>Grantee:</b>	B.S.F Investment Group LLC
<b>Marketing Period:</b>	88 Days

This property is located in downtown Modesto. The improvements consist of a single story masonry building, containing 7,500 square feet and constructed in 1948. The building features man doors and roll up grade level doors. The property has minimal parking and poor on site circulation. The underlying site consists of 10,454 square feet indicating a floor area ratio (FAR) of 72%. The building is currently occupied by Miller Automotive and Clayton Coffee.

**Site Data****Site Size:** 0.240 Acres or 10,454 SF**Improvement Data****GBA/NRA:** 7,500/7,500**Year Built/Condition:** 1948**Analysis****Adj. Price per GBA:** \$40.00**Adj. Price per NRA:** \$40.00**Floor Area Ratio:** 0.72

## Improved Sale 2



General Data	
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<b>Property Type:</b>	Industrial
<b>Property Sub Type:</b>	Warehouse
<b>Address:</b>	720 G Street Modesto, California 95354
<b>Municipality:</b>	Stanislaus
<b>Tax ID:</b>	103-004-011

Sale Data	
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<b>Sale Status:</b>	Recorded
<b>Sale Price:</b>	\$750,000
<b>Adjusted Sale Price:</b>	\$750,000
<b>Recording Date:</b>	12-13-2012
<b>Grantor:</b>	4701 Stoddard LLC.
<b>Grantee:</b>	Vip Ch Of Modesto California
<b>Marketing Period:</b>	1,135 Days

This property is located in downtown Modesto. The improvements consist of a single story concrete block building, containing 15,570 square feet and constructed in 1950. The building features a fenced and paved lot, eight roll up doors, 6,000 square feet of office space, and 9,100 square feet of warehouse space. The underlying site consists of 71,757 square feet indicating a floor area ratio (FAR) of 22%. On-site parking is plentiful and includes room for trailer parking. The building was owner occupied at the time of sale.

**Site Data****Site Size:** 0.960 Acres or 41,818 SF**Improvement Data****GBA/NRA:** 15,570/15,570**Year Built/Condition:** 1950**Analysis****Adj. Price per GBA:** \$48.17**Adj. Price per NRA:** \$48.17**Floor Area Ratio:** 0.37

### Improved Sale 3



General Data	
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<b>Property Type:</b>	Industrial
<b>Property Sub Type:</b>	Warehouse
<b>Address:</b>	4203 Coronado Avenue Stockton, California
<b>Municipality:</b>	San Joaquin
<b>Tax ID:</b>	115-300-33

Sale Data	
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<b>Sale Status:</b>	Recorded
<b>Sale Price:</b>	\$666,250
<b>Adjusted Sale Price:</b>	\$666,250
<b>Recording Date:</b>	10-05-2012
<b>Grantor:</b>	Coronado Partners, LLC
<b>Grantee:</b>	Smith Raymond R Trust

This is the sale of a multi-tenant metal warehouse constructed in 1970. Land area is 0.67- acres, or 29,185 square feet for site coverage ratio of 45%. The office buildout includes a masonry office area in front containing approximately 2,000 square feet. Each unit in the metal warehouse contains about 500 square feet office area. The clear height is 18 feet. The parking ratio is 1.48 per 1,000 sq ft of building area.

One 2,640 square foot unit was vacant at the time of sale. Income information was unavailable. This was a tenant purchase; according to the broker, this did not impact the purchase price.

**Site Data****Site Size:** 0.670 Acres or 29,185 SF**Improvement Data****GBA/NRA:** 13,080/13,080**Number of Units:** 00**Year Built/Condition:** 1970**Analysis****Adj. Price per GBA:** \$50.94**Adj. Price per NRA:** \$50.94**Floor Area Ratio:** 0.45

### Improved Sale 4



General Data	
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<b>Property Type:</b>	Industrial
<b>Property Sub Type:</b>	Warehouse
<b>Address:</b>	1325 Angie Ave. Modesto, California 95351
<b>Municipality:</b>	Stanislaus
<b>Tax ID:</b>	039-033-022

Sale Data	
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<b>Sale Status:</b>	Recorded
<b>Sale Price:</b>	\$360,000
<b>Adjusted Sale Price:</b>	\$360,000
<b>Recording Date:</b>	07-13-2012
<b>Grantor:</b>	Gloria Bollakis
<b>Grantee:</b>	Walter W. Inloes
<b>Marketing Period:</b>	504 Days

This property is located in Modesto and is south of the Beard Industrial District. The improvements consist of a single story metal building, containing 9,000 square feet and constructed in 1976. The building features a fenced yard, man doors, grade level roll up doors, and on-site parking. The underlying site consists of 22,216 square feet indicating a floor area ratio (FAR) of 41%. The building was vacant at the time of the sale.

**Site Data****Site Size:** 0.510 Acres or 22,216 SF**Improvement Data****GBA/NRA:** 9,000/9,000**Year Built/Condition:** 1976**Analysis****Adj. Price per GBA:** \$40.00**Adj. Price per NRA:** \$40.00**Floor Area Ratio:** 0.41

## Improved Sale 5



General Data	
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<b>Property Type:</b>	Industrial
<b>Property Sub Type:</b>	Warehouse
<b>Address:</b>	1500 N Shaw Road Stockton, California 95215
<b>Municipality:</b>	San Joaquin
<b>Tax ID:</b>	143-260-008

Sale Data	
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<b>Sale Status:</b>	Recorded
<b>Sale Price:</b>	\$200,000
<b>Adjusted Sale Price:</b>	\$200,000
<b>Recording Date:</b>	02-29-2012
<b>Grantor:</b>	Compass Group USA, Inc.
<b>Grantee:</b>	Wickedflow LLC.

This property is located in Stockton and is close to HWY 99. The improvements consist of a concrete tilt-up industrial building. The building has a plain exterior, roll up doors, man doors, three private offices, two restrooms, fire sprinklers, 14-16 clear height, and on-site parking. The roof was replaced by the buyer after the purchase of the building. The listing broker estimates the cost of the roof replacement at \$50,000. The buyer also incurred costs associated with environmental hazard and site cleanup. The listing broker estimates the cost to remedy these issues at \$150,000. The listing Broker estimates that the property would have been worth \$425,000 if it was not in such poor condition. The building contains 7,800 square feet and we estimate that it was constructed in the 1960s. The underlying site consists of 38,768 square feet indicating a floor area ratio (FAR) of 20%. The building was vacant at the time of the sale.

**Site Data****Site Size:** 0.890 Acres or 38,768 SF**Improvement Data****GBA/NRA:** 7,800/7,800**Year Built/Condition:** 1960**Analysis****Adj. Price per GBA:** \$25.64**Adj. Price per NRA:** \$25.64**Floor Area Ratio:** 0.20

SALE ADJUSTMENT GRID					
<u>COMPARABLE SALES</u>	1	2	3	4	5
DATE OF SALE	Mar-13	Dec-12	Sep-12	Jul-12	Feb-12
SALE PRICE	\$300,000	\$750,000	\$666,250	\$360,000	\$200,000
BLDG (SQ FT)	7,500	15,570	13,080	9,000	7,800
AGE	1948	1950	1980	1976	Est. 1960s
FLOOR AREA RATIO (FAR)	72%	22%	45%	41%	20%
PRICE/SQ FT	\$40.00	\$48.17	\$50.94	\$40.00	\$25.64
<u>ADJUSTMENTS</u>					
Property Rights	0.0%	0.0%	0.0%	0.0%	0.0%
Financing	0.0%	0.0%	0.0%	0.0%	0.0%
Conditions of Sale	0.0%	0.0%	0.0%	0.0%	0.0%
Expenditures Immed after Sale	0.0%	0.0%	0.0%	0.0%	100.0%
Total % Adjustment	0.0%	0.0%	0.0%	0.0%	100.0%
Dollar Adjustment	\$0	\$0	\$0	\$0	\$25.64
<b><u>NORMAL SALE PRICE</u></b>	\$40.00	\$48.17	\$50.94	\$40.00	\$51.28
<u>MARKET CONDITIONS ADJUSTMENT</u>					
Months Since Sale	0.9	4.1	6.7	9.2	13.7
Total Adjustment	0.0%	0.0%	0.0%	0.0%	0.0%
Dollar Adjustment	\$0	\$0	\$0	\$0	\$0
<b><u>MARKET ADJ PRICE</u></b>	\$40.00	\$48.17	\$50.94	\$40.00	\$51.28
LOCATION	0.0%	0.0%	0.0%	0.0%	0.0%
SIZE	0.0%	5.0%	5.0%	0.0%	0.0%
OFFICE BUILDOUT	0.0%	-10.0%	-10.0%	0.0%	0.0%
QUALITY/APPEAL	0.0%	0.0%	10.0%	10.0%	0.0%
AGE/CONDITION	0.0%	0.0%	-10.0%	0.0%	0.0%
FUNCTIONAL UTILITY	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
FAR/PARKING	5.0%	-5.0%	0.0%	0.0%	-5.0%
<b><u>TOTAL % ADJUSTMENT</u></b>	-10.0%	-25.0%	-20.0%	-5.0%	-20.0%
<b>Total \$ Adjustment</b>	<b>(\$4.00)</b>	<b>(\$12.04)</b>	<b>(\$10.19)</b>	<b>(\$2.00)</b>	<b>(\$10.26)</b>
<u>INDICATED VALUE/SQ FT</u>	\$36.00	\$36.13	\$40.75	\$38.00	\$41.03

The selected sales range in size from 1,564 to 11,952 rentable square feet. Before adjustment to the subject, the comparables indicate a unit price range from approximately \$40 to \$51 per square foot.

## Property Rights Conveyed

No adjustment was necessary for property rights conveyed.

## Financing

No adjustment was necessary for financing.

## Conditions of Sale

No adjustment was necessary for conditions of sale.

## Market Conditions

The sales have all occurred over the past 14 months over which time the market has been generally level. Thus, no adjustment was applied for market conditions.

## Location

The comparables vary but are generally similar in terms of location, and no location adjustment is warranted.

## Size

The subject contains approximately 7,048 net rentable square feet. Smaller buildings typically sell for more on a per square foot basis than do larger buildings. Sales 2 and 3 differ enough to warrant adjustment for this factor as compared to the subject.

## Office Buildout

Sales 2 and 3 have superior tenant improvements and these sales are adjusted downward as compared to the subject.

## Quality/Appeal

Sales 3 and 4 are superior in quality/appeal and both are adjusted downward. All of the other comparables are considered generally similar to the subject for quality/appeal and no adjustment is warranted for this factor.

## Age/Condition

The subject was built in 1941 and aside from deferred maintenance addressed elsewhere, is considered generally similar for age/condition to all but Sale 3. Sale 3 is superior to the subject in this regard.

## Functional Utility

An across the board adjustment is applied for the inferior functional utility of the subject improvements. This adjustment addresses the fact that the subject will need some work performed to demo some of the existing deteriorated finish to make the space usable for storage/warehouse use.

## Parking/FAR

The subject has an FAR of 51%. Downward adjustments are applied to Sales 2 and 5 to reflect the subject's inferior parking/FAR, while an upward adjustment is applied to Sale 1 for this factor as compared to the subject.



## INCOME APPROACH

The income approach is based on the premise that the value of an income-producing property is represented by the present worth of anticipated future benefits, including the income generated as well as the value of the property upon re-sale (reversion). The appraiser estimates the potential income stream based on the quality, quantity, and duration of the income. The potential income is then capitalized to arrive at a value indication for the subject property. The steps involved are:

1. *Analyze the estimate for the income potential of the property;*
2. *Estimate the rent loss from vacancies and uncollected rents;*
3. *Estimate the expenses incurred in the operation of the property;*
4. *Subtract the rent loss and expenses in Nos. 2 and 3 above to arrive at a net income before debt service; and,*
5. *Use a developed rate to capitalize this net income into an indication of value.*

Various techniques of the income capitalization process allow for different property characteristics such as risk, pattern of income and expenses, etc. In our appraisal of the fee simple interest of the subject, we have considered two capitalization methods: discounted cash flow analysis (DCF), and direct capitalization.

The first method (DCF) recognizes and allows for an irregular pattern of future income derived from leases in place, with their varying expiration dates. The DCF is particularly useful for large, multi-tenant commercial properties. Anticipated net income is accounted for during a given holding period and discounted to present value to arrive at a value indication.

Buyers of retail and office buildings operating at stabilized levels typically utilize the direct capitalization technique. The direct capitalization technique is applied to the first year income of the subject property. This technique is often used by principals involved in the purchase of smaller, less complex properties. It represents a more simplified method and is used when a stable or steady increase in income is expected. Its weakness is that it does not recognize significant shifts in the income patterns that would occur in a larger, multi-tenant investment property. Its strength, however, is that it is widely understood, and requires comparatively few assumption and projection for the future. Thus, we have relied on the direct capitalization technique to develop an indication of value for the subject.

### Summary of Current Leases

The subject is mostly vacant, being used partially by the owner for storage.

### Market Rent Survey

To estimate the current market rent for the subject, a survey was made for recent leases of comparable properties. From the numerous comparables surveyed, five executed leases and two listings were selected as most relevant to determine the market rental rate for the subject property. The rent comparables are presented in the following table, followed by a location map, photographs, and an adjustment grid.

The rental comparables are leased on a modified gross basis. Adjustments are made to these comparables to convert them to a NNN equivalent rent.

**RENT SURVEY SUMMARY**

Comp. No.	Lessee/Location	Building Description	Unit Size (S.F.)	Lease Date	Rent/S.F.	NNN Equiv.	Lease Term/yr.	TI's PSF	Comments
1	1307 7th Street, Ste C Modesto	17,105 1970	3,307	Feb-13	<b>\$0.33</b> <b>MG</b>	<b>\$0.23</b>	3	As-Is	720 SF office, 2 restrooms, 3-phase power, grade level roll up doors, 2% annual escalation
2	1295 N. Emerald Ave. #4 Modesto	73,400 1970/2002	5,600	Dec-12	<b>\$0.30</b> <b>MG</b>	<b>\$0.20</b>	2	As-Is	Warehouse only space, 3-phase power, grade level roll up doors
3	1295 N. Emerald Ave. #6 Modesto	73,400 1970/2002	5,280	Dec-12	<b>\$0.38</b> <b>MG</b>	<b>\$0.28</b>	6 Months	As-Is	Warehouse with offices, 3-phase power, grade level roll up doors, man doors
4	417-423 7th Street Modesto	12,960 1979	5,000	Jul-12	<b>\$0.40</b> <b>MG</b>	<b>\$0.30</b>	3	As-Is	Warehouse with office space, mezzanine, central air and heat, 18 foot clear height
5	1295 N. Emerald Ave. #1 Modesto	73,400 1970/2002	4,000	Jan-12	<b>\$0.53</b> <b>MG</b>	<b>\$0.43</b>	5	\$5	Fastenal, no rent increase thru term, 30% office build-out, 23' clear height, CTU, fire sprinklered,
6	500 7th St. Modesto	19,725 1960/2005	8,450	Jan-12	<b>\$0.46</b> <b>MG</b>	<b>\$0.36</b>	3	As-Is	1,258 SF office space, central HVAC, 7 roll up doors, close to HWY 99, fenced-in yard
MG = Modified Gross - Tenant is responsible for utilities & janitorial. NNN= Tenant pays all operating expenses.									

RENTAL ADJUSTMENT GRID						
COMPARABLE RENTALS	1	2	3	4	5	6
DATE OF LEASE	Feb-13	Dec-12	Dec-12	Jul-12	Jan-12	Jan-12
UNIT SQ. FT.	3,307	5,600	5,280	5,000	4,000	8,450
TERM/YEARS	3	2	6 Months	3	5	3
TENANT IMPROVEMENTS	As Is	As Is	As Is	As Is	\$5.00	As Is
LEASE RATE/SF/MO NNN/EQUIV.	\$0.23	\$0.20	\$0.28	\$0.30	\$0.43	\$0.36
MARKET CONDITIONS ADJUSTMENT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MARKET ADJUSTED RENT	\$0.23	\$0.20	\$0.28	\$0.30	\$0.43	\$0.36
<b>ADJUSTMENTS</b>						
LOCATION	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SIZE	-5.0%	0.0%	0.0%	0.0%	-5.0%	0.0%
QUALITY/APPEAL	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AGE/CONDITION	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OFFICE BUILDOUT	-10.0%	0.0%	0.0%	0.0%	-20.0%	-10.0%
FUNCTIONAL UTILITY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL % ADJUSTMENT</b>	-15.0%	0.0%	0.0%	0.0%	-25.0%	-10.0%
<b>TOTAL \$ ADJUSTMENT</b>	(\$0.03)	\$0.00	\$0.00	\$0.00	(\$0.11)	(\$0.04)
<b>INDICATED LEASE RATE PER SQUARE FOOT "NNN"/EQUIV.</b>						
	\$0.20	\$0.20	\$0.28	\$0.30	\$0.32	\$0.33

Before any adjustments, the NNN equivalent rent comparables indicate a rental rate range from \$0.20 to \$0.43 per square foot. The lease comparables range in size from 3,307 to 8,450 square feet, while the subject is 7,048 square feet in size. The rent comparables have lease dates ranging from January 2012 to February 2013.

Rental rates appear to have stabilized and adjustments for market conditions were not justified.

All but one of the comparables are located in similar-appeal areas in or near downtown Modesto, and no adjustment for location is warranted.

Rents 1 and 5 required downward adjustment for their smaller size, while Rents 1, 5 and 6 required adjustment for superior office buildout.

All of the rentals are generally similar in quality/appeal and age/condition, so adjustments for these factors were not considered necessary.

## Potential Gross Income Conclusion

After adjustment, the executed leases reflect a range of \$0.20 to \$0.33 per square foot. Although the more recent leases are the lower indicators, we have reconciled higher in the indicated range due to the partial second level, and the greater potential for a higher future use. Overall, a rental rate of \$0.30 is concluded for the subject.

## Expenses

The market rent is on a "triple net" expense arrangement, with the tenant being responsible for all operating expenses. As such, the lessor/landlord incurs expense only for potential vacancy and collection losses, un-reimbursed management expenses, and reserves for replacements.

Vacancy and Collection Loss includes lost rental between tenants and potential collection loss from the existing tenants. According to the Stockton/Modesto Industrial Market Report by the Co-Star Group, the vacancy rate for general industrial properties in Stockton/Modesto is 11.1%. According to the CBRE Central Valley Industrial Report, as of the 1<sup>st</sup> Quarter of 2013, overall vacancy in the Modesto market area stood at 7.9%.

A 3-6 month period marketing the space should achieve a three to five year lease term. Six months vacant in a 60 month term is equivalent to 10% vacancy. Overall, we conclude that a long-term vacancy and collection loss allowance is reasonable at 8%.

A prudent investor would also deduct a certain amount for non-reimbursable management expenses. We estimate non-reimbursable management at 2% of the effective gross income. Reserves for replacements generally range between 1% and 2% of effective gross income for buildings of this type. We estimate reserves for replacement at 2% of effective gross income. Total expenses are thus estimated at 4% of effective gross income or \$934.

## Net Income Estimate

Subtracting the vacancy and collection loss, as well as operating expenses from Potential Gross Income yields a Net Operating Income of \$22,409.

## Capitalization Rate

The next step is to process the forecasted net income into a value indication. This is accomplished by determining and applying an appropriate capitalization rate for the subject property. The capitalization rate is the ratio of net income per sale price (i.e., rate = net income / sale price.) Once a rate is selected for the subject and the net income forecasted, the same formula can be used to develop an indication of market value. The capitalization rate can be extracted from market sales if the net income is known or can reasonably be estimated at time of sale.

None of the sales used in the Sales Comparison Approach indicate a capitalization rate. The primary market participants for these properties are owner-users, and income data was not provided for those that were acquired by investors. We have surveyed the marketplace for building sales with market derived capitalization rates. The sales indicate a capitalization range from 6.9% to 12.8%, as indicated below, with all but one being between 6.9% and 9.5%. The one Modesto sale reflects 8.2%, but it was not stabilized.

Notably, most of the comparable sales presented earlier in this report were either sold to owner users or did not indicate a net operating income. Sale No. 1 reflects a rate of 11.78% based on the stated net operating income, but this was not verifiable.

I have also considered capitalization rates from other building sales in our files on a regional and historical basis. The capitalization rates from five warehouse sales in the Northern San Joaquin Valley area that closed over the past three years are summarized below.

WAREHOUSE CAP RATES					
<b>Address</b>	1601-1621 Cummins Dr	11900 S. Harlan Dr.	4114 S. Airport Way	1400 Pescadero Ave	Patterson Pass Rd
<b>City</b>	Modesto	Stockton	Stockton	Tracy	Tracy
<b>Square Feet</b>	62,300 sf	262,400 sf	264,419 sf	657,600 sf	264,687 sf
<b>Cap Rate</b>	<b>7.95%</b>	<b>7.70%</b>	<b>12.00%</b>	<b>8.00%</b>	<b>9.00%</b>

The average cap rate for the five indicated sales is 8.93%. Excluding the obvious outlier, there are two below 8%, one at 8%, and one at 9%.

We have also considered national surveys. The property preference ratings taken from the First Quarter 2013 Real Estate Investment Survey, published by Real Estate Research Corporation (RERC) indicate rates of 5.5% – 8.3% with an average of 6.6% for warehouse buildings, while industrial flex buildings range from 6.0% – 11.0% with an average of 7.8%. The Korpacz Real Estate Investor Survey for the Fourth Quarter 2012 indicates an average rate of 6.73% for the National Warehouse Market. Though rates for both of these property types have increased over the past few years, they have slightly decreased more recently.

The selection of a particular rate within an indicated range depends on the evaluation of such factors as location, strength of tenancy, type, and quality of leases, building age, condition and quality, and perhaps most importantly, potential for future changes in net operating income and/or appreciation. Notably, the subject is not the type of investment property that is reflected in the RERC and Korpacz surveys. Although we feel that there is potential for rental rate upside for the subject, there is still considerable uncertainty in

the market and an appropriate overall rate for the subject would be toward the upper end of the range, and/or greater than the *average* rates reflected in those surveys.

After considering all the above factors, we have concluded a capitalization rate at **8.0%** to be appropriate for the subject property.

Income Approach Summary		
Potential Gross Income:		
(7,048 s.f. x \$0.30/s.f. x 12 mos.)		\$25,373
Less Vacancy and Collection Loss (8%):		(\$2,030)
Effective Gross Income:		\$23,343
Less Non-Reimbursable Expenses:		
Management (2% EGI)	(\$467)	
Reserves (2% EGI)	(\$467)	
Total Expenses (4% EGI):		(\$934)
Net Operating Income:		\$22,409
Divided by Capitalization Rate:		8.00%
Value Indicated Via Income Approach (AS IF MARKET READY)		<u>\$280,116</u>
Deduction for Demo/Repairs to Make Ready	\$5	(\$35,240)
Value Indication: As Is		<u>\$244,876</u>
<b>Rounded To:</b>		<b><u>\$245,000</u></b>

The result is a market value indication for the property as if stabilized at market rent. Notably, we believe that the property will require some demolition and or repair to make the building leaseable. We have estimated an all-inclusive \$5 per square foot of building area to account for this.

As indicated in the "Income Approach" Summary presented above, the market value indicated by the Income Approach is **\$245,000** (rounded).

## RECONCILIATION

We have appraised the “As Is” market value of the subject property, applying two of the three traditional approaches to value: Income and Sales Comparison Approaches. The results of each analysis are illustrated as follows:

	<b>As Is</b>
<b>Valuation Date:</b>	April 15, 2013
<b>Cost Approach</b>	Not Applicable
<b>Sales Comparison Approach</b>	\$270,000
<b>Income Approach</b>	\$245,000
<b>Market Value Conclusion</b>	<b>\$270,000</b>

The Cost Approach is not applicable.

The value range indicated by the two approaches to value is relatively tight. Although the market is slow and the quantity and quality of data used in both approaches is less than ideal, the two approaches provide good support for each other.

Reconciliation of the value indications involves weighing the approaches based on their importance to their probable influences and on the market reactions of typical users or investors in the marketplace. Consideration is also given to the quality and quantity of data available for analysis, and to the advantages and disadvantages as they relate to the subject property.

The Sales Comparison Approach is generally a reliable indicator of value when there are a number of recent transactions involving properties similar to the subject. Our survey revealed five closed sales which generally bracket the subject in terms of size and physical characteristics.

In the Income Approach, we utilized the direct capitalization analysis. The capitalization rate was determined by analyzing cap rates indicated by market transactions and reviewing published rates from surveys.

The subject is such that it could be appealing to either an investor or owner-user. Owner-users typically place the most weight on the Sales Comparison Approach, whereas investors place more weight on the Income Approach.

There is some uncertainty of what the ultimate use will be, but some potential for greater use when market conditions improve.

Based in large part on the fact that the subject improvements provide some potential for higher intensity use at some future date, and with note of the additional second floor area, we have correlated to the higher of the two indicators.

Overall, we have concluded a value of \$270,000 for the subject.

**STATEMENT OF "AS IS" FEE SIMPLE VALUE**

Based on our investigation and analysis presented herein, it is our opinion that the "As Is" market value of the fee simple estate of the subject property, as of April 15, 2013, predicated on an estimate of exposure time of six to nine months, was:

**TWO HUNDRED SEVENTY THOUSAND DOLLARS**

**(\$270,000)**

# Addenda

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## Glossary

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

### Absolute Net Lease

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

### Additional Rent

Any amounts due under a lease that is in addition to base rent. Most common form is operating expense increases. (Dictionary)

### Amortization

The process of retiring a debt or recovering a capital investment, typically though scheduled, systematic repayment of the principal; a program of periodic contributions to a sinking fund or debt retirement fund. (Dictionary)

### As Is Market Value

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

### Base (Shell) Building

The existing shell condition of a building prior to the installation of tenant improvements. This condition varies from building to building, landlord to landlord, and generally involves the level of finish above the ceiling grid. (Dictionary)

### Base Rent

The minimum rent stipulated in a lease. (Dictionary)

### Base Year

The year on which escalation clauses in a lease are based. (Dictionary)

### Building Common Area

The areas of the building that provide services to building tenants but which are not included in the rentable area of any specific tenant. These areas may include, but shall not be limited to, main and auxiliary lobbies, atrium spaces at the level of the finished floor, concierge areas or security desks, conference rooms, lounges or vending areas food service facilities, health or fitness centers, daycare facilities, locker or shower facilities, mail rooms, fire control rooms, fully enclosed courtyards outside the exterior walls, and building core

and service areas such as fully enclosed mechanical or equipment rooms. Specifically excluded from building

common areas are; floor common areas, parking spaces, portions of loading docks outside the building line, and major vertical penetrations. (BOMA)

### Building Rentable Area

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

### Certificate of Occupancy (COO)

A statement issued by a local government verifying that a newly constructed building is in compliance with all codes and may be occupied.

### Common Area (Public) Factor

In a lease, the common area (public) factor is the multiplier to a tenant's useable space that accounts for the tenant's proportionate share of the common area (restrooms, elevator lobby, mechanical rooms, etc.). The public factor is usually expressed as a percentage and ranges from a low of 5% for a full tenant to as high as 15% or more for a multi-tenant floor. Subtracting one (1) from the quotient of the rentable area divided by the useable area yields the load (public) factor. At times confused with the "loss factor" which is the total rentable area of the full floor less the useable area divided by the rentable area. (BOMA)

### Common Area Maintenance (CAM)

The expense of operating and maintaining common areas; may or may not include management charges and usually does not include capital expenditures on tenant improvements or other improvements to the property.

CAM can be a line-item expense for a group of items that can include maintenance of the parking lot and landscaped areas and sometimes the exterior walls of the buildings. CAM can refer to all operating expenses.

CAM can refer to the reimbursement by the tenant to the landlord for all expenses reimbursable under the lease. Sometimes reimbursements have what is called an administrative load. An example would be a 15% addition to total operating expenses, which are then prorated

among tenants. The administrative load, also called an administrative and marketing fee, can be a substitute for or an addition to a management fee. (Dictionary)

### Condominium

A form of ownership in which each owner possesses the exclusive right to use and occupy an allotted unit plus an undivided interest in common areas.

A multiunit structure, or a unit within such a structure, with a condominium form of ownership. (Dictionary)

### Conservation Easement

An interest in real property restricting future land use to preservation, conservation, wildlife habitat, or some combination of those use. A conservation easement may permit farming, timber harvesting, or other uses of a rural nature to continue, subject to the easement. In some locations, a conservation easement may be referred to as a conservation restriction. (Dictionary)

### Contributory Value

The change in the value of a property as a whole, whether positive or negative, resulting from the addition or deletion of a property component. Also called deprival value in some countries. (Dictionary)

### Debt Coverage Ratio (DCR)

The ratio of net operating income to annual debt service ( $DCR = NOI/Im$ ), which measures the relative ability to a property to meet its debt service out of net operating income. Also called Debt Service Coverage Ratio (DSCR). A larger DCR indicates a greater ability for a property to withstand a downturn in revenue, providing an improved safety margin for a lender. (Dictionary)

### Deed Restriction

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

### Depreciation

1) In appraising, the loss in a property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date. 2) In accounting, an allowance made against the loss in value of an asset for a defined purpose and computed using a specified method. (Dictionary)

### Disposition Value

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

- Consummation of a sale within a exposure time specified by the client;
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- An adequate marketing effort will be made during the exposure time specified by the client;
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (Dictionary)

### Easement

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

### EIFS

Exterior Insulation Finishing System. This is a type of exterior wall cladding system. Sometimes referred to as dry-vit.

### Effective Date

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

### Effective Rent

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

### EPDM

Ethylene Diene Monomer Rubber. A type of synthetic rubber typically used for roof coverings. (Dictionary)

### Escalation Clause

A clause in an agreement that provides for the adjustment of a price or rent based on some event or index. e.g., a provision to increase rent if operating expenses increase; also called an expense recovery clause or stop clause. (Dictionary)

### Estoppel Certificate

A statement of material factors or conditions of which another person can rely because it cannot be denied at a later date. In real estate, a buyer of rental property typically requests estoppel certificates from existing

tenants. Sometimes referred to as an estoppel letter. (Dictionary)

#### Excess Land

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

#### Expense Stop

A clause in a lease that limits the landlord's expense obligation, which results in the lessee paying any operating expenses above a stated level or amount. (Dictionary)

#### Exposure Time

1) The time a property remains on the market. 2) The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. (Dictionary)

#### Extraordinary Assumption

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. (Dictionary)

#### Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. (Dictionary)

#### Floor Common Area

Areas on a floor such as washrooms, janitorial closets, electrical rooms, telephone rooms, mechanical rooms, elevator lobbies, and public corridors which are available primarily for the use of tenants on that floor. (BOMA)

#### Full Service (Gross) Lease

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

#### Going Concern Value

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

#### Gross Building Area

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

#### Gross Measured Area

The total area of a building enclosed by the dominant portion (the portion of the inside finished surface of the permanent outer building wall which is 50% or more of the vertical floor-to-ceiling dimension, at the given point being measured as one moves horizontally along the wall), excluding parking areas and loading docks (or portions of the same) outside the building line. It is generally not used for leasing purposes and is calculated on a floor by floor basis. (BOMA)

#### Gross Up Method

A method of calculating variable operating expense in income-producing properties when less than 100% occupancy is assumed. The gross up method approximates the actual expense of providing services to the rentable area of a building given a specified rate of occupancy. (Dictionary)

#### Ground Lease

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

#### Ground Rent

The rent paid for the right to use and occupy land according to the terms of a ground lease; the portion of the total rent allocated to the underlying land. (Dictionary)

#### HVAC

Heating, ventilation, air conditioning. A general term encompassing any system designed to heat and cool a building in its entirety.

#### Highest & Best Use

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that

results in the highest value. The four criteria the highest and best use must meet are 1) legal permissibility, 2) physical possibility, 3) financial feasibility, and 4) maximally profitability. Alternatively, the probable use of land or improved property-specific with respect to the user and timing of the use—that is adequately supported and results in the highest present value. (Dictionary)

### Hypothetical Condition

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. (Dictionary)

### Industrial Gross Lease

A lease of industrial property in which the landlord and tenant share expenses. The landlord receives stipulated rent and is obligated to pay certain operating expenses, often structural maintenance, insurance and real estate taxes as specified in the lease. There are significant regional and local differences in the use of this term. (Dictionary)

### Insurable Value

A type of value for insurance purposes. (Dictionary)

(Typically this includes replacement cost less basement excavation, foundation, underground piping and architect's fees).

### Investment Value

The value of a property interest to a particular investor or class of investors based on the investor's specific requirements. Investment value may be different from market value because it depends on a set of investment criteria that are not necessarily typical of the market. (Dictionary)

### Just Compensation

In condemnation, the amount of loss for which a property owner is compensated when his or her property is taken. Just compensation should put the owner in as good a position as he or she would be if the property had not been taken. (Dictionary)

### Leased Fee Interest

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

### Leasehold Interest

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

### Lessee (Tenant)

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

### Lessor (Landlord)

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

### Liquidation Value

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

- Consummation of a sale within a short period.
- The property is subjected to market conditions prevailing as of the date of valuation.
- Both the buyer and seller are acting prudently and knowledgeably.
- The seller is under extreme compulsion to sell.
- The buyer is typically motivated.
- Both parties are acting in what they consider to be their best interests.
- A normal marketing effort is not possible due to the brief exposure time.
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (Dictionary)

### Loan to Value Ratio (LTV)

The amount of money borrowed in relation to the total market value of a property. Expressed as a percentage of the loan amount divided by the property value. (Dictionary)

### Major Vertical Penetrations

Stairs, elevator shafts, flues, pipe shafts, vertical ducts, and the like, and their enclosing walls. Atria, lightwells and similar penetrations above the finished floor are included in this definition. Not included, however, are vertical penetrations built for the private use of a tenant occupying office areas on more than one floor. Structural columns, openings for vertical electric cable or telephone distribution, and openings for plumbing lines are not considered to be major vertical penetrations. (BOMA)

### Market Rent

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

### Market Value As If Complete

Market value as if complete means the market value of the property with all proposed construction, conversion or rehabilitation hypothetically completed or under other specified hypothetical conditions as of the date of the appraisal. With regard to properties wherein anticipated market conditions indicate that stabilized occupancy is not likely as of the date of completion, this estimate of value shall reflect the market value of the property as if complete and prepared for occupancy by tenants.

### Market Value As If Stabilized

Market value as if stabilized means the market value of the property at a current point and time when all improvements have been physically constructed and the property has been leased to its optimum level of long term occupancy.

### Marketing Time

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

### Master Lease

A lease in which the fee owners leases a part or the entire property to a single entity (the master lease) in return for a stipulated rent. The master lessee then leases the property to multiple tenants. (Dictionary)

### Modified Gross Lease

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

double net lease, net net lease, partial net lease, or semi-gross lease. (Dictionary)

### Option

A legal contract, typically purchased for a stated consideration, that permits but does not require the holder of the option (known as the optionee) to buy, sell, or lease real property for a stipulated period of time in accordance with specified terms; a unilateral right to exercise a privilege. (Dictionary)

### Partial Interest

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

### Pass Through

A tenant's portion of operating expenses that may be composed of common area maintenance (CAM), real estate taxes, property insurance, and any other expenses determined in the lease agreement to be paid by the tenant. (Dictionary)

### Prospective Future Value Upon Completion

Market value "upon completion" is a prospective future value estimate of a property at a point in time when all of its improvements are fully completed. It assumes all proposed construction, conversion, or rehabilitation is hypothetically complete as of a future date when such effort is projected to occur. The projected completion date and the value estimate must reflect the market value of the property in its projected condition, i.e., completely vacant or partially occupied. The cash flow must reflect lease-up costs, required tenant improvements and leasing commissions on all areas not leased and occupied.

### Prospective Future Value Upon Stabilization

Market value "upon stabilization" is a prospective future value estimate of a property at a point in time when stabilized occupancy has been achieved. The projected stabilization date and the value estimate must reflect the absorption period required to achieve stabilization. In addition, the cash flows must reflect lease-up costs, required tenant improvements and leasing commissions on all unleased areas.

### Replacement Cost

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

### Reproduction Cost

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

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

#### Retrospective Value Opinion

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

#### Sandwich Leasehold Estate

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

#### Sublease

An agreement in which the lessee (i.e., the tenant) leases part or all of the property to another party and thereby becomes a lessor. (Dictionary)

#### Subordination

A contractual arrangement in which a party with a claim to certain assets agrees to make his or her claim junior, or subordinate, to the claims of another party. (Dictionary)

#### Substantial Completion

Generally used in reference to the construction of tenant improvements (TI's). The tenant's premises are typically deemed to be substantially completed when all of the TI's for the premises have been completed in

accordance with the plans and specifications previously approved by the tenant. Sometimes used to define the commencement date of a lease.

#### Surplus Land

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

#### Triple Net (Net Net Net) Lease

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

(The market definition of a triple net leases varies; in some cases tenants pay for items such as roof repairs, parking lot repairs, and other similar items.)

#### Usable Area

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

#### Value-in-Use

The value of a property assuming a specific use, which may or may not be the property's highest and best use on the effective date of the appraisal. Value in use may or may not be equal to market value but is different conceptually. (Dictionary)

Qualifications of John A Hillas, SRA  
Managing Director  
Valbridge Property Advisors | Hulberg & Associates, Inc.



*Independent Valuations for a Variable World*

State Certifications

Certified General  
State of California

Education

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Membership/Affiliations

SRA Member	Appraisal Institute
Chair,	Appraisal Institute Region One (2008)
Member	Appraisal Institute Board of Directors (2007-08)
President	Northern California Chapter, Appraisal Institute (2004)
Associate Member	American Society of Farm Managers & Rural Appraisers
Expert Witness	Superior Courts of Stanislaus and Merced Counties

Appraisal Institute & Related Courses:

Appraisal Institute: 550-Advanced Applications; 540-Report Writing and Valuation Analysis; 530-Advanced Sales Comparison and Cost Approaches; 520-Highest and Best Use and Market Analysis; 430-Standards of Professional Appraisal Practice; 420-Business Practices and Ethics; 410-Standards of Professional Appraisal Practice (USPAP); 400-National USPAP Update; 120-Basic Valuation Procedures (Challenged); 110-Real Estate Appraisal Principles (Challenged)

American Institute of Real Estate Appraisers: Capitalization Theory and Techniques, Part A; Capitalization Theory and Techniques, Part B

Society of Real Estate Appraisers: Applied Residential Valuation (102); Standards of Professional Practice

Real Estate Appraisal Seminars/Workshops (partial list)  
Annual Fall Conference, Annual Spring Conference, Annual Litigation Conference, Analyzing Operating Expenses, Partial Interest Valuation, Valuation for Financial Reporting, Spring Ag Outlook (ASFMRA), Subdivision Valuation, Diminution in Value, Appraisal Review, Depreciation Analysis, ADA and Fair Lending, Market Extractions, Understanding AVMs

Experience:**Managing Director**

Valbridge Property Advisors | Hulberg & Associates, Inc. (2013-Present)

**Senior Vice President**

Hulberg & Associates, Inc. (2007-2013)

**Owner/Appraiser**

Sierra Valuation Consultants (1996-2007)

**Senior Appraiser**

National Valuation Consultants, Inc. (1995-1996)

**Senior Appraiser**

San Francisco Federal Savings and Loan (1992-1995)

**Senior Appraiser**

Private Real Estate Valuation Firm (1991-1992)

**Appraiser**

Stockton Savings Bank (1987-1991)

**Appraiser**

Hillas Appraisal Company (1980-1987)

**SELF CONTAINED APPRAISAL REPORT**

701 10<sup>th</sup> Street  
Modesto, California 95354



VALUATION DATE: July 7, 2011

APPRAISED FOR: Judicial Council of California, Administrative Office of the Courts

APPRAISED BY: Hulberg & Associates, Inc.

OUR FILE NUMBER: 15794-8

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# HULBERG & ASSOCIATES

Inc.

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July 28, 2011

Ms. Shannon Kayes  
Portfolio Administration Analyst  
Judicial Council of California  
Administrative Office of the Courts  
455 Golden Gate Avenue, 8<sup>th</sup> Floor  
San Francisco, CA 94102

Re: Appraisal of 701 10<sup>th</sup> Street, Modesto, California

Dear Ms. Kayes:

At your request, we have appraised the above-referenced property located in Modesto, California. The subject is further identified as Stanislaus County Assessor's Parcel Number 106-042-007. The underlying site measures approximately 0.32 acres, or about 13,939 square feet.

The property is located at the northwest corner of 10<sup>th</sup> & G Streets. The physical address is 701 10<sup>th</sup> Street, Modesto, California. The site is improved with a commercial building of 7,048 square feet, plus a partial second level of 952 square feet.

The building was previously occupied by a Greyhound bus station, which vacated several years ago. Although it is currently vacant, a portion is utilized by the current owner as storage/garage space.

The purpose of the appraisal is to develop our opinion of the market value of the subject property, as of July 7, 2011, which corresponds with our recent physical inspection of the property. The property rights appraised are those of the fee simple estate (i.e. all of the legal property rights of ownership). The property is appraised free and clear of liens and encumbrances, such as mortgages or assessments outstanding.

Judicial Council of California, Administrative Office of the Courts is the client in this assignment and is the sole intended user of the appraisal and report. The intended use of the results of our work is to aid in negotiating a possible purchase price for the subject property.



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**SUMMARY OF SALIENT FACTS**

Property Type:	Commercial Building
Property Location:	701 10 <sup>th</sup> Street, Modesto, CA 95354
Assessor's Parcel No:	106-042-007
Census Tract:	0018.00
Zoning:	"DC", Downtown Core
General Plan:	Redevelopment Planning District
Site Size:	0.32 acres, (13,939 square feet)
Improvement Description:	The subject is improved with a commercial building constructed in 1941.
Building Area:	7,048 square feet of gross and net rentable building area.
Floor Area Ratio:	(7,048 gross s.f. / 13,939 s.f. land area) = 51%
Occupancy Status:	The building is vacant.
Flood Zone:	"X", Community Panel No. 06099C0340E, dated September 26, 2008. Mandatory flood insurance does not apply.
Earthquake Issues:	Not within an Alquist Priolo Special Study Zone
Environmental Issues:	None identified
Property Rights Appraised:	Fee Simple
Effective Valuation Date:	July 7, 2011
Date of Report Preparation:	July 28, 2011
Estimated Exposure Period:	12 months
<b><u>Value Conclusion:</u></b>	
"As Is" Fee Simple:	<b>\$250,000</b>

## **SECTION I – INTRODUCTION**

**INTENDED USE AND USER**

The intended use of the results of our work is to aid in negotiating a possible purchase price for the subject property. The intended user is Judicial Council of California, Administrative Office of the Courts for the stated use only. The appraisal and this report are not intended for any other user or any other use.

**PROPERTY IDENTIFICATION**

The subject property is located at the northwest corner of 10<sup>th</sup> and G Streets. The legal address is 701 10<sup>th</sup> Street, Modesto, in the County of Stanislaus, California. It is further identified as Stanislaus County Assessor's Parcel Number 106-042-007.

No personal property is included in valuation.

**PROPERTY RIGHTS APPRAISED**

The property rights appraised are those of the "fee simple" estate. Fee simple estate includes all the legal property rights of ownership.

**TYPE AND DEFINITION OF VALUE**

The purpose of this appraisal was to develop our opinion of the market value of the subject property. Market Value, as used in this appraisal, is defined as

- (a) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.
  
- (b) The fair market value of property taken for which there is no relevant market is its value on the date of valuation as determined by any method of valuation that is just and equitable.<sup>1</sup>

**DATE OF VALUATION AND DATE OF REPORT**

The effective date of valuation for this assignment is July 7, 2011; the date of our last physical inspection of the property was July 7, 2011. The date the report was completed and signed is July 28, 2011.

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<sup>1</sup> Section 1263.320 of the Code of Civil Procedure

**SCOPE OF THE APPRAISAL**

The appraisal was developed and this report was prepared in compliance with the requirements of The Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (USPAP).

In the development of this appraisal, Jeanine M. Kraus inspected the interior and exterior of the subject property and surrounding neighborhood. John A. Hillas, SRA inspected the subject property from the exterior. Norman C. Hulberg, MAI has not physically viewed the property. We consulted with city officials regarding zoning and General Plan issues, and researched the local market for sales comparables and leases. We spoke with Paul Draper regarding the history of the subject property. We reviewed and analyzed regional and local economic trends reported in this appraisal. In an effort to render a reasonable value opinion, we analyzed and reported industrial, warehouse, retail, and industrial market trends relevant to the subject property by researching local market occupancy and rent levels of similar industrial buildings. The data regarding these transactions was considered in the manner in which it was provided to the appraisers. No information has been included which is not believed to be accurate.

Our description of the subject improvements is based on our physical inspection. Building dimensions and description are also based on documents submitted for our review. We were not provided with site and floor plans.

Jeanine Kraus measured the exterior of the improvements to determine building size. We have relied on our measurements to determine building size. A Building Sketch is located within this report.

Data required in the appraisal process relates to the political and economic environment in the region and competing market area of the subject property. Data is also required relating to the physical, legal, and economic characteristics of the site and existing and proposed improvements, and the highest and best use of the property. With the problem defined and the data collected and analyzed, value indications are then developed via one or more of the three traditional approaches to value: Cost, Sales Comparison, and Income Approaches.

The Cost Approach would not be a primary method of valuation for a prospective purchaser of the subject. This is primarily due to the age of the subject improvements and the need to estimate accrued depreciation from all sources. The depreciated cost method would not produce a meaningful indication of market value and this is why market participants and other analysts would not consider the Cost Approach applicable in this instance.

Two of the three traditionally accepted approaches to value for industrial property have been employed in this appraisal, the Sales Comparison Approach and Income Approach. These two approaches are those that would be considered pertinent and relevant by other market analysts, observers, and participants. These approaches are then reconciled to arrive at a final opinion of value. All data and analysis used to value the property are clearly presented and discussed in the body of this report.

Refer to the Assumptions, Limiting Conditions, and Certification that accompany this report for additional comments affecting the scope of our report. The appropriate approaches to value were

used, and reconciled, based on their relative strengths and weaknesses, including the quantity and quality of the data available for use within each approach, to arrive at the final opinion of value.

### **USE OF REAL ESTATE AS OF THE EFFECTIVE DATE OF VALUE**

The subject property is a 7,048 square foot commercial building that is currently vacant.

### **USE OF REAL ESTATE AS OF THE DATE OF THIS REPORT**

Same as above.

### **ASSUMPTIONS AND LIMITING CONDITIONS**

General Assumptions and Limiting Conditions are assumed in virtually every appraisal and reflected in every appraisal report. Extraordinary assumptions, hypothetical conditions, and notable observations specific to this assignment are identified below. **Please refer to the Assumptions and Limiting Conditions in the addendum for a complete list of general, extraordinary, and hypothetical assumptions and limiting conditions.**

#### **Hypothetical Conditions**

None

#### **Extraordinary Assumptions**

The appraisers are not engineers, building contractors or repair cost estimators. We assume that there are no hidden defects or issues present that would detract from the value. We have included estimates herein for improvements/repairs but these are subject to revision based upon review of any estimates from an engineer or contractor.

The public records reflect the building size as 7,744 square feet. Our measurements indicate a floor area of 7,048 square feet plus a partial second level of 952 square feet.

### **PROPERTY HISTORY AND OWNERSHIP**

According to the Stanislaus County Assessor's Office, title to the subject parcel is vested in:

**Charles W. Noble and Dorothy M. Noble, Trustees of the Noble 1995 Trust, as to an undivided 1/2 interest;  
Helen L. Silva and Von Deen Bubeck, Trustees of the Helen Silva Revocable Survivors Trust dated December 3, 1996, as to an undivided 1/4 interest, and Jerry R. Bubeck and Von Deen Bubeck, Trustees of the Bubeck Revocable Trust, dated March 19, 1997 as to an undivided 1/4 interest ALL AS TO PARCEL TEN**

The subject property is not currently listed for sale. We are unaware of any sales, listings, or offers for any portion of the subject property within three years of the valuation date. We have considered and analyzed the known history of the property in the development of this appraisal.

Clear title is assumed

### **COMPETENCY STATEMENT**

John A. Hillas, SRA and Norman H. Hulberg, MAI, are designated members of the Appraisal Institute, while Jeanine M. Kraus is a general Associate Member. John A. Hillas, SRA (California AG002432) and Norman C. Hulberg, MAI (California AG003542) are State Certified General Real Estate Appraisers. Jeanine M. Kraus (California AR033221) is a State Certified Residential Real Estate Appraiser. We have appraised a number of commercial retail buildings in the competing market area in the past. Because of our experience in the area and with the subject property type, we believe we are competent to perform this appraisal.

### **PROPERTY TAXES AND ASSESSED VALUE**

The State of California has provided for a unified system to assess real estate for property taxes. Assessment Districts are established on a county basis to assess real estate within the county. The appraised property falls under the taxing jurisdiction of Stanislaus County and is subject to both general taxes and direct assessments.

The 2010/2011 assessed valuation and taxes for the subject property by Stanislaus County are as follows:

<b>2010 / 2011 TAXES</b>	
<b>Parcel Number</b>	<b>106-042-007</b>
Assessed Land:	\$266,962
Assessed Improvements:	\$19,073
Total Assessed Value:	\$286,035
Tax Rate: 1.0792%	
Annual General Tax	\$3,086.98
Direct Assessments:	\$0.00
Total Tax for 2010:	\$3,086.98
Metroscan Data	\$3,086.98
Assessor's webpage	\$3,086.98

### **General Taxes**

The amount of General Taxes due is quantified by multiplying the assessed value by the tax rate. In the State of California, real estate is assessed at 100% of market value as determined by the County Assessor's Office. The tax rate consists of a base rate of 1% plus any bonds or fees approved by the voters. The County Tax Rate for the subject property is 1.0792%.

### **Direct Assessments**

Direct assessments are tax levies that are not dependent upon the assessed value of the property. They are levied regardless of assessment. According to the Stanislaus County Tax Collector's Office, the subject has no direct assessments.

**Current and Future Taxes**

Taxes are due in two equal installments each year. According to the Stanislaus County Tax Collector's Office, all taxes are paid current as of the date of valuation. There are no known changes in the tax rate or direct assessments forthcoming.

Proposition 13 was passed by voters in June 1978 and substantially changed the taxation of real estate in California. This constitutional amendment rolled back the base year for assessment purposes to the tax year 1975-1976. Annual increases in assessed value are limited to 2% per year, regardless of the rate of inflation. Real estate is subject to re appraisal to current market value upon a change in ownership or new construction. Within the definition of "market value," the property is assumed to be reassessed for tax purposes for this appraisal.

Clear title is assumed in our valuation.

## **SECTION II – DESCRIPTIVE INFORMATION**

## **REGIONAL OVERVIEW**

In the appraisal of real estate, relevant economic and demographic factors with the potential to affect property values must be explored. For this reason, the following information is provided, regarding the economic and demographic characteristics of the Modesto area and Stanislaus County. The subject is located in Stanislaus County in the northern San Joaquin Valley, often referred to as the Northern San Joaquin Valley. Stanislaus County ranks as one of the nation's top 10 agricultural counties, producing in excess of \$1 billion in gross farm income, and leading the State in the production of nearly two-dozen agricultural commodities.

Stanislaus County is bordered by San Joaquin County to the north, Calaveras and Tuolumne counties to the east, Merced County to the south, and Santa Clara County to the west.



The City of Modesto is the Stanislaus County seat and its largest city. Turlock, the second largest city, lies 13 miles southeast of Modesto, while Ceres is located immediately south of Modesto, across the Tuolumne River. Due to the close proximity of the two cities, Modesto and Ceres are considered by many to comprise a single economic unit.

## **Transportation**

State Highway 99, and Interstate Route 5 (I-5), both of which are major north-south arterials, link Stanislaus County to other parts of California. In addition to the public transit system (bus service), and Greyhound Bus Lines, the Altamont Commuter Express (ACE) rail has stations in San Joaquin County to the northwest connecting to points in Alameda and Santa Clara counties. Additionally, the Bay Area Rapid Transit (BART) system extends easterly into Dublin, which is only a 60-minute drive west from major cities in Stanislaus County.

The Burlington Northern Santa Fe and Union Pacific Railroads provide freight service, while Amtrak provides passenger rail service for the area. Proximity to the Sacramento/San Joaquin Delta provides direct shipping access to both Sacramento and Stockton deepwater ports. The Modesto City-County Airport is located at the southern edge of the city, and is the largest commercial airport in the county. There are general aviation airports in Oakdale, Turlock, and Patterson. The nearest international airports are in Sacramento or in the San Francisco Bay Area.

### **Population**

Stanislaus County saw dramatic population growth in the 1970s and 1980s, but the rate of growth slowed in the 1990s. During the 1980s, the population of Stanislaus County increased largely from an influx of Bay Area commuters seeking relief from high priced housing and congestion in the Bay Area. This growth pressure slowed in the first half of the 1990s, having stabilized in the mid 1990s, increasing again since 1997.

### **General Demographics**

This table summarizes demographic data by zip code for cities and communities in Stanislaus County with comparative data also for the State. The data is from the 2009 Community Survey from the Department of Finance and is the most recent demographic data available.

<b>Demographic Comparison of Stanislaus County Cities - 2009 Data</b>							
	Population	Median			% Population		
		Age	HH Size	HH Income	Below Poverty	Unemployed	Bachelor Degree
Stanislaus County	505,165	32.2	3.11	\$51,529	15.10%	11.10%	11.10%
Modesto	202,556	33.2	2.96	\$50,877	15.50%	11.10%	12.20%
Turlock	67,866	32.2	3.01	\$49,798	12.10%	11.40%	14.70%
Ceres	41,782	29.6	3.46	\$50,647	16.70%	12.60%	7.00%
Oakdale	19,641	35.0	2.89	\$56,725	8.20%	8.20%	12.50%
Riverbank	20,165	29.9	3.39	\$57,713	14.80%	13.50%	10.30%
Patterson	18,094	29.1	3.49	\$56,119	10.30%	11.20%	9.60%
Waterford	8,673	27.5	3.64	\$49,622	20.90%	11.60%	5.70%
Newman	9,886	29.9	3.44	\$49,856	9.90%	7.70%	6.60%
Hughson	6,142	30.0	3.45	\$52,827	19.60%	12.20%	12.00%
California	36,308,527	34.6	2.91	\$68,909	13.20%	7.90%	19.10%

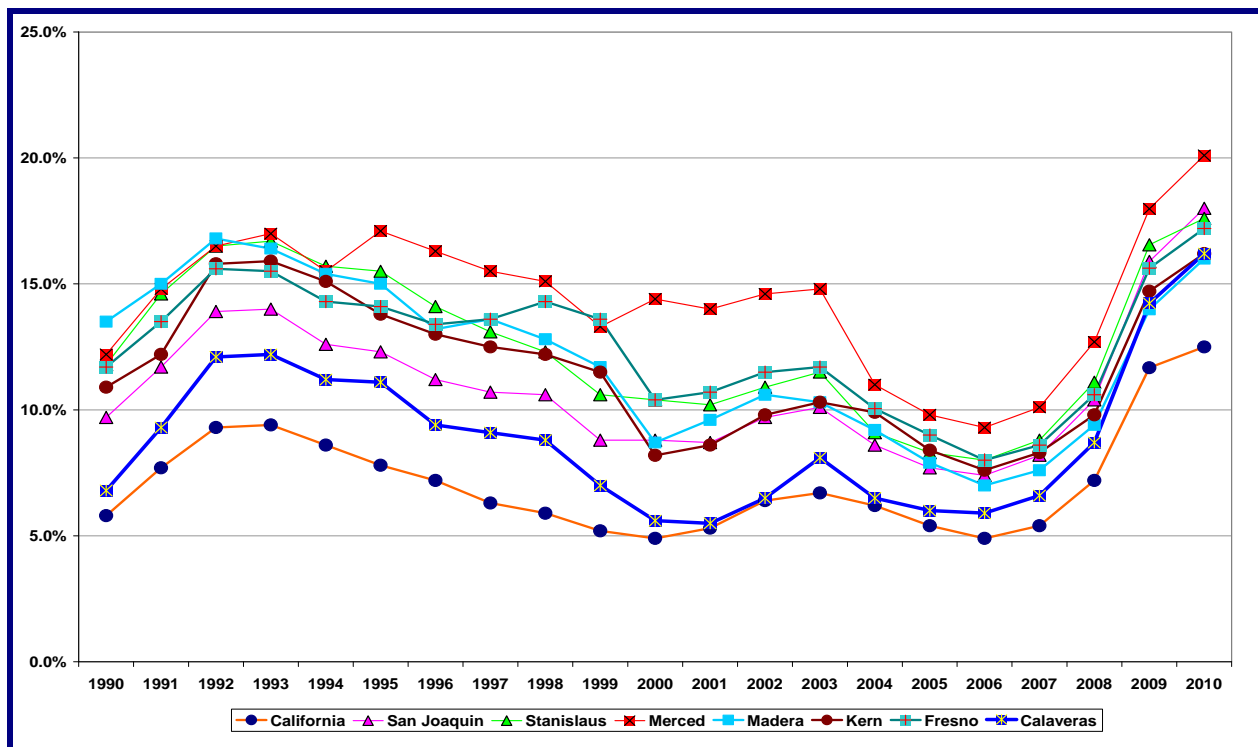
Sources: [www.census.gov](http://www.census.gov), [www.dof.ca.gov](http://www.dof.ca.gov), and [www.modbee.com](http://www.modbee.com)

### **Economic Base and Employment Trends**

The local economy is based mainly on agriculture and related industries. Approximately 200 manufacturing firms are located in the immediate area. Included among those in the area are some of the largest agriculture oriented production facilities in the nation. Modesto, Ceres, Oakdale, Riverbank and Turlock are considered by many to comprise a symbiotic economic unit.

Employment has experienced swings in recent years as the local economy has grown and then subsequently softened. The most recent data reflects an increase in unemployment rates, which parallels that of the greater California economy. Although the area has an economy that has been strongly tied to agriculture, total non-farm employment grew at a much faster pace than farm employment, with the service-providing sector outpacing the growth in the goods producing sector. Significant in the early part of the last decade has been the construction trades, and other sectors associated with real estate. Construction and real estate development were significant sources of growth in the early portion of the last decade; these sectors have declined since the recession that began in 2007. In any case, unemployment in Stanislaus County is typically higher than predominantly non-agricultural parts of California.

## Unemployment Rate



The decline in the local real estate market has also had a negative impact on employment, as all aspects of the construction trades are down, as are all other aspects of finance, insurance and real estate. The general economic softness has spilled over to virtually every other aspect of the economy.

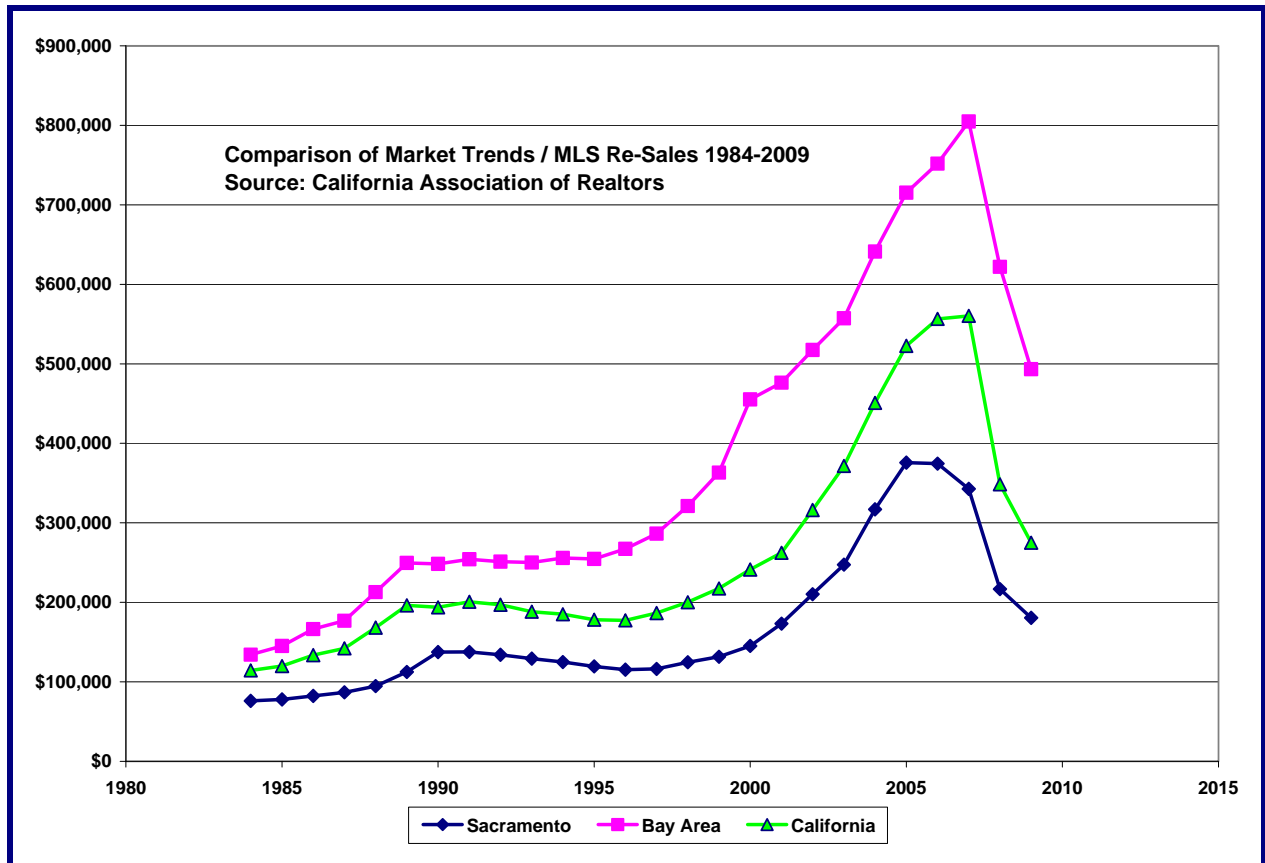
### Local Trends in Area Real Estate

Rapidly escalating prices in the Bay Area resulted in a widening affordability gap between the Bay Area and Central Valley regions. This resulted in increased demand for housing, and ultimately, all types of real property in the valley. Following a growth period in the latter part of the 1980s, the regional real estate market was soft from 1989-1990 through the first half of the 1990s. The market stabilized in 1996-97, and began to see some improvement in 1997-98, with significant improvement year-over-year from 1998 through 2000.

2001 brought stability and in some cases slight declines in residential real estate prices. Sales volume was notably lower in 2001, as compared to the preceding boom years. Following the cooling in 2001, there were dramatic increases in sales activity and home prices again from 2002 through mid 2005. The market peaked in late 2005/06 and has since been in decline. Prices outpaced incomes, and a slowdown in demand was exacerbated by a tightening in credit. New home sales volume in subdivisions slowed dramatically, and incentives/discounts and actual base price reductions were being observed.

Speculative investment in land with future development potential slowed to a stop, and new subdivision development itself stopped. All builders slowed construction activity significantly, and some have stopped activity outright – “mothballing” projects until the market improves.

The following statistics on MLS re-sales show the huge difference in median home prices between the San Francisco Region (Bay Area) and Central Valley Region (as reflected by Sacramento area statistics.)



The decline began in the Central Valley in 2006, and in the Bay Area in 2007. Nonetheless, the disparity is significant and this will continue to result in continued demand for dwelling units in the Central Valley.

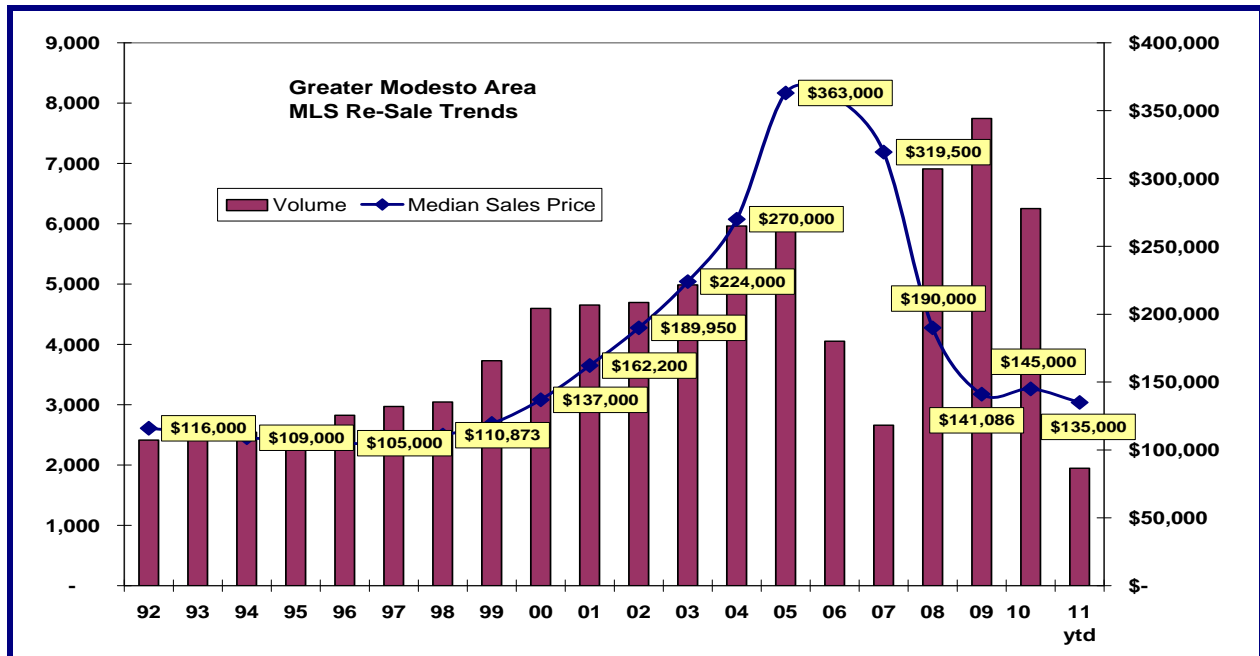
Clearly, the Central Valley counties reflect steeper declines in 2008 than the Bay Area counties. The steepest declines were in Merced, San Joaquin and Stanislaus counties. The lowest declines were in San Francisco, Yolo and San Mateo.

New home inventory has declined due to the slowdown in construction, with high sales volume in 2008 and 2009 dominated by existing bank-owned and short sale existing home product. There remains a deep supply of finished lots upon which to build. There has been some market activity now that land and lot prices have declined, with finished lots selling for less than the cost of the lot development. Lot and land buyers now are purchasing with plans to hold the property for several years until the market recovers.

#### **Local MLS Trends – Residential Re-Sales**

The following graphic shows MLS Re-Sale trends in the Greater Modesto area. The trends below reflect the pattern described previously where a decline through the first part of the 1990s began to stabilize in 1996-97, showing significant growth from 1998 through 2005. Prices had been on

a steady upswing since 1998, and sales volume had been strong until mid-2005, when the market peaked.



Sales volume was lower to significantly lower in 2006 and 2007, but rebounded in 2008, 2009, and to a lesser extent in 2010. Prices had decreased profoundly, which is considered to be the main reason for the increase in sale volume. Prices may have bottomed out in 2009, as figures for 2010 show an increase in median selling prices, but the year to date figures for 2011 show another decline. Local realtors suggest that the improved 2010 statistics do not reflect a value trend. Values are not increasing, but may have hit bottom. There also remains concern, over the growing number of homes in default that have not yet made it to the marketplace. Many are talking about a “shadow inventory” that is still out there.

### **Local Non-Residential Real Estate Trends**

The most significant non-residential development trend in the last decade was in the industrial and retail sectors, but there was new office development too. Business Park developments in all major cities in the region saw the construction of new facilities, as companies expanded and/or upgraded and new businesses came to the area. In addition to building new retail projects, existing projects, primarily shopping centers, were substantially renovated to maintain competitiveness with the new centers.

Industrial and light industrial growth was a highlight. Residential development in recent decades was driven in large part by price differentials between the Central Valley and the San Francisco Bay Area. This phenomenon also brought industry and jobs, as the growing labor force and lower land and facilities costs appealed to businesses large and small. The collapse of the residential market has also, however, had a negative impact on the commercial markets. Slowed residential volume has resulted in the slowdown of every related field: lenders, title offices, realtors, insurance agents, inspectors, appraisers, and building contractors of every type.

Retail sales are down as weakness in consumer spending is evident, and this is showing in retail property trends. Office, retail and industrial vacancies are up, and rents are soft. Rental

concessions are not uncommon. Lenders are indeed very cautious with regard to residential loans, but the tightening of credit qualifying criterion also applies to non-residential lending. Every aspect of real estate and every related industry are affected by the market slowdown.

Multi-family properties were also on a positive trend for several years, with vacancies practically nil, rental rates increasing, and overall capitalization rates declining. Rental rates and occupancy stagnated, however, early in the 2000s as property managers reported a high percentage of move outs as former rental tenants took advantage of low mortgage interest rates and became homeowners. Managers report now that many would-be tenants lack sufficient income or credit worthiness. Income and credit issues have been exacerbated by the economic slowing, increased unemployment and tightening of credit. Compounding the market now is the increase in supply of formerly owner-occupied dwellings, some of which are available as rentals. Rents are soft, vacancies have increased, and capitalizations rates have also increased.

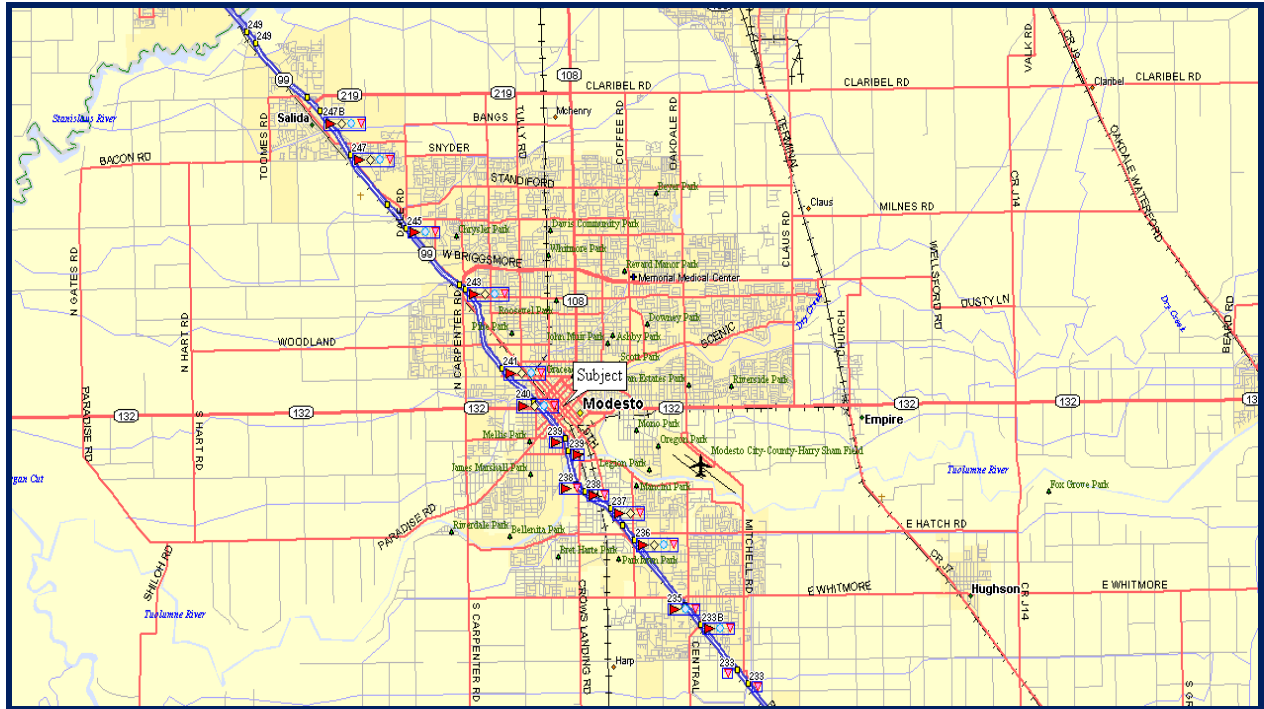
The historic reasons for the growth of the Central Valley Region will however be the same reasons that continue that growth. There remains a significant pricing differential between the Valley and the Bay Area, and population growth is expected to resume and continue. Market observers and analysts all agree that positive trends in the residential market will return, but timing is unknown. When the market first softened in late 2005, the outlook was hopeful for a recovery beginning in 2007. Issues related to availability of credit exacerbated slower demand, and there was a domino effect expanding into various aspects of the economy. The consensus now seems to be that a recovery is still two to three, or even three to five years away.

### **Regional Summary**

The subject is located in the southern portion of the City of Modesto, in Stanislaus County. Stanislaus County has experienced one of the more dramatic housing market declines in California, which has led to a slow-down in economic activity. However, demographers unanimously indicate that the long-term outlook for Central Valley areas east of the San Francisco Bay Area is for continued growth in population and employment. The area's proximity to employment centers such as the East Bay, Silicon Valley and Sacramento, coupled with its comparatively more affordable real estate make it attractive to residents and businesses. Overall, it is anticipated that market conditions will continue to be soft for the near-term, but will subsequently regain strength and perform well, driven by significant population growth forecasted for the region.

### **CITY/NEIGHBORHOOD DESCRIPTION**

The subject is located in the southern portion of the City of Modesto. Modesto is located in the northern part of the San Joaquin Valley in Stanislaus County along State Route 99. Modesto is the largest incorporated city in Stanislaus County and accounts for approximately 40% of the County's population.



As the largest city in the County, Modesto serves as Stanislaus County's retail, government, medical, and employment center. Surrounded by smaller cities and farmland, Modesto is located approximately 90 miles east of San Francisco, 80 miles south of Sacramento, 110 miles west of Yosemite National Park, and 95 miles northwest of Fresno.

Although growth has slowed considerably in the last few years, the combination of attractive interest rates and prices for new homes fueled the 2000-2005 growth of the City of Modesto and other cities within Stanislaus County. This growth has come from buyers from the Bay Area who were unable to afford the high housing prices.

The ongoing economic crisis and recession has greatly affected financial markets, both on a national and international level. The effects of the economic crisis have been felt heavily in Modesto and the Central Valley as a whole. The employment situation in the county is currently grim. According to the most recent labor market information, the unemployment rate for the Modesto Metropolitan Area for May 2011 was 16.7%, down from 17.4% in April 2011. This compares with an unemployment rate of 11.7% for California and 9.1% for the nation during the same period.

### **Immediate Environs**

The subject is located at the northwest corner of 10<sup>th</sup> and G Streets. Primary access to the subject neighborhood is provided by Highway 99 from the northwest and southeast. To the north, Highway 99 provides access to Sacramento and to Highway 120, which provides access to Interstate 5 and the San Francisco Bay Area. To the south, Highway 99 provides access to Fresno and further south to Bakersfield and then merges with Interstate 5. McHenry Avenue provides access to the subject neighborhood directly from the north and is the main north/south commercial thoroughfare in Modesto lined with numerous commercial uses. Access to the neighborhood from the east and west is provided by Highway 132, which provides access east to Yosemite National Park and West to Interstate 5.

## AERIAL MAP



The neighborhood boundaries are generally defined as that area northeast of State Route 99, south of Needham Avenue and west of Burney Street. Needham and Downey Avenues to the north separate the downtown central district from the older original residential area of Modesto. Ninth Street is the natural boundary to the west as it separates the retail/commercial uses from light industrial uses across 9<sup>th</sup> Street. Burney Street on the east separates another older residential area of Modesto from the downtown commercial district. G and H Streets, and K and L Streets are the two sets of north-south one-way streets that direct traffic *through* the downtown area, most consider J Street as the primary north-south arterial two-way street.

The Modesto Transit Center is located approximately two blocks northwest and is served by both MAX (Modesto Area Express) and START (Stanislaus Regional Transit) buses, which provide citywide and regional transportation.

The majority of the downtown business district is zoned for commercial use (retail and office). The downtown area is in a state of continued revitalization which creates a desirable effect on land values in the downtown area. In addition, single family and multi-family residential properties are located on the fringe area of the original mile-square town site. This fringe area of downtown is in a state of transition to office and/or retail commercial use.

Like many historic downtown areas, downtown Modesto consists of a confluence of old and new, with the neighborhood experiencing most of its growth in the form of redevelopment. One of the more significant recent projects in downtown Modesto is the new Gallo Center for the Arts. Another major development is 10<sup>th</sup> Street Place, a mixed-use development encompassing two city blocks bounded by 9<sup>th</sup>, K, 11<sup>th</sup> and J Streets, covering approximately five acres. The development occurred from 1999 through 2001. The entire development contains approximately 228,000 square feet of office space, including City and County government offices, approximately 48,000 square feet of retail space, an 18-screen cinema, and a 682-space public parking structure. A Doubletree Hotel and the City Convention Center are located to the north and northwest of the 10th Street Place development.

**Conclusion**

In summary, the subject is located in the central business district of downtown Modesto. Major influences in the subject's immediate vicinity are the Gallo Arts Center in addition to City and County Offices. The subject benefits from good access to local and regional transportation. The neighborhood is in the revitalization stage of its life cycle. The outlook for the neighborhood is for stable performance, although future development would be somewhat hampered if redevelopment funds from the City become constrained. Given budget issues, redevelopment funds have been discussed and may be subject to cuts. Nonetheless, we believe the subject will experience long-term stability as the economy recovers.

**INDUSTRIAL MARKET OVERVIEW**

The subject is located in the Central Valley industrial market. This market is comprised of San Joaquin and Stanislaus counties and is tracked by CoStar Properties, which publishes a quarterly market report. The report provides industrial market statistics for overall market inventory, occupancies, rents, and absorption. The Central Valley market area contains over 107 million square feet of industrial warehouse property.

The following is a synopsis of a presentation that Michael Goldstein, SIOR and Managing Partner of the Industrial Services Team, with the Stockton office of Collier's International recently gave regarding the Stanislaus/San Joaquin industrial market. "The past three years have been the most challenging for the industrial market in living memory. However, the industrial market has held up better than the office, retail, or residential markets. During 2010, cap rates for institutional grade warehouses were 8.0% to 8.25%. But so far in 2011, the same product has been getting an overall cap rate 7.25% to 7.50%. Speculative construction has ceased, and only build-to-suit projects are being built. Current rents do not justify speculative building at this point. Vacancy rates remain high and industrial land sales are very rare."

**Inventory**

In the overall Stanislaus/San Joaquin market area, there is approximately 107,516,640 million square feet of industrial warehouse space. Of this, the Modesto area has approximately 23,286,759 square feet; this represents 21.7% of the total.

**Vacancy**

The vacancy rate for the Stanislaus/San Joaquin industrial warehouse market stood at 17.6% in the first quarter of 2011. The vacancy rate for the Modesto area stood at 12.1%. This represented an increase from the 17.1% reported in the 4<sup>th</sup> quarter 2010 for the Stanislaus/San Joaquin market.

**Rental Rates**

The "overall" average asking rental rate, in the Central Valley industrial market, ended the First Quarter 2011 at \$0.32 per square foot per month "triple net". This was a slight decrease from the previous quarter. Rental rates are still near the lowest they have been in several years.

**Absorption**

Net absorption for both the past year and the most recent quarter has decreased. Net absorption totaled negative 545,073 square feet of industrial warehouse space. We do not expect to see any new speculative industrial development in the coming year. This should lead to positive absorption in the coming year.

**Local Survey**

The subject is improved with an industrial building. Based on a survey of similar buildings, such buildings in the subject market are leased on an "industrial gross" or a "triple net" expense arrangement. Lease terms for industrial tenants are usually 1 to 3 years with rent escalations based on the local Consumer Price Index or adjusted 3% annually, and 3 or 5-year renewal options are not uncommon. Landlords are aggressively competing for tenants by offering rental concessions such as free rent and/or tenant improvement packages in some areas.

Rental rate variances are attributed to location, access, age/condition, industrial build-out, quality, and other physical factors.

**Sale Conditions**

As the availability of credit continues to be tight, demand for industrial real estate has slowed, but there continues to be some market activity on both the leasing and sales side.

Based on our experience in appraising industrial buildings, sales volume has leveled off, but at lower levels than in previous years. Sales volume and prices are directly related to current economic conditions. Capitalization rates for industrial product similar in size as the subject were around 7.0% to 9.0%. Costar Properties reported an overall cap rate of 8.75% for industrial buildings under 25,000 square feet in the Stanislaus/San Joaquin market.

**Investment/ Owner-User Market**

The owner-user market has represented the bulk of the market activity since late 2008. The credit crunch seen in the residential markets has similarly affected the commercial markets. As such, demand for owner-user buildings and investment properties has decreased and capitalization rates have risen. However, the market appears to be stabilizing and we are optimistic that financial markets will regain strength in the future.

Interest rates play an important role for buyers of real estate, both investors and owner-users. The interest rates have continued to remain low as the Fed has maintained its rates. However, if financial institutions do not have the liquidity or reserves to lend, the pool of potential buyers significantly decreases; as is evident in today's market.

Considering the subject's location and physical characteristics, its desirability to owner users is well founded.

**Summary/Conclusion**

The Central Valley industrial market has seen difficult times over the last few years. Vacancy rates have increased, and rental rates and net absorption have only recently leveled-off after a period of steep decline. At this point, we do not predict any significant improvements to the industrial market in the near-term, but the worst seems to be over. We believe demand from owner-user and investor buyers will continue to be slow through 2011.

**SITE DESCRIPTION**

Address: 701 10<sup>th</sup> Street, Modesto, California 95354

Location: Northwest corner of 10<sup>th</sup> and G Streets.

APN: 106-042-007

Shape: The site has a rectangular configuration.

Site Area: Based on information available from the Assessor's Office, the site totals 0.32 acres, or 13,939 square feet.

Frontage: The site has good frontage relative to its size. Approximately 100 feet of frontage on 10<sup>th</sup> Street and approximately 140 feet on "G" Street.

Topography: The site is level and at grade with the frontage.

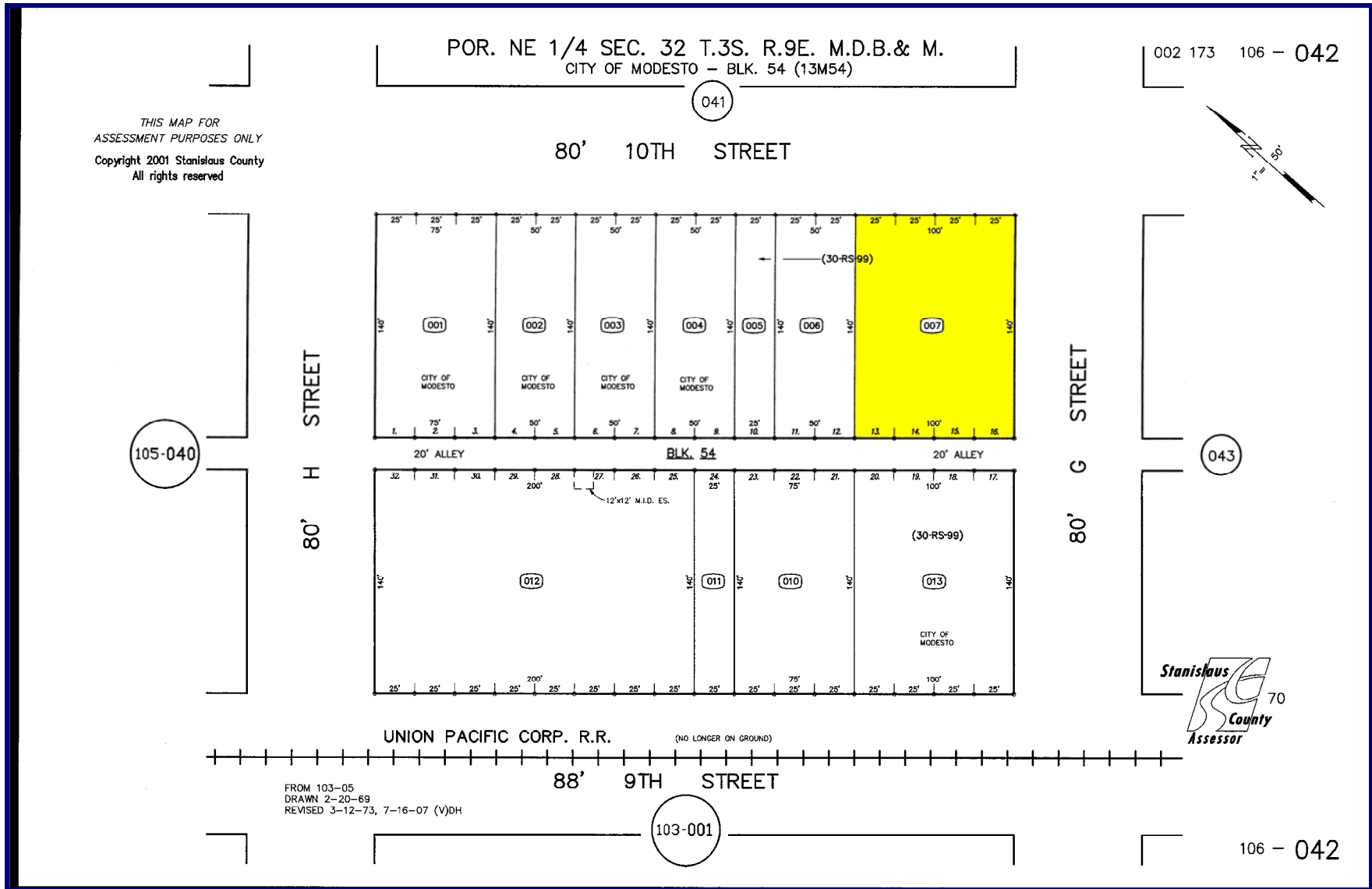
Utilities: All utilities including electricity, water, sewer, gas, and telephone service are available to the site.

Soil Conditions: We were not provided with soils, geotechnical, or environmental reports. Appraisers are not experts with regard to soils, geotechnical, or environmental issues. For purposes of this appraisal, we assume that a current report would reveal no soil, geotechnical, or environmental conditions that would adversely impact the value and marketability of the property. We make no warranties or representations as to soil toxicity matters or to the presence or absence of any hazardous materials or conditions.

Flood Zone: "X", Community Panel No. 06099C0340E, dated September 26, 2008. Mandatory flood insurance does not apply.

Earthquake Hazard Zone: The subject site is not located within the Alquist-Priolo Special Study Earthquake Hazard Zone.

Environmental Issues: We have not been provided a Phase I Environmental Site Assessment for the subject property. No evidence of site contamination was found. Our appraised value assumes the subject site to be free of site contamination.



- Land Use Restrictions:** We reviewed a Preliminary Title Report prepared by Chicago Title Company dated March 31, 2011, Order Number 11-50910332. The report was reviewed to determine the nature of any easements or other land use restrictions that may negatively impact the subject property. Overall, no detrimental easements or land use restrictions were noted. As such, the value conclusion reached in this appraisal assumes there are no easements or restrictions that negatively impact the subject site.
- Access and Visibility:** Visibility is good as the property is situated on a corner site with frontage on both 10<sup>th</sup> and G Streets. Access is considered good via a single curb cut along 10<sup>th</sup> Street and a single curb cut along G Street via the alleyway located directly to the south. The subject has good access to both local and regional transportation.
- Off-site and Street Improvements:** 10<sup>th</sup> Street and G Street are asphalt-paved streets with concrete curbs, gutters, and sidewalks. 10<sup>th</sup> Street carries one lane of traffic in each direction, with a turn lane, while G Street carries three lanes of traffic in one direction only.
- On-site Improvements:** The site is improved with a two-story industrial building and landscaping around the building. The parking lot is asphalt paved. On-site improvements are in below average condition.

In summary, the subject site is rectangular in shape and contains 13,939 square feet, or 0.32 acres. The site is level and at street grade with all public utilities available. The subject site has good frontage relative to its size. Visibility is considered good. The site has good access to both local and regional transportation. Overall, the site is well suited for a variety of commercial uses, including the subject building.

### **ZONING**

The subject site is under the jurisdiction of the City of Modesto. According to the City of Modesto Planning Department, the subject is zoned "DC" Downtown Core. The General Plan is Redevelopment Planning District (RPD). The zoning and General plan are in compliance. The "DC" Downtown Core District is intended to implement General Plan Policy by promoting higher density, mixed-use development to create a balanced, vibrant downtown and active neighborhood centers.

We reviewed the City of Modesto website and also spoke with Josh Bridegroom of the City of Modesto Planning Department. Legal permissible uses in the downtown area include a variety of commercial uses (retail/office/industrial), and residential uses. The parking requirement is one space per 500 square feet minimum and 1 space per 300 square feet maximum.

The subject has just over the minimum amount of required parking, with one space per 470 square feet of net building area.

According to our interpretation of the development regulations, the subject is considered to represent a legal and conforming use. If further information is needed, we recommend calling the City of Modesto Planning Department.

### **IMPROVEMENT DESCRIPTION**

Our description of the improvements is based on our inspection of the property and information provided by the owner. The subject property consists of a 7,048 square foot commercial building constructed in 1941. According to the City of Modesto Building Department, an attached parking garage was converted to building space in March of 2000. This added an additional 1,536 square feet to the original 5,512 square foot building. This newer area is warehouse space with a large roll-up door. Onsite measurements do not match public records in this regard. There is also a small partial second level of 952 square feet.

The interior improvements are in below average condition. The current owner utilizes a portion of the property for parking and storage. The building was previously occupied by a Greyhound bus station. The majority of the interior improvements utilized in the operations as a Greyhound bus station have been removed and the remaining left to fall into disrepair. See photos included in this report. The building will most likely be used on an interim basis as a warehouse or for storage, as the cost to convert the improvements to any higher intensity use such as office or retail, is not feasible in the current economic environment.

### **General Data**

Year Built:	1941
Building Size:	7,048 gross and net rentable sq ft, plus a partial second level
Floor Area Ratio (FAR):	$(7,048 \text{ s.f.} / 13,939 \text{ s.f. land area}) = 51\%$

### **Construction Details**

Foundation:	Reinforced concrete perimeter footing
Floor Structure:	Concrete slab on grade
Construction Type:	Masonry block
Roof:	Flat concrete roof structure with asphalt sheet membrane finish
Fenestration:	High-arch windows set in aluminum frames

**Mechanical Details**

Heating and Cooling:	Roof-mounted packaged HVAC unit, assumed functional.
Electricity:	Assumed adequate and functional
Plumbing:	Assumed adequate and functional
Fire Protection:	None.
Alarm Protection:	None.

**Interior Finish**

Improvements:	<p>First Floor: There is a large lobby area with no flooring, a partial temporary dividing wall, a tile-floored restaurant area (all equipment removed), two large tiled restrooms (men's' and women's) with all fixtures removed except for the toilets, a shower area (all fixtures removed), tiled hallways and additional storage rooms.</p> <p>Second Floor: The small second floor area appears to have been used as the drivers lounge when the building was a bus station. There is one carpeted office and one additional room with a bath and shower area. All interior improvements show considerable deterioration due to lack of maintenance or upkeep.</p>
Walls:	The interior wall finish is gypsum board and tile trim.
Floors:	Exposed concrete foundation or tile flooring on the first floor and commercial grade carpeting in the office areas of the second floor.
Ceilings/Lighting:	Suspended acoustical tiles with fluorescent lighting.
Other:	No elevator. One stairwell.

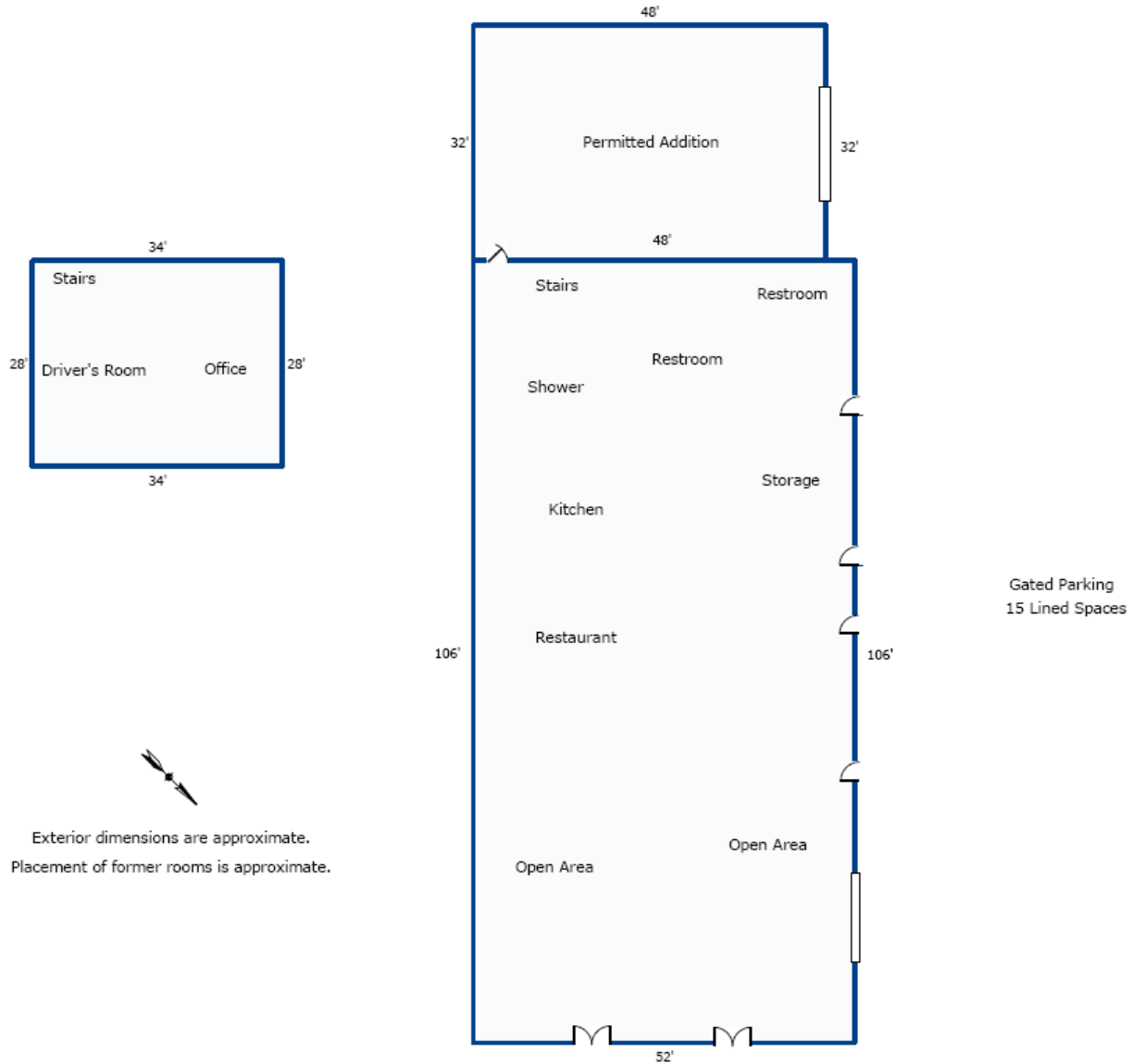
**On-site Improvements**

On-site Parking:	There is an asphalt-paved, lighted parking lot containing 15 marked parking spaces. (2.1 stalls per 1,000 square feet of building area, or one space per 470 square feet.) Note, many commercial properties in downtown Modesto have minimal on-site parking.
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Landscaping: Perimeter landscaping including trees.

**Comments:**

The improvements are considered to be in below average condition for their chronological age. The functional utility of the building is rated as poor. The improvements were constructed in 1941, chronologically 70 years old. According to the County Assessor records, the improvements have not been renovated. We estimate the effective age at 45 years. Based on a total economic life of 60 years, the remaining useful life is estimated at 15 years.



With regard to the functional utility, it is our opinion that the building would need work (~\$5/sf) to have any real utility for either warehouse/industrial or garage use, or significant renovation (~\$40-\$50/sf) to convert the building to an office use. *The building can be considered a shell that requires either partial or complete renovation depending on the ultimate final use.*

## Subject Photographs



Front elevation from 10<sup>th</sup> street.



Looking southeast along G Street, subject on right.



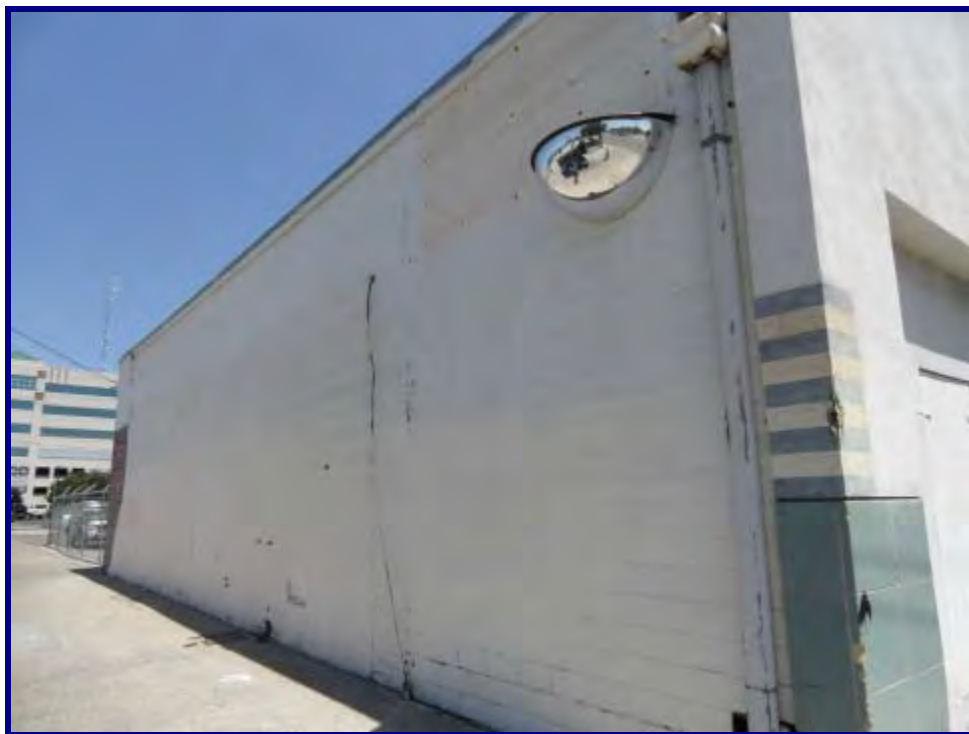
Looking northeast along 10<sup>th</sup> Street, subject on left.



Looking southeast along 10<sup>th</sup> Street, subject on right.



Looking northwest at parking lot.



Rear elevation from alley.



North elevation from alley.



Southern lobby area



Northern lobby area (12' roll-up door to the left)



Former restaurant area



Former Kitchen area



Lower level, south side hallway



Lower level, north side hallway



Former women's restroom



Former men's restroom



Upper level office



Upper level – former bus driver's room



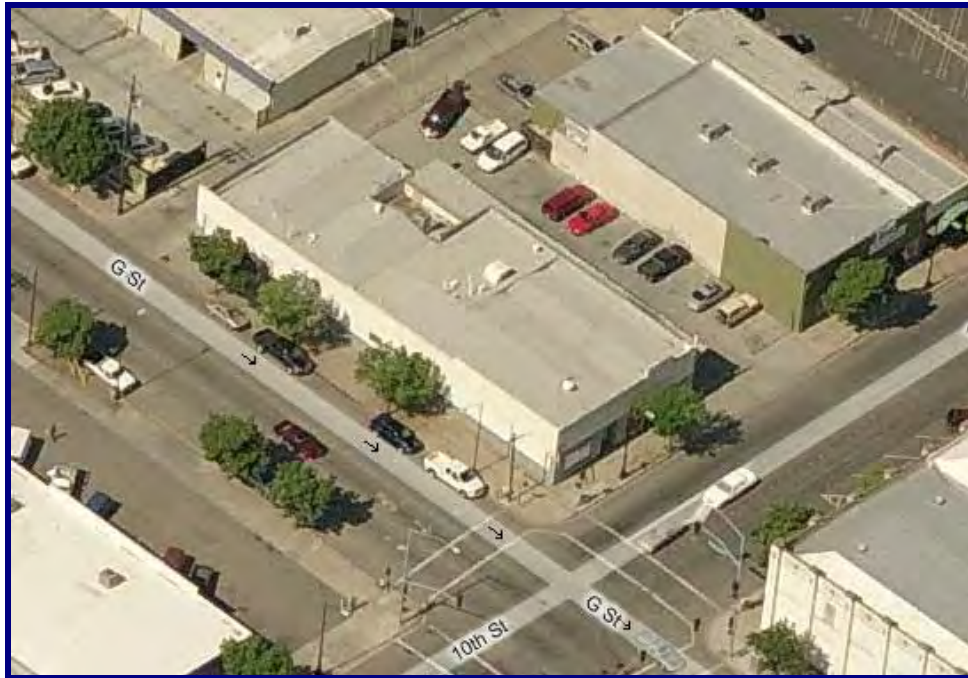
Lower level addition



Exterior of lower level addition



North side



“Bing” aerial view facing southwesterly.



“Bing” aerial view facing southeasterly.



“Bing” aerial view facing northeasterly.



“Bing” aerial view facing northerly.

## **HIGHEST AND BEST USE ANALYSIS**

Our analysis of highest and best use, of both the land “as if vacant” and the property “as improved,” is based on four criteria. Each highest and best use must meet these criteria, which are that the use must be: 1) physically possible; 2) legally permissible; 3) financially feasible and, 4) maximally productive.

### **Highest and Best Use – “As if Vacant”**

The subject site is located in a desirable location in the downtown business district. The subject site consists of a rectangular-shaped parcel containing approximately 13,939 square feet. The site is accessed from both 10<sup>th</sup> Street and G Street. The site is level and at street grade with all utilities available. The subject site has good frontage and visibility relative to its size. The site is located in the heart of the downtown core with very good access to both local and regional transportation. Overall, its physical characteristics make it suitable for a number of uses.

The subject is zoned “DC” Downtown Core. The General Plan is Redevelopment Plan District. The zoning and general plan allow for a variety of commercial uses. The zoning and general plan designations are compatible with one another. Various commercial uses including (but not limited to) professional office, retail, and industrial/warehouse uses are allowed.

The feasibility of developing this site is directly tied to current market conditions, including demand, and to construction and land costs. Given current economic and market conditions, surrounding land use patterns do not support development and many developers have halted construction. It would not be financially feasible to develop the site if it were vacant.

### **Conclusion – “As If Vacant”**

It is our opinion that the highest and best use would be for commercial-related use. The highest and best use “As If Vacant” is to hold the property for future development in accordance with improvement of general economic conditions.

### **Highest and Best Use – “As Improved”**

The four tests of highest and best use are applied to the subject in its “as is” condition. As improved, the subject consists of a freestanding commercial building. We believe that potential users of the subject would depend on whether the building is partially or totally renovated in the near term, but the likely long term use would be a local office, retail or commercial service user.

The existing basic building shell is in conformance with the existing zoning code and represents a legal and conforming use. Although commercial market conditions are weak and new construction (or substantial renovation) is generally not feasible at the current time, the value of the property “as improved” exceeds the value of the site “as if vacant” plus demolition costs. Based on consideration of the above-mentioned factors, it is our opinion that the highest and best use of the property “as improved,” is the existing improvements, as partially or totally renovated. Given current market conditions, it would be most prudent to make the building usable as warehouse/storage, or even auto repair, as an interim use, with a higher intensity complete renovation to office or retail at some future date. The subject property would be considered appealing to both investors and owner-users. An owner-user would likely pay more for the property than an investor in the current market. It will be valued as a building shell with nearterm industrial/storage/garage use, and longer term higher intensity potential.

## **SECTION III - VALUATION**

## **THE APPRAISAL PROCESS**

The valuation of a real property's market value involves a systematic process in which the appraisal problem is defined and the data required is gathered, analyzed, and interpreted into an opinion of value.

The three traditionally accepted approaches to value for commercial property were considered in this appraisal: the Cost, Sales Comparison, and Income Approaches. Not all three approaches are applicable in every instance. Estimation of accrued depreciation from all sources is difficult for an older improvement, and as a result, buyers and sellers of properties like the subject typically rely upon the Sales Comparison and Income Approaches to value. When the Cost Approach is used, it is typically used to ascertain the feasibility of a new project. The Cost Approach is therefore not considered necessary in order to arrive at a credible opinion of value for the subject property.

The two applicable approaches were determined to be the Sales Comparison and Income Approaches. These two approaches are then reconciled into a final value conclusion. In the reconciliation, the contribution of each approach is considered with regard to the type of property being appraised and the adequacy and reliability of the data analyzed

## **SALES COMPARISON APPROACH**

The Sales Comparison Approach hypothesizes that a prospective purchaser would pay no more for a property than the amount for which he or she could purchase another substitute property.

We consider the building as it exists to be most comparable to industrial properties, and have thus included industrial properties in our sales comparison approach analysis.

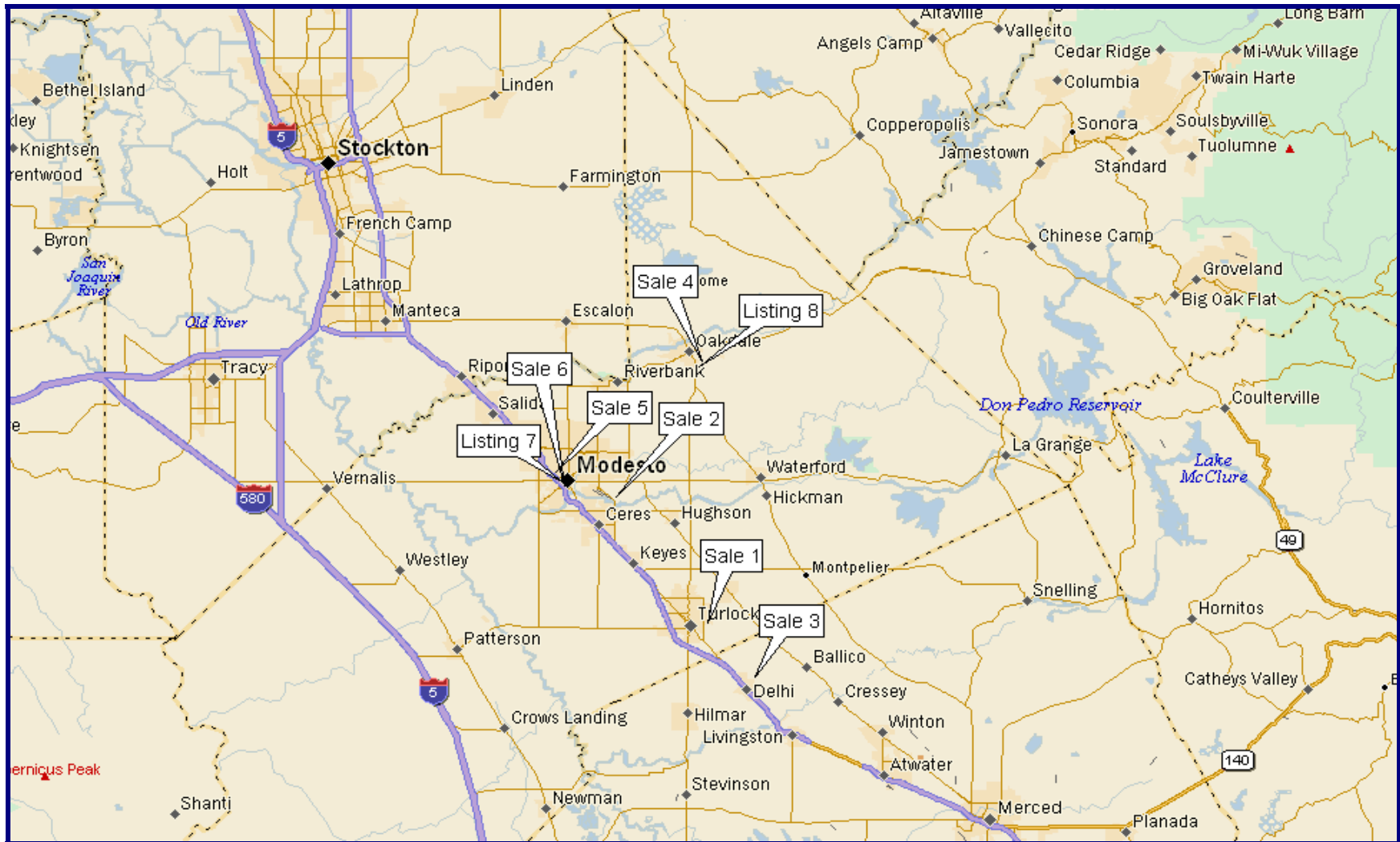
From the sales surveyed, six sales and two listings were selected as most relevant to the valuation of the subject property. These comparables are summarized on the next page. We have also included a Building Sales Location Map, Photographs, and building sale details following the map and a discussion of adjustments. These sales are compared to the subject property on the basis of sale price per square foot of rentable building area.

Notably, we have based the valuation on the first level building area only. The partial second level area is considered an amenity for which a buyer would pay a premium.

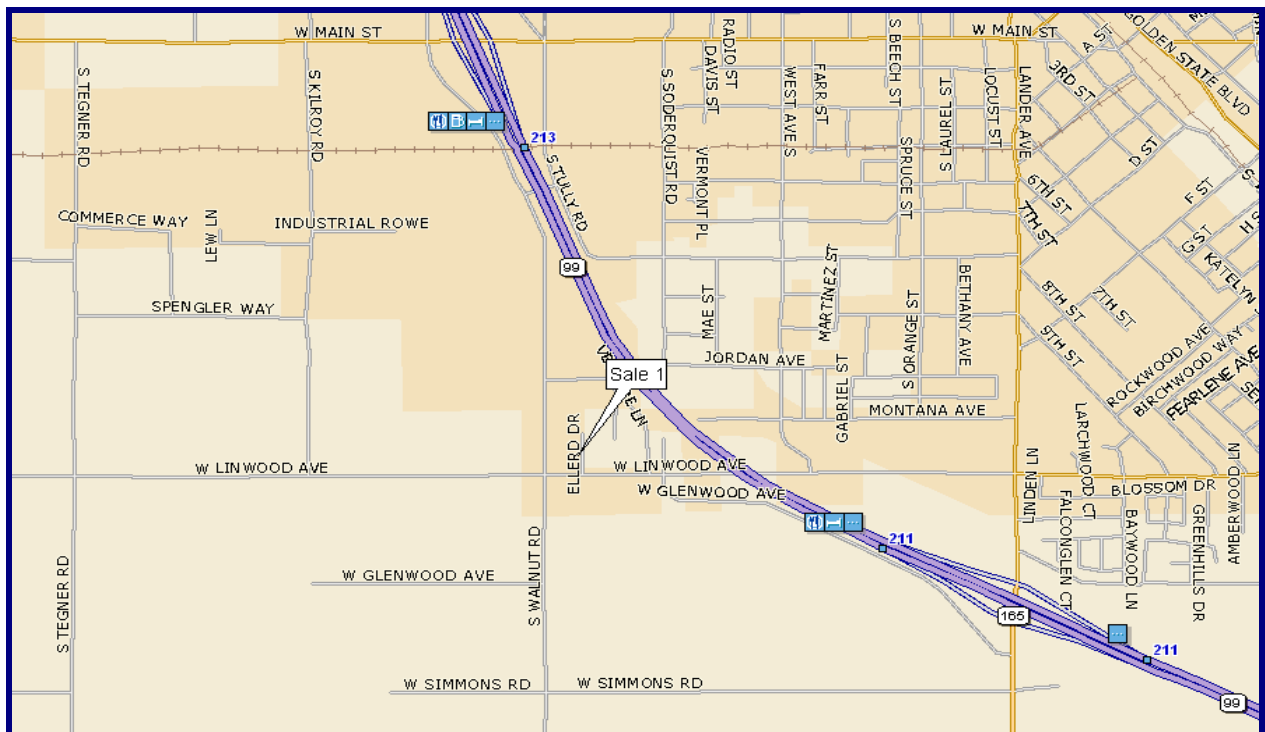
## BUILDING SALES SUMMARY

Sale No.	Location	Yr. Built Site Size	Building Size FAR	Sale Date	Sale Price	Price/S.F.	Comments
1	1505 Ellerd Drive Turlock	1980 21,841	12,000 55%	Jun-11	\$600,000	\$50.00	Private sale of a warehouse property in Turlock. Property is a metal building with 2 grade level roll up doors and approx. 1,000 sqft office (8%). Parking is 1.0 space per 1,000 square feet. Purchased as-is.
2	3105 Del Este Parkway Modesto	2005 57,935	20,122 35%	Mar-11	\$1,265,000	\$62.87	Sale of a single-story concrete tilt-up building, dock hi and grade level doors and 30% office build-out. Fully sprinklered. Building sold to an owner-user, 7.0% OAR based on proforma income & expenses including notable association dues at \$0.28/sf/year.
3	9804 3rd Street Delhi	1970 69,696	8,400 12%	Feb-11	\$375,000	\$44.64	Sales price confirmed via public records only. Single tenant warehouse building of wood/masonry construction. One roll up door and adequate parking.
4	684 Hedburg Way Oakdale	1993 11,761	6,000 51%	Nov-10	\$250,000	\$41.67	Sale of a single tenant industrial building of metal construction. Parking ratio is 3.0 per 1,000 sqft and building has four roll-up doors.
5	211 Campus Way Modesto	1946 43,560	13,875 32%	Aug-10	\$795,000	\$57.30	Sale of a 1946 steel warehouse building. Parking ratio is 1.4 per 1,000 square feet. Purchased by the neighboring community college for conversion to parking lot.
6	1314 9th Street Modesto	1968 10,454	5,072 49%	Nov-09	\$300,000	\$59.15	Sale of a single-tenant industrial building, concrete construction with 61% office build-out, two grade doors and 5 parking spaces for a 1.0 per 1,000 square foot parking ratio.
7	722 I Street Modesto	1917 26,136	22,510 86%	Listing 600+ Days	\$1,499,500	\$66.61	Listing of a industrial shell building of masonry construction. No on-site parking, corner location and high-traffic location. Owner willing to divide space if market supports costs to do so. DOM:600+
8	584 Hi Tech Parkway Oakdale	1981 21,780	10,880 50%	Listing 100+ Days	\$695,000	\$63.88	Listing of a single-tenant industrial building in Oakdale. Building has 20% office build-out, with 13 on-site parking spaces for a 1.2 per 1,000 sqft parking ratio.
<b>Hulberg &amp; Associates, Inc.</b>							

## Building Sales Map



**BUILDING SALE NO. 1**



**Location Data**

**Property Name:**

**Address:** 1505 Ellerd Drive  
Turlock, CA 95380

**APN:** 050-034-017

**Property Information**

**Building Size:** 12,000

**Land Size (s.f.):** 21,780

**FAR:** 55 %

**Year Built:**

**Parking Ratio:** 1/1,000 s.f.

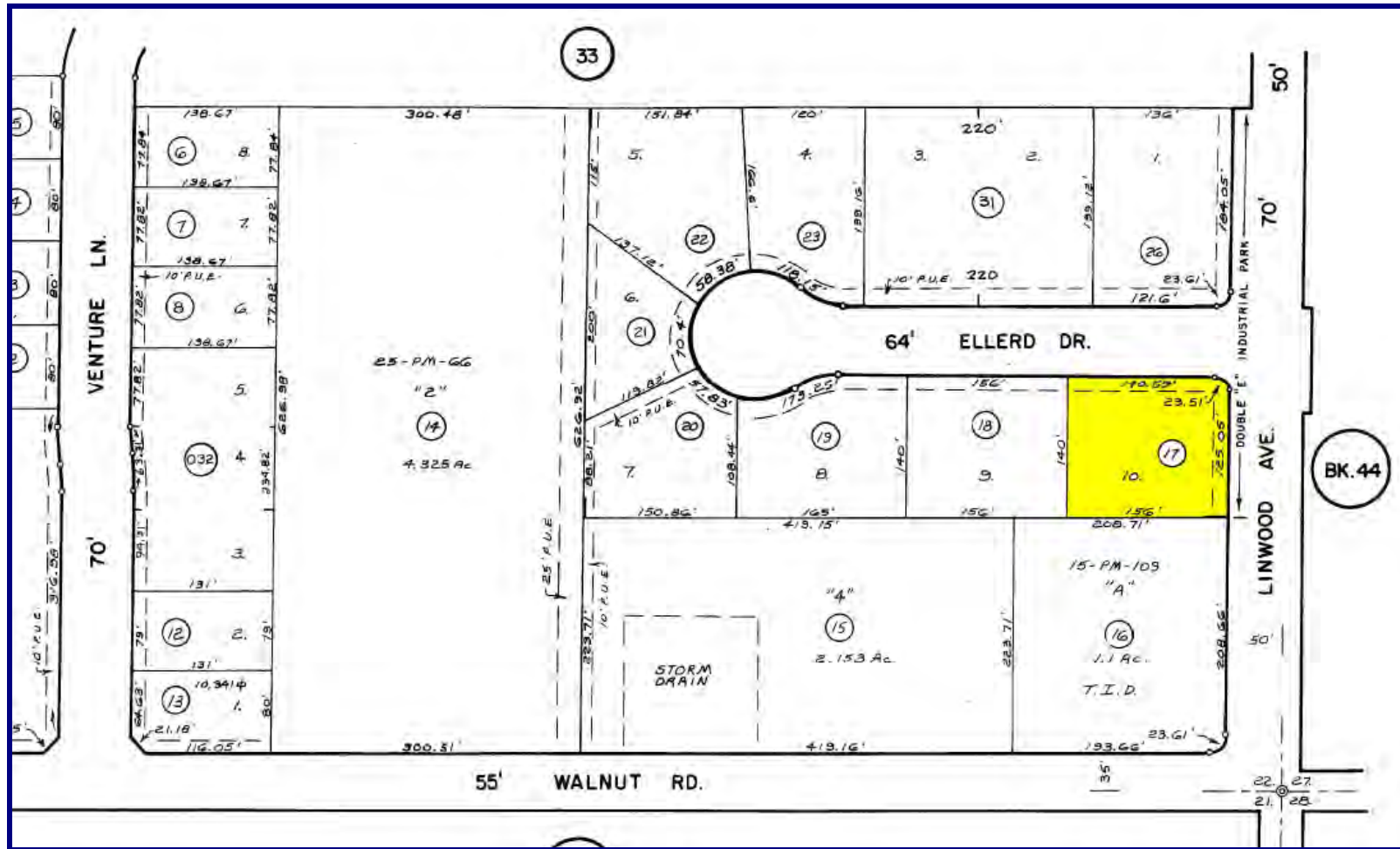
**Sale Information**

**Close of Escrow:** 6/15/2011

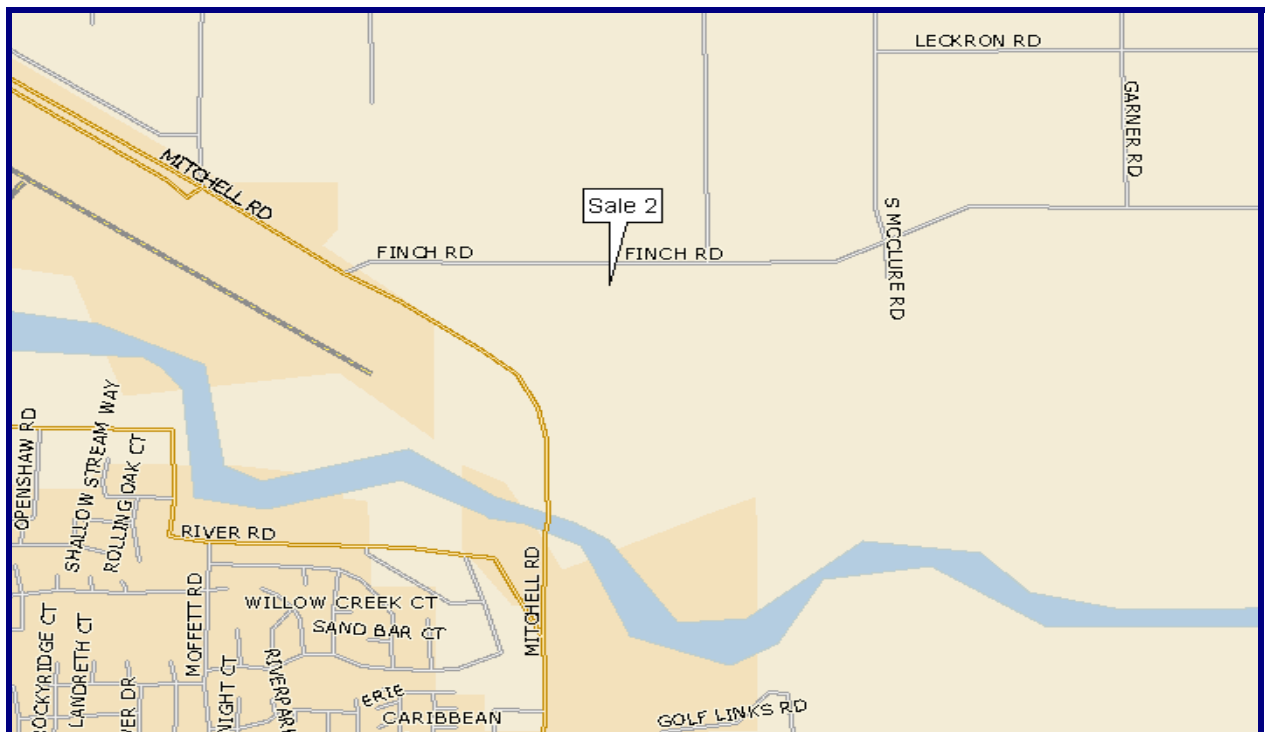
**Sale Price:** \$600,000  
**Sale Price/s.f. (bldg):** \$50.00  
**Cap Rate:** N/A  
**Grantor:** Valley Industrial Park  
**Grantee:** Avalos, Peter & Mary A  
**Document #:** 11-049686

**Comments on Sale**

This is a private sale, as the property was not listed. Buyer states that had been negotiating with the seller for quite awhile before negotiating a sales price. Seller carried the financing with the buyers contributing a 25% down payment. Property has approximately 1,000 square feet of office space (8%) and 12 parking spaces for a 1.00 per 1,000 parking ratio. The property was purchased as-is with no conditions or concessions included.



### BUILDING SALE 2



#### Location Data

**Property Name:**

**Address:** 3105 Del Este Parkway  
Modesto, CA

**APN:** 039-69-03

#### Property Information

**Building Size:** 20,122

**Land Size (s.f.):** 57,935

**FAR:** 35%

**Year Built:** 2005

**Parking Ratio:** 1.14/1,000 s.f.

**Sale Information**

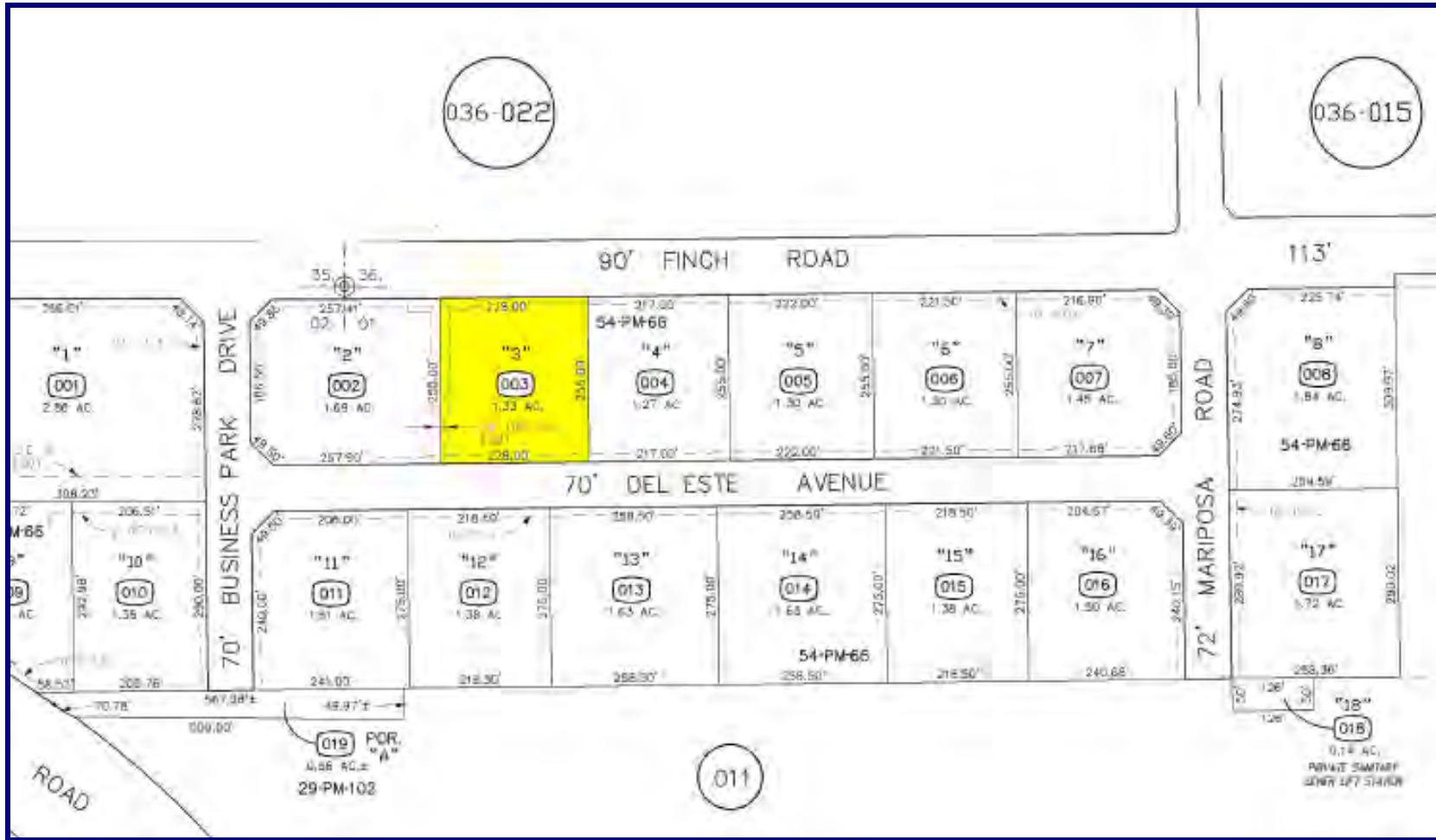
**Close of Escrow:** 3/9/2011  
**Sale Price:** \$1,265,000  
**Sale Price/s.f. (bldg):** \$62.87  
**Cap Rate:** 7.00%  
**Grantor:** Lehman Brothers Small 2007-2  
**Grantee:** Community Hospice, Inc.  
**Document #:** 19407

**Comments on Sale**

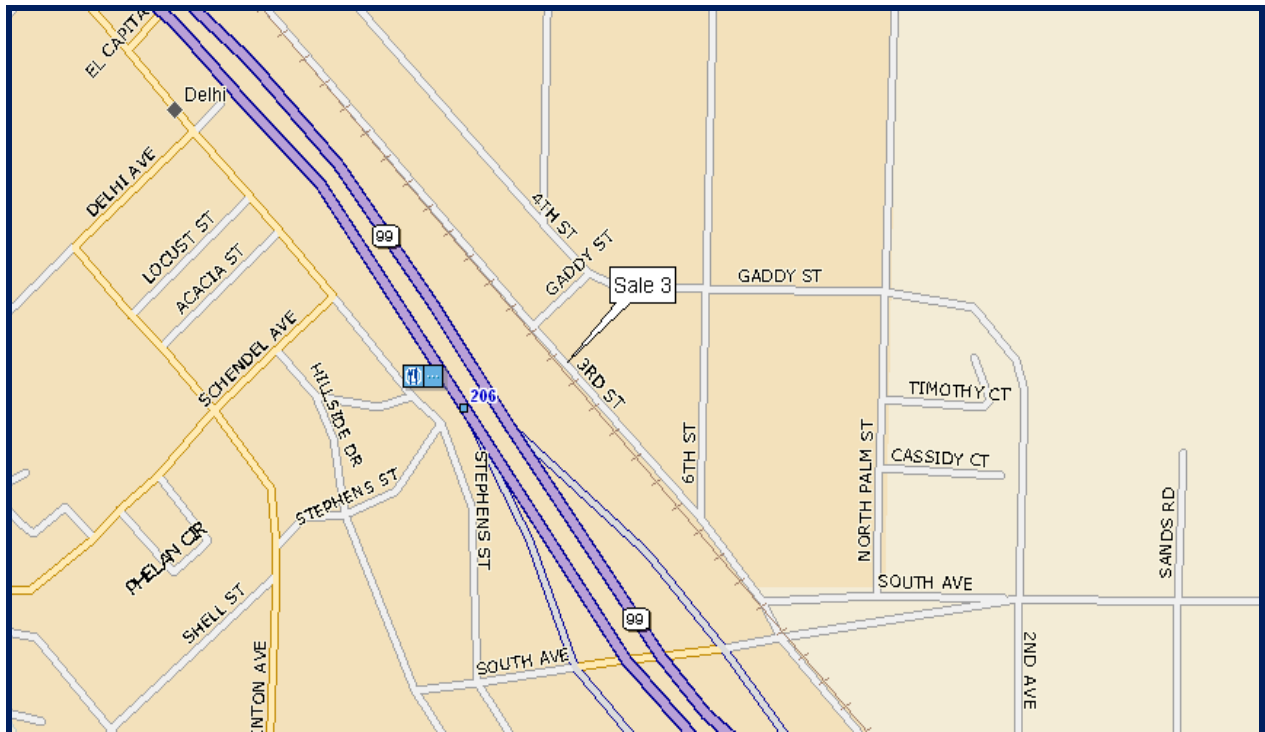
This is the sale of an industrial building located within the River Bluff Business Park located in Modesto. The improvements consist of a single-story concrete tilt-up building containing 20,122 square feet and constructed in 2005. Office space consists of 6,130 square feet and Warehouse space is 13,992 square feet. The building features 22' ceiling height, dock hi and grade level doors. The underlying site contains 57,935 square feet indicating a floor area ratio (FAR) of 35%. The on-site parking is ratio is 1.14 spaces per 1,000 square feet of building area.

The building is within an area subject to association dues, which for this property, total an estimated \$5,600 per year (\$0.278/sf/year.)

This was an owner-user purchase with a 65% conventional loan. Proforma potential gross income is \$109,938 (\$0.46/sf/month). Deducting 5% for vacancy, 4% management, 3% for reserves, \$0.15/sf maintenance and \$5,600 for dues, yields a net operating income of \$88,512, indicating a capitalization rate of 7.00%.



### BUILDING SALE 3



#### Location Data

**Property Name:**

**Address:** 9804 3rd Street  
Delhi, CA 95315

**APN:** 011-051-009

#### Property Information

**Building Size:** 8,400  
**Land Size (s.f.):** 69,696  
**FAR:** 12 %  
**Year Built:** 1970  
**Parking Ratio:** 0.0/1,000 s.f.

**Sale Information**

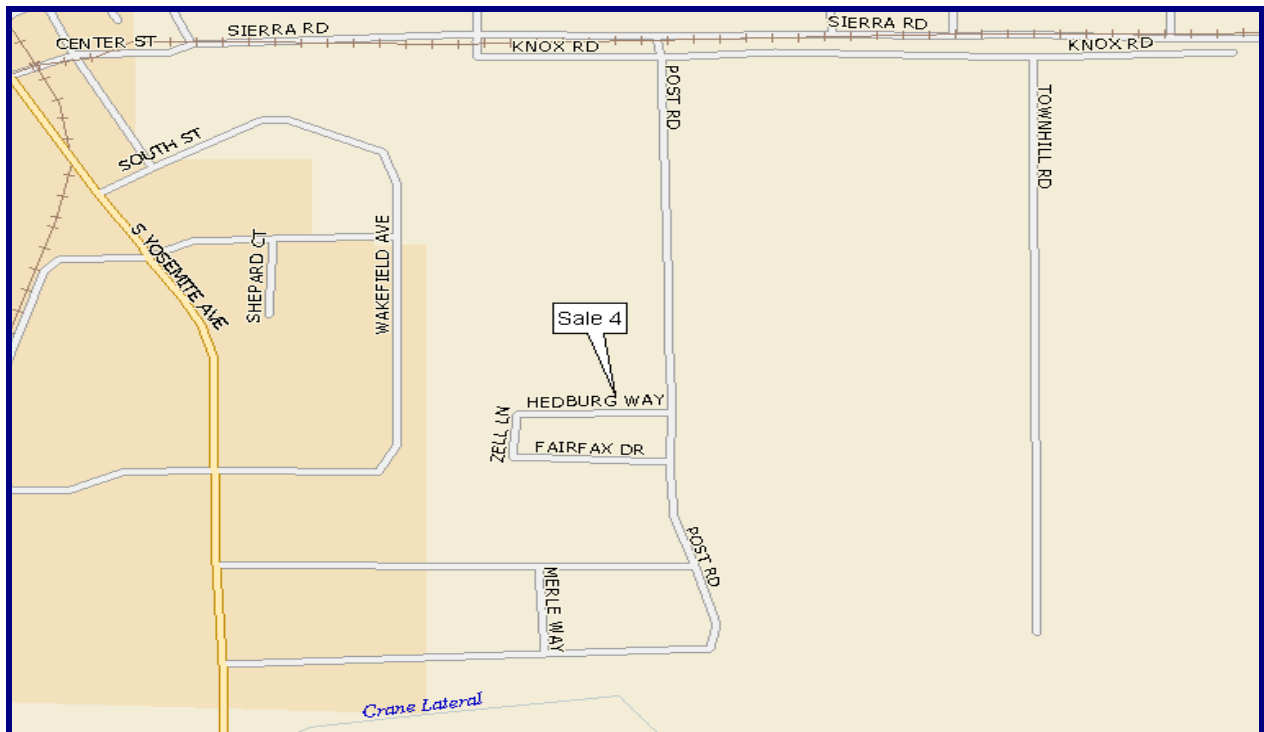
**Close of Escrow:** 2/22/2011  
**Sale Price:** \$375,000  
**Sale Price/s.f. (bldg):** \$44.64  
**Cap Rate:** N/A  
**Grantor:** IB Property Holdings LLC  
**Grantee:** Shehans Transport Refrigeration  
**Document #:** 11-006818

**Comments on Sale**

This is the sale of a single-tenant warehouse building in Delhi. The property appears to be the sale of a foreclosed property. The improvements consist of a two-story wood/masonry constructed building, built in the 1970s. The underlying site contains 1.6 acres indicating a floor area ratio (FAR) of 12%. The building has only one roll-up door and is located along a frontage road within sight of Highway 99.



**BUILDING SALE 4**



**Location Data**

**Property Name:**

**Address:** 684 Hedburg Way  
Oakdale, CA

**APN:** 064-053-052

**Property Information**

**Building Size:** 6,000

**Land Size (s.f.):** 11,761

**FAR:** 51%

**Year Built:** 1993

**Parking Ratio:** 3.0/1,000 s.f.

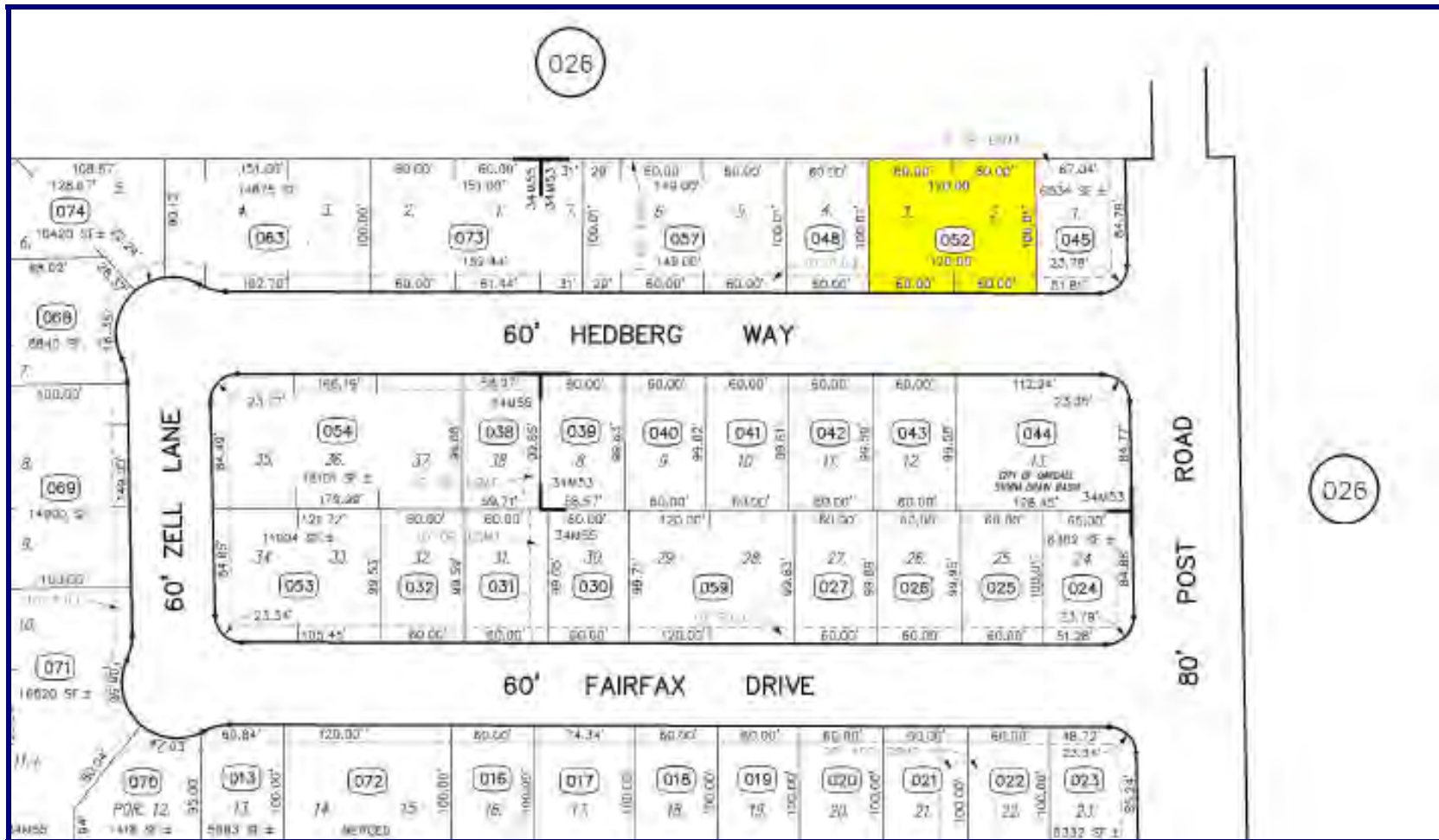
**Sale Information**

**Close of Escrow:** 11/12/2010

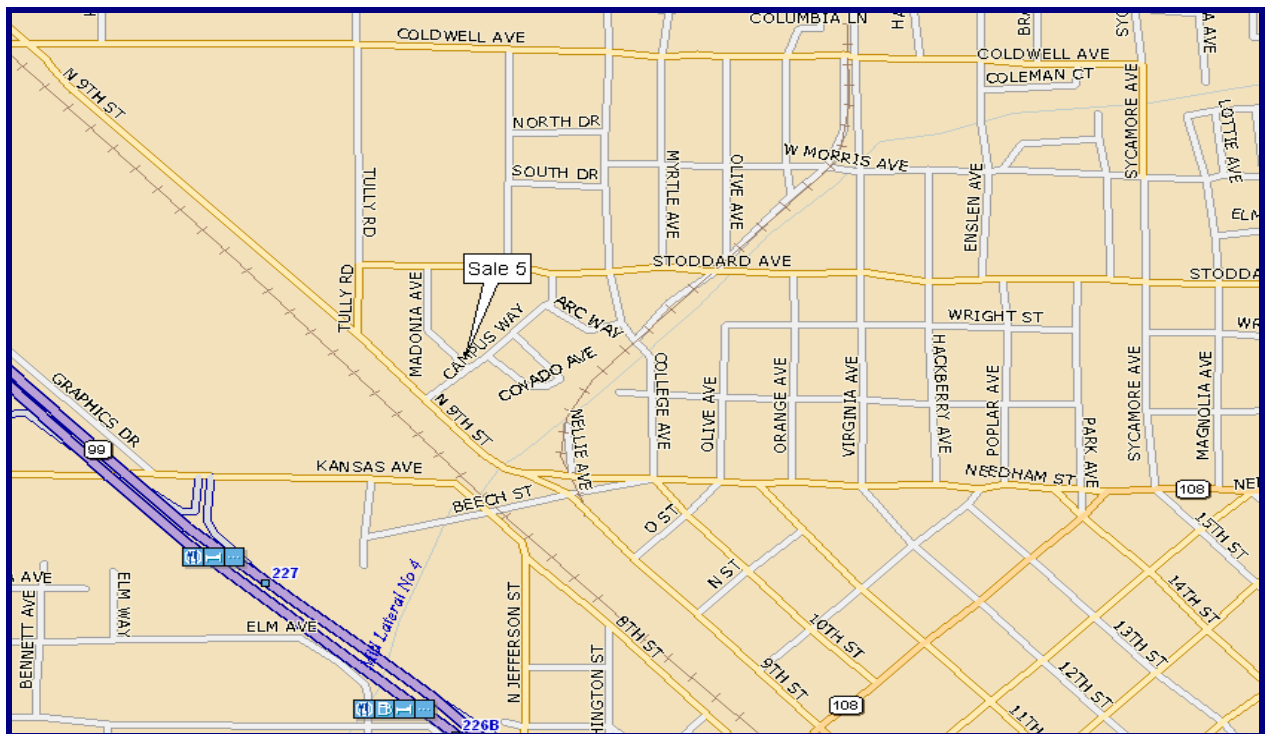
**Sale Price:** \$250,000  
**Sale Price/s.f. (bldg):** \$41.67  
**Cap Rate:** N/A  
**Grantor:** Gerhard & Ursula Beuscher  
**Grantee:** Falton Custom Cabinets Inc.  
**Document #:** 01-101548

**Comments on Sale**

This is a sale of a single-tenant industrial building located in Oakdale. The improvements consist of a single-story metal building containing 6,000 square feet and constructed in 1993. The underlying site contains 11,761 square feet indicating a floor area ratio (FAR) of 51%. The on-site parking ratio is 3.0/1,000 square feet. The building features two handicap access restrooms, four roll-up doors, 100% warehouse, and clear height of 14 feet. List price was \$300,000.



### BUILDING SALE 5



**Location Data**

**Property Name:**

**Address:** 211 Campus Way  
Modesto, CA 95350

**APN:** 109-014-043

**Property Information**

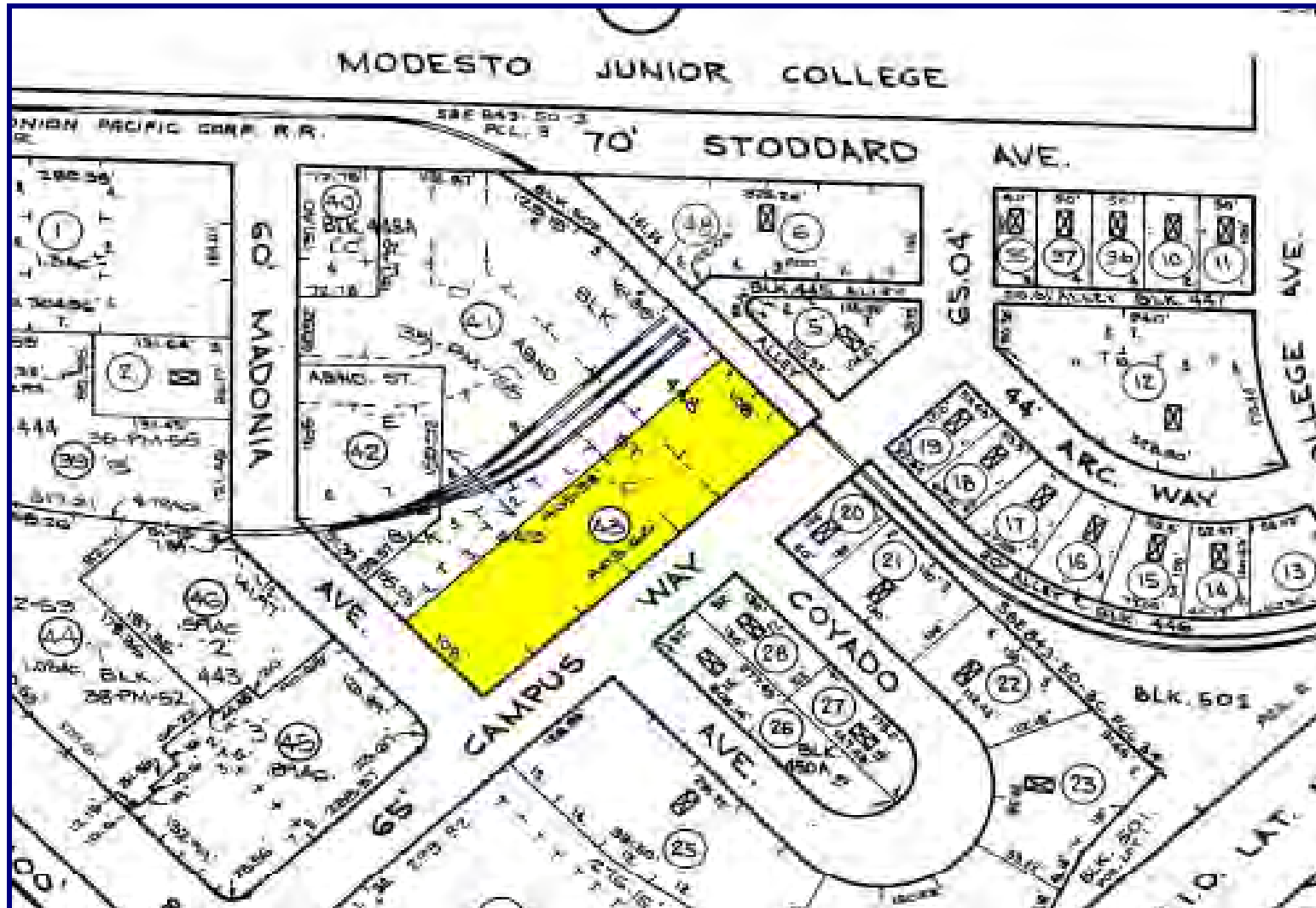
**Building Size:** 13,875  
**Land Size (s.f.):** 43,560  
**FAR:** 32 %  
**Year Built:** 1946  
**Parking Ratio:** 1.4/1,000 s.f.

**Sale Information**

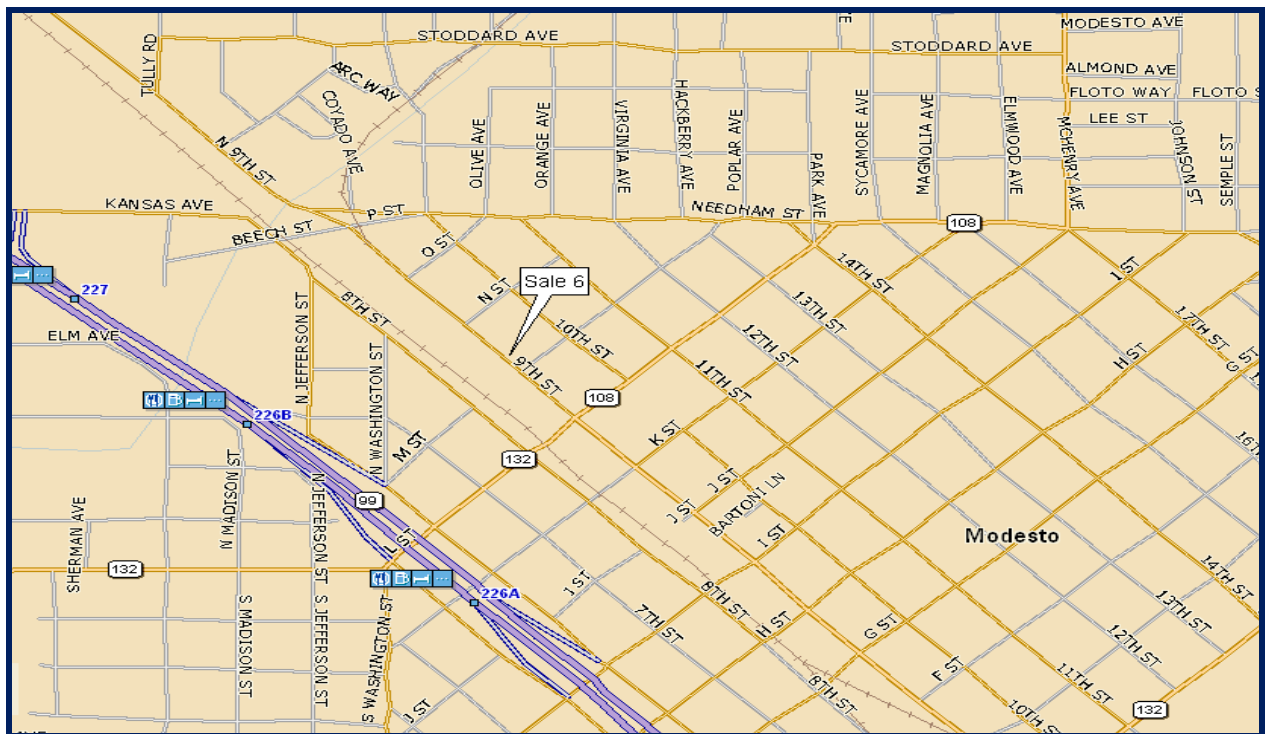
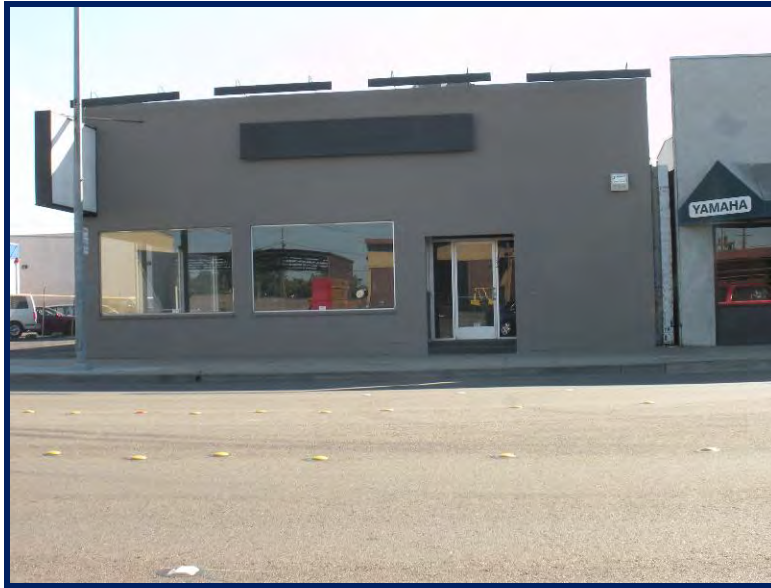
**Close of Escrow:** 8/18/2010  
**Sale Price:** \$795,000  
**Sale Price/s.f. (bldg):** \$57.30  
**Cap Rate:** N/A  
**Grantor:** Simon Family Trust  
**Grantee:** Yosemite Community College District  
**Document #:** 10-100622

**Comments on Sale**

This is the sale of a 13,875 square foot warehouse building, built in 1946. The property is adjacent to an existing Modesto Junior College parking lot. It was purchased for use as a parking lot with the removal of the building. There are 10 parking spaces for a parking ratio of 1.4 per 1,000 square feet of building area. The indicated floor area ratio is 32% based on a site area of 1 acre. As of July 2011, the building has been removed and the property converted to an asphalt-paved parking lot. Based on the land alone, and without demo costs, the sale reflects a site acquired for \$18.25 per square foot of land area. It obviously did not sell on the basis of land value alone.



**BUILDING SALE 6**



**Location Data**

**Property Name:**

**Address:** 1314 9th Street  
Modesto, California

**APN:** 105-45-05

**Property Information**

**Building Size:** 5,072  
**Land Size (s.f.):** 10,454  
**FAR:** 49 %  
**Year Built:** 1968  
**Parking Ratio:** 1.0/1,000 s.f.

**Sale Information**

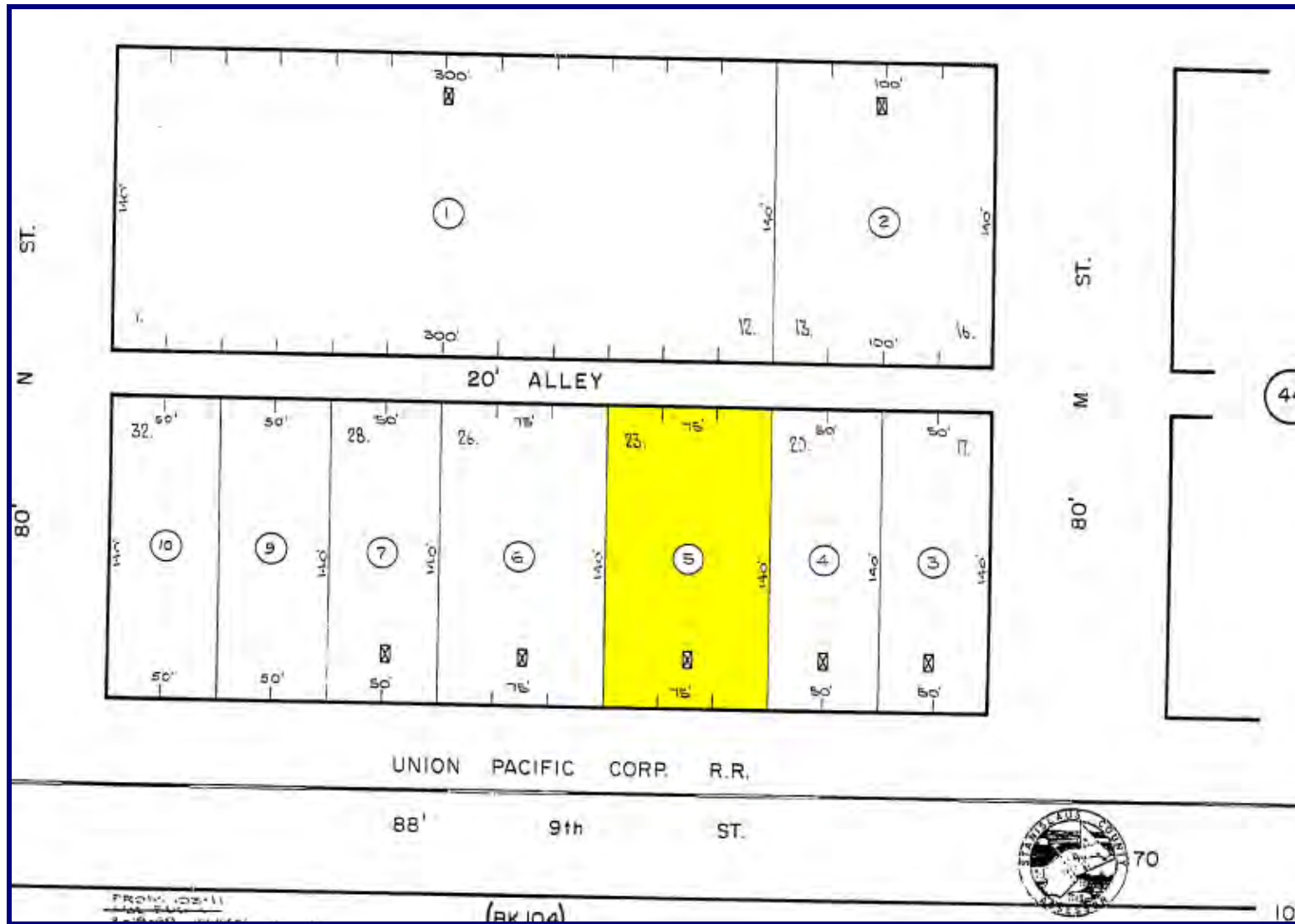
**Close of Escrow:** 11/1/2009  
**Sale Price:** \$300,000  
**Sale Price/s.f. (bldg):** \$59.15  
**Cap Rate:** N/A  
**Grantor:** Greenburg Family Trust  
**Grantee:** Patton Music Co.  
**Document #:** 090057

**Comments on Sale**

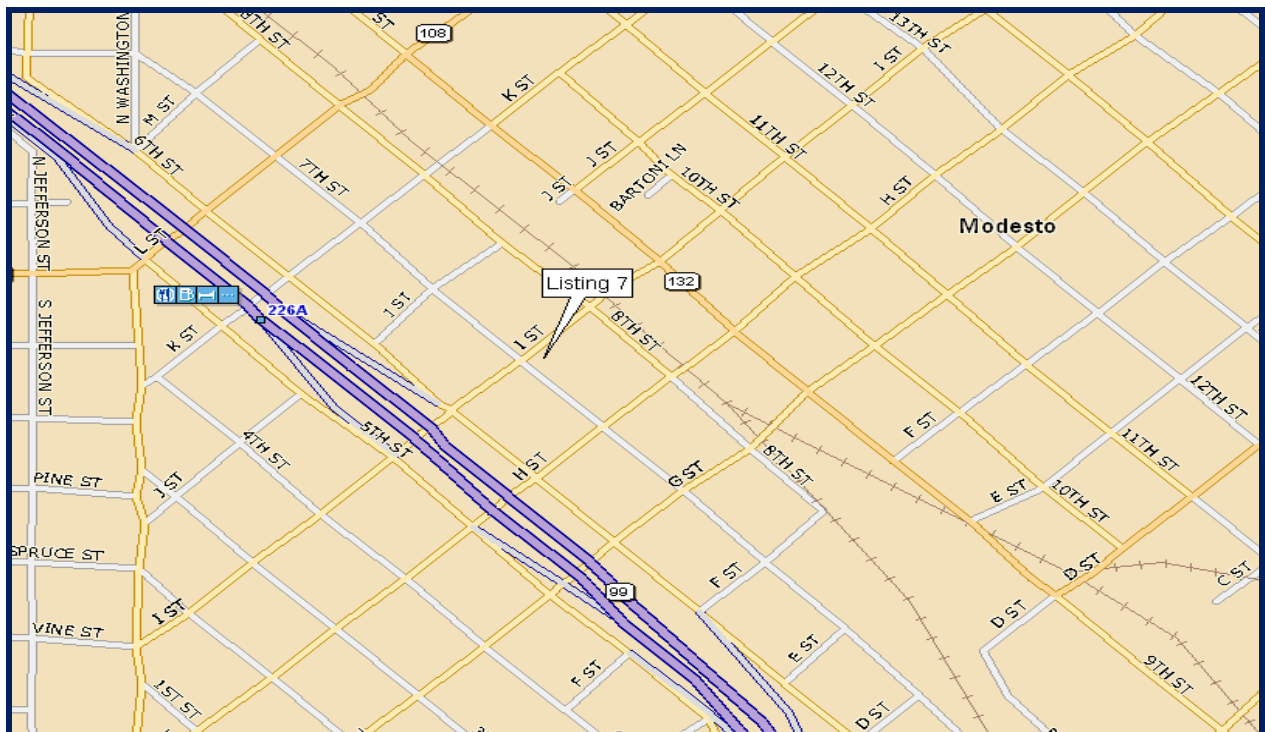
This is a sale of a single-tenant industrial building located in Modesto. The improvements consist of a concrete construction office/warehouse containing 5,072 square feet and constructed in 1968. The building features 61% office build-out, two grade doors, 18 feet clear height, and small fenced yard. The underlying site contains 10,454 square feet for a site coverage ratio of 49%. There are 5 parking spaces for a parking ratio of 1.0 space per 1,000 square feet of building area.

At the time of sale, the building was occupied by two tenants but income information is unavailable. The building is also suitable for a single tenant.

Sale conditions involved a 1031 exchange



### BUILDING LISTING 7



#### Location Data

**Property Name:**

**Address:** 722 I Street  
Modesto, CA 95354

**APN:** 104-005-001

#### Property Information

**Building Size:** 22,510

**Land Size (s.f.):** 26,136

**FAR:** 86%

**Year Built:** 1917

**Parking Ratio:** 0.0/1,000 s.f.

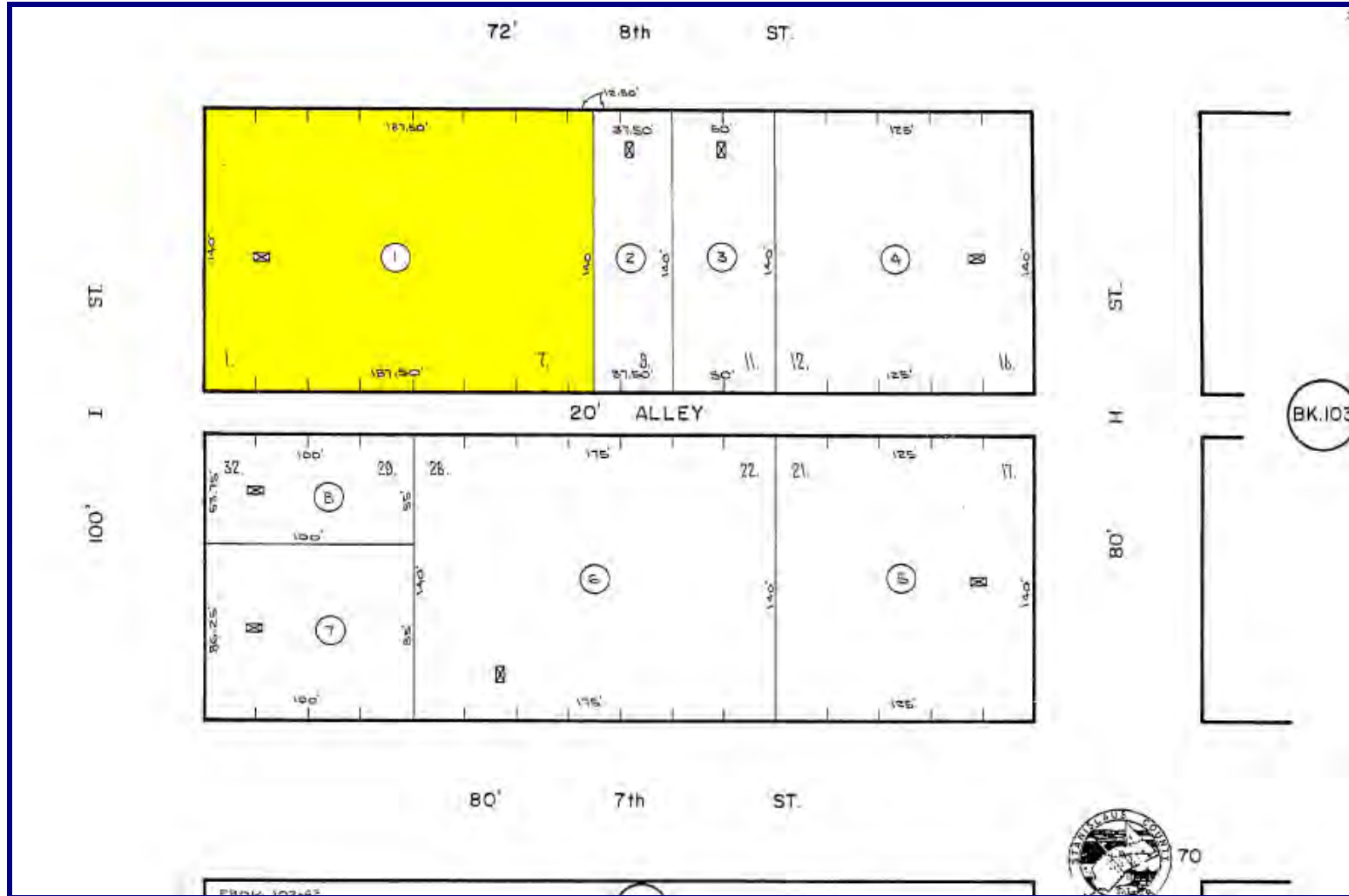
#### Sale Information

**Close of Escrow:** N/A

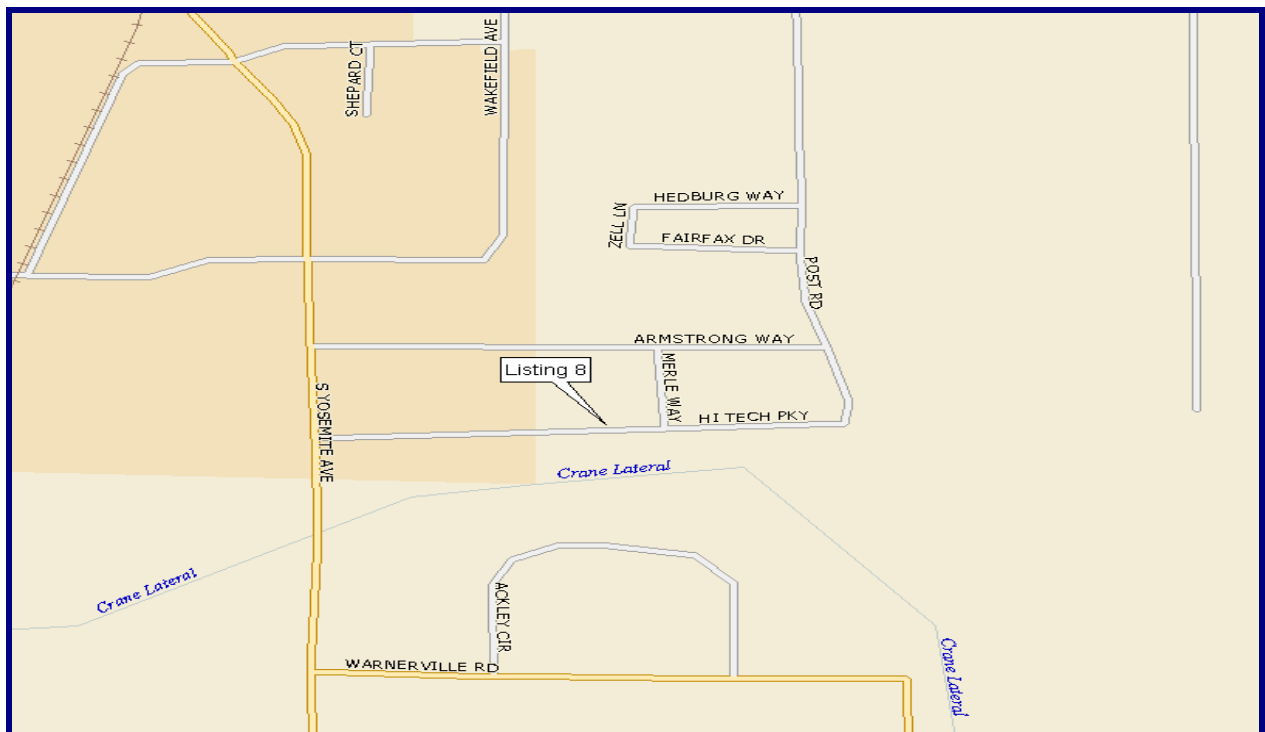
**Sale Price:** \$1,499,500  
**Sale Price/s.f. (bldg):** \$66.61  
**Cap Rate:** N/A  
**Grantor:** Bustos, Jorge & Maria F.  
**Grantee:** N/A  
**Document #:**

**Comments on Sale**

This is a 22,510 square foot building of masonry construction, built in 1917. It is in shell condition and has been on the market for 679 days. Listing agent notes that the seller is willing to work with possible buyers to develop the property, however, the seller feels that the buyers are unwilling to pay a price that would support the tenant improvement or the cost to divide the space. There is no on-site parking. It is located on a major freeway exit (I Street), and across from the regional transportation center. Previously used as retail space.



### BUILDING LISTING 8



#### Location Data

**Property Name:**  
**Address:** 584 Hi Tech Parkway  
Oakdale, CA 95361  
**APN:** 064-039-013

#### Property Information

**Building Size:** 10,880  
**Land Size (s.f.):** 21,780  
**FAR:** 50%  
**Year Built:** 1981  
**Parking Ratio:** 1.2/1,000 s.f.

**Sale Information**

**Close of Escrow:** N/A  
**Sale Price:** \$695,000  
**Sale Price/s.f. (bldg):** \$63.88  
**Cap Rate:** 7.62%  
**Grantor:** S & W Warehousing LLC  
**Grantee:** N/A  
**Document #:** N/A

**Comments on Sale**

This is a listing of a single-tenant industrial building located in Oakdale. The improvements consist of a single-story building containing 10,880 square feet and constructed in 1981. The building has an estimated 20% office build-out. Clear height is 12 feet. The underlying site contains 21,780 square feet indicating a floor area ratio of 50%. There are 13 on-site parking spaces with a parking ratio of 1.2 per 1,000 square feet.

There is an existing lease for \$5,000 per month, this equates to \$0.46 per square foot per month on NNN terms. Using a 8% loss for credit and vacancy and 4% (combined) for management and replacement reserves, results in an indicated cap rate of 7.62% based on current rents at the list price. (The indicated rate is 8.03% at 95% of list, and 8.47% at 90% of list price.) The property was first listed on 4/7/2011.



### **Adjustment Discussion**

The appraiser must make adjustments to each comparable to account for dissimilarities between the individual sales and the subject property. For income-producing properties, the appraiser usually makes adjustments based on one or more units of comparison. Typical units of comparison are sale price per square foot, net income per square foot, gross income multiplier, etc. The price per square foot is the relevant unit of measure in this instance. Although this approach relies on past sales, it provides direct evidence of actions of both buyers and sellers.

Because of the difficulty in adjusting the comparable sales to the subject property, we have included a Building Adjustment Grid. The Building Adjustment Grid is not a scientific method in adjusting the comparable sales in comparison to the subject property. It is merely presented as an explanation to help the reader follow the appraiser's judgment in the adjustment process. While the amount of individual adjustments can be argued, they do help provide an order of magnitude and an adjustment direction based on the market data presented. Primarily, consideration was given to location, size, quality/appeal, functional utility, age/condition, tenancy, and parking/FAR.

The comparable sales are located throughout the region, in Modesto, Oakdale, Delhi, and Turlock; and have sale dates ranging from November 2009 to June 2011. All of the comparable sales/listings represent industrial or warehouse buildings ranging in size from 5,072 to 22,510 square feet. Before adjustments to the subject, the comparables indicate a unit price range from approximately \$42 to \$67 per square foot.

### **Property Rights/Financing**

Adjustments for property rights and financing were not merited.

### **Conditions of Sale**

Comparables 7 and 8 are listings, and not closed transactions. We have made a downward adjustment for conditions of sale to Listings 7 and 8, as properties tend to sell for less than the asking price in the current market. We also note that Sale 5 was adjacent to and acquired by a community college for the purpose of parking. The buyer was motivated, and we made a downward adjustment for conditions of sale.

### **Market Conditions**

All sales closed within the last eleven months, except for Sale 6, which closed in November of 2009. As discussed previously, we note that the bulk of the declines occurred in late 2008 and early 2009, and property values flattened during 2010 and 2011. All sales occurred after this timeframe and no downward adjustment was applied for market conditions. Sale 6 is provided to show the market activity in a location close to the subject property. We will also consider date of sale in our reconciliation.

### **Location**

The subject is located in downtown Modesto with good access to local and regional transportation. We have considered the relative locations of the comparables with respect to overall access and demographics. All of the comparables, except Sale 3 in Delhi, are considered generally similar and no location adjustment was applied. After researching Sale 3, we have concluded that its location in Delhi is inferior to the subject property. Thus, an upward adjustment was applied to reflect the subject's superior location.

## BUILDING SALE ADJUSTMENT GRID

<u>COMPARABLE SALES</u>	1	2	3	4	5	6	7	8
DATE OF SALE	Jun-11	Mar-11	Feb-11	Nov-10	Aug-10	Nov-09	Listing	Listing
SALE PRICE	\$600,000	\$1,265,000	\$375,000	\$250,000	\$795,000	\$300,000	\$1,499,500	\$695,000
RENTABLE BLDG (SQ FT)	12,000	20,122	8,400	6,000	13,875	5,072	22,510	10,880
YEAR BUILT	1980	2005	1970	1993	1946	1968	1917	1981
EFFECTIVE AGE	20	5	20	15	30	30	40	10
FAR	55%	35%	12%	51%	32%	49%	86%	50%
NOI/SF	N/A	N/A	N/A	N/A	N/A	N/A	\$0.00	\$0.00
PRICE/SQ FT/ BUILDING	<b>\$50.00</b>	<b>\$62.87</b>	<b>\$44.64</b>	<b>\$41.67</b>	<b>\$57.30</b>	<b>\$59.15</b>	<b>\$66.61</b>	<b>\$63.88</b>
<u>ADJUSTMENTS</u>								
Property Rights	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Conditions of Sale/Listing	0.0%	0.0%	0.0%	0.0%	-15.0%	0.0%	-10.0%	-10.0%
Dollar Adjustment	\$0.00	\$0.00	\$0.00	\$0.00	(\$8.59)	\$0.00	(\$6.66)	(\$6.39)
<u>NORMAL SALE PRICE/Sq Ft</u>	\$50.00	\$62.87	\$44.64	\$41.67	\$48.70	\$59.15	\$59.95	\$57.49
<u>MARKET COND. ADJUSTMENT</u>								
Months Since Sale	1	4	5	8	11	20	N/A	N/A
Total Adjustment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dollar Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>MARKET ADJ PRICE</u>	\$50.00	\$62.87	\$44.64	\$41.67	\$48.70	\$59.15	\$59.95	\$57.49
Location/Access	0.0%	0.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Size	5.0%	10.0%	0.0%	0.0%	5.0%	-2.0%	10.0%	5.0%
Office Build-out	-5.0%	-15.0%	-5.0%	0.0%	0.0%	-25.0%	0.0%	-10.0%
Quality/Appeal	5.0%	0.0%	0.0%	5.0%	0.0%	0.0%	0.0%	0.0%
Age/Condition	-10.0%	-30.0%	-10.0%	-15.0%	-5.0%	-5.0%	-5.0%	-10.0%
Functional Utility	-15.0%	-5.0%	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
FAR/Parking	0.0%	-5.0%	-10.0%	0.0%	-5.0%	0.0%	5.0%	0.0%
<u>TOTAL % ADJUSTMENT</u>	-20.0%	-45.0%	-20.0%	-25.0%	-20.0%	-47.0%	-5.0%	-30.0%
Dollar Amount Adjustment	(\$10.00)	(\$28.29)	(\$8.93)	(\$10.42)	(\$9.74)	(\$27.80)	(\$3.00)	(\$17.25)
<u>INDICATED PRICE/SQ FT</u>	<b>\$40.00</b>	<b>\$34.58</b>	<b>\$35.71</b>	<b>\$31.25</b>	<b>\$38.96</b>	<b>\$31.35</b>	<b>\$56.96</b>	<b>\$40.24</b>

Hulberg &amp; Associates, Inc.

**Size**

The subject contains 7,048 net rentable square feet. Smaller buildings typically sell for more on a per square foot basis than larger buildings. Adjustments were applied as necessary for significant differences in size.

**Office Build-Out**

The subject property effectively has zero percent office build-out. The comparables range from minimal to significant office buildout, and have been adjusted accordingly.

**Quality/Appeal**

We consider all of the comparables similar to the subject in terms of quality and appeal, with the exception of Sales 1 and 4. These are of inferior construction and required an upward adjustment taking into consideration their metal construction versus the subject's masonry construction.

**Age/Condition**

We have estimated the subject's effective age to be 45 years. All of the comparables are superior in this regard, with some, particularly Sale 2, being significantly superior to the subject for age/condition.

**Functional Utility**

An adjustment for functional utility addresses the fact that the subject will need some work performed to demo some of the existing deteriorated finish to make the space usable for storage/warehouse use. All of the comparables are adjusted downward for this factor. The adjustment for Sale 2 is somewhat lower in recognition of its higher, unusual association dues as a cost of operation.

**Parking/FAR**

The subject has an on-site parking ratio of approximately 2.1 spaces per 1,000 rentable square feet and a 51% site coverage ratio/FAR. Lower site coverage is desirable because of increased parking and the potential for expansion. Comparables 2, 3 and 5 are superior to the subject in this regard, while Listing 7 has an inferior FAR as well as inferior parking. Adjustments were made accordingly.

**Sales Comparison Approach Conclusion**

After adjusting the comparables for the above-referenced differences, an adjusted unit value range from approximately \$31 to \$57 per square foot is indicated. Excluding the listings, the range is between \$31 and \$40. Sale 6 is located in the subject's market area of downtown Modesto, but is least recent and required the greatest net adjustment. Listing 7 indicates the highest purchase price and is not within the range of the remaining comparables, which would be appropriate given its listing status and long marketing timeframe.

We acknowledge that none of the sales are as similar as normally ideal, but the market is imperfect and few transactions are occurring. Overall, we have concluded a unit value of **\$35** per square foot to be appropriate for the subject. This results in a final value indication by the Sales Comparison approach of **\$250,000**, calculated as follows:

$$\begin{array}{r} 7,048 \text{ s.f.} \times \$35.00/\text{s.f.} = \$246,680 \\ \text{Rounded:} \qquad \qquad \qquad \$250,000 \end{array}$$

## **INCOME APPROACH**

The income approach is based on the premise that the value of an income-producing property is represented by the present worth of anticipated future benefits, including the income generated as well as the value of the property upon re-sale (reversion). The appraiser estimates the potential income stream based on the quality, quantity, and duration of the income. The potential income is then capitalized to arrive at a value indication for the subject property. The steps involved are:

1. *Analyze the estimate for the income potential of the property;*
2. *Estimate the rent loss from vacancies and uncollected rents;*
3. *Estimate the expenses incurred in the operation of the property;*
4. *Subtract the rent loss and expenses in Nos. 2 and 3 above to arrive at a net income before debt service; and,*
5. *Use a developed rate to capitalize this net income into an indication of value.*

Various techniques of the income capitalization process allow for different property characteristics such as risk, pattern of income and expenses, etc. In our appraisal of the fee simple interest of the subject, we have considered two capitalization methods: discounted cash flow analysis (DCF), and direct capitalization.

The first method (DCF) recognizes and allows for an irregular pattern of future income derived from leases in place, with their varying expiration dates. The DCF is particularly useful for large, multi-tenant commercial properties. Anticipated net income is accounted for during a given holding period and discounted to present value to arrive at a value indication. This is not a useful method for a single tenant industrial building like the subject.

## **Market Rent Survey**

The first step in the Income Approach involves estimating the current market rent for the subject property. To estimate the current market rent for the subject, a survey was made for recent leases of similar properties. We have chosen five leases and two listings in order to estimate market rent for the subject. A rent comparables summary table is presented on the next page, followed by a Location Map. Following the map are photographs of the comparables and then a discussion of adjustments, and an Adjustment Grid.

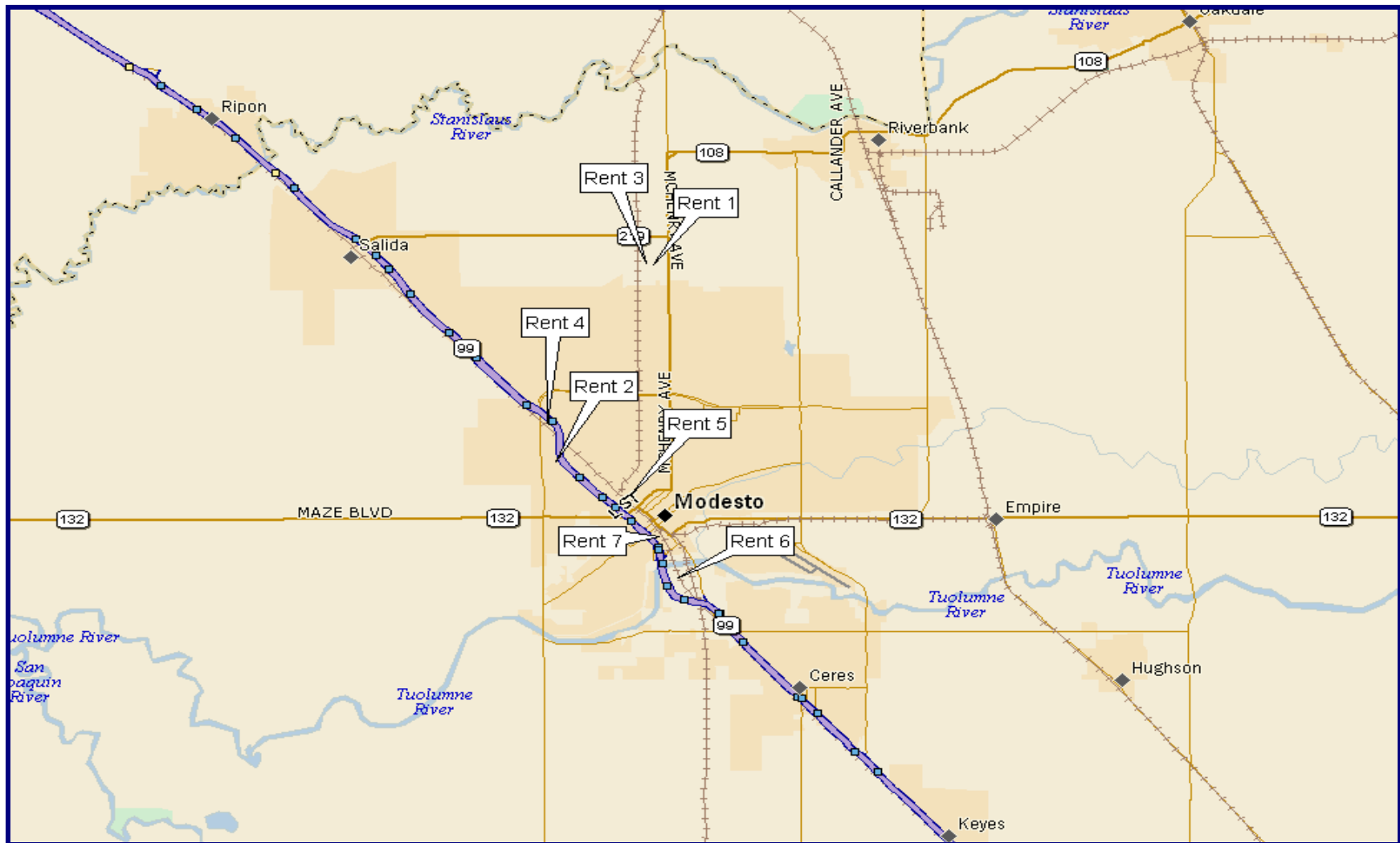
The rents are all on a gross basis. Notably, as there is no available operating expense data for the subject, we have converted the rents to NNN equivalent rents.

## RENT SURVEY SUMMARY

Comp. No.	Location	Yr. Built	Unit Size	Lease Date	Rent/S.F. Bldg. Gross	Rent/S.F. Bldg. NNN	Term (Years)	TI's	Comments
1	523 Glass Lane, #A4 Modesto	1980s	4,400	Aug-11	\$0.40 Gross	<b>\$0.30 NNN</b>	3	As-Is	Royal Summit Inc. leased for three years, no incentives or annual increases. Suite has 300 sf of office.
2	1295 N. Emerald Ave, #T Modesto	1970s	4,000	Jul-11	\$0.53 Gross	<b>\$0.43 NNN</b>	3	As-Is	Flex space leased for three years, no incentives or escalation clause. Minimal office buildout
3	4619 Spyres Way, #I Modesto	1981	2,500	Jul-11	\$0.48 Gross	<b>\$0.38 NNN</b>	3	As-Is	Home Oxygen Co. LLC leased for three year term with 3% annual increases. Suite has approx. 400 sf of office space and they received 1 month of free rent for each of the first two years.
4	1328 N. 9th St, Ste B Modesto	1981	3,600	Jul-11	\$0.35 Gross	<b>\$0.25 NNN</b>	5	As-Is	Auto Body Shop: Leased for a five year term with two months free rent. TI's only covered the city mandated handicapped designation in parking, no TI's to the space.
5	1400 N. 9th Street, Ste 17 Modesto	1981	2,640	Feb-11	\$0.40 Gross	<b>\$0.30 NNN</b>	M-M	As-Is	Confidential: Leased month to month, all TI's to be paid for by the tenant as the property is shell condition with no restroom, no office, and no power to the space.
6	553 S. 7th Street Modesto	1960s	13,830	Listing	\$0.47 Gross	<b>\$0.37 NNN</b>	N/A	As-Is	Space available for lease, small office space, with balance warehouse space with two roll up doors at grade level.
7	500 7th Street Modesto	2005	8,450	Listing	\$0.46 Gross	<b>\$0.36 NNN</b>	N/A	As-Is	Space available for lease, shell condition 1 restroom, no office and 7 roll-up doors.

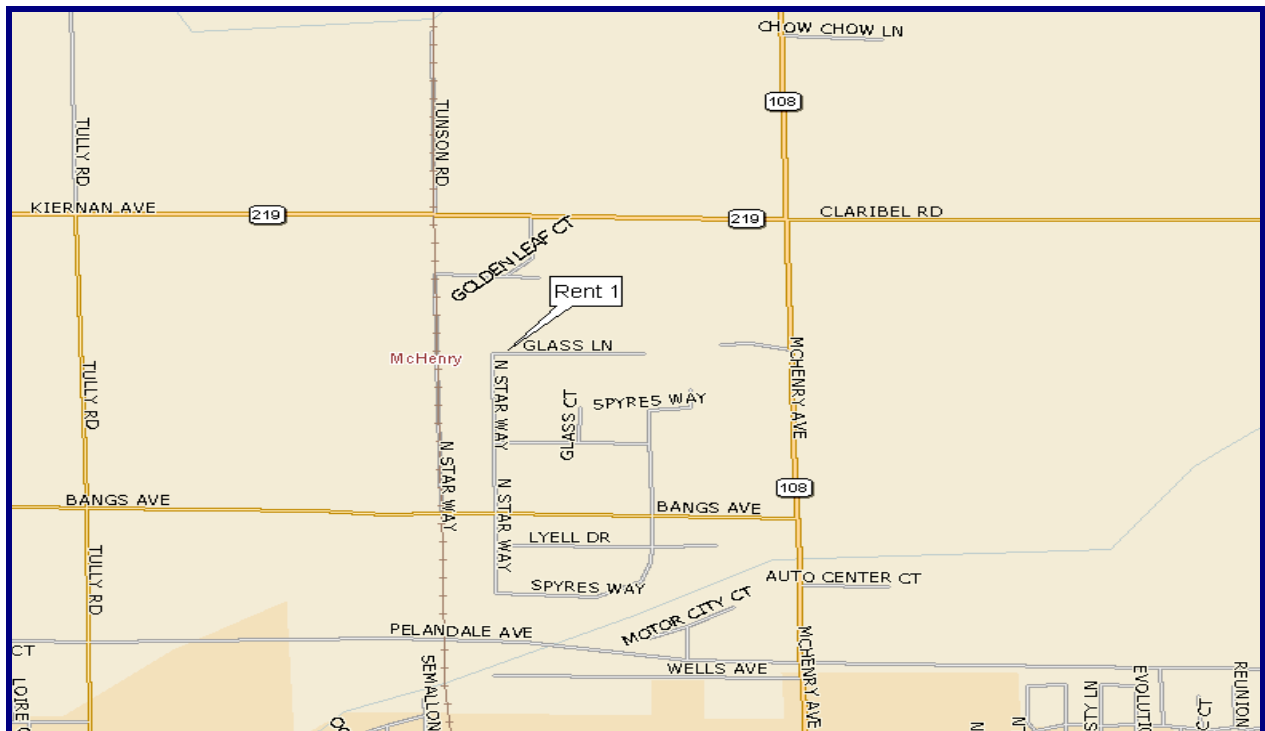
Hulberg &amp; Associates

## Rent Comparable Location Map



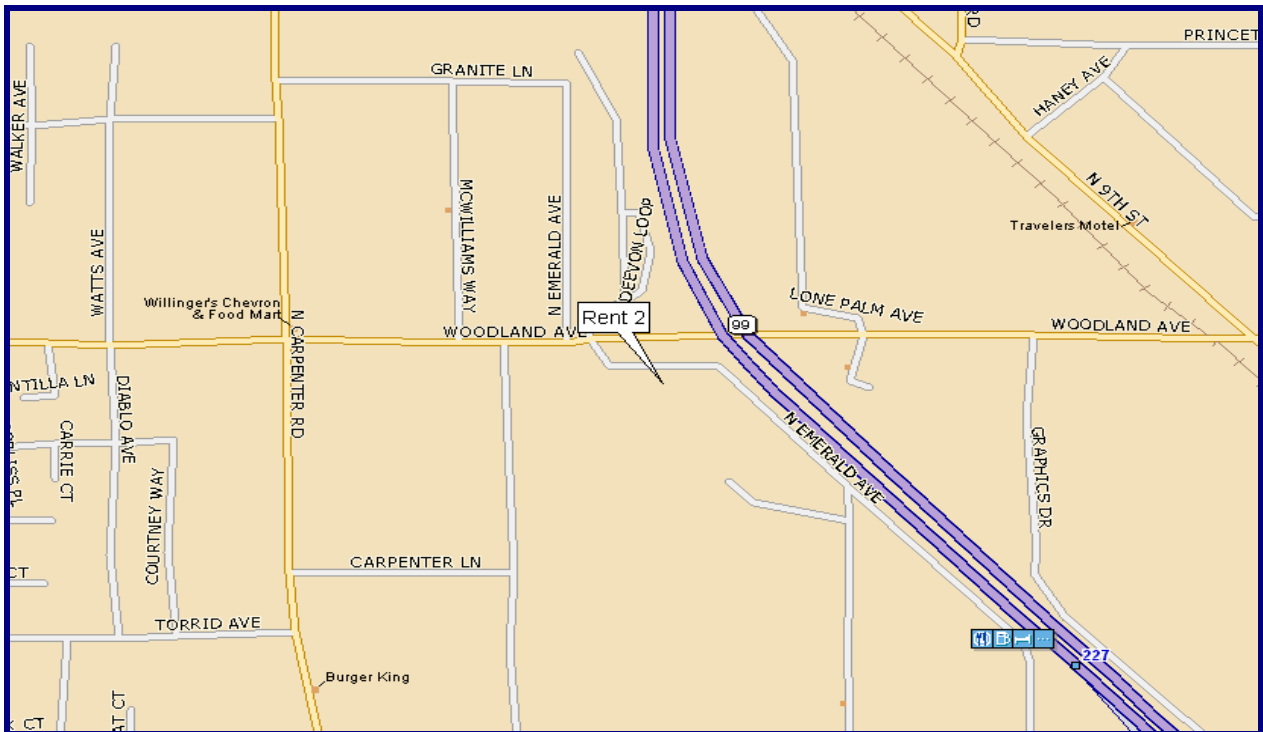


Rent Comparable 1: 523 Glass Lane, #A-4, Modesto



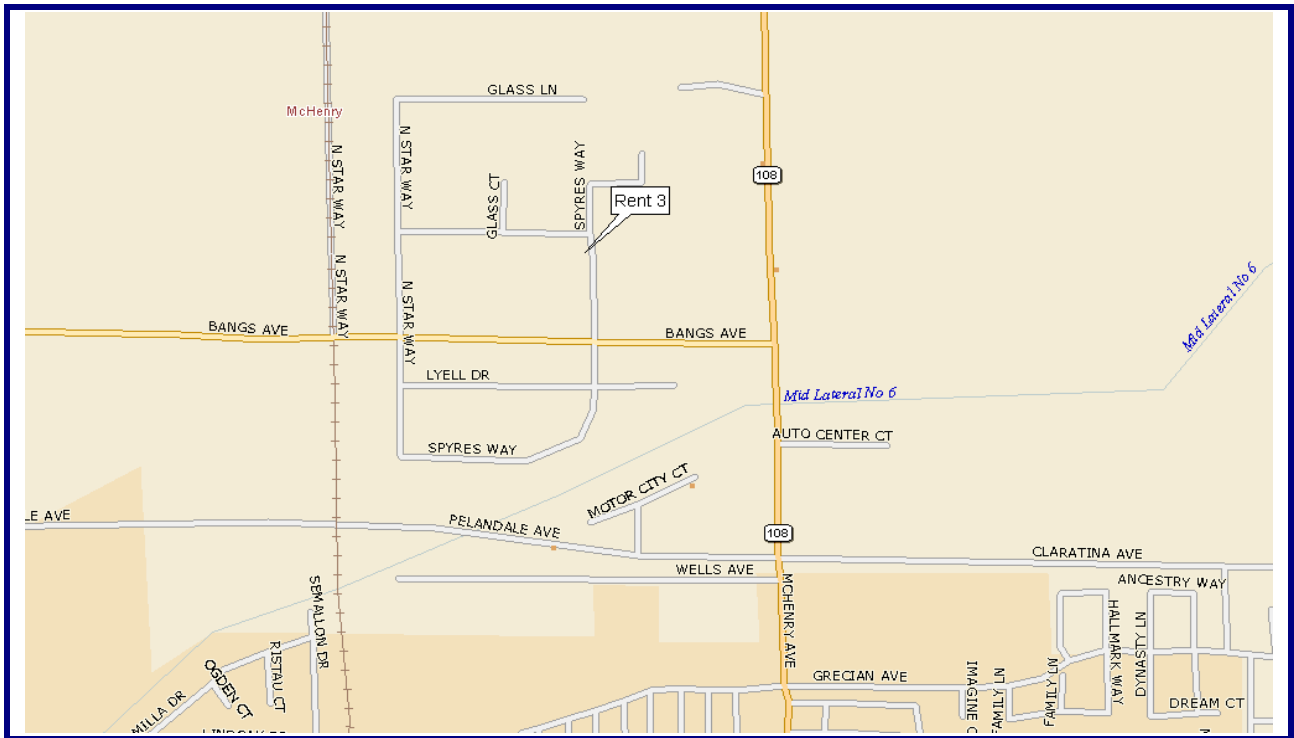


Rent Comparable 2: 1295 N. Emerald Avenue, #T, Modesto



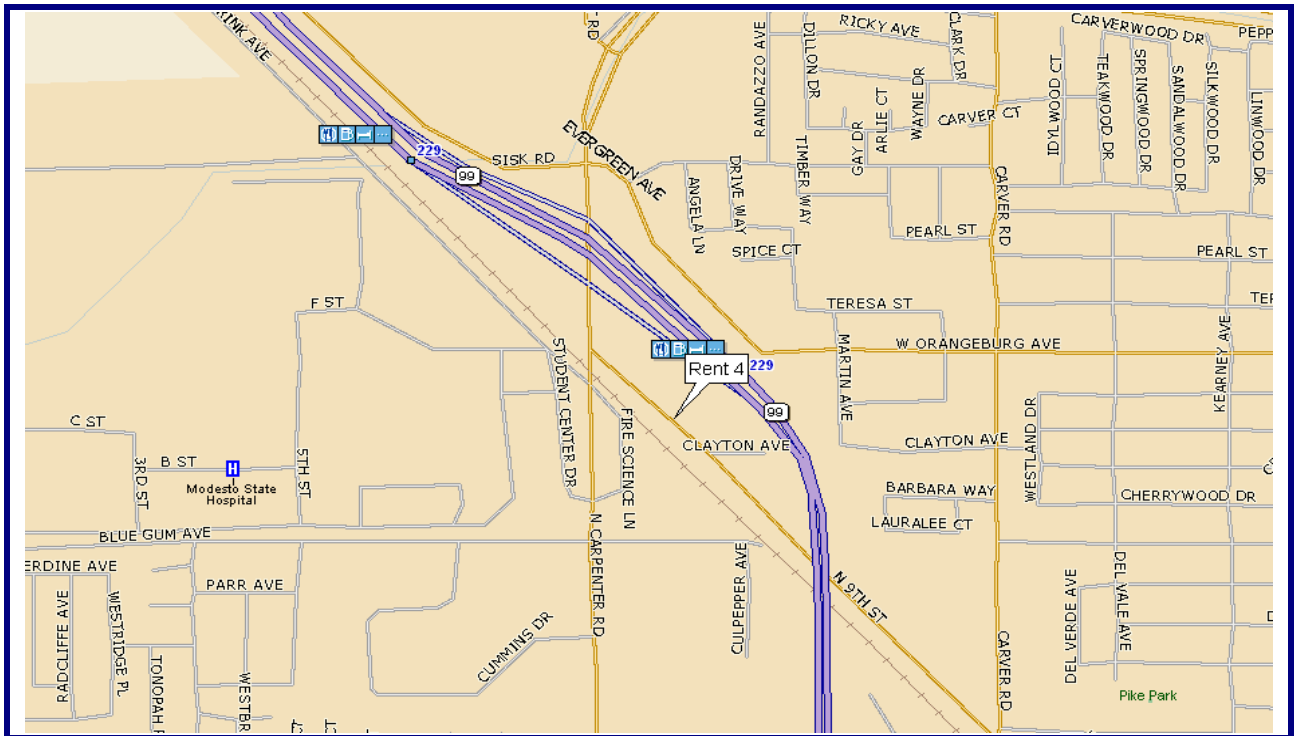


Rent Comparable 3: 4619 Spyres Way, #1, Modesto



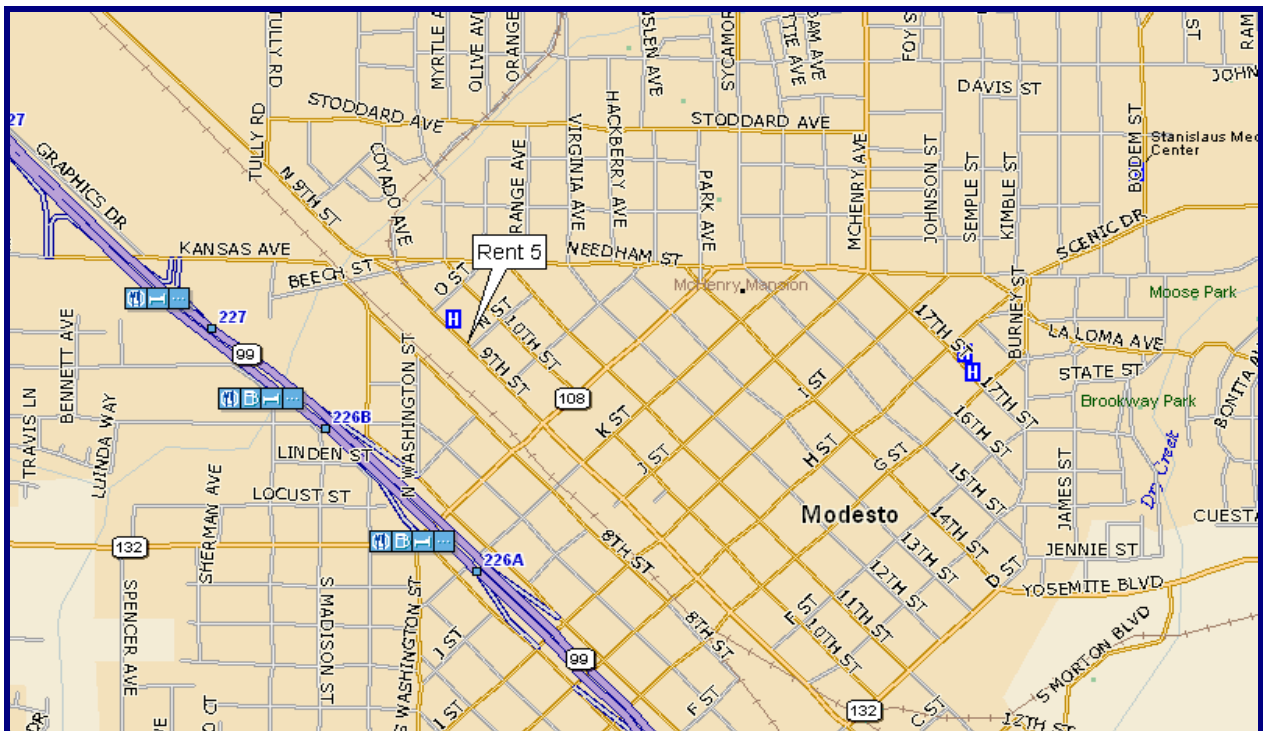


Rent Comparable 4: 1328 N. 9<sup>th</sup> Street, #B, Modesto



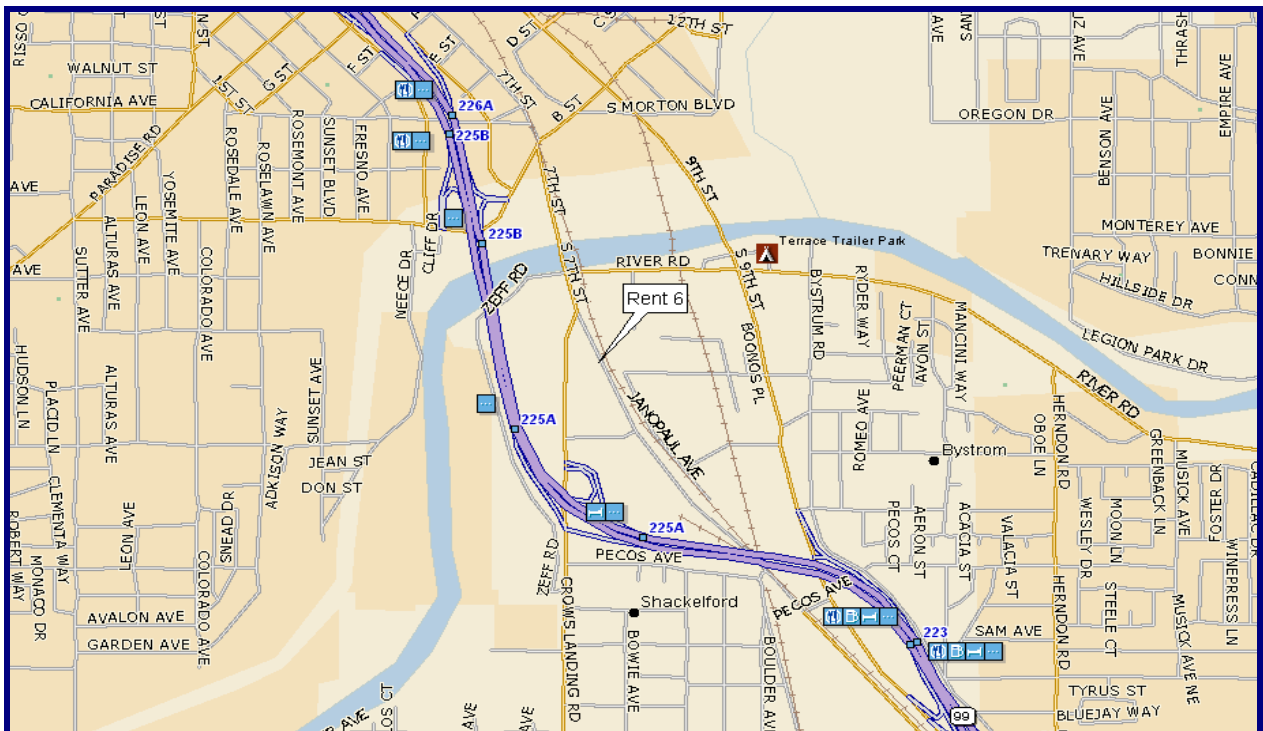


Rent Comparable 5: 1400 N. 9<sup>th</sup> Street, Ste. 17, Modesto



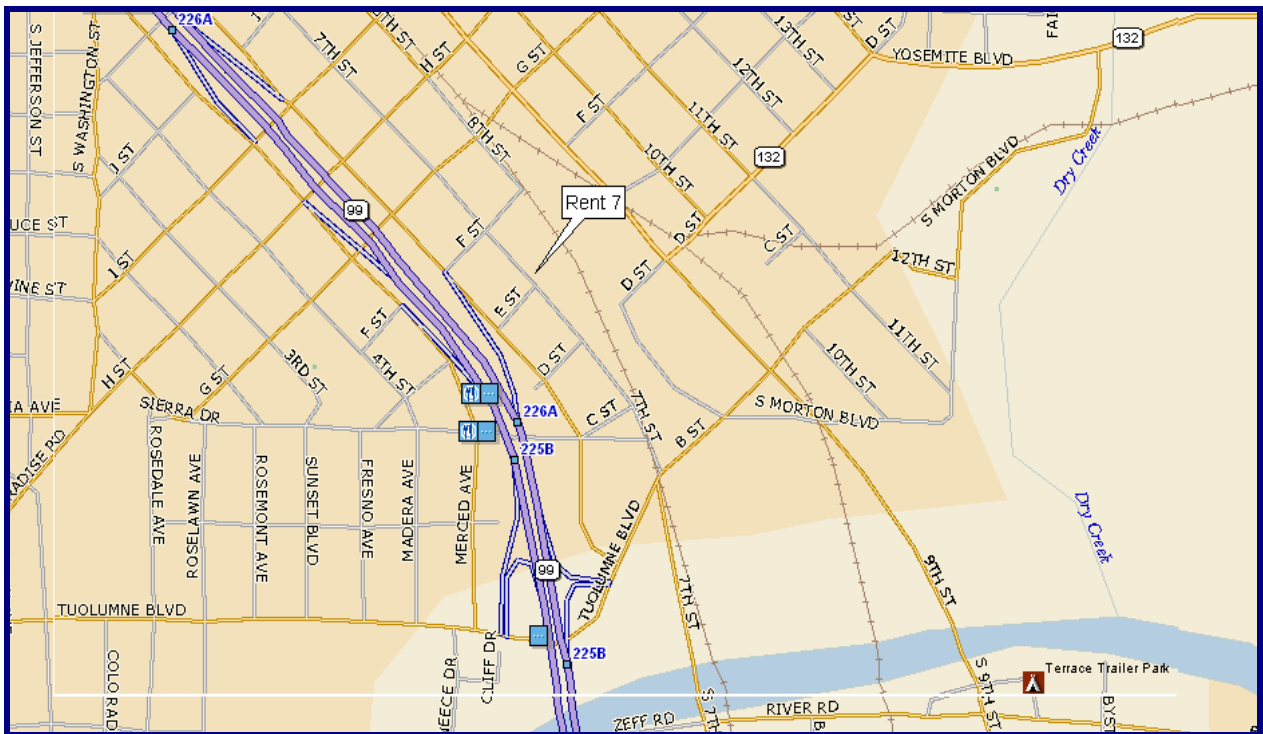


Rent Comparable 6: 553 S. 7<sup>th</sup> Street, Modesto





Rent Comparable 7: 500 7<sup>th</sup> Street, Modesto



## RENTAL ADJUSTMENT GRID

COMPARABLE RENTAL	1	2	3	4	5	6	7
DATE OF LEASE	Aug-11	Jul-11	Jul-11	Jul-11	Feb-11	Listing	Listing
UNIT SIZE	4,400	4,000	2,500	3,600	2,640	13,830	8,450
YEAR BUILT	1980s	1970s	1981	1981	1981	1960s	1970s
TERM (years)	3	3	3	5	M-M	N/A	N/A
TENANT IMPROVEMENTS	As-Is	As-Is	As-Is	As-Is	As-Is	As-Is	As-Is
LEASE RATE/SF/MONTH	<b>\$0.40</b>	<b>\$0.53</b>	<b>\$0.48</b>	<b>\$0.35</b>	<b>\$0.40</b>	<b>\$0.47</b>	<b>\$0.46</b>
EXPENSE ADJUSTMENT	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10
EXPENSE ADJUSTED RENT	\$0.30	\$0.43	\$0.38	\$0.25	\$0.30	\$0.37	\$0.36
CONCESSION/CONDITIONS ADJUSTMENT	0.0%	0.0%	-5.0%	-3.0%	0.0%	-5.0%	-5.0%
CONCESSION/CONDITIONS ADJUSTMENT RENT	\$0.30	\$0.43	\$0.36	\$0.24	\$0.30	\$0.35	\$0.34
MARKET CONDITIONS ADJUSTMENT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MARKET CONDITIONS ADJUSTED RENT	\$0.30	\$0.43	\$0.36	\$0.24	\$0.30	\$0.35	\$0.34
<u>ADJUSTMENTS</u>							
LOCATION/ACCESS	-10.0%	0.0%	-10.0%	0.0%	0.0%	10.0%	0.0%
SIZE	-5.0%	-5.0%	-10.0%	-5.0%	-10.0%	5.0%	0.0%
QUALITY/APPEAL	-5.0%	-5.0%	0.0%	0.0%	0.0%	10.0%	5.0%
AGE/CONDITION	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
FUNCTIONAL UTILITY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL % ADJUSTMENT	-25.0%	-15.0%	-25.0%	-10.0%	-15.0%	20.0%	0.0%
TOTAL \$ ADJUSTMENT	(\$0.08)	(\$0.06)	(\$0.09)	(\$0.02)	(\$0.05)	\$0.07	\$0.00
<b>INDICATED LEASE RATE PER SQUARE FOOT "TRIPLE NET"</b>	<b>\$0.23</b>	<b>\$0.37</b>	<b>\$0.27</b>	<b>\$0.22</b>	<b>\$0.26</b>	<b>\$0.42</b>	<b>\$0.34</b>

**Adjustment Discussion**

Because of the difficulty in adjusting the comparable sales to the subject property, we have included a Rental Adjustment Grid. The Rental Adjustment Grid is not a scientific method in adjusting the comparable leases in comparison to the subject property. It is presented merely as an explanation to help the reader follow the appraiser's judgment in the adjustment process. While the amount of individual adjustments can be argued, they do help provide an order of magnitude and an adjustment direction based on the market data presented. Consideration was given to time, location, size, quality/appeal, age/condition, parking and concessions in relation to the subject.

**Expenses**

All of the comparables are leased under "industrial gross" expense basis, whereby the tenant is responsible for utilities and janitorial expenses. As stated earlier, we do not have income and expense information for the subject property. A market derived adjustment was applied to convert all to "triple net" equivalency for the sake of this analysis. Before any other adjustments to the subject, the comparables indicate a unit value range from \$0.10 to \$0.43 per square foot per month on a triple net expense basis.

**Concessions/Conditions**

Rentals 3 and 4 are adjusted downward for their rental concessions in the form of free rent. Rents 6 and 7 are adjusted downward in this category for being listings.

**Market Conditions**

As mentioned in the market overview presented earlier in this report, rent decline has slowed over the past five quarters, compared to the declines seen in 2008 and 2009. Rents have tended toward stabilization in 2010 and 2011. All of the lease comparables are considered current, and an adjustment for market conditions is not warranted.

**Location/Access**

Rents 1 and 3 are in north Modesto, which is generally a superior location. Rental 6 is in an inferior location, while the other rentals are in differing, but relatively equal locations within Modesto.

**Size**

The subject contains 7,048 net rentable square feet. Smaller buildings typically rent for more on a per square foot basis than larger buildings. Adjustments are made where size differences are significant.

**Quality/Appeal**

Comparables 1 and 2 are superior to the subject for quality/appeal, while Nos. 6 and 7 are inferior in this regard as compared to the subject.

**Age/Condition**

As mentioned previously, we concluded the subject's effective age at 45 years. The comparables were constructed in various periods ranging from circa 1960s to 1980s. A downward adjustment was applied to all Rents to reflect the subject's older effective age/condition.

**Functional Utility**

An adjustment has been considered to reflect the inferior functional utility of the subject property. The subject will require some work performed before it could be rented. We will assume for the time being that the building is rentable, and will address this factor subsequently.

**Market Rent Conclusion**

After adjusting the comparables for various differences with the subject a rental rate range from \$0.22 to \$0.42 per square foot on a “triple net” expense basis. In the final analysis, we have considered all of the comparables and conclude in the middle of the range at **\$0.30** per square foot per month, triple net.

**Income Analysis**

In estimating gross potential income for the subject, we have utilized our concluded market rent of \$0.30 per square foot per month. As indicated in the Income Approach Summary table that follows, the gross potential income is estimated at \$25,373 per year.

**Expenses**

As previously mentioned, the rental rate for the subject property is based on a “triple net” expense arrangement with the lessee responsible for all operating expenses. A prudent investor would also deduct for vacancy and collection loss as well as property management and reserves.

**Vacancy and Collection Loss**

Vacancy and collection loss includes lost rental between tenants and potential collection loss from existing tenants. As indicated in the Market Overview presented earlier, overall vacancy in the Modesto/Stockton market area stood at 17%. Given the location of the subject property in the heart of downtown Modesto, it is our opinion that the subject’s location will perform better than the overall Modesto industrial market as a whole. In addition, we note that the current overall market vacancy rate is reflective of current market conditions, and this should not be capitalized into perpetuity. We have estimated a long term stabilized vacancy and collection loss at 10% to be reasonable and consistent with the actions of market participants.

**Other Expenses**

A prudent investor would also deduct a certain amount for non-reimbursable management expenses and reserves for replacements. We estimate non-reimbursable management at 2% of the effective gross income. Reserves for replacements are estimated at 2% of effective gross income. Total expenses are estimated at 4% of effective gross income, or \$934.

**Net Income Estimate**

Subtracting the vacancy and collection loss, as well as operating expenses from potential gross income, yields a net operating income of \$22,409 as will be presented below.

**Capitalization Rate Analysis**

The next step is to process the forecasted net income into a value indication. This is accomplished by determining and applying the appropriate capitalization rate for the subject property. A capitalization rate is the ratio of net income per sale price (i.e., rate = net income/sale price).

Once a rate is selected for the subject and the net income projected, the same formula can be used to develop an indication of market value. The capitalization rate can be extracted from market sales if the net income is known or can reasonably be estimated at time of sale.

Most of the comparable sales presented earlier in this report were either sold to owner users or did not indicate a net operating income. Sale 2 reflects a 7% rate based on proforma income and expenses, but it was acquired by an owner user. Listing 8 reflects a 7.62% rate based on reported actual income, but at the listing price. The indicated rate is 8.03% at 95% of list, and 8.47% at 90% of list price.)

We have also surveyed the marketplace for similar industrial building sales with income information and market derived capitalization rates. The sales indicate a capitalization range from 7.50% to 9.00%, as supported by Costar's U.S. Cap Rate Comparison discussed in the CoStar Industrial Report Mid-Year 2011 for the Stockton/Modesto Industrial Market.

The following chart also supports this data as well as the owner-user presence in the buying market reflected in the data for 2011.

Period	Number of Transactions	Average Cap Rate	Median Cap Rate
Survey	58	7.71	7.76
2011	12	-	-
2010	18	8.50	8.50
2009	10	9.00	9.00
2008	9	6.88	6.63
2007	4	7.76	7.76
2006	5	-	-

The chart above reflects activity in the Stanislaus County market since January of 2006.

The selection of a particular rate within an indicated range depends on the evaluation of such factors as location, strength of tenancy, type, and quality of leases, building age, condition and quality, and perhaps most importantly, potential for future changes in net operating income and/or appreciation. For example, a building leased for a long-term with little rental increase for inflation adjustments, would be expected to have a relatively high capitalization rate. On the other hand, projects that are leased below market with good potential for increase in the near future would generally command a significantly lower capitalization rate.

We have considered the indications from Sale 2 and Listing 8, as well as the above statistical data. Given the uncertain market conditions, an appropriate overall rate for the subject would be not be at the lowest end of the range. Considering our estimate of net operating income, and also considering the future higher use potential for the subject, an appropriate rate would also not be at the highest end of the range. We have concluded a capitalization rate of **8.25%** to be appropriate for the subject property.

The final step in the Direct Capitalization approach is to divide the estimated net operating income by the appropriate capitalization rate. The result is a market value indication for the property as if stabilized at market rent.

INCOME APPROACH SUMMARY			
<b>Potential Gross Income</b>	\$0.30 psf/mo		<b>\$25,373</b>
<b>Less Vacancy &amp; Collection Allowance</b>	8%		<b>(\$2,030)</b>
<b>Effective Gross Income</b>			<b>\$23,343</b>
<b>Less Expenses</b>			
Management	2.0% EGI	<b>(\$467)</b>	
Reserves	2.0% EGI	<b>(\$467)</b>	
<b>Total Expenses</b>			<b>(\$934)</b>
<b>Net Operating Income</b>			<b>\$22,409</b>
<b>Divided by Overall Capitalization Rate</b>			<b>8.25%</b>
<b>Value Indicated by the Income Approach (As If Market Ready)</b>			<b>\$271,627</b>
<b>Deduction for Demo/Repairs to Make Ready</b>	\$5.00 psf		<b>(\$35,240)</b>
<b>Value Indication: As Is</b>			<b>\$236,387</b>
<b>rounded</b>			<b>\$240,000</b>
<b>Hulberg &amp; Associates, Inc.</b>			

Notably, we believe that the property will require some demolition and or repair to make the building leaseable. We have estimated an all-inclusive \$5 per square foot of building area to account for this.

### Income Approach Conclusion

Based upon the preceding analysis, the final value indication by the Income Approach is **\$240,000**.

### RECONCILIATION OF VALUE INDICATIONS

The subject property has been analyzed using both applicable approaches to value: the Sales Comparison and Income Approaches. The value indications developed by each approach are summarized as follows:

<b>Sales Comparison Approach</b>	<b>\$250,000</b>
<b>Income Approach</b>	<b>\$240,000</b>

Reconciliation of the value indications involves weighing the approaches based on their importance to their probable influences and on the market reactions of typical users or investors in the marketplace. Consideration is also given to the quality and quantity of data available for analysis, and to the advantages and disadvantages as they relate to the subject property.

The Sales Comparison Approach is generally a reliable indicator of value when there are a number of recent transactions involving properties similar to the subject. Our survey revealed six closed sales and two listings, which generally bracket the subject in terms of size and physical characteristics.

In the Income Approach, we utilized the direct capitalization analysis. The capitalization rate was determined by analyzing cap rates indicated by market transactions and reviewing published rates from surveys.

The subject is such that it could be appealing to either an investor or owner-user. Owner-users typically place the most weight on the Sales Comparison Approach, whereas investors place more weight on the Income Approach.

There is some uncertainty of what the ultimate use will be, but some potential for greater use when market conditions improve.

Based in large part on the fact that the subject improvements provide some potential for higher intensity use at some future date, and with note of the additional second floor area, we have correlated to the higher of the two indicators.

**FEE SIMPLE “AS IS” STATEMENT OF VALUE**

Based on the market data presented, the valuation techniques applied, and the result thereof, it is our opinion that the “as is” market value of the fee simple interest in the subject property, as of July 7, 2011, subject to the assumptions and limiting conditions, certification, and predicated on an exposure period of 12 months, was:

**TWO HUNDRED FIFTY THOUSAND DOLLARS**

**(\$250,000)**

# **A D D E N D U M**

**Assumptions and Limiting Conditions  
Certification**

**ASSUMPTIONS AND LIMITING CONDITIONS  
AND CERTIFICATION**

## **ASSUMPTIONS AND LIMITING CONDITIONS**

**The appraisal is subject to the following assumptions and limiting conditions:**

### **HYPOTHETICAL CONDITIONS**

None

### **EXTRAORDINARY ASSUMPTIONS**

The appraisers are not engineers, building contractors or repair cost estimators. We assume that there are no hidden defects or issues present that would detract from the value. We have included estimates herein for improvements/repairs but these are subject to revision based upon review of any estimates from an engineer or contractor.

The public records reflect the building size as 7,744 square feet. Our measurements indicate a floor area of 7,048 square feet plus a partial second level of 952 square feet.

The analyses and conclusions presented within this report are predicated on the assumption that all data provided by others are factual and correct.

### **GENERAL ASSUMPTIONS AND LIMITING CONDITIONS**

1. Disclosure of the contents of the appraisal report is governed by the bylaws and regulations of the Appraisal Institute.
2. Possession of this report, or a copy thereof, does not carry with it the right of publication.
3. This report contains a letter of transmittal, a body and an addendum. No parts of this report are to be separated.
4. Neither all nor any part of the contents of this report (including any conclusions as to value, the identity of the appraisers, the firm with which the appraisers are connected, or the professional organization of which the appraisers are members) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraisers.
5. Delivery of this appraisal report constitutes completion of the appraisal assignment.
6. The appraisers, by reason of this appraisal, are not required to give further consultation or testimony or to be in attendance in court with reference to the property in question. Such further consultation or testimony would constitute services beyond the scope of this appraisal. New arrangements would have to be made a reasonable time in advance, and additional fees would be charged.
7. Any allocation of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocation of value for land and improvements must not be used in conjunction with any other appraisal and is invalid if so used.

8. No responsibility is assumed for the legal description provided. The legal description used in this report is assumed to be correct.
9. No survey of the property has been made by the appraisers and no responsibility is assumed in connection with such matters. Maps and sketches are included only to assist the reader in visualizing the property.
10. No responsibility is assumed for matters of a legal nature affecting title to the property, nor is an opinion of title rendered. The title is assumed to be good and merchantable unless otherwise stated.
11. The property is appraised, free and clear of any or all liens or encumbrances unless otherwise stated.
12. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
13. It is assumed that there are no hidden or non-apparent conditions of the property, subsoil, or structures, which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering that may be required to discover such.
14. Information furnished by others is assumed to be true, correct and reliable. A reasonable effort has been made to verify such information where possible or feasible; however, no responsibility for its accuracy is assumed by the appraisers.
15. Responsible ownership and competent management are assumed.
16. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraisers' inspection. The appraisers have no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraisers, however, are not qualified to test such substances or conditions. The presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it 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 intended user is urged to retain an expert in this field, if desired.
17. Opinions of value contained in this report are estimates. There is no guarantee, written or implied, that the subject property will sell for the indicated amounts.
18. The appraisers reserve the right to amend and/or alter statements, analyses, conclusions and value opinions if information pertinent to this assignment is made known after the completion of the report.
19. Hulberg & Associates, Inc., Norman C. Hulberg, MAI, John A. Hillas, SRA, and Jeanine M. Kraus shall be completely indemnified against any and all losses, claims, damages,

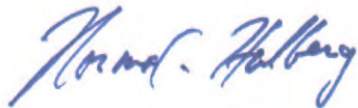
liabilities, costs or expenses to which the user of this report may become subject, but only if neither shall have been grossly negligent or shall have taken or omitted to take any action in bad faith in connection with the completion of this appraisal assignment.

20. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless non-conformity has been identified, described and considered in the appraisal report.
21. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
22. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraisers have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, would reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative impact upon the value of the property. Since the appraisers have no direct evidence relating to this issue, the appraisers did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.
23. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinion(s) contained in this report is/are based.
24. Forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors. These forecasts are therefore, subject to changes with future conditions. The appraisers cannot be held responsible for unforeseeable events which might occur and which would alter market conditions after the effective valuation date.

## CERTIFICATION

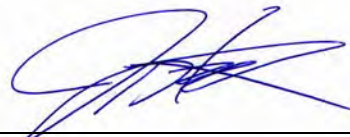
*We certify that, to the best of our knowledge and belief:*

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and they are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. 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 value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
8. We have made a personal inspection of the property that is the subject of this report.
9. No one provided significant real property appraisal assistance to the persons signing this certification.
10. 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 the Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, I, Norman C. Hulberg, MAI have completed the continuing education program of the Appraisal Institute. As of the date of this report, I, John A. Hillas, SRA have completed the continuing education program of the Appraisal Institute. As of the date of this report, I, Jeanine M. Kraus have completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members.
13. We have not performed a previous appraisal of the subject property within the three years prior to this assignment.



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**Norman C. Hulberg, MAI**  
Certified-General Appraiser #AG003542  
Expires June 26, 2012



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**John A. Hillas, SRA**  
Certified-General Appraiser #AG002432  
Expires January 21, 2013



**Jeanine M. Kraus**  
Associate Appraiser  
#AR033221 02/26/2012