CALIFORNIA STATE BOARD OF EQUALIZATION

ANALYSIS OF THE BOARD OF EQUALIZATON HEADQUARTERS: SUMMARY OF FINDINGS

Prepared for:

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EXECUTIVE SUMMARY

Introduction and Purpose

In February 2010, the California State Board of Equalization (BOE) retained University Enterprises, Inc. (UEI), who in turn contracted with two professors from California State University, Sacramento and one from University of California, Irvine, to conduct an independent analysis to determine the net fiscal impact to the State of California (State) and make recommendations on the best fiscal course of action in regards to the State-owned building located at 450 N Street, Sacramento (Headquarters).

Based on the assessments made, BOE requested that UEI provide answers to the following questions relative to the fiscal impact to the State:

- Given current and projected staffing levels and space needs, should BOE remain at 450 N Street?
- Should the State continue its ownership of the 450 N Street building, or should it sell the building?

Options for 450 N Street

Given the conditions in the Sacramento marketplace, the appraisal of the Headquarters, and consideration of possible adverse valuation impact factors, three options exist: 1) Move BOE out permanently and sell the building, 2) Move BOE out permanently and backfill the space with another State tenant(s), and 3) Maintain the status quo.

Option One: Move BOE Out Permanently / Sell

Move all BOE 450 N Street and annex staff into a new location on a permanent basis and sell the building to a private company. This option would transfer ownership from the State to a new investor.

- Allows BOE to move its operations and staff into a new site and location to better meet BOE business needs.

- No further obligation or liability for the State with either ownership or occupancy, including no further bond debt of approximately $7.1 million for twenty to twenty-five years.
- Costs: Total one-time cost of $24.35 million (i.e., $23.8 million to move BOE plus the $550,000 difference between the net selling price of $90.25 million, assuming a $2.0 million cost to sell, and the loan of $90.80 million), and ongoing rent marginal cost increase for BOE starting at $3.3 million in year one and growing to $16.4 million in year twenty and totaling $98.6 million net present value (NPV) over a twenty year period (i.e., marginal cost of new space after offsetting cost of existing spaces including Headquarters and annex locations). The $98.6 million NPV reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by the Department of Finance (DOF) to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

Option Two: Move BOE Out Permanently / Backfill Space

Move all BOE 450 N Street and annex staff into a new location on a permanent basis and backfill the empty building with another State tenant(s) that needs more suitable space (e.g., consolidate from multiple locations, downsize).

- Keeps the ownership of the building with the State, but allows BOE to move its staff and operations to a new site and location that better meets its business needs.
- State would identify a new tenant(s) whose business needs would be better met with the 450 N Street building.
- The State would incur deferred maintenance repairs/tenant improvements and costs of moving the new tenant into 450 N Street.
- Costs: Total one-time costs of $63.3 million (i.e., $39.5 million in new tenant improvements and moving costs plus one-time moving costs for BOE of $23.8 million). Ongoing rent marginal cost increase totals $98.6 million NPV for BOE over a twenty year period, plus the ongoing rent marginal cost increase for a new tenant starting at $1.3 million in year one and growing to $1.6 million in year twenty and totaling $17.6 million NPV over a twenty year period. The $98.6 million NPV reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

Option Three: Status Quo

BOE continues to occupy 450 N Street and maintains a decentralized operation including its annex locations.

- Ongoing deferred maintenance repairs would be performed in the occupied building which may result in additional expenses, personnel relocations, disruption of work, and potential loss of revenue.

- BOE would continue to operate at less that optimum efficiency due to being in multiple locations.
- Costs: Total one-time costs to the State of at least $10.0 million, plus the unknown costs of operating inefficiencies. A new bond issue to pay off the outstanding PMIB loan is likely to increase ongoing rent for BOE and the cost to the State. The precise amounts and terms are unknown at this time.

Conclusions

There is a total of $5.98 million in remediation work remaining to be completed in the next seven months. Of this amount, the Department of General Services (DGS) indicated costs of $4.5 million, and BOE indicated costs of $1.48 million. The building is also undergoing maintenance as the remediation is taking place. The current appraised value of the building is $92.25 million upon completion of the remediation.

BOE has outgrown the 450 N Street facility, evidenced by its employee growth rate and staffing levels needed to support Legislatively-mandated programs. BOE now utilizes three different annex locations, and a fourth location will be added in December 2010. Operating from multiple sites creates many sources of inefficiencies that ultimately cost the State and thereby affects its net revenue stream. According to BOE, the following are some examples of the effects of having annex locations:

- BOE mail is received by the Mail Services Unit (MSU) and is distributed by MIC code. Once mail arrives at the destination, it is opened by the respective unit. When checks are found in the mail of annexed BOE locations, special procedures and safeguards must be implemented. The checks must be sent back to BOE Headquarters to the Cashier Section via a special courier, which delays deposits for one to three days. BOE Units receive approximately $7.4 million each month.
- The delivery time of mail has increased as well as that for picking up the mail.
- Staff from the annexed locations is required to attend meetings at 450 N Street, thus losing productive time for traveling.

If BOE were to move to a new and larger location, it may address BOE's business needs for more space and what it believes to be greater efficiency and cost savings resulting from consolidating operations.

DGS should explore in detail whether it is beneficial to sell or keep the building. Data currently available from DGS suggests that selling the building after moving BOE out would save the State at least $49.5 million, which is the sum of tenant improvement costs to backfill the space ($39.5 million) and at least $10 million for the maintenance and repair costs and issues that go along with ownership of a building. If the building is sold, it also would avoid having to backfill the space and the ongoing marginal rent increase for the new State tenant of $1.3 million in the first year and growing to $1.6 million in year twenty, totaling $17.6 million NPV over a twenty year period. Regardless of whether the State sells or keeps the building, if BOE were to move out the total cost to the State for new construction and operating expenses over a twenty year period was estimated by DOF to be $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

However, there may be significant cost savings to the State if it can backfill the space with a State tenant(s) whose business needs are better met by moving to 450 N Street. Since 44.5% of all State tenants in Sacramento are in privately-owned properties, there should be opportunities to backfill the building at 450 N Street. The precise cost savings are unknown at this time because possible tenants need to be identified, and their current leases, costs of moving, and other factors must be analyzed.

Overall Recommendations

It is clear that BOE needs a more suitable facility. This is based on the employee growth rate and staffing levels necessary to support Legislatively-mandated programs. BOE now utilizes three annex locations and will be adding a fourth in 2010. BOE should initiate an analysis of the extent to which it could enhance efficiencies and better serve its mission by consolidating operations into one location. If this analysis in conjunction with either Option One or Two shows a net benefit to the State relative to the costs incurred, it is recommended that BOE move out of 450 N Street permanently and into one location that consolidates its Headquarters operations. BOE and DGS should work together to fully define BOE needs in a way that achieves efficiencies and plan accordingly to move BOE into such a facility.

As to whether the building at 450 N Street should be sold (Option One) or backfilled with another State tenant(s) (Option Two), it is recommended that DGS be directed to determine what would to be the most cost-effective option for the State. The State must make that determination only after considering the potential benefits from the sale of the building as compared with the potential benefits of meeting the needs of other possible State tenants. This would require an analysis of possible State tenants' current lease arrangements and other relevant data which was not available to make such an assessment as part of this study.

With respect to the questions Legislators asked of BOE:

- *Given current and projected staffing levels and space needs, should BOE remain at 450 N Street?*

    - BOE should move its staff and operations from its current location at 450 N Street and annex locations as soon as suitable new space can be found if by doing so efficiencies to be gained by BOE and/or possibly other State tenants provide a net benefit to the State. It is recognized that a move may take some time, given the size of the staff and the issues associated with moving approximately 3,000 staff and the important role BOE plays in California's economy as a State agency. Staff that is located in the three annex locations should be moved into the new site to consolidate for operating efficiency. An example of such consolidation is the California Franchise Tax Board.

The State should incur the one-time cost of $23.8 million for moving BOE to its new location. After offsetting the current rent expense incurred by BOE in its multiple locations, the marginal increase in annual rent will be $3.3 million in the first year and growing to $16.4 million in year twenty, totaling $98.6 million NPV over twenty years for its suggested new space requirements.

- BOE and DGS should engage in discussions regarding what would be the best location and facility format to ensure BOE's operating effectiveness and efficiency.

➢ *Should the State continue its ownership of the 450 N Street building, or should it sell the building?*

- The State should direct DGS to study whether it is best to sell the building or backfill it with another State tenant(s). The timing will need to be considered in relationship to how soon BOE could be relocated.

- If the State sells the building, it should be able to pay off most if not all of the loan amounting to $90.80 million through the sale proceeds. If the building is sold at its current estimated value of $92.25 million after remediation, and incurs what DGS estimates to be selling fees of $2.0 million, the State will have to absorb the difference in the loan payoff of $550,000.

- If the State retains the building and backfills it with another State tenant(s), it must be in the best interests of the State to do so. Data to make a definitive assessment was not made available. However, DGS estimates the ongoing rent marginal cost increase for the new tenant is $1.3 million in the first year and growing to $1.6 million in year twenty to total $17.6 million NPV over twenty years. The State will also incur one-time tenant improvement and moving costs of $39.5 million to relocate the new tenant.

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INTRODUCTION

In February 2010, the California State Board of Equalization (BOE) retained University Enterprises, Inc. (UEI), who in turn contracted with two faculty from California State University, Sacramento and one from University of California, Irvine, to conduct an independent analysis to determine the net fiscal impact to the State of California from two possible alternatives:

- BOE remains in the current building where its headquarters is located at 450 N Street, Sacramento, CA 95814 (hereafter Headquarters), or
- BOE relocates its Headquarters into another facility.

The goals of this study were to evaluate the costs and possible benefits if BOE were to relocate to another facility, and determine the best course of action for the State in regard to selling or backfilling the 450 N Street building.

The BOE plays a major role in California, with its Mission being to serve the public through fair, effective, and efficient tax administration. Programs administered by the Board of Equalization produced $53.1 billion in revenue in 2007-08. The State's portion of approximately $35 billion contributed about 32% of all State revenue for the fiscal year.

The BOE supports California's State and local governmental finance system by providing revenue for the State's cities, counties, and special tax districts. BOE-administered programs yielded $9.6 billion for local governments from local and district sales and use taxes in 2007-08. BOE-administered revenues support hundreds of State and local government programs and services, including schools and colleges, hospitals and health care services, criminal justice, correctional, and social welfare programs, law enforcement, consumer services, natural resource management, and transportation and housing programs.

According to studies of the 450 N Street building, its Headquarters building has experienced significant water intrusion and internal water leaks giving rise to water damage and actual or potential mold growth. Highlights of these issues are presented in the Background. These issues have resulted in the disruption to workflow as remediation is being performed and other factors that make consideration of relocation critically important. According to BOE, its Headquarters space also is no longer adequate to meet current and future business needs. BOE has had to relocate over 600 staff to annex locations in the greater Sacramento area. BOE considers the use of three locations, with a fourth location starting in December 2010, to be inefficient and costly.

This study was conducted by Dr. Sanjay B. Varshney and Dr. Dennis H. Tootelian of California State University, Sacramento. Additional consultation and review was provided by Dr. Kerry Vandell of University of California, Irvine. Descriptions of their qualifications, and those of other experts used in this study are presented in Appendix A.

Issues Addressed in the Study

Specific issues addressed in this study include:

- What are the costs associated with:
    - BOE's relocation to another facility, including expenses to move and utilize space at that facility instead of the current Headquarters?
    - The State's completing the remediation and either selling or leasing the building to another State tenant(s)?
    - BOE's remaining in its current Headquarters after completing the remediation?

- What is the value of the current Headquarters:
    - At times when remediation would be complete (i.e., January 2011)?
    - Are there possible adverse valuation impact factors associated with a facility that has experienced water intrusion and internal water leaks giving rise to water damage and actual or potential mold growth, even though the remediation has been completed?

Based on these and other assessments, BOE requested that UEI answer the following questions based on the fiscal impact to the State:

- Given current and projected staffing levels and space needs, should BOE remain at 450 N Street?

- Should the State continue its ownership of the 450 N Street building, or should it sell the building?

Background of 450 N Street

According to BOE documents, the building at 450 N Street has a history of water intrusion resulting from construction related deficiencies with windows and decks. The building also has experienced water leaks from interior plumbing failures. These events have caused damage to the building, and employee occupants have expressed health concerns about potential exposures to mold or other contaminants or hazardous substances in the building.

Presented below is a sample of the construction-related problems and their timelines. This listing was obtained from documents provided by BOE and is not presented here as a complete history of problems with the Headquarters building.

- 1991-1992: The Capitol Square Building (450 N Street) was under construction. Dreyfuss Blackford (DBE) was the architect and Hensel Phelps (HP) was the general contractor.
- 12/1/1992: 450 N Street was substantially completed.
- 1994-1995: During occupancy of building by BOE, CalPERS, HP, and DBE pursued efforts to resolve water intrusion problems.
- 1998: CalPERS retained Rosenberg McGinnis to conduct an investigation into possible causes of water intrusion from annual precipitation.
- 6/1/1998: CalPERS was unable to resolve water intrusion issues with HP or DBE.
- 4/1999-2000: Department of General Services (DGS) investigated leaks and negotiated repairs with HP and DBE.
- 9/1/1999: One spandrel panel fell from the 7th floor East.
- 8/1/2001: Glass breakage occurred on south side, between 7th and 8th floors.
- Winter 2001-2002: BOE experienced water intrusion in the area below 23rd floor deck south and east.
- 6/1/2004: DGS/Environmental Safety Health and Operations Program (ESHOP) team directed to address indoor air quality (IAQ) issues. ESHOP established air testing protocols for mold concerns/complaints.

- 1/1/2005: One spandrel panel fell from south elevation between 7th and 8th floors.
- 9/1/2005: Spandrel panels cracked; shards of glass fell into garage deck. Emergency pedestrian protection installed.
- 5/1/2006: DGS contracted with J. R. Roberts Construction Company to make repairs in three phases: spandrel panel repair, vision panel repair, balcony deck repair.
- 9/21/2007: BOE facilities staff discovered wall discoloration; BPM ESHOP tape lifts and bulk samples positive for fungal growth.
- 9/28/2007: BOE staff relocated from 22nd and 23rd floors.
- 10/8-9/2007: BOE staff relocated from 24th floor reported to temporary work location.
- 10/19/2007: BOE reported stain in 1st floor mail room to DGS.
- 2009: 9th floor flooded during flex hose repair done by DGS.
- 10/2/09: Suspected mold growth discovered on 3rd floor.
- 10/12/09: Storm caused additional water intrusion from the curtain wall.
- 10/09: Additional visible mold growth (VMG) was found on 4th and 11th floors women's restrooms' ceiling and vestibule areas. Wet ceiling tiles found on 10th and 11th floors due to a leaking channel. Both LaCroix Davis (LCD) and Hygiene Tech (HTI) found additional, substantial VMG on 1st floor that was not previously identified.
- 12/2/09: Mold growth found in three doorway areas of 1st floor.
- 1/20/10: 23rd floor balcony doors leaked during storm in January. New leak in the curtain wall at the penthouse was found.
- 2/10/10: Rooms 18A and 18B were under containment due to water intrusion and staining due to adjacent Janitor Closet. One interior column found with water staining and VMG.

METHODOLOGY FOR THE STUDY

Financial and other statistics and projections reported in this study are Department of General Services (DGS) estimates as of June 2010, and based on current market conditions and the experience and expertise of its staff. In addition, information and data were provided by BOE, DGS, and the Department of Finance (DOF) relative to the issues addressed. The recommendations presented herein rely on the accuracy of the data provided by BOE, DGS, and DOF.

This study consisted of several phases and involved the expertise individuals who conduct commercial property appraisals and undertake real estate transactions in the Sacramento marketplace.

Initially, Seevers Jordan Ziegenmeyer (SJZ) was retained to conduct an independent appraisal of the Headquarters. It was asked to appraise the building and provide a summary of the Sacramento marketplace. This included a general description of the geographic area, a regional overview, a neighborhood overview, and an office market overview.

Once SJZ completed its tasks, Grubb & Ellis reviewed and commented on the appraisal from the perspective of a commercial real estate company that is active in the Sacramento marketplace. In addition, Grubb & Ellis provided its perspectives on possible adverse valuation impact factors for the building due to the water intrusion and internal water leaks giving rise to water damage and actual or potential mold growth issues that have become public, and other factors that may impact the ultimate market value of the property.

Representatives of DGS and DOF reviewed a preliminary report and were asked to comment on both the methodology and data used in the study. Several joint meetings were held with representatives of BOE, DGS, and DOF, and their comments and suggestions were then considered when making the recommendations.

Based on all of this input, Drs. Varshney and Tootelian conducted an analysis relative to whether BOE should relocate and whether the State should retain or sell the building. They formulated options for the State to consider in terms of the future use of the building, and responses to the questions posed by BOE (see Introduction). Their findings were reviewed by Dr. Vandell.

MATERIAL USED IN THE ANALYSES

Presented below is a summary of selected material used to make the analyses and evaluate BOE options.

Summary of Relevant Material Used in the Analyses	
449,138	Square footage of rental space BOE building.
$57,893,463	Total remediation and maintenance/repair cost, including $32,006,670 by 3/2/2010 (sunk Cost) and $25,885,793 remaining.
$4,500,000	The amount DGS and DOF indicated the actual costs remaining for remediation, no including BOE's costs.
$1,480,000	The amount BOE estimated to be its costs for remediation .
7 months	The amount of time DGS estimates is remaining to complete remediation work on 450 N Street.
30 years	DGS estimate of the extension of life of building with Stantec repairs.
$90,763,037	Total loan outstanding on 11/20/09, including $81,010,600 principal & $9,761,437 accrued interest.
$7,091,000	Estimated annual bond debt payment for 450 N Street.
$19,000,000	One-time cost to move BOE out of 450 N Street.
$3,800,000	One-time cost to consolidate staff from annex.
$1,000,000	Reduced rent to BOE from Headquarters being vacant for one year if BOE vacates.
$23.8 million	Total one-time cost to move out of 450 N Street (sum of the three above figures).
$3.00 /sf	Estimated cost of rent in a new building for BOE.
$18,300,000	Estimated rent for BOE with space for 3,000 employees with 4% annual escalation.
$23,000,000	Tenant improvements for new tenant and one-time cost at 450 N Street.
$16,500,000	One-time cost to move a new State tenant into 450 N Street.
$39,500,000	Total new tenant one-time costs (sum of the two above figures).
$10,500,000	Current rent to BOE for 450 N Street (includes annual bond debt payment)
$4,500,000	Current rent for BOE annexed locations for (1% escalation per year).
$15,000,000	Total current rent paid by BOE (sum of the two above figures).
$2.00/sf	Approximate cost for new tenant in its existing location.
$11,000,000	Current rent paid by State tenants which would move into 450 N Street.
$12,300,000	Annual operating costs of 450 N St. building including lease/rent & bond debt.

According to DOF, the bond debt may change if the building is backfilled with another State tenant. This depends on how the current loan is paid off and a new one taken out. The total cost of remediation and modernization and maintenance (hereafter, maintenance, renovation) to date and ongoing is more than $57.9 million. DGS and DOF estimate the remaining remediation cost alone is approximately $4.5 million plus BOE's costs of $1.48 million. BOE, DGS, and DOF also agree that the remaining costs cited in the Stantec Infrastructure Report (Stantec) and the Elevator Modernization are repairs and system replacements that are normal maintenance and necessary to extend the building's useful life and should not be considered as part of the remediation.

As of November 11, 2009, the total outstanding Pooled Money Investment Board (PMIB) loan on the BOE building was $90.8 million, including accrued interest. According to

BOE, the operating expenses for the BOE building average $12.3 million annually. This includes costs for rent, utilities, other operating and maintenance expenses, and $7.091 million in bond debt payment.

DGS estimates that the costs to move BOE out of the building would be approximately $23.8 million and would require three to five years to effectuate. This includes the costs of continued rent while a new tenant was located and consolidating staff from the annex locations. The cost of relocating the replacement tenant and completing building tenant improvements are estimated to be approximately $39.5 million and will take one year.

In order to distribute the costs over multiple years, BOE proposes moving out of its current Headquarters in six phases based on a multi-year effort to add space, build, etc., possibly over the course of as many as five fiscal years. This would allow BOE employees currently assigned to the 450 N Street building to be moved; then the BOE employees currently assigned to annex locations would be moved into the new building. According to BOE, lease terms of the annex locations have been negotiated to allow for this longer term move. The nature of the phases and their respective costs were developed by BOE and presented in its Budget Change Proposal (BCP) #2. The specific costs in total and by phase will change based on the timing of such a move and the site(s) to which BOE would relocate.

FINDINGS OF THE APPRAISALS

A review of the Sacramento marketplace was conducted as part of the process of developing an appraisal of the BOE Headquarters. This was important because it helped define what options there are with the utilization of the current BOE Headquarters and what opportunities there are to find or build suitable facilities for BOE in the future. The findings of the analysis of the Sacramento marketplace are presented in Appendix B.

As previously indicated, two firms were retained to address issues of the value of the BOE Headquarters. SJZ was charged with developing an appraisal of the fair market value of the property upon completion of remediation work. SJZ did not address the possible adverse valuation impact factors for the building due to the water intrusion and internal water leaks giving rise to water damage and actual or potential mold growth and other issues.

Grubb & Ellis, in its capacity of dealing with commercial real estate in the Sacramento marketplace, conducted a review of that appraisal relative to the Sacramento marketplace and provided an opinion as to possible adverse valuation impact factors relative to the market value of the Headquarters.

As is the case with any building, numerous unknown possible situations could arise in the future that could not be taken into consideration for this study.

Summary of Appraisal Report by Seevers Jordan Ziegenmeyer

Presented below are edited summary excerpts of the appraisal report by SJZ. The full report is available as a separate document and labeled Supplement A. No material changes from the full report were made in this summary. It is important to note that the SJZ study was conducted at a point in time, and that the numbers used in its analysis could change over time.

SJZ prepared a Self-Contained Appraisal Report pertaining to the fee simple interest in the property located at 450 N Street, Sacramento, California. SJZ indicated its report is written in conformance with the requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP).

The subject property represents a high-rise Class A professional office building, located along the south line of N Street, east of 4th Street and west of 5th Street. The building contains approximately 449,138 square feet of rentable area and is situated within the confines of a single assessor's parcel identified as 006-0193-030, which encompasses about 2.50 acres of land area. Additionally, there is a three-story parking structure on the south side of the property with 711 spaces. The building is 100% owner-occupied by the California State Board of Equalization.

Over the past several years, the building has had issues with window system leaks, deck leaks, and burst-pipe floods, all of which lead to mold growth in affected parts of the building. Additionally, the building is in need of maintenance, repair and renovation in order to comply with current building codes. The remediation/renovation project is underway and is expected to be completed by February 2011, with elevator repair to be completed by April 2012.

SJZ estimated the prospective market value of the subject property upon completion of remediation and required maintenance and developed an opinion of market value for the subject as of the date of inspection in March 2010.

Methodology Synopsis

SJZ began the valuation by employing two of the three traditional approaches to value, the sales comparison and income capitalization approaches, to estimate the prospective market value of the subject property upon completion of remediation/renovation. The third approach, the cost approach, was not considered reliable to produce a credible estimate of value. Market participants (e.g., buyers, sellers, brokers) put little, if any, reliance on the cost approach when assessing properties that are not of new or proposed construction. They typically rely more heavily on the sales comparison and income capitalization approaches. Due to the significant and ongoing contraction in the market, many improved properties are selling for less than replacement cost in the current market environment.

Sales Comparison Approach. Using the sales comparison approach, the prospective market value of the subject property upon completion of remediation/renovation was estimated by a comparison to similar properties that have recently sold, are listed for sale, or are under contract. The underlying premise of the sales comparison approach is the market value of a property is directly related to the price of comparable, competitive properties in the marketplace.

This approach is based on the economic principle of substitution. According to The Appraisal of Real Estate, 13th Edition (Chicago: Appraisal Institute, 2008), "*The principle of substitution holds that the value of property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time. The principle implies that the reliability of the sales comparison approach is diminished if substitute properties are not available in the market*."

The proper application of this approach requires obtaining sale data for comparison with the subject property. In order to assemble the comparable sales, SJZ searched public records and other data sources for leads, and then confirmed the raw data obtained with parties directly related to the transactions (i.e., primarily brokers, buyers and sellers).

Building	Sale Date	Sale Price	Rentable S.F.	Price / S.F.	Yr. Built
980 9th Street & 1010 8th Street	Dec-09	$97,000,000	454,914	$213.23	1992
915 L Street	Dec-09	$40,000,000	163,425	$244.76	1988
2450 Venture Oaks Way	Nov-08	$20,600,000	101,500	$202.96	1988
9838 Old Placerville Road	Sep-08	$27,000,000	139,500	$193.55	1986
801 K Street	Dec-07	$87,500,000	336,104	$260.34	1989
Average		$54,420,000	239,089	$222.97	1989
BOE at 450 N Street	n/a	$92,250,000	449,138	$205.39	1991

In order to estimate the prospective market value of the subject property upon completion of remediation/renovation, the comparable transactions are adjusted to the subject with regard to categories that affect value. If a comparable has an attribute that is considered superior to that of the subject, it is adjusted downward to negate the effect the item has on the price of the comparable. The opposite is true of categories considered inferior to the subject. To isolate and quantify the adjustments on the comparable sales data, it is considered appropriate to use percent adjustments. At a minimum, the appraiser considers adjustments for the following items:

- Property rights conveyed
- Financing terms
- Conditions of sale (motivation)
- Expenditures after sale
- Market conditions
- Physical features

The market data set involves five sales of office properties throughout the region that are deemed reasonable indicators of prospective market value for the subject property. Prior to adjusting for differences between the comparables and the subject property, the data set reflects an unadjusted range of $193.55 to $260.34 per square foot of rentable building area. Adjustments were required to most of the sales for differing characteristics, and the application of adjustments resulted in a narrowing in the range of data.

In analyzing the data set, no individual sale is considered to give the best indication of market value. Based on the indication of the data set, and after the application of adjustments, a market value estimate of $205 per square foot is concluded. Applying this unit indicator to the subject's rentable area results in the following estimate of prospective market value upon completion of remediation/renovation:

450 N Street: 449,138 square feet x $205 per square foot = $92,073,290

Income Capitalization Approach. For income-producing real estate, the future earning power of the property is widely regarded as the single most critical element affecting its value. Hence, the income capitalization approach is often deemed the most meaningful indication of value. SJZ applied the direct capitalization method of the income capitalization approach.

Direct capitalization converts an estimate of a single year's net operating income into an indication of value in one direct step. This step is accomplished either by dividing the income estimate by the relevant income rate (i.e., an overall capitalization rate), or by multiplying the income estimate by a proper factor (e.g., a gross, effective gross or net income multiplier). In the subject's market area, buyers and sellers of properties like the subject typically handle direct capitalization by using an overall rate as opposed to a multiplier. Therefore, this method of direct capitalization was employed in this analysis.

The components of the direct capitalization method are tabulated as follows:

- Potential Gross Income
- Vacancy and Collection Loss
- Operating Expenses
- Overall Capitalization Rate

The survey of comparable office properties indicates an unadjusted rental rate range of $1.90 to $2.70 per square foot per month. Factors considered when adjusting the comparables consist of lease type, lease conditions, market conditions, location, visibility/accessibility, rentable area, overall quality and effective age/condition. In equating the comparables to the subject, all are considered reasonable indicators of market rent.

After comparing the market data to the subject property, and considering the differing property characteristics, the indicated market rent is greater than $2.10 per square foot per month but less than $2.34 per square foot per month. Based on a survey of brokers in the area, rental rates have continued to decline over the past year. Additionally, most brokers are noting that concessions are increasing as demand tightens and the market continues to contract.

The general consensus is that most recently signed leases include some concessions, whether it is a free rent period, a tenant improvement allowance, or a combination of both. Thus, while the adjusted rental range is $2.10 to $2.34 per square foot per month, the effective rental range is somewhat lower when considering concessions. An effective rental rate of $2.15 per square foot per month is concluded for the subject property.

To provide an estimate of market value for the subject property via the direct capitalization method of the income capitalization approach, an overall rate must be derived. The overall capitalization rate is the ratio between the net operating income as of the date of value and a property's cash equivalent sales price. The overall rate is a reflection of the present value of anticipated future benefits. As with the sales comparison approach, this method also relies upon the similarity between comparable sales and the subject property.

In SJZ's derivation of the appropriate capitalization rate, three sources were considered: 1) market sales, 2) a band of investment analysis and 3) national surveys. In the *Sales Comparison Approach*, SJZ analyzed five sales of office properties. It was only able to confirm capitalization rate information for two of the transactions. To supplement the data set, SJZ compiled capitalization rate information for two other office properties in the region that were leased at the time of sale. This information is presented below.

Market Sales. One method of determining an overall capitalization rate is to build a rate based on current financing requirements through band of investment. Since most income-producing properties are purchased with debt and equity capital, the overall capitalization rate must satisfy the market return requirements of both investment positions. Lenders must anticipate receiving a competitive interest rate commensurate with the perceived risk of the investment or they will not make funds available. Similarly, equity investors must anticipate receiving a competitive equity cash return commensurate with the perceived risk, or they will invest their funds elsewhere.

Building	Sale Date	Sale Price	Rentable S.F.	Cap. Rate
9800 Goethe Road	Dec-09	$15,085,000	110,500	8.90%
2450 Venture Oaks Way	Nov-08	$20,600,000	101,500	7.75%
9838 Old Placerville Road	Sep-08	$27,000,000	139,500	7.75%
100 Howe Avenue	Jul-08	$23,850,000	129,846	7.20%

Band of Investment. Based on a database compiled for commercial properties throughout the region, financing parameters from recent loans generally indicate loan-to-value ratios between 65% to 75%, beginning interest rates from 6.00% to 7.50%, and amortization periods from twenty to forty years with a tendency towards twenty-five to thirty years. In the analysis of the subject property, a loan-to-value ratio of 65%, a mortgage interest rate of 6.75%, and a loan amortization period of 25 years, is concluded.

Based on the financing and equity conclusions cited above, the band of investment analysis is presented in the following table. This analysis indicates a reasonable range of overall capitalization rates for the subject property.

Mortgage Interest Rate:	6.75%			
Amortization Period (Years):	25			
Loan-to-Value Ratio:	65%			
Mortgage Constant:	0.08291			
Equity Dividend Rate:	8.00% to 9.00%			
	Minimum:		Maximum:	
Mortgage Requirement:	65% x 0.08291 = 5.39%		65% x 0.08291 = 5.39%	
Equity Requirement:	35% x 0.08000 = 2.80%		35% x 0.09000 = 3.15%	
	100%	8.19%	100%	8.54%
Indicated Overall Cap Rate: (Min.) 8.19% (Max.) 8.54%				

<u>National Surveys</u>. An overall rate also can be determined by employing surveys of investors, such as the *Korpacz Real Estate Investor Survey*, published by PricewaterhouseCoopers. The capitalization rates for a variety of investment properties are summarized in the following table.

Property Type	Low	High	Average
Regional Mall	5.00%	11.00%	7.98%
Power Center	7.50%	10.00%	8.63%
Strip Shopping Center	7.50%	11.00%	8.41%
CBD Office	5.00%	11.00%	8.11%
Suburban Office	7.00%	12.00%	8.72%
Flex / R&D	7.00%	11.50%	8.77%
Warehouse	6.50%	12.00%	8.46%
Apartment	5.75%	10.00%	7.84%
Net Lease	7.00%	10.00%	8.90%

The subject property is identified as a Central Business District (CBD) office type investment property. The survey for this property type supports an overall capitalization rate in the range of 5.00% to 11.00%, with an average of 8.11%. Limited emphasis is placed on the analysis of the survey since the figures reported represent national averages.

The following summarizes the capitalization rates derived via the various sources:

- Comparable Sales: 7.20% to 8.90%
- Band of Investment: 8.19% to 8.54%
- National Survey (Korpacz): 5.00% to 11.00%

The following table summarizes SJZ's opinion of the strengths and weaknesses of the Headquarters building and its competitive position in the local market area.

- Location: ↓
- General Market Conditions: ↑↑
- Competitive Market Position: ↔
- Contract Income Characteristics: ↓
- Age / Condition of Improvements: ↔
- Mid- to Long-term Upside Potential: ↓
- Overall Impact on Applicable Overall Rate: ↓

Considering the attributes of the subject property and the current state of the local economy, a capitalization rate of 8.00% was estimated for the subject property.

Overall Findings

As a result of SJZ's analysis, its opinion of the value for the property, in accordance with the definitions, certifications, assumptions and limiting conditions set forth in the attached document, are shown below.

Summary of Market Value. The estimates of value are without regard to possible adverse valuation impact factors, if any. Additionally, the value estimates take into consideration the fact that the subject is operating at stabilized occupancy.

- **Prospective Market Value Upon Completion of Remediation/Maintenance** April 1, 2012: $92,250,000

Remediation and Maintenance Cost Offsets. The analysis considered the subject property in its prospective condition upon completion of remediation and required maintenance, which is underway and is expected to be completed by February 2011, except for the elevator repair. According to the figures reported by the BOE at the time of the appraisal, the costs incurred thus far for water damage and remediation, exterior curtain wall maintenance, and interior tenant improvements (i.e., carpet and paint) are $32,006,670. The remaining water damage and remediation costs and additional costs associated with building maintenance, repair and renovation are projected to be $25,885,793.

As previously indicated and not part of the SJZ report, DGS estimates that its remaining remediation costs are approximately $4.5 million. BOE estimates its remaining costs of remediation to be $1.48 million.

The following table details the expended and projected remediation and maintenance costs by category, as reported by the BOE:

Expended Costs	
DGS Remediation to Date:	$10,500,000
BOE Remediation FY 2007-2009:	5,762,512
Curtain Wall Project:	15,500,000
Carpet and Paint:	244,158
Total Costs to Date:	**$32,006,670**

Projected Remaining Costs	
DGS Remediation Costs:	$7,269,570
BOE Remediation Costs FY 2009-2011:	3,754,700
Carpet and Paint Remediation:	2,532,023
Stantec Repairs Hard Costs:	7,829,500
Stantec Repairs Estimated Soft Costs:	2,200,000
Elevator Modernization:	2,100,000
Elevator Infrastructure:	200,000
Total Remaining Costs:	**$25,885,793**

Although not part of the SJZ report, BOE, DGS, and DOF agree that remediation costs represent new costs to the State. Maintenance costs that modernize the building are to be expected and are extraneous to this analysis.

However, any significant variations from the cost projections could have an impact on the values concluded in SJZ's report. If, at some future date, the actual remediation or maintenance costs are reported to be different from the projected costs utilized in the analysis, this could affect SJZ's value opinion(s).

The subject property is operating at stabilized occupancy; thus, deductions for lease-up costs were not applied. However, if the BOE vacated the building and the subject property was marketed without a tenant in place, this would result in a reduction in value in order to account for lease-up costs (i.e., rent loss, concessions, tenant improvements, commissions, and entrepreneurial incentive).

Comments Regarding Possible Adverse Valuation Impact Factors by Grubb & Ellis

The current slump in the real estate market makes it difficult to predict how commercial real estate property values will change. Accordingly, comments were solicited from Grubb & Ellis relative to the desirability of the current BOE Headquarters and the appraised value established by SJZ. In addition, Grubb & Ellis provided an opinion as to possible adverse valuation impact factors due to the water intrusion and internal water leaks giving rise to water damage and actual or potential mold growth problems associated with the Headquarters building.

It is recognized that any estimate of possible adverse valuation impact factors relative to the value of a building will be subjective in nature. As is the case in nearly all real estate matters, "value" is dependent on the individual piece of property and market conditions at a particular point in time. The ultimate value is what someone is willing to pay. Accordingly possible adverse valuation impact factors may be more or less significant depending on a prospective buyer(s) or tenant(s) concern about the history of the building relative to water intrusion and internal water leaks and the steps taken to remediate these issues.

The concept of possible adverse valuation impact factors associated with the building following mold remediation was discussed at length among Grubb & Ellis staff. The general consensus was that possible adverse valuation impact factors would be minimal and have little or no impact on a sales price of the subject property, provided that remediation is complete prior to sale.

The rationale for this opinion is that there is some offsetting value to having newer systems installed as part of the remediation that would improve efficiencies and thereby increase the life span of the building.

Based on the comments above, it appears that possible adverse valuation impact factors should be expected to be minimal to non-existent. Assuming that the remediation resolves the water intrusion and internal water leaks that gave rise to water damage and actual or potential mold growth, whatever possible adverse valuation impact factors there may be, if any, will probably have a minimal impact on the value of the building.

VALUE ANALYSIS AND POSSIBLE OPTIONS FOR CONSIDERATION

This section presents considerations relative to the appraised value of the Headquarters, consideration of the suitability of the Headquarters for BOE, and provides selected options for the State as they pertain to the future of the Headquarters.

Computation of Adjusted Appraised Value

According to SJZ, the market value appraised for the Headquarters building is $92.25 million with the understanding that approximately $4.5 million in remediation work will be incurred in the next several months.

Based on the comments from Grubb & Ellis, DGS, and DOF, there do not appear to be significant adverse valuation impact factors value due to the water intrusion and internal water leaks that gave rise to water damage and actual or potential mold growth. It is believed that the ongoing remediation and maintenance will resolve most concerns associated with the building's history.

Furthermore, it is believed that other possible devaluation factors with regard to the Headquarters building would be insignificant. Once renovated, and with the remediation complete, the benefits of a remodeled structure would likely offset other factors that might reduce the value of the building.

Suitability of 450 N Street to Meet BOE's Business Needs

In reviewing the documents supplied by BOE, and in discussions with both DGS and DOF, consideration was given to whether the Headquarters currently and in the future will meet BOE's business needs. As a major revenue-producer for the State, it is important that BOE operate as effectively and efficiently as possible.

According to the BOE Budget Change Proposal, the 450 N Street building was built to hold a maximum of 2,200 employees. To address overcrowding issues, BOE permanently relocated 49 employees and over one million taxpayer records to a location in West Sacramento and temporarily relocated approximately 206 Legal Department employees to the Franchise Tax Board. In addition, BOE plans to move the 206 Legal Department employees and approximately 427 additional employees to permanent quarters once appropriate approvals are provided and an appropriate site is obtained.

As shown below, the occupancy of the BOE as of 2007 was 2,500 staff, and BOE estimates that the staff will grow to 2,708 through June 30, 2011. Furthermore, based on data from the last ten years, BOE estimates that its staff will grow by approximately 96 positions each year for the next five years due to its business needs in meeting State mandates.

Estimated Headquarter Position Growth
(Prepared September 2008, Source: BOE)

Estimated Space Needs through 6/30/2011

Headquarters Occupancy estimate as of 6/27/2007*	2,500≈
New Headquarters Positions from the 2007/08 Budget	21
New Headquarters Positions from the 2008/09 Budget	125
Estimated new HQ Positions from 2009/10 BCPs	94
TOTAL estimated Headquarter Occupancy as of 6/30/2011**	2,708≈
Recommended Headquarter Occupancy***	1,900 to 2,200
Estimated Number of Headquarter Employees to relocate	508 to 808≈

Estimated Space Needs through 6/30/2016

Estimated Headquarter Positions in 6/30/2011****	2,650≈
Estimated Growth 6/30/2011 through 6/30/2016 (Based on 5 and 10 year growth trends)	175 to 350≈
Estimated population as of 6/30/2016	2,883 to 3,058≈

*Represents the number of positions assigned to the Headquarters building.
**Includes contractors, retired annuitants, student interns and permanent intermittent staff.
***Source- 1997 Space Optimization Study conducted by Dreyfuss & Blackford Architects.
**** Does not include contractors, retired annuitants, student interns and permanent intermittent staff.

BOE has had to house some of its employees in annex locations. As previously indicated, there are three such locations currently, with a fourth being planned for occupancy in December 2010.

According to BOE, Legislative mandates have resulted in a need to increase staffing over the years. A sample of BCPs for staffing increases arising from legislatively-mandated programs since 2006 is presented below. This clearly indicates that there is a need for space to be able to respond to the programs given to it for administration.

Year and Program	No. of Staff
2006-07	
BCP# 2c AG Inspection Tax Leads	16.0
BCP# 2d Enforcement of Tobacco Products from O/S Sellers	20.0
BCP# 2e Retail Licensing Enforcement	14.5
BCP# 4 IFTA / NAFTA Interim Program	11.5
U.S. Custom Program	4.0
Total	66.0

Year and Program	No. of Staff
2007-08	
BCP #2 U. S. Customs Program Augmentation	12.5
BCP #4 Alcoholic Beverage Tax Program Workload	2.0
BCP #6 E-Waste Recycling Fee Workload Adj. Continuation	6.0
BCP #7 IFTA Workload Growth	11.0
BCP #8 Underground Storage Main. Fee Workload Increase	7.5
BCP #10 Fuel Tax Compliance Projects	2.0
BCP #11 MVF Audit Staff Augmentation	5.0
BCP #12 AB 1803 Expand Workload Environmental Fee	4.0
BCP #13 E-Filing Infrastructure Project	3.0
Total	53.0
2008-09	
2008-09 BCP #1 E-Services	8.0
2008-09 BCP #2 Tax Gap	252.0
2008-09 BCP#3 Statewide Compliance	148.0
2008-09 BCP #4 Cig. & Tob. Prod. Tax Recovery	33.3
2008-09 BCP #5 Ag. Insp. Tax Leads	16.0
Total	457.3
2009-10	
BCP 1 Facilities - HQ	6.0
BCP 2 Emergency Telephone Surcharge	5.0
BCP 3 Offer in Compromise	2.0
BCP 5 Refund Litigation	3.0
BCP 6 Admin. Appeals	10.0
BCP 7 Cig & Tobacco Licensing & Tax	3.0
BCP 9 Out-of-State Auditors	23.0
BCP 11 Natural Gas	2.0
09-10 FL# 1 Special Taxing Jurisdictions	11.0
ABx4 18 Non-Registered Taxpayers	123.5
Total	188.5
Total	764.8

BOE has outgrown the 450 N Street facility, evidenced by its employee growth rate and staffing levels needed to support Legislatively-mandated programs. BOE now utilizes three different annex locations, and a fourth location will be added in December 2010. Operating from multiple sites creates many sources of inefficiencies that ultimately cost the State and thereby affects its net revenue stream. According to BOE, the following are some examples of the effects of having annex locations:

- BOE mail is received by the Mail Services Unit (MSU) and is distributed by MIC code. Once mail arrives at the destination, it is opened by the respective unit. When checks are found in the mail of annexed BOE locations, special procedures and safeguards must be implemented. The checks must be sent back to BOE

Headquarters to the Cashier Section via a special courier, which delays deposits for one to three days. BOE Units receive approximately $7.4 million each month

- The delivery time of mail has increased as well as that for picking up the mail.
- Staff from the annexed locations is required to attend meetings at 450 N Street, thus losing productive time for traveling.

Estimated Costs of BOE Relocation

DOF and DGS estimate that the rent for BOE in a newly constructed building of approximately 750,000 square feet will be $18.3 million, and will escalate 4% per year for twenty years. BOE currently incurs $10.5 million in rent at Headquarters and $4.5 million in its annex locations, both of which are estimated to escalate by 1% over twenty years.

Accordingly, DOF and DGS estimate that the marginal rent increase for BOE if it were to move out into a new headquarters building would be $3.3 million in the first year. DOF prepared the estimated ongoing rent marginal increase over a twenty year period as shown in Appendix C.

DOF, DGS, and BOE also agree that 5% is a reasonable discount factor that should be applied to the marginal rent increases over the twenty years to estimate the net present value (NPV) of the total fiscal impact to the State. Upon discounting the marginal rent increases, the total cost is approximately $98.6 million NPV over twenty years. This is the net cost to the State from the marginal change in rent after considering the total cost of new construction for BOE and the resulting annual lease payments by BOE over twenty years, and the savings from not having to incur lease payments at the annex locations and at 450 N Street for twenty years. This cost does not include the $550,000 the State would have to absorb as a result of the difference between the sale of the building and paying off the PMIB loan.

Similarly, DOF and DGS estimate that the marginal increase in rent for a new tenant if it were to relocate into 450 N Street to backfill would be $1.3 million in the first year. Taking the NPV of this marginal rent increase over twenty years using 5% as a discount factor, the approximate total cost to the State is $17.6 million.

Possible Scenarios and Options

Given the conditions in the Sacramento marketplace, the appraisal of the Headquarters, and consideration of the possible adverse valuation impact factors, three options were developed for the State's consideration.

Option One: Move BOE Out Permanently / Sell

Move all BOE staff into a new location on a permanent basis and sell the building to a private company. This option would transfer ownership from the State to a new investor. It also will allow BOE to move its operations and staff into a new site that better meets its business needs and eliminate inefficiencies of supporting multiple annex locations. There will be no further obligation or liability for the State with either ownership or occupancy of this building. BOE and DGS provided the following estimates:

Total one-time cost:		$24.35 million
One-time costs to move:	$23.80 million	
Estimated gross selling price:	$92.25 million	
Cost to sell the building:	$ 2.00 million	
Estimate net sell:	$90.25 million	
Estimated loan pay off:	$90.80 million	
Estimated difference:	$550,000	
Ongoing rent increase:		$98.6 million NPV over twenty years, starting at $3.3 million in year one and growing to $16.4 million in year twenty

Pros/Advantages:

- There is a potential opportunity to have new building systems that will be more energy efficient, which would lower BOE's long-term operating costs.
- There would be cost avoidance (unspecified) arising from BOE staff not having to make additional moves or operating out of multiple locations.
- There would be cost avoidance (unspecified) by eliminating costs to support three or four annex locations and solving BOE's space needs to conduct its business for the State.
- BOE staff would have only one move and not be faced with additional moves to accommodate building repairs, all of which would increase efficiencies and save costs.
- BOE Headquarters staff would be located on one campus instead of four or more, thereby increasing efficiencies of revenue generating operations.
- BOE would be better able to expand for new legislative tax programs without undue delay.
- This would eliminate BOE employee psychological concerns given the building's history.
- The sale would relieve the State of the possible liability of dealing with future issues in this building, and the potential costs of future remediation and preventative maintenance.
- The State may not have to fund the estimated $10 million in deferred maintenance repairs (Stantec).

Cons/Challenges:

- DGS and BOE will have to identify and locate a new facility of a suitable size and at a reasonable rate for long-term occupancy that meets BOE's business needs.
- Costs associated with BOE staff moving to a new facility would be $23.8 million.
- Considering the total cost of new construction and current rent offsets, BOE would need to incur marginal increased rent due to increased space of $98.6 million NPV over twenty years. This reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.
- There could be some disruption to work flow involved with a move.
- Finding a buyer in a depressed market could present a challenge.
- If the net sales price of the building is less than the loan payoff amount, the State would have to absorb the difference, estimated at $550,000.
- There are existing loan and accrued interest considerations.

Option Two: Move BOE Out Permanently / Backfill Space

Move all BOE staff into a new location on a permanent basis and backfill the empty building with another State tenant(s) that is looking to find more suitable space (e.g., consolidate from multiple locations where it is currently renting space from the private sector, downsize). This option will keep the ownership of the building with the State, but will allow BOE to move its staff and operations to a new site and location that better meets its business needs. The State would need to identify a new tenant whose business needs would be met with the 450 N Street building.

According to DGS, it would not be difficult to backfill a State tenant(s) into 450 N Street. It reports that of the 18.4 million square feet of space used by State government tenants in Sacramento, 8.2 million (44.6%) is in privately-owned properties. Therefore, moving State tenants from privately-owned properties to State-owned properties could be accomplished over some reasonable time period.

BOE and DGS provided the following estimates:

Total one-time costs to the State:	$63.3 million
Ongoing rent increase:	$17.6 million NPV over twenty years, starting at $1.3 million in year one and growing to $1.6 million in year twenty

Pros/Advantages:

- There is a potential opportunity to have new building systems that will be more energy efficient, which would lower BOE's long-term operating costs.

- There would be cost avoidance (unspecified) arising from BOE staff not having to make additional moves or operating out of multiple locations.
- There would be cost avoidance (unspecified) by eliminating costs to support three or four annex locations and solving BOE's space needs to conduct its business for the State.
- BOE staff would have only one move and not be faced with additional moves to accommodate building repairs, all of which would increase efficiencies and save costs.
- BOE Headquarters staff would be located on one campus instead of four or more, thereby increasing efficiencies of revenue generating operations.
- BOE would be better able to expand for new legislative tax programs without undue delay.
- This would eliminate BOE employee psychological concerns given the building's history.
- Another State tenant(s) which needs more suitable space (e.g., consolidate from multiple locations, downsize) could move into this building once the remediation and maintenance are completed. This may allow the State to consolidate several agencies into one State-owned building from privately leased buildings, which might lower long-term leasing costs. This could also provide cost savings (unspecified) due to greater efficiency or reduced rent for those agencies, and address the State's need to backfill tenants.
- Maintenance and the new tenant improvements could be conducted in tandem in an unoccupied building which could help control overall costs.
- Tenant improvements and completion of deferred maintenance would prolong the life of the building up to 30 years.

Cons/Challenges:

- DGS and BOE will have to identify and locate a new facility of a suitable size and at a reasonable rate for long-term occupancy that meets the BOE business needs.
- Costs associated with BOE staff moving to a new facility would be $23.8 million.
- Considering the total cost of new construction and current rent offsets, BOE would need to incur marginal increased rent due to increased space of $98.6 million NPV over twenty years. This reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.
- BOE would need to incur marginal increased rent due to increased space ($98.6 million NPV over twenty years).
- There could be some disruption to work flow involved with moves.
- The building will have to be modified for a new tenant(s), tenant improvements, completion of deferred maintenance, and the one-time moving costs for the new tenant will be incurred ($39.5 million total).
- The State would have to identify and analyze the remaining terms and other lease implications of the State agencies that need more suitable space (e.g., consolidate

locations, downsize), and coordinate accordingly. The marginal increased rent for the new tenant is estimated by DGS to be $17.6 million NPV over twenty years.

Option Three: Status Quo

BOE continues to occupy 450 N Street and maintains a decentralized operation including its annex locations.

BOE and DGS provided the following estimates:

One-time costs of deferred maintenance to the State:	$10.0 million
Ongoing bond debt service increase:	$1.0 million per year

Pros/Advantages:

- There would be no need to identify a new location for BOE.
- There would be cost avoidance from not relocating to new building ($23.8 million).
- There would be cost avoidance from rent increases at a new site ($98.6 million NPV over twenty years).
- There would be cost avoidance from not having to perform tenant improvements and move a new tenant(s) to 450 N St. ($39.5 million).
- There would be cost avoidance from not having to incur new tenant increased rent ($17.6 million NPV over twenty years).

Cons/Challenges:

- The 450 N Street building does not meet BOE's business needs. BOE requires space for 3,000 employees and 450 N Street holds a maximum of 2,200 employees.[1]
- BOE will continue to incur losses of efficiencies coupled with added costs by operating in four or more decentralized locations and annexes.
- BOE will be constrained in its ability to expand program operations in response to legislative mandates. New revenue proposals cannot be addressed quickly with staff resources at the current space at Headquarters, and annexes already are operating at maximum staffing levels. It takes upwards of 12 months for a site search and relocation/location of staff when the need for additional physical space is identified.
- The State would still have to fund the estimated $10.0 million in deferred maintenance repair. These repairs may require additional moves of BOE staff, which will result in disruption to work flow and potential lost revenues to the State.

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[1] The employee count does not include staff such as contractors, retired annuitants, student interns, student assistants and permanent intermittents.

- The State would have to issue new bonds to pay off the PMIB loan. A new bond issue to pay off the outstanding PMIB loan is likely to increase ongoing rent for BOE and the cost to the State. The precise amounts and terms are unknown at this time.

Cost Summary of Options

Presented below is a summary of the one-time and ongoing known marginal increase in costs of each option. Following that is a more detailed list of costs and savings outlined for each option.

Costs	Option 1: Move BOE out /Sell*	Option 2: Move BOE out/Backfill*	Option 3: Status Quo
One-time Total Cost	$24,350,000	$63,300,000	$10,000,000
Ongoing Total Cost	$98,600,000 NPV	$116,200,000 NPV	$1,000,000**

*Using figures provided by DOF, the total cost of new construction and operating expenses over a twenty year period was calculated to be $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.
** A new bond issue to pay off the outstanding PMIB loan is likely to increase ongoing rent for BOE and the cost to the State. The precise amounts and terms are unknown at this time.

OPTION ONE: MOVE BOE OUT PERMANENTLY / SELL

One-Time Costs	
Difference between sale receipts and loan payoff	$550,000
One-time cost to move BOE	$23,800,000
Total	$24,350,000
Ongoing Costs	
Marginal increased rent for new facility for BOE over 20 years	$98,600,000 NPV
Total cost of new construction and operating expenses over 20 years	$318,800,000 NPV
Offset to total cost of new construction and operating expenses over 20 years	$220,200,000 NPV
Unknown Costs	
Lost BOE productivity during move	Unknown dollars
Financial Benefits	
Future possible costs for building remediation	Unknown dollars
Future possible costs for building repairs and maintenance	Unknown dollars
Increased efficiency by centralizing to one location	Unknown dollars
Reduced costs by centralizing to one location	Unknown dollars
Savings in repairs and maintenance for additional locations	Unknown dollars

OPTION TWO: MOVE BOE OUT PERMANENTLY / BACKFILL

One-Time Costs

One-time cost to move BOE	$23,800,000
New tenant improvements and routine maintenance	$39,500,000
Total	$63,300,000

Ongoing Costs

Marginal increased rent for new facility for BOE over 20 years	$98,600,000 NPV
Marginal increased rent for new tenant over 20 years	$17,600,000 NPV
Total marginal increased rent for BOE and new tenant over 20 years	$116,200,000 NPV
Total cost of new construction and operating expenses over 20 years	$318,800,000 NPV
Offset to total cost of new construction and operating expenses over 20 years	$220,200,000 NPV

Unknown Costs

Lost BOE productivity during move	Unknown dollars
Lost productivity during move for other tenant(s)	Unknown dollars
Future possible costs for building remediation	Unknown dollars

Financial Benefits

Increased efficiency for BOE by centralizing to one location	Unknown dollars
Reduced costs for BOE by centralizing to one location	Unknown dollars
Savings in BOE repairs and maintenance for additional locations	Unknown dollars
Increased efficiency for new tenant by centralizing to one location	Unknown dollars
Reduced costs for new tenant by centralizing to one location	Unknown dollars
Savings in new tenant repairs and maintenance for additional locations	Unknown dollars

OPTION THREE: STATUS QUO

One-Time Costs

Costs of renovation	$10,000,000

Ongoing Costs

Increased bond debt service	$1,000,000
Impact of new bond issue to pay off PMIB loan	Unknown dollars
Total	$1,000,000

Unknown Costs

Lost BOE productivity during remediation moves	Unknown dollars
Lost efficiency for BOE being in four to five locations	Unknown dollars
Possible additional remediation issues with building	Unknown dollars
Lost BOE revenues from remediation	Unknown dollars
Lost BOE revenues from inefficiencies of being in four to five locations	Unknown dollars
Lost efficiency for other tenant by not centralizing to one location	Unknown dollars
Increased costs for other tenant by not centralizing to one location	Unknown dollars

Financial Benefits

No need to move for BOE to move to new facility	$23,800,000
No construction or operating expenses for new facility over 20 years	$318,800,000 NPV
No marginal increase in rent for BOE at 450 N Street over 20 years	$98,600,000 NPV
No cost to move other tenant to 450 N Street	$39,500,000
No marginal increase in rent for other tenant over 20 years	$17,600,000 NPV
Future appreciation of 450 N Street building	Unknown dollars

CONCLUSIONS AND RECOMMENDATIONS

Based on the analyses conducted, the following conclusions and recommendations were developed.

Conclusions

The costs to address water intrusion and internal water leak issues at 450 N Street, and the inconveniences and disruption to work flow that may have resulted from ongoing remediation, constitute sunk costs. As such, they are not relevant to the decision as to whether the State should sell the building to a private investor, keep the building with a new tenant, or keep the building with BOE as its tenant. Of specific relevance are costs on the margin that the State will incur under each of the options, and the advantages and disadvantages of each.

State Sells the Building, Moves BOE Out

There is a total of $5.98 million in remediation work remaining to be completed in the next seven months. Of this amount, DGS and BOE indicated their costs were $4.5 million and $1.48 million respectively. The building is also undergoing maintenance as the remediation is taking place. These costs, whether borne by BOE or DGS, ultimately are a cost to the State.

The current appraised value of the building is $92.25 million. The current outstanding PMIB loan with accrued interest is $90.8 million, and DGS estimates the cost to sell the building would be $2 million. Therefore, the State may have to absorb the difference between the net sales price and the loan payoff, estimated at $550,000. If the building is sold, the State would incur the one-time moving costs for BOE of $23.8 million and the marginal rent increase for BOE in its new larger space starting at $3.3 million in the first year and growing to $16.4 million in year twenty, totaling $98.6 million NPV over twenty years. This will relieve the State of trying to finance the outstanding PMIB loan on which the accrued interest keeps growing or to pay the bond debt service obligations on Headquarters. The $98.6 million NPV reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

A sale of the building also would save the State the costs associated with backfilling the building with another State tenant. This totals at least $39.5 million in one-time moving and tenant improvement costs plus ongoing rent increase marginal cost of $1.3 million in year one and growing to $1.6 million in year twenty, and thereby totaling $17.6 million NPV over 20 years. If the building is sold, the State will also free itself of future potential problems associated with a building that has a long history of troubles. And, finally, the State will not incur the ongoing maintenance and repair issues associated with this high-rise building.

According to BOE and DGS, it is anticipated that BOE would need at least four years to move out of the building. While the current real estate market is depressed, it is likely that by the time the State acts to sell the building, the market will have improved considerably and the State will receive a value higher than what the appraisal suggests.

State Retains Building, Moves BOE Out, Backfills with New Tenant

If the building is retained and a State tenant(s) relocates into the building, the State would incur $63.3 million in one-time costs plus marginal rent increases of $98.6 million NPV for BOE and $17.6 million NPV for the new tenant over 20 years. The $63.3 million is the total of one-time moving costs for BOE ($23.8 million) plus the deferred maintenance repairs, tenant improvements, and costs of moving the new tenant into 450 N Street ($39.5 million). The $98.6 million NPV reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

There are, however, substantial benefits associated with such an action. If BOE were to move to a new and larger location, BOE's business needs for more space would be clearly addressed. It could bring greater efficiency and some cost savings resulting from consolidating BOE operations. This is important since BOE is a major revenue producer for the State. Such a move may also serve to address the space and business needs for another State tenant(s) and result in cost savings and efficiencies to that tenant(s) and thereby the State. Given that 44.5% of the space occupied by State government in Sacramento is in privately-owned properties, a relocation of one or more of those tenants into a State-owned property could be advantageous.

State Retains Building, Keeps BOE as Tenant

If the State decides to retain the building and keep BOE as its tenant at 450 N Street, it will avoid the estimated tenant improvements and one-time moving costs of $63.3 million plus the rent increases of $98.6 million NPV for BOE and $17.6 million NPV for new tenant. It will also avoid the additional estimated $550,000 cost differential between the sale of the building and payoff of the PMIB loan. However, the State will need to address the outstanding PMIB loan. A new bond issue to pay off the outstanding PMIB loan is likely to increase ongoing rent for BOE and the cost to the State. The precise amounts and terms are unknown at this time. Furthermore, BOE will be operating from at least four different locations, and likely losing efficiencies and facing disruption to work flow as a result. BOE, and ultimately the State, will continue to incur the costs of inefficiencies of having BOE operate from this many locations.

Overall Recommendations

It is clear that BOE needs a more suitable facility. This is based on the employee growth rate and staffing levels necessary to support Legislatively-mandated programs. BOE now utilizes three annex locations and will be adding a fourth in 2010. BOE should initiate a full analysis of the extent to which it could enhance efficiencies and better serve its mission by consolidating operations into one location. If this analysis in conjunction with either Option One or Two shows a net benefit to the State, it is recommended that BOE move out of 450 N Street permanently and into one location that consolidates its Headquarters operations. BOE and DGS should work together to fully define BOE needs in a way that achieves efficiencies and plan accordingly to move BOE into such a facility.

According to BOE, the following are some examples of the effects of having annex locations:

- BOE mail is received by the Mail Services Unit (MSU) and is distributed by MIC code. Once mail arrives at the destination, it is opened by the respective unit. When checks are found in the mail of annexed BOE locations, special procedures and safeguards must be implemented. The checks must be sent back to BOE Headquarters to the Cashier Section via a special courier, which delays deposits for one to three days. BOE Units receive approximately $7.4 million each month.
- The delivery time of mail has increased as well as that for picking up the mail.
- Staff from the annexed locations is required to attend meetings at 450 N Street, thus losing productive time for traveling.

As to whether the building at 450 N Street should be sold (Option One) or backfilled with another State tenant(s) (Option Two), it is recommended that DGS be directed to determine what would to be the most cost-effective option for the State. The State must make that determination only after considering the potential benefits from the sale of the building as compared with the potential benefits of meeting the needs of other possible State tenants. This would require an analysis of possible State tenants' current lease arrangements and other relevant data which was not made available.

With respect to the questions Legislators asked of BOE:

- *Given current and projected staffing levels and space needs, should BOE remain at 450 N Street?*

    - BOE should move its staff and operations from its current location at 450 N Street and annex locations as soon as suitable new space can be found if by doing so efficiencies to be gained by BOE and/or possibly other State tenants provide a net benefit to the State. It is recognized that a move may take some time, given the size of the staff and the issues associated with moving approximately 3,000 staff and the important role BOE plays in California's economy as a State agency. Staff that is located in the three annex locations should be moved into the new site to consolidate for operating efficiency. An example of such consolidation is the California Franchise Tax Board.

The State should incur the one-time cost of $23.8 million for moving BOE to its new location. After offsetting the current rent expense incurred by BOE in its multiple locations, the marginal increase in rent will be $3.3 million in the year one and grow to $16.4 million in year twenty for a total $98.6 million NPV over 20 years for its suggested new space requirements. This reflects the projected total cost of new construction and operating expenses over a twenty year period using figures provided by DOF to calculate a $318.8 million NPV, offset by $220.2 million NPV of rent for 450 N Street and its multiple annex locations.

- BOE and DGS should engage in discussions regarding what would be the best location and facility format to ensure BOE's operating effectiveness and efficiency

➢ *Should the State continue its ownership of the 450 N Street building, or should it sell the building?*

- The State should direct DGS to study whether it is best to sell the building or backfill it with another State tenant(s). The timing will need to be considered in relationship to how soon BOE could be relocated.

- If the State sells the building, it should be able to pay off most if not all of the loan amounting to $90.80 million through the sale proceeds. If the building is sold at its current estimated value of $92.25 million after remediation, and incurs what DGS estimates to be selling fees of $2.0 million, the State will have to absorb the difference in the loan payoff of $550,000.

- If the State retains the building and backfills it with another State tenant(s), it must be in the best interests of the State to do so. Data to make this assessment was not made available. DGS estimates the ongoing rent marginal cost increase for the new tenant is $1.3 million in the first year and growing to $1.6 million in year twenty to total $17.6 million NPV over 20 years. The State will also incur one time tenant improvement and moving costs of $39.5 million to relocate the new tenant.

APPENDIX A: EXPERTS FOR THIS STUDY

The principal experts/analysts for this study were Dr. Sanjay B. Varshney and Dr. Dennis H. Tootelian. Dr. Varshney is the Dean of the College of Business Administration at California State University, Sacramento. He earned an undergraduate degree in Accounting and Financial Management from Bombay University, a Master's degree in Economics from the University of Cincinnati and a doctorate in Finance from Louisiana State University in Baton Rouge. He also holds the *Chartered Financial Analyst* (CFA) designation. In addition to his finance background, Dr. Varshney has extensive training in statistics, econometrics, and research methodology.

Dr. Dennis H. Tootelian is a Professor of Marketing and Director of the Center for Small Business in the College of Business at California State University, Sacramento. He received his Ph.D. in Marketing from Arizona State University, with minor fields in Accounting and Management. He has published approximately one hundred articles dealing with all facets of business, and has co-authored six texts on marketing and small business management. In addition to his marketing background, Dr. Tootelian has extensive training in accounting, economics, and research methodology.

Assisting Drs. Varshney and Tootelian is Dr. Kerry Vandell. Dr. Vandell is a Professor in the Paul Merage School at University of California, Irvine. He has written or co-authored more than 80 papers which have appeared in such publications as the Journal of Finance, the Quarterly Journal of Economics, Real Estate Economics, the Journal of Real Estate Finance and Economics, and the Wharton Real Estate Review. He is currently a member of the Counselors of Real Estate and the Urban Land Institute and is a past president of the American Real Estate and Urban Economics Association (AREUEA). Prior to obtaining his PhD from MIT at the MIT-Harvard Joint Center for Urban Studies, Professor Vandell received his bachelor's and master's degrees in engineering at Rice University, and a master's in city and regional planning at Harvard University. Dr. Vandell provided recommendations concerning the methodology and reviews of the results of the analyses contained in this study.

Through UEI, Drs. Varshney and Tootelian also retained the services of several outside experts to assist in phases of this study:

- ***Seevers Jordan Ziegenmeyer (SJZ)***: SJZ is a commercial real estate appraisal and consultation firm. Its primary areas of service include the valuation of commercial properties, subdivisions, assessment districts and community facilities districts. It has experience with vacant land, existing buildings, new construction, renovations, and additions and conversions. SJZ's appraisal services range from the most basic properties, such as owner-user office buildings, to complex assignments involving multi-million dollar class-A properties, portfolios and public facilities districts. Its services are performed in accordance with the Uniform Standards of Professional Appraisal Practice, as well as the Appraisal

Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice. SJZ's senior partner, P. Richard Seevers has over 25 years of real estate appraisal and consulting experience, and is a Member of the Appraisal Institute, holding both the MAI and SRA designations specializes in conducting appraisals. Its client base includes financial institutions, government agencies, and developers and investors. SJZ conducted the formal appraisal of the Headquarters.

- ***Grubb & Ellis Company***: Grubb & Ellis Company is one of the largest commercial real estate services and investment companies in the world. Its 6,000 professionals in more than 130 company-owned and affiliate offices draw from its real estate services, practice groups and investment products. Over fifty Northern California specialists in the Sacramento, Roseville, and Stockton offices handle the sale, leasing and management of commercial and industrial properties in the Greater Sacramento Area. The services of Matt Cologna were used in this study. Mr. Cologna is a Senior Vice President with Grubb & Ellis' Sacramento office and facilitates owner/user and investment sales, provides landlord and tenant representation services and handles land assemblage. He has represented clients on a local, regional and national basis. This real estate firm, and specifically Mr. Cologna, was retained to help prepare an overall assessment of the Sacramento commercial marketplace, and to review and comment on various other aspects of this study.

APPENDIX B: SACRAMENTO MARKET OVERVIEW

Presented below are edited excerpts from the Market Area portion of the appraisal report prepared by Seevers Jordan Ziegenmeyer (SJZ). No material changes from the full report were made in this summary. The full report is available from BOE as a separate document (Supplement A).

Sacramento Metropolitan Area Regional Overview

The Sacramento Area is comprised of the six counties of Sacramento, Placer, El Dorado, Yolo, Yuba and Sutter. Located in the north-central part of the State of California, the Sacramento Area has proven to be one of the fastest-growing markets among major metropolitan areas in the United States.

The six-county region encompasses approximately 6,561 square miles, from the Sacramento River Delta in the west to the Sierra Nevada mountain range in the east. At the center of the region is Sacramento County, which encompasses approximately 996 square miles near the middle of the Central Valley.

The region has relatively stable seismic conditions, especially compared to the San Francisco Bay Area and Southern California. Sacramento and adjoining cities rank among the lowest in the State for the probability of a major earthquake. Most of the region is not located within an Alquist-Priolo Earthquake Fault Zone. Yolo County is the only county with an Earthquake Fault Zone, located in a small portion of the northwest part of the county known as Jericho Valley. The Dunnigan Hills fault, located 19 miles northwest of the City of Sacramento, is the closest known active fault mapped by the California Division of Mines and Geology. The closest branches of the seismically active San Andreas Fault system are the Antioch fault (42 miles southwest) and the Green Valley/Concord fault (45 miles southwest).

Population

The Sacramento Area is among the fastest-growing metropolitan areas in the United States, with growth of 20% between 1990 and 2000. The following table shows recent population growth in the six-county region.

POPULATION TRENDS							
County	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**%/Yr**
Sacramento	1,345,646	1,368,333	1,386,185	1,402,728	1,418,763	1,433,187	1.3%
Placer	296,735	307,987	318,026	326,107	333,766	339,577	2.9%
El Dorado	169,926	172,987	175,530	177,379	178,860	180,185	1.2%
Yolo	185,266	188,207	191,072	194,864	198,326	200,709	1.7%
Yuba	65,122	67,165	69,260	70,555	71,803	72,900	2.4%
Sutter	86,407	88,762	91,316	93,687	95,306	96,554	2.3%
Total	**2,149,102**	**2,193,441**	**2,231,389**	**2,265,320**	**2,296,824**	**2,323,112**	**1.6%**

Source: California Department of Finance

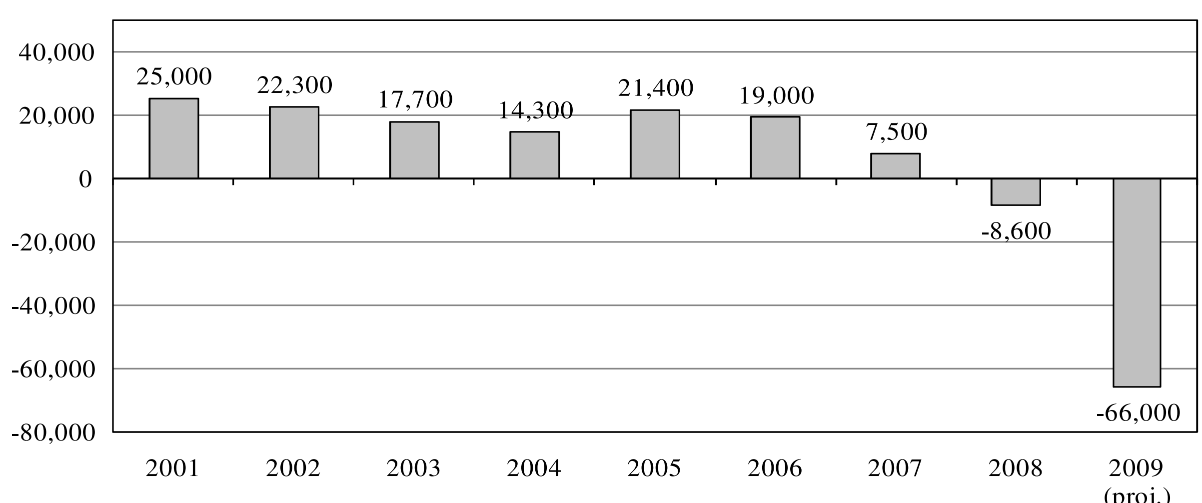
The region's population grew at an average annual rate of 1.6% between 2004 and 2009. Placer County led the region with growth of 2.9% per year. Most of this growth occurred in the cities of Roseville, Rocklin and Lincoln. Much of the region's growth is attributed to in-migration of residents from other areas of California and the United States.

The population in the region is expected to continue growing. According to the California Department of Finance, the population in the Sacramento Area is projected to increase to about 3 million people by 2020. The region's growth is expected to outpace the growth of nearly all other metropolitan areas in California, as well as the State as a whole.

Employment Growth

Historically, the Sacramento Area has been one of the more stable employment centers in California, with a significant number of jobs in State government. However, employment has declined over the past couple of years in both the private and public sectors. The following chart exhibits annual employment changes in the region over the past several years.

EMPLOYMENT GROWTH - SIX-COUNTY REGION



Source: California Employment Development Department

Job growth in the region was relatively steady in the years 2001 through 2006, with slower growth seen in 2007. In 2008 and 2009, the region experienced a net loss in the number of jobs. The current weak performance is being driven by declines in housing-related sectors (e.g., construction, finance and insurance), retail trade and State government. Nearly every major sector, with the exception of educational and health services, saw a reduction in jobs in 2009.

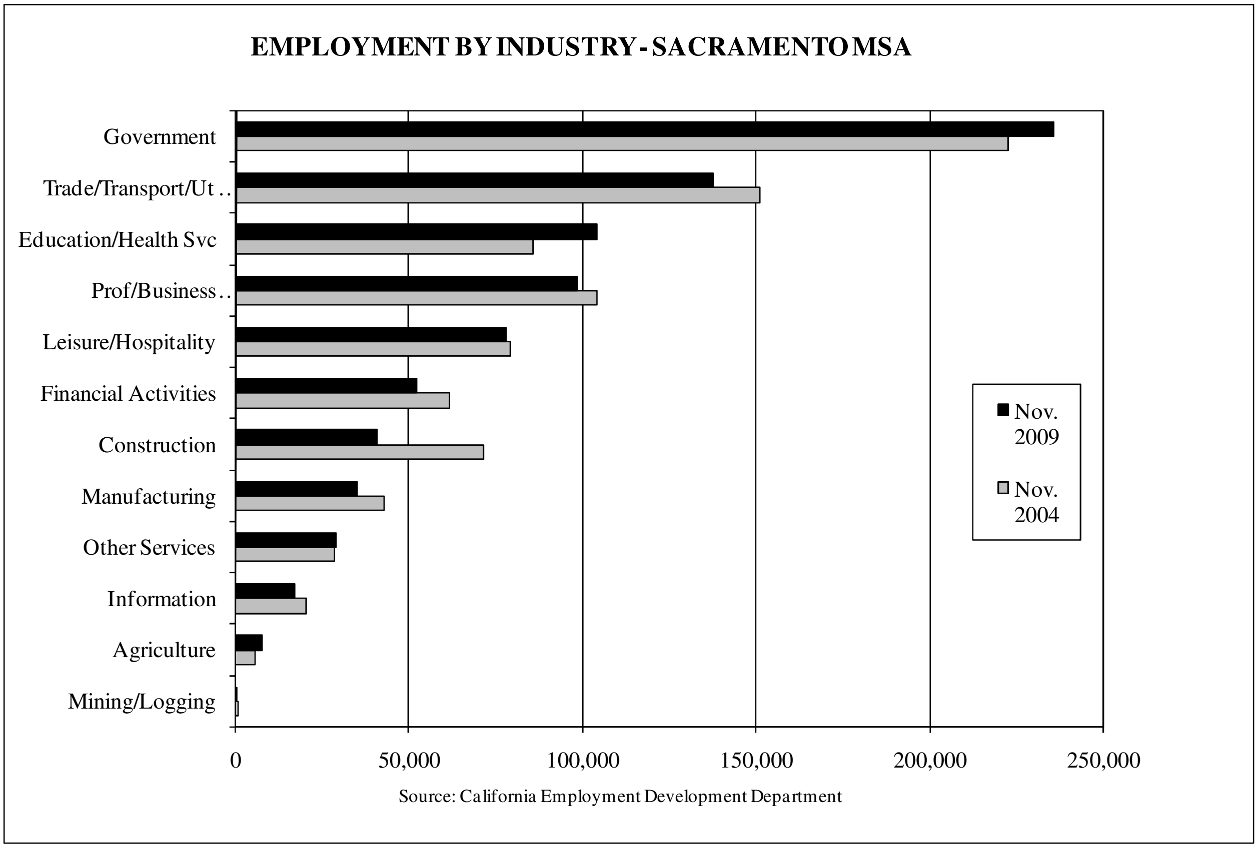
The unemployment rate in the six-county Sacramento region was 12.8% in November 2009, compared to 12.3% for the State of California and 10.0% for the nation. Most areas within the State and nation, including Sacramento, saw rising unemployment rates in 2001 and 2002, stabilization in 2003, declines in 2004 through 2006, and increases in 2007 through 2009. Sutter and Yuba Counties have relatively high unemployment rates of 19.4% and 17.9%, respectively.

The Center for Strategic Economic Research publishes the Sacramento Region Business Forecast on a quarterly basis. The forecast for Third Quarter 2009 predicts the six-county region's rate of job losses will begin to improve over the next twelve months. The Center forecasts total job loss of about 39,000 jobs for the twelve months ending in September 2010. However, "the recovery back to positive growth on a consistent basis will likely be lengthy," according to the forecast.

Employment by Industry

The local economy has transitioned from a government and agricultural center to a more diverse economy, where the business services and trade sectors comprise nearly half of regional employment. Growing industries in the region include healthcare, technology, clean energy and life sciences. In 2005, Sacramento was one of the few places considered for a statewide stem cell research center. The region is also a western hub for data processing, customer call centers and other corporate back office support activities.

The following chart compares the region's employment by industry in 2004 and 2009. During this five-year period, only a few sectors showed positive job growth: agriculture (+32.8%), educational and health services (+21.6%), government (+5.9%) and other services (+1.1%). The largest decline was in construction, with a 42.6% decline in employment.



Government continues to be a significant employer in the Sacramento region. In fact, government entities, including universities and school districts, account for about 28% of total employment in the region, down only slightly from 30% in 1990. The largest government employers are the State of California and Sacramento County. The region's largest non-government employers are listed in the following table.

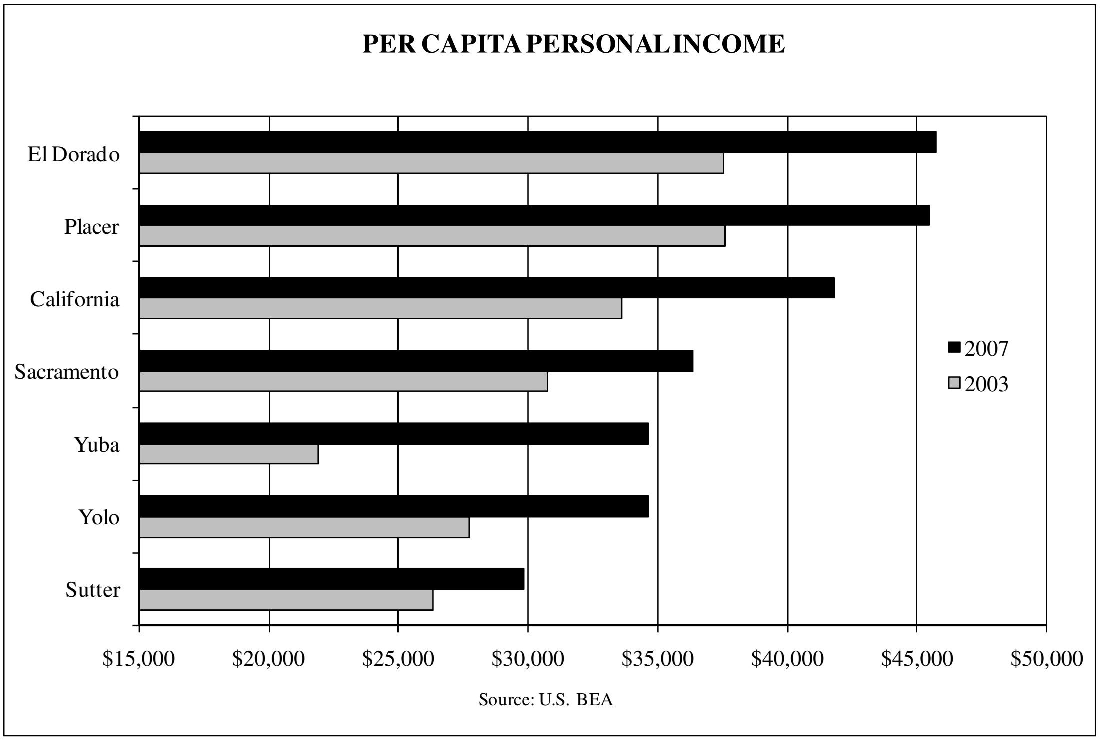
TOP 10 PRIVATE EMPLOYERS

Company	Industry	Year Est. in Area	Employees
Kaiser Permanente	Healthcare	1965	10,081
Mercy/Catholic Healthcare West	Healthcare	1896	8,279
Sutter Health Sacramento Sierra	Healthcare	1923	7,314
Intel Corp.	Semiconductors	1984	6,000
Wells Fargo & Co.	Financial Services	1852	3,690
Raley's	Retail grocery	1935	3,401
PRIDE Industries	Manuf. and logistics	1966	2,841
Health Net of California	Healthcare	1978	2,512
Cache Creek Casino Resort	Casino resort	1985	2,460
Hewlett-Packard Co.	Computer hardware	1979	2,000-3,000

Source: Sacramento Business Journal, Book of Lists 2009

Personal Income

The following chart shows per capita personal income trends by county for the six counties within the Sacramento region, as well as the State of California. Year 2007 data is the most recent available as of early 2010.



As indicated in the chart above, El Dorado and Placer Counties exhibit the highest personal income levels in the region. This is attributed in part to the large degree of high-tech employment in those areas, and a significant amount of in-migration of high-income households from the Bay Area. Personal incomes in these counties trail those in only four other counties in the State: Marin, San Mateo, Contra Costa and Santa Clara. Sutter and Yuba Counties have the lowest incomes in the Sacramento region, primarily due to significant agricultural employment.

Transportation

Traffic congestion has intensified throughout the region in recent years along with population growth and the development of new suburban communities. Funding has been a challenge on both the State and Federal levels; however, several projects are proposed in the coming years. One major project completed in 2005 involved improving and reconfiguring the Douglas Boulevard/Sunrise Avenue interchange on Interstate 80 in Roseville. Another project in the planning pipeline is the 15-mile Placer Parkway, which would provide a new east-west route between State Highway 99/70 in Sutter County and State Highway 65 in Roseville. A bypass of State Highway 65 around the city of Lincoln is also planned.

The main public transit system in the Sacramento Area is operated by Sacramento Regional Transit (RT), with additional service provided by other local public and private transit operators. Regional Transit covers a 418-square mile service area that is serviced by 258 buses and 76 light rail vehicles, transporting over 27 million passengers annually. Light Rail began operation in 1987 along a two-pronged route linking Downtown Sacramento with populous suburbs to the east and north. In 2003 and 2004, RT completed extensions to the Meadowview area in South Sacramento and Sunrise Boulevard in Rancho Cordova to the east. In 2005, an eastward extension to the city of Folsom was completed. This route added seven new light rail stations and four park-and-ride lots, providing a viable transportation alternative for commuters on the Highway 50 corridor. During the next 20 years, RT plans to extend toward Elk Grove to the south, Natomas and the Sacramento International Airport to the north, Roseville to the east and Davis to the west.

Summary

Between 2004 and 2006, the local economy expanded with large gains in the housing market and relatively strong job growth. However, the housing market began a rapid decline in late 2005, and most sectors of the commercial real estate market began to deteriorate in 2007. Like most metropolitan areas in the State and nation, the Sacramento region has been severely affected by the recent recession and financial crisis. Job losses were significant in 2009 and the region's unemployment rate was estimated at 12.8% at the end of the year. Employment is expected to decline further in 2010, although the rate of decline is expected to slow.

Neighborhood Overview

This section of the report provides an analysis of the observable data that indicate patterns of growth, structure and/or change that may enhance or detract from property values. For the purpose of this analysis, a neighborhood is defined as "a group of complementary land uses; a congruous grouping of inhabitants, buildings or business enterprises."[2]

Neighborhood Boundaries

The boundaries of a neighborhood identify the physical area that influences the value of the subject property. These boundaries may coincide with observable changes in prevailing land use or occupant characteristics. Physical features such as the type of development, street patterns, terrain, vegetation and parcel size tend to identify neighborhoods. Roadways, waterways and changing elevations can also create neighborhood boundaries.

[2] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 133.

The subject property is located in the Central Business District (CBD) of the City of Sacramento. This area, which encompasses about seven square miles, is bounded by the American River to the north, the Capital City Freeway to the east, Broadway to the south and the Sacramento River to the west.

Demographics

The population in the 95814 zip code is 10,121 persons, with a median age of approximately 41 years. Over the past few years, this area's population has transitioned into primarily single persons, with less than 20% of the residents in the area currently being married. There are approximately 1.4 persons per household, which is much lower compared to suburban areas, where the average household size is typically between 2 and 3 persons. The average household income in the subject's neighborhood is $36,066. Of the 6,445 housing units in the neighborhood, approximately 5.4% are owner-occupied, 79.0% are renter-occupied and the remainder is vacant.

Transportation

The neighborhood has good access to all the major freeways serving the Sacramento Metropolitan Area. The Capital City Freeway borders the CBD on the east, Interstate 5 on the west, and Business 80/U.S. Highway 50 on the south. Within the neighborhood, the major surface streets are Highway 160, 15th Street, 16th Street, J Street, H Street, L Street and Capitol Mall.

The CBD is served by Sacramento Regional Transit (RT) bus and light rail systems. Light Rail links Downtown Sacramento with populous suburbs to the north, east and south. The main light rail route is located on K Street, between 7th and 12th Streets. In addition to public transit, a Greyhound bus station is located on L Street, between 7th and 8th Streets, and an Amtrak train station is located at I Street and Interstate 5.

Land Uses

Land uses within the CBD include office, retail, single- and multifamily residential, lodging, some service/light industrial, and community uses. Adjacent uses include office development to the north, south and east, and multifamily residential development to the west. The neighborhood is home to the State Capitol and numerous mid- and high-rise office buildings that are occupied by government agencies and private businesses. The Sacramento Convention Center is located northeast of the subject property, at J Street and 15th Street. The table presented below summarizes some of the land use characteristics of the subject neighborhood.

Neighborhood Life Cycle Stage	Stability
Real Estate Cycle	Recession
Land Uses	Residential/Office/Retail
Predominate Land Use	Office/Retail
Age Range of R/E Improvements	0-100 years
General Quality & Condition of Improvements	Average
Percentage Developed (approximate)	95%
Infrastructure / Land Planning	Good

Office Development

The addition of several new high-rise office buildings has substantially changed the Sacramento skyline over the past two decades, such as the recently constructed building at 500 Capitol Mall (Bank of the West Building) and the U.S. Bank Tower at 621 Capitol Mall. Other developments of note include Meridian Plaza (240,000 square feet), the State's East End project, Wells Fargo Center (493,000 SF), One Capitol Mall (210,000 square feet), and the Renaissance Tower (325,000 square feet). Renaissance Tower was built in 1989, and the Wells Fargo Center was constructed in 1992. Meridian Plaza represents a relatively new significant Class-A office development in Downtown Sacramento. This twelve-story project is located across from Capitol Park and has attracted many law firm and lobbyist tenants.

Meridian Plaza complements the State of California's East End project, which is situated between N and L Streets, east of 15th Street. This project includes five buildings encompassing about 1.5 million square feet of office space. The East End Project was undertaken to consolidate the Headquarters of the Departments of Health Services and Education, which in the past occupied several facilities located throughout Sacramento. The project's capacity is approximately 6,000 employees and totals 1.47 million gross square feet (1.18 million usable square feet). The buildings range from four to seven stories.

Other projects include the Sacramento County Courthouse at the southwest corner of 5th and H Streets, adjacent to the Federal Courthouse. The City of Sacramento's City Hall was completed in 2005, as was an expansion of the CalPERS Headquarters on R Street.

Community Uses

Notable community uses in the Downtown area include State Capitol Park, containing the California Vietnam Veterans Memorial; the Sacramento Convention Center; and the Sacramento Memorial Auditorium. The Convention Center was renovated and expanded a few years ago, and now hosts trade shows, business conferences and other events on a regular basis.

Popular tourist attractions in the CBD include Old Sacramento, the State Capitol, Sutter's Fort, the Railroad Museum, Crocker Art Museum, and the Historic Governor's Mansion. Old Sacramento is situated just west of Interstate 5 from the Downtown area, and is recognized nationally as being one of the most successful restoration projects in the country. This 28-block area is a National Registered Historic Landmark and has been recreated by restoring or reconstructing historical buildings on their original sites. The area is home to restaurants, retail shops, bars/night clubs, some offices, and the Railroad Museum.

Other community uses in the neighborhood include schools, churches, hospitals and recreational and cultural facilities. At the east end of the CBD are Sutter General Hospital and Sutter Cancer Center. Further east of the neighborhood, in Midtown Sacramento, are Sutter Memorial Hospital and Mercy General Hospital. The UC Davis Medical Center is located southeast of the neighborhood near Stockton Boulevard and Broadway.

Retail Development

The main retail development in the neighborhood is Westfield Downtown Plaza, a two-story, multi-tenant shopping mall with over 1,200 subterranean parking spaces. The mall is anchored by two Macy's department stores and Century Theatres. Several restaurants are situated in and around the mall, including Morton's Steakhouse.

The K Street corridor between 7th and 13th Streets represents an outdoor mall with several shops and restaurants. The Downtown area has seen several new restaurants and nightclubs open in recent years, including P.F. Chang's, Mikuni, Lucca Bar & Grill, Hukilau, Zocalo, Empire Club, and Icon. A new Safeway retail center was completed at 19th and R Streets. Additional retail development is scattered throughout the neighborhood, with many shops along J and K Streets.

Residential Development

Most existing residences in Downtown Sacramento are multi-family units. Regarding single-family residential development, it was reported that only 5.4% of all single-family homes are owner-occupied. Thus, the majority of downtown residents are renters. Most residential properties in the neighborhood were built more than 20 years ago, with many historic properties built in the early 20th century.

Several new housing projects have been developed in the Downtown area in recent years. The central city housing surge can be traced back to 1998 when Metro Square was developed by Regis Homes in midtown Sacramento; the 45-home project sold out in one week. In 2003, the first phase of the East End Lofts was completed at 16th and J Streets. This project includes ground-floor restaurants and lofts on the top floors. Additionally, several loft-style and condo projects were completed between 2004 and 2006.

However, some projects are being delayed or withdrawn due to escalating construction costs and a slowdown in the regional housing market. The Towers at Capitol Mall condominium project, construction on which began and was subsequently halted, has been taken over by CIM & CalPERS.

With regard to recent residential construction in the Downtown market area, 312 housing units for sale and rentals were completed in 2008, with 355 units under construction.

It is estimated that 16,402 housing units, both rental and for sale, are proposed for the Downtown area. Some of these projects have been in the planning stage for some time and are not expected to come online until after 2011. The most significant portion of this estimate is 11,085 units proposed for the Railyards project, which is expected to be completed by 2022. It is expected 1,700 housing units will come online by 2011.

The current trend of new construction and renovation projects in Downtown Sacramento is helping to create an attractive business environment for the public and private sectors, as well as an alluring housing submarket for new residents. Many market participants describe the current market as a "renaissance" due to the number and type of projects under way and proposed.

Conclusion

In summary, the subject property is located in the Central Business District of Sacramento. The neighborhood represents an established neighborhood that is mostly built-out with a mix of commercial and residential development, with supporting community uses. Over the past decade all property types experienced an increase in demand due to the strengthening national and local economies.

This trend has subsided due to the recent economic recession fueled by housing and the credit market downturns. A new trend has emerged involving new residential development and conversion of warehouses to multi-family housing. The growth and redevelopment projects taking place are positive attributes for the area.

However, declining macroeconomic conditions, as well as contracting conditions in the residential real estate market have resulted in a number of projects being delayed or cancelled. The neighborhood balance of uses and current activity indicate long-term growth and future property appreciation. For the short-term, however, market trends are projected to be contracting through at least the next twelve months.

Office Market Overview

The Sacramento office market experienced contraction in the years 2008 and 2009 as high unemployment and tight credit conditions were coupled with a large inventory of new office buildings. These factors contributed to a regional vacancy rate in the range of about 15-16% throughout 2009. In the fourth quarter vacancy was 15.8%, compared to 15.9% in the previous quarter and 14.1% a year prior.

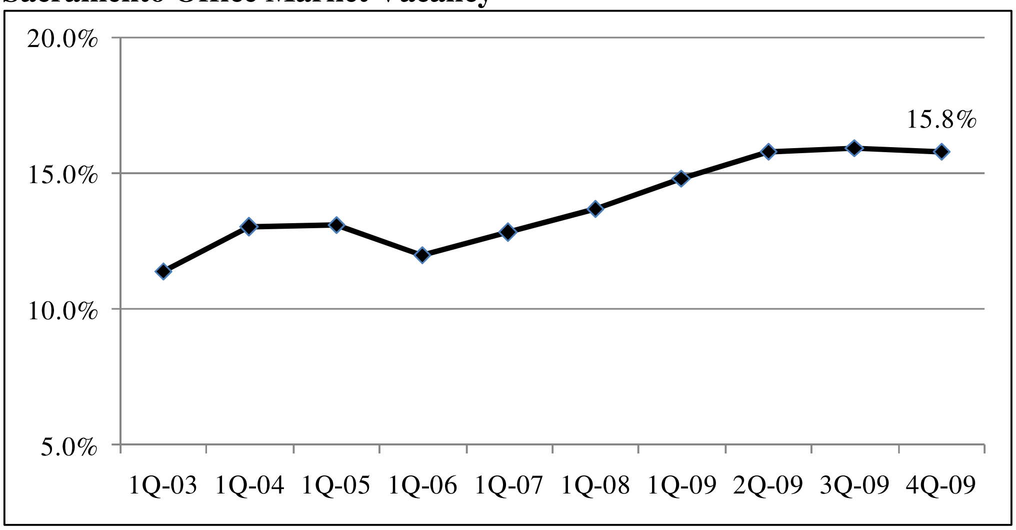
Net absorption in the region was slightly positive at 122,380 square feet during the fourth quarter, after net absorption had been negative for the four previous quarters. In 2009 the strongest absorption levels were seen in the submarkets of Downtown and Folsom, while most other suburban areas showed a net loss of occupied space over the year. The data presented here is based on quarterly surveys published by Colliers International, which tracks all buildings over 5,000 square feet except government-owned properties.

Many housing-related sectors have experienced severe job losses over the past couple years, including construction, financing, insurance and other related industries. These losses have been somewhat tempered by employment in healthcare, education and government. However, there are many uncertainties regarding future government employment due to the State's budget difficulties. The State, which represents the largest regional user of office space by far, has already implemented staff reductions and furloughs, and it is possible more significant layoffs could be necessary in the coming years.

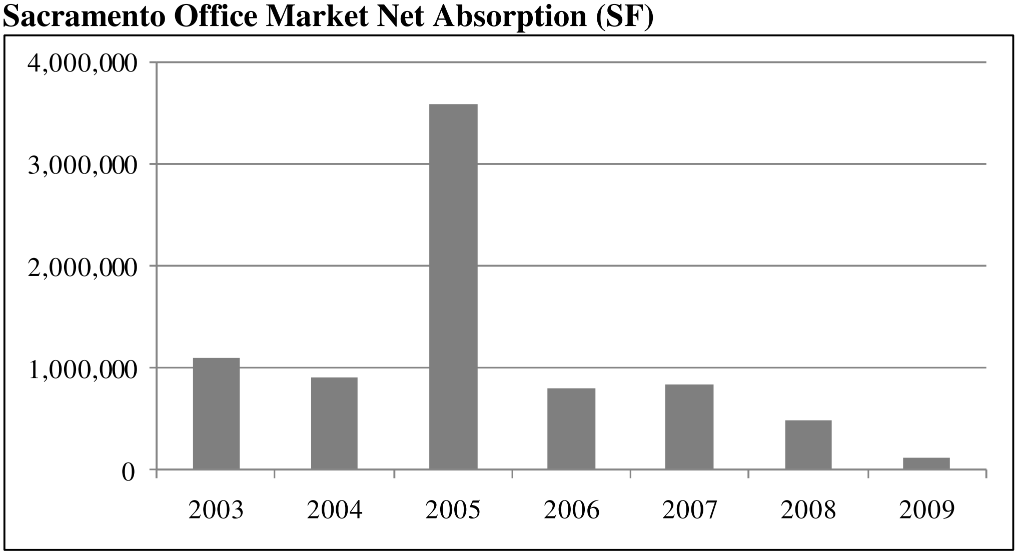
Vacancy & Absorption

The following charts summarize vacancy and net absorption in the region over the past several years.

Sacramento Office Market Vacancy



Sacramento Office Market Net Absorption (SF)



Office vacancy in the region rose from 2000 through 2004, declined in 2005, and has been rising for about four years. In terms of annual net absorption, 2005 was a very strong year, while most other years in the recent past have seen relatively consistent net absorption in the range of about 500,000 to 1.1 million square feet per year. However, a sharp decline was seen in the year 2009 when net absorption was barely positive at 123,343 square feet.

Roseville/Rocklin led the region in net absorption in the years 2005 and 2006. However, absorption levels dropped considerably in this submarket in 2007-2009 as market demand dropped.

In the fourth quarter of 2009, net absorption in the region was slightly positive at 122,380 square feet, after net absorption had been negative for the four previous quarters. Most of the region's submarkets had slightly positive net absorption in the fourth quarter, while Roseville/Rocklin's net figure was slightly negative.

The following table shows recent vacancy and absorption by submarket and also by class/quality.

Submarket	Total Inventory (Million SF)	3Q 2009 Vacancy Rate	4Q 2009 Vacancy Rate	Year 2009 Net Absorption
Suburban Areas				
Roseville/Rocklin	11.1	25.8%	26.6%	(121,909)
Highway 50 Corridor	16.0	16.2%	15.5%	(420,359)
Folsom	4.6	15.9%	14.6%	91,342
South Natomas	3.5	24.4%	23.5%	(30,675)
Other Suburban	35.5	15.8%	16.1%	34,389
Suburban Subtotal	70.6	17.9%	17.9%	(447,212)
Downtown	18.5	8.2%	7.8%	570,555
Market Total	**89.1**	**15.9%**	**15.8%**	**123,343**
Class A	25.2	18.3%	18.9%	296,427
Class B	38.6	17.9%	17.5%	(220,257)
Class C	25.3	10.4%	10.2%	47,173
Market Total	**89.1**	**15.9%**	**15.8%**	**123,343**

Office vacancy is particularly high in Roseville/Rocklin, South Natomas and Elk Grove, all of which represent areas that experienced significant new construction during the boom years of roughly 2002 through 2006. Colliers does not report vacancy figures for Elk Grove, but according to surveys by other local brokerages, the office vacancy rate in this submarket is estimated to be over 30%.

Lease Rates

For most types of buildings and locations, rental rates for new leases have been declining in recent quarters. According to surveys by Colliers International, the average asking lease rate for office space in the region was about $1.92 per square foot per month in the fourth quarter of 2009, down from $1.94 in the previous quarter and $2.04 in the fourth quarter of 2008. While asking rates have fallen slightly, effective rental rates have been falling to a greater degree as property owners have been offering longer periods of free rent and higher tenant improvement allowances. Many brokers report that free rent of one month for each year of the lease term is typical (e.g., five months free for a five-year lease). Another trend is towards shorter lease terms of less than five years.

New Construction

In 2009, about 1.9 million square feet of new office space was added to the region's inventory. Previously in the year 2008, new deliveries totaled about 1.5 million square feet. As of the fourth quarter of 2009, about 530,000 square feet of new space was under construction.

Submarket Analysis

In order to analyze the office market in the subject's area, SJZ utilized demographic information provided by Site to Do Business (STDB), as well as market surveys published by Colliers International. In addition, it analyzed data provided by CoStar Property, a commercial real estate information service, in order to specifically examine existing office properties in proximity to the subject property.

Demand for office space typically follows growth in population and/or employment. The Sacramento Metropolitan Statistical Area (MSA) has experienced stable population growth in recent years. During the five-year period of 2004 to 2009, the MSA's population grew from 2,149,102 to 2,323,112 persons, which translates into a growth rate of 1.6% per year. During the same time period, the population in the City of Sacramento grew by 1.3% per year.

The subject property's neighborhood is mostly built-out, with limited undeveloped land available to support future growth. However, the suburban areas outside of the Central Business District are continuing to grow, albeit at a significantly slower pace relative the expansionary period experienced in the early 2000s.

There are multiple active subdivisions located in master planned communities throughout Sacramento, Natomas, and West Sacramento. Combined, these areas are expected to account for the bulk of new residents in relative proximity to the subject. However, as the primary employment center for the region, workers in the CBD reside in several other surrounding counties, including Placer, El Dorado, Yolo, Yuba and Sutter Counties.

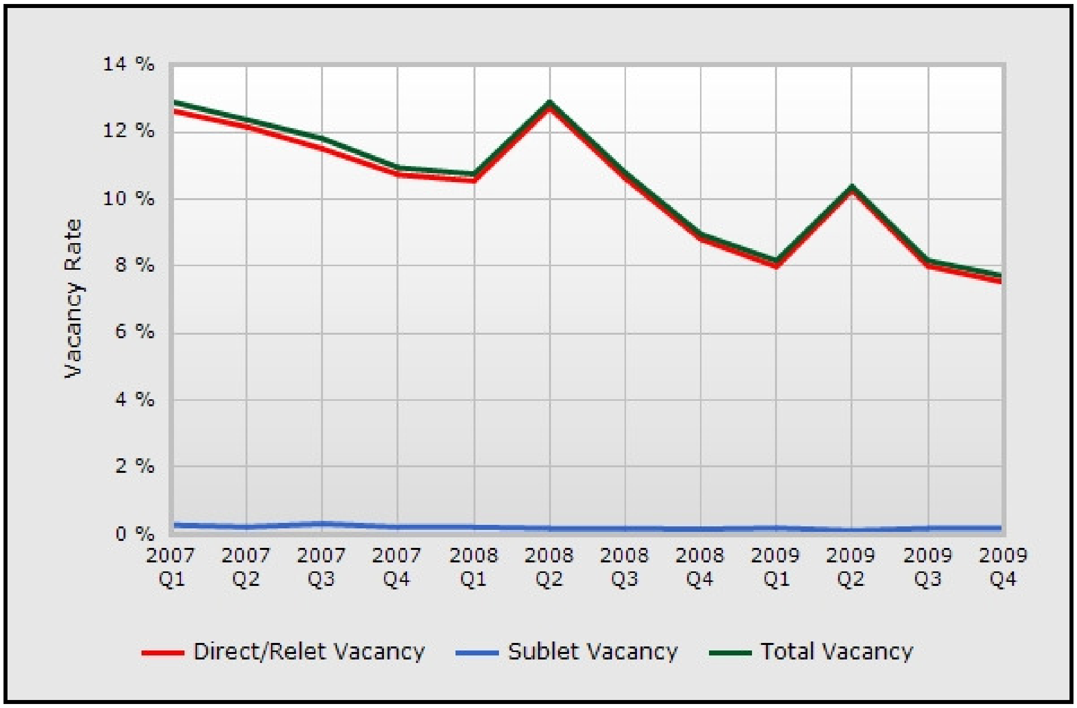
While population growth remains positive in the subject's market area, employment conditions are not as encouraging. Regionally, job growth has been negative in the Sacramento area in recent quarters and the unemployment rate has been rising. According to the California Employment Development Department, total employment in the four-county region (i.e., El Dorado, Placer, Sacramento and Yolo) fell by 42,300 jobs, or -4.8%, in 2009. Unemployment in the four-county region neared 13% last year. The City of Sacramento had a slightly higher unemployment rate of 13.3% during the same period, and job growth is declining.

Overall, demand for office space has declined in the Sacramento region in the past couple years. While some businesses have closed or downsized their office space usage, others (e.g., medical/dental office users and government offices) have opened new offices and expanded. SJZ spoke with office broker Tom Bacci of Grubb & Ellis, who indicated that sale transactions are still very scarce, but that office leasing activity has grown in the past few months, albeit at significantly lower rental rates when compared to the expansionary period during the earlier part of this decade.

According to Colliers International, the overall office vacancy rate in the Downtown submarket was approximately 7.8% for the fourth quarter of 2009, which is significantly lower than the overall office vacancy rate of 15.8% for the Sacramento region according to Colliers International.

With respect to absorption, the submarket experienced a positive net absorption of 571,555 square feet. Comparatively, numerous submarkets experienced negative net absorption as corporations have been downsizing or going out of business altogether. Overall, the submarket's lower-than-average vacancy rate and positive absorption numbers indicate that demand remains stable for office properties in the subject's immediate area.

In addition to examining the market surveys published by Colliers International, SJZ searched CoStar Property for existing office properties within the Downtown submarket containing between 50,000 and 600,000 square feet of rentable area. This search revealed 74 properties with a total rentable area of 14,005,188 square feet. As reported by CoStar Property, these projects exhibit a vacancy rate of 7.9%, and vacancy has been on a general downward trend in the past two years. The following chart details the vacancy rate for office properties in the Downtown submarket since 2007.



The numbers indicated by CoStar Property are consistent with the figures reported by Colliers International. The following broker survey details the state of the office sector in the region.

- Yvette DeGuero – Cemo Commercial: There is substantial competition for tenants, especially as the market has softened. Owners have reduced rental rates over the past year in an effort to achieve stabilized occupancy at their projects. Additionally, landlords are giving concessions to attract tenants, which further decrease effective rental rates. It is not uncommon for prospective tenants to hire brokers to represent them in order to obtain the most competitive rental rate.

- Ed Benoit – TRI Commercial: Land sales have gone silent over the past twelve to eighteen months for commercial parcels. There is no market for land in the current market except for users and bottom feeding investors willing to hold the land for a number of years. It would take deep discounts from historical pricing to get an investor interested.

- Thomas Walcott – Grubb and Ellis: Properties are experiencing increasing vacancies, and owners are more willing to give concessions. Renegotiations are not uncommon, even if the leases are not nearing expiration. Finding sales comparables today is very difficult, with most comparables being dated. The lack of available credit is adversely affecting investors' ability to close transactions.

- Randy Getz – CB Richard Ellis: While the vacancy rate in the Sacramento CBD is lower than other submarkets, leasing activity for new tenants remains tepid. Buyers are generally separated into two segments: those looking to buy distressed or REO properties with good value-added potential, and those looking to purchase properties with institutional tenants having long-term, secure leases. Capitalization rates are difficult to determine in the current market due to the limited amount of recent sales. Mr. Getz has properties listed with capitalization rates between 6.50% and 7.00% for buildings with long-term tenants in place. The majority of users demanding space of 50,000 square feet and greater typically constitute government entities.

The general consensus among brokers is that business owners are in "hunker down" mode, and lack confidence in the current business environment to expand their businesses or take on additional debt. The market has slowed as owner-users are having difficulty obtaining financing, and many businesses in housing-related services have been largely unsuccessful in recent periods.

However, the subject's location in the Sacramento CBD mitigates some of the risk associated with office properties in the current market. Office properties in the CBD are experiencing comparatively higher occupancy rates due to their location proximate to the State Capitol and the number of government and government-related agencies in the area. Future growth in the local market will be dependent on employment in the region and the State budget. If the budget worsens and layoffs are implemented for State and county workers, this would have a disproportionately adverse impact on office properties in the subject's immediate area.

Overall, the subject's Downtown location remains the most stable office submarket in the Sacramento region. However, like all of the submarkets in the region, activity has slowed over recent years and price points have declined due to worsening macroeconomic conditions. Additionally, brokers have reported properties are taking longer to lease up and landlords are offering longer free rent periods in order to finalize lease agreements. Fluctuations in the vacancy rate and absorption are expected in the short term. However, due to the desirability of the Downtown office market, improved performance is expected in the long term.

Looking Ahead

Over the course of the next year, most market participants expect the office market to continue contracting as more job losses are expected in the region. While demand is falling, supply will continue to increase as projects under construction come online. As a result, vacancy will likely increase, net absorption for 2010 is expected to be negative, and asking rental rates are projected to decline further.

Significant concessions such as free rent and tenant improvement allowances will continue to be necessary to attract new tenants. The high-growth suburban submarkets will continue to see high vacancy due to their large amount of new construction over the recent past. In particular, vacancy is expected to remain very high in the areas of Roseville/Rocklin, Natomas and Elk Grove.

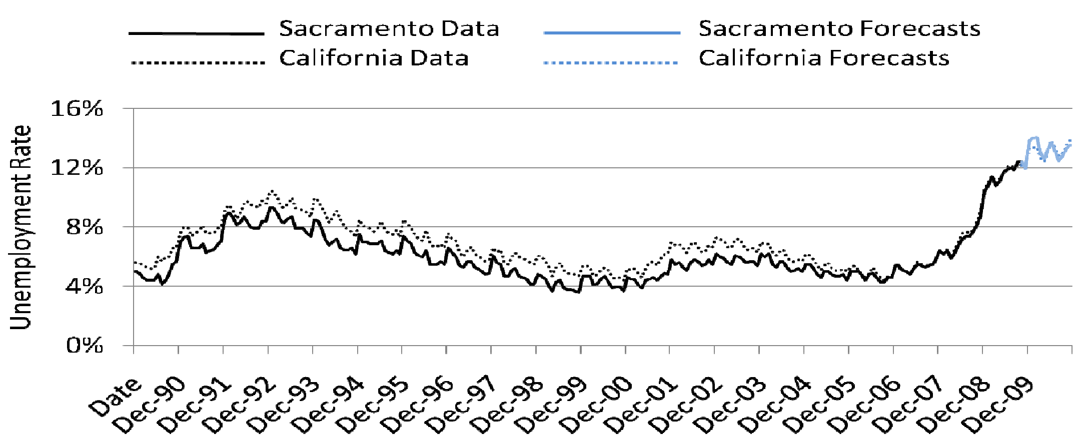
For much of the past year, there has been speculation among market participants that a wave of foreclosures among commercial properties would be coming much as it had in the residential sector. However, SJZ now sees signs that the commercial markets may not see an abrupt wave of foreclosures and plummeting values, but rather a much longer and slower correction. This is because of "pretend and extend" practices, an increase in note sales, the return of the commercial mortgage backed-securities market, and an increase in refinancing and loan workouts. Some troubled assets are likely to return to the marketplace, but on a more limited and gradual basis than was once expected. While commercial real estate values may see further declines, they should not be as significant as those already seen from 2007 through 2009.

Concluding Comments on Key Sacramento Trends

Presented below are concluding comments of Drs. Varshney and Tootelian relative to unemployment and the office commercial market in the Sacramento Region. These are taken in part from the Sacramento Business Review[3], the most comprehensive economic analysis for the Sacramento region. It is important to note that the Sacramento Business Review is produced jointly by the CSUS College of Business Administration and the Chartered Financial Analysts (CFA) Society of Sacramento.

Sacramento Unemployment

As of November 2009, the unemployment rate for the Sacramento region has steadily climbed to 12.4% with a loss of nearly 83,000 wage and salary jobs since June 2007 and a loss of 43,800 jobs over the last twelve months. This is shown in the chart below.



Furthermore, it is estimated that the "real" unemployment rate is closer to 20% because some of those who are unemployed have left the job market. Sacramento and the State of California were hit particularly hard by the downturn due to the high real estate exposure and State budget issues, and although economists have already declared the official end

[3] Sacramento Business Review, January 2010, Volume 2, Issue 1.

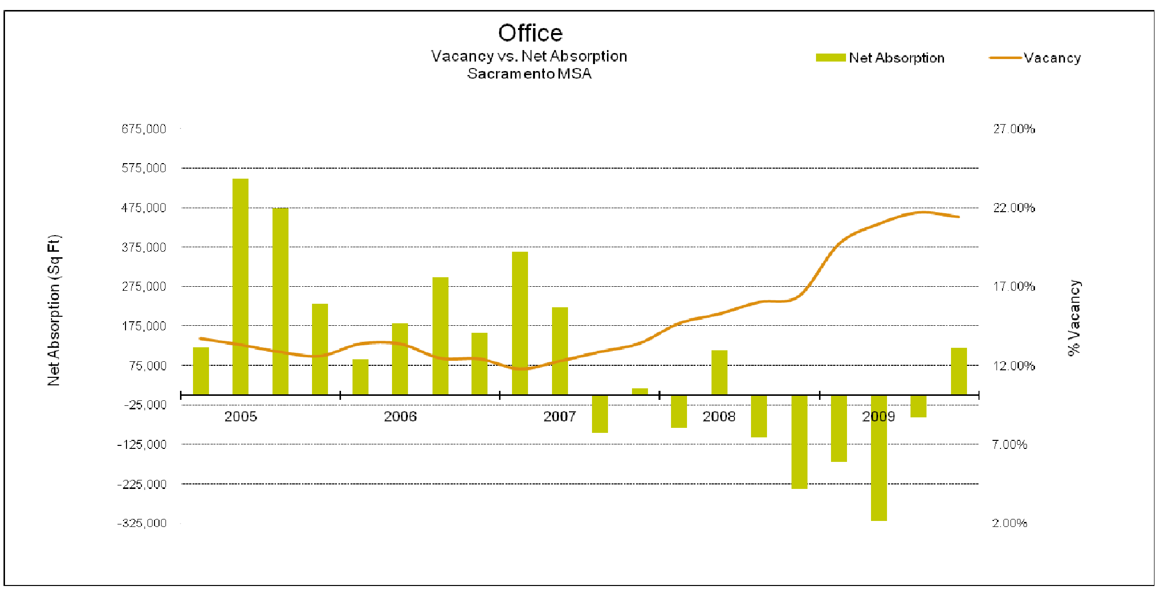
of the national recession, it is believed that the Sacramento region will lag behind the rest of the country in the recovery.

Given the magnitude of the job losses, it is not expected that the number of jobs in Sacramento will return to pre-recession peak levels until at least 2013. Businesses, and especially small and medium-sized firms that are so prevalent in the Sacramento Region, will be very cautious in increasing their costs through hiring. This will lead to what many believe will be a prolonged U-shaped recovery for employment. Several formidable headwinds will slow this local economic and employment expansion, including moderate corporate growth expectations, tight credit, excess capacity, an underemployment overhang, and consumers still looking to deleverage and rebuild wealth.

Office Market Vacancy and Rents

With the continued contraction in regional employment, the Sacramento office market experienced many casualties in 2009. A few major developer/owners filed bankruptcy and a large locally based developer underwent a significant layoff.

As shown in the chart below, regional vacancy jumped roughly 5% and remained over 20% for most of the year, ending at 21.4%. This is significant because it is the first time the average vacancy rate exceeded 20%. Projects that broke ground before the severity of the economic downturn was known contributed to the problem, bringing 1.5 million square feet of new office space, 1.2 million of which remains vacant. Submarkets hit the hardest include Elk Grove and Roseville/Rocklin, with vacancy rates of 39% and 34% respectively. By comparison, the downtown Class A market remains relatively healthy with a vacancy rate of less than 13%, despite the additions of two major buildings on Capitol Mall in 2008 and 2009



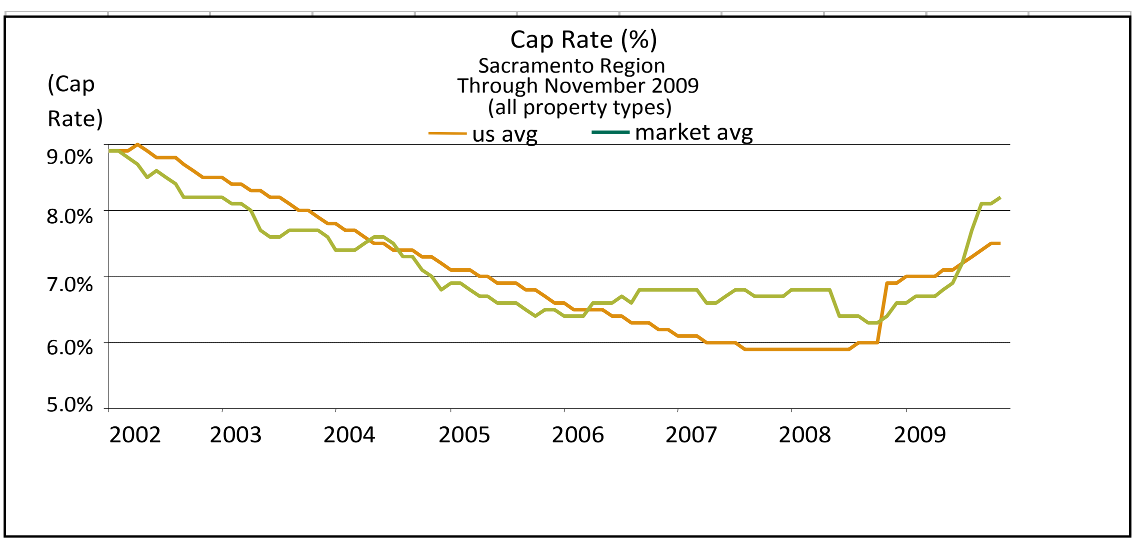
Although asking lease rates experienced only a small drop in 2009, effective rents which take into account concessions fell much more significantly. This is shown in the chart below. Concessions included free rent of as much as eighteen months on a five-year lease in some cases, generous tenant improvement packages, and favorable non-economic terms such as "right to cancel early clauses" and "expansion/contraction rights".

Vacancy Rate vs. Asking Lease Rates | Sacramento MSA

Source: CBRE

Although no increase in demand is anticipated, the lack of any real new construction and a moderating pace of job losses should allow vacancy to remain relatively flat. Effective rental rates also will stay relatively flat, although with a continued downward bias. Aggressive incentive packages will continue to be abundant, particularly for the most desirable tenants.

Finally, the capitalization rates for all types of property are shown below. As is evident, they have risen dramatically since the latter part of 2008, with the Sacramento Region exceeding that of the average for the United States.



APPENDIX C: CURRENT BOE COST STATISTICS

20-Year Lease on Build-to-Suit Facility	Rental Cost at Proposed New Location*	Escalation	Existing Rent at Annex Locations	Escalation	Current Rent Charged for 450 N Street**		Net Rental Cost Increase (B-(F+D))
Year	**Millions of $s**	**1.04**	**Millions of $s**	**1.01**	**Millions of $s**		**Millions of $s**
1	18.3		4.5		10.5		3.3
2	19.0		4.7		10.6		3.7
3	19.8		4.9		10.7		4.2
4	20.6		5.1		10.8		4.7
5	21.4		5.3		10.9		5.2
6	22.3		5.5		11.0		5.8
7	23.2		5.7		11.1		6.3
8	24.1		5.9		11.3		6.9
9	25.0		6.2		11.4		7.5
10	26.0		6.4		11.5		8.2
11	27.1		6.7		11.6		8.8
12	28.2		6.9		11.7		9.5
13	29.3		7.2		11.8		10.3
14	30.5		7.5		11.9		11.0
15	31.7		7.8		12.1		11.8
16	33.0		8.1		12.2		12.7
17	34.3		8.4		12.3		13.5
18	35.6		8.8		12.4		14.4
19	37.1		9.1		12.6		15.4
20	38.6		9.5		12.7		16.4

*This was used to estimate the cost of new construction plus the operating costs of a new BOE facility.
**The current rent charged for 450 N Street includes the projected debt service of the PWB issued bonds to reimburse the outstanding PMIB loan.

Discount Rate	5.00%
Net Present Value over 20 years (millions of $s)	$98.6
Nominal Cash Value over 20 years(millions of $s)	$179.7
Net Present Value of new construction and operating expenses over 20 years (millions of $s)	$318.8
Net Present Value of current rent 450 N Street and annex locations (millions of $)	$220.2

Total with Add in Moving Costs
$122.4
$203.5

Cost to Move BOE Staff (millions of $s)	$23.8

20 Year Lease For New Tenant	Marginal Rent Increase ($ mill)	Escalation
Year	**Millions of $s**	**1.01**
1	1.3	
2	1.3	
3	1.3	
4	1.3	
5	1.4	
6	1.4	
7	1.4	
8	1.4	
9	1.4	
10	1.4	
11	1.4	
12	1.5	
13	1.5	
14	1.5	
15	1.5	
16	1.5	
17	1.5	
18	1.5	
19	1.6	
20	1.6	

Discount Rate	5.00%
Net Present Value over 20 years (millions of $s)	$17.6
Nominal Cash Value over 20 years (millions of $s)	$28.6

Total with Add in Moving Costs
$57.1
$68.1

Cost to Move New Tenant (millions of $s)	$39.5

SUPPLEMENT A: SEEVERS JORDAN ZIEGENMEYER REPORT (SEPARATE DOCUMENT)

Self-Contained Appraisal Report

Board of Equalization Building

450 N Street
APN: 006-0193-030
Along the south line of N Street,
East of 4th Street and west of 5th Street
Sacramento, California 95814

Date of Report: April 1, 2010

Prepared For:

University Enterprises, Inc.
c/o Mr. Sanjay Varshney, PhD –
CFA, Dean College of Business Administration
1010 Tahoe Hall
California State University, Sacramento
6000 J Street
Sacramento, California 95819

Prepared By:

P. Richard Seevers, MAI
Nelson M. Wong, Appraiser

SJZ Seevers Jordan Ziegenmeyer
Real Estate Appraisal & Consultation

April 1, 2010

University Enterprises, Inc.
c/o Mr. Sanjay Varshney, PhD –
CFA, Dean College of Business Administration
1010 Tahoe Hall
California State University, Sacramento
6000 J Street
Sacramento, California 95819

RE: 450 N Street
APN: 006-0193-030
Along the south line of N Street, east of 4th Street and west of 5th Street
Sacramento, California 95814

Dear Mr. Varshney:

At your request and authorization, Seevers • Jordan • Ziegenmeyer has prepared a Self-Contained Appraisal Report pertaining to the fee simple interest in the above referenced property. This report is written in conformance with the requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP).

The subject property represents a high-rise Class A professional office building located at 450 N Street, within the city of Sacramento, California. Specifically, the subject is located along the south line of N Street, east of 4th Street and west of 5th Street. The building contains 449,138± square feet of rentable area and is situated within the confines of a single assessor's parcel identified as 006-0193-030, which encompasses 2.50± acres of land area. Additionally, there is a three-story parking structure on the south side of the property with 711 spaces. The building is 100% owner-occupied by the California State Board of Equalization (BOE), a state agency that collects sales and use tax, as well as fuel, alcohol, and tobacco taxes and fees that provide revenue for state government, counties, cities, and special districts. The BOE has occupied the property since 1993 and employs just over 2,400 workers in the building, excluding field employees.

Over the past several years, the property has had issues with water leaks, burst-pipe floods, and window failures, all of which lead to mold spreading throughout the building. Additionally, the building is in need of maintenance, repair and renovation in order to comply with current building codes. The remediation/renovation project is underway and is expected to be completed by February 2011, with elevator repair to be completed by April 2012. A more detailed description of the subject property and related market area characteristics is contained within the attached report.

The appraiser is not an expert in the field of determining the impact of stigma that might be associated with the subject property due to the existence of mold and the extensive remediation project that is required. An estimate of loss in value due to stigma is not included in the scope of our analysis. Any stigma associated with the property would adversely affect the conclusions of value contained herein, the degree of which is unknown.

We have been requested to estimate the prospective market value of the subject property upon completion of remediation/renovation, as well as the prospective market values of the subject property as of two separate dates of value upon completion of specific phases of the remediation/renovation project. Finally, we developed an opinion of market value for the subject as of the date of inspection (March 15, 2010). As a result of our analysis, our opinions of value for the subject property, in accordance with the definitions, certifications, assumptions and limiting conditions set forth in the attached document, are as follows:

Value Estimate*	Date of Value	Conclusion
Prospective Market Value Upon Completion of Remediation/Renovation	April 1, 2012	$92,250,000
Market Value as of the Date of Inspection	March 15, 2010	$63,800,000
Prospective Market Value Upon Completion of Remediation/Renovation, By Phase		
Phase 1	June 30, 2010	$72,800,000
Phase 2	December 31, 2010	$88,200,000

* The estimates of value are without regard to stigma (if any). Additionally, the value estimates take into consideration the fact that the subject is operating at stabilized occupancy.

The subject property is operating at stabilized occupancy; thus, deductions for lease-up costs were not applied. However, if the Board of Equalization vacated the building and the subject property was marketed without a tenant in place, this would result in a reduction in value in order to account for required lease-up costs (rent loss, concessions, tenant improvements, commissions, and entrepreneurial incentive).

The appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date(s) of prospective market value. Under the prospective condition, a future value estimate is based on market conditions as of the date of inspection. Additionally, the estimates of market value assume a transfer would reflect a cash transaction or terms considered to be equivalent to cash. The estimates are premised on an assumed sale after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, for their own self interest and assuming neither is under duress.

We hereby certify the property has been inspected and we have impartially considered all data collected in the investigation. Further, we have no past, present or anticipated future interest in the property.

This letter must remain attached to the report, which contains 103 pages, plus related exhibits and Addenda, in order for the value opinion contained herein to be considered valid.

The subject property does not have any significant natural, cultural, recreational or scientific value. The appraisers certify this appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan.

This appraisal has been performed in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP), as well as the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

Thank you for the opportunity to work with your office on this assignment.

Sincerely,

P. Richard Seevers, MAI
State Certification No.: AG001723
Expires: August 12, 2010

Nelson M. Wong, Appraiser
State Certification No.: AG034862
Expires: August 12, 2010

/djm

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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

Appraised Property:	Class A high-rise office building
Street Address:	450 N Street Sacramento, California 95814
Location:	Along the south line of N Street, east of 4th Street and west of 5th Street, within the city of Sacramento, California
Assessor's Parcel Number(s):	006-0193-030
Census Tract Number:	8.00/1
Owner(s) of Record:	State of California
Zoning:	C-3: Central Business District – Special Planning District
Flood Zone:	Zone X500 – Areas of 500-year flood; areas of 100-year flood with average depths of less than one foot or with drainage areas less than one square mile; areas protected by levees from 100-year flood; and areas inundated by 0.2% annual chance flooding.
Earthquake Zone:	Zone 3 – Moderate Seismic Activity (not located in a Fault-Rupture Hazard Zone)
Land Area:	2.50±acres (108,900± square feet)
Building Area:	
Gross	602,519± square feet
Rentable	449,138± square feet
Floor Area Ratio:	4.12 (based on the rentable area in relation to the land area)
Exposure Time:	12 months
Current Use:	Office development
Highest and Best Use:	Completion of the remediation/renovation project as planned and continuation of existing use.
Date of Inspection:	March 15, 2010
Date of Report:	April 1, 2010

Property Rights Appraised: Fee simple interest

Conclusions of Market Value: The value conclusions are subject to the *General and Extraordinary Assumptions, Limiting Conditions, Significant Factors* and *Hypothetical Conditions* contained within this report.

Value Estimate*	Date of Value	Conclusion
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INTRODUCTION

Property Description and History

The subject property represents a high-rise Class A professional office building located at 450 N Street, within the city of Sacramento, California. Specifically, the subject is located along the south line of N Street, east of 4th Street and west of 5th Street, in the Central Business District (CBD). The improvements contain 449,138± square feet of rentable area, and the building is 24 stories in height. The following tables detail the breakdown of rentable area by floor. It is noted that Floors 12 and 13 are used for mechanical rooms and the building's HVAC system (not included as rentable area).

Floor	Rentable Area (SF)
Floor 1	35,088
Floor 2	20,138
Floor 3	19,367
Floor 4	19,852
Floor 5	19,244
Floor 6	19,728
Floor 7	21,520
Floor 8	21,346
Floor 9	21,531
Floor 10	19,703
Floor 11	19,941

Floor	Rentable Area (SF)
Floor 14	20,056
Floor 15	22,138
Floor 16	20,896
Floor 17	20,153
Floor 18	20,346
Floor 19	20,293
Floor 20	20,495
Floor 21	20,394
Floor 22	20,554
Floor 23	12,983
Floor 24	13,372
Total	449,138

Reportedly constructed in 1991, the improvements consist of steel beam and column framing construction over a precast concrete pile foundation. The floor structure is comprised of composite metal decking at all floors. The roof was not inspected but was reported to be of an elastomeric coated membrane assembly that returns to a precast concrete panel (helicopter landing pad). The exterior of the building consists of a glass curtain wall with aluminum framing, in addition to precast concrete panels. There is a three-story parking structure that is part of the property, with a five inch seismic separation from the office tower. This parking structure contains 711 spaces and was constructed in 1963. The garage consists of steel reinforced precast concrete shear walls on a reinforced concrete foundation. In order to accommodate the office tower that was subsequently constructed, the garage was modified and renovated in 1990.

Interior build out of the office building consists of a combination of commercial grade carpet, ceramic tile, and vinyl tile flooring; acoustic panel and finished ceilings; recessed fluorescent, incandescent and affixed lighting fixtures; aluminum-framed windows; central HVAC; and common area restrooms. It is our opinion the building represents good quality construction and is expected to be in good condition upon completion of the remediation/renovation project, with an effective age of 15 years and an estimated remaining economic life estimated at 30-35 years. Please refer to the Improvement Description section of this report for a more information regarding the building layout and construction details.

The improvements are situated within the confines of a single assessor's parcel identified as 006-0193-030, which encompasses 2.50± acres of land area. The building is 100% owner-occupied by the California State Board of Equalization (BOE), a state agency that collects sales and use tax, as well as fuel, alcohol, and tobacco taxes and fees that provide revenue for state government, counties, cities, and special districts. The BOE has reportedly occupied the property since 1993 and employs just over 2,400 workers in the building, excluding field employees. The various departments and divisions for the employees are presented in the following table.

Department	Division	No. of Employees
Administration	Administrative/Admin	5
	Administrative Suppport	97
	Financial Management	191
	Human Resources	73
	Information Security Office	6
Central	Central	5
Executive	Board Proceedings	28
	Executive Office	3
	Internal Security and Audit	24
	Legistlative and Research	23
	Taxpayers Rights/EEO	17
Executive - TSD	Technology and Services Division	237
Executive Board Members	Board Members Office - 1st District	6
	Board Members Office - 2nd District	0
	Board Members Office - 3rd District	3
	Board Members Office - 4th District	7
	State Controller	1
External Affairs	Communications Office	7
	Customer Service and Publishing	79
	Executive Office and Strategic Analysis and Review	4
	Exteral Affairs Division	2
	Media and Web Service	7
	Outreach Services	11
Legal	Investigation Division	28
	Legal Division	129
	Special Procedures	93
Property Taxes	County Assessed Properties	69
	Property and Special Taxes Administration	11
	State Assessed Properties	53
	Timber Tax	12
Special Taxes	Environmental Fees	119
	Excise Taxes	114
	Fuel Taxes Division	196
Sales and Use Tax	Collections	157
	Headquarters Operation Division	161
	Return Analysis and Allocation	289
	Sales and Use Tax Administration	28
	Tax Policy Division	119
	Total	**2,414**

Over the past several years, the property has had issues with water leaks, burst-pipe floods, and window failures, all of which has lead to mold spreading throughout the building. A building assessment study was prepared by LaCroix Davis, LLC on February 25, 2009 that found evidence of visible mold growth in the fire sprinkler cabinets, janitor rooms, storage rooms, restrooms, and each of the building floors tested. A remediation project is underway to remove the mold. Additionally, the building is in need of maintenance, repair and renovation in order to comply with current building code. The following bullet points summarize the issues associated with the building, based on an infrastructure study prepared by Stantec Architecture, Inc. and dated May 19, 2009. The appraiser is not an expert in the field of determining deficiencies in construction and code requirements; it is assumed the findings presented by Stantec are accurate.

- Elevators: While still in operation, employees within the building have experienced several elevator cars suddenly dropping a few feet or more. Additionally, building management has reported problems with elevators malfunctioning and having to be shut down. A modernization project will be performed by ThyssenKrupp. This project is scheduled to begin in April 2010 and will take up to two years to complete.

- Parking Garage: The garage was evaluated to determine any deficiencies in the structural lateral force resisting system. Stantec reported several non-compliant items including the bracing of the mechanical mezzanines, the first and second story shear walls, and uplift at the pile caps.

- Electrical: There are non-compliant code items such as limited access to the main electrical room, lack of panic hardware in the electrical room of the parking garage, transformer grounding, and lack of dedicated circuits for printers in the work areas. Additionally, the emergency light fixtures require replacement.

- Fire Alarm: The fire alarm system is nearly 20 years old and is reaching the end of its service life. Replacement is recommended.

- Mechanical: The HVAC system is experiencing corrosion at the chilled water coils and cooling tower discharges. A rebalance of the mechanical systems is recommended.

- Fire Protection: Several rooms within the building have a Halon fire suppression system. This is reportedly an older system that is outdated according to current code.

- Americans with Disabilities Act (ADA) Compliance: There are several accessibility issues on the first floor that do not comply with ADA standards. These issues primarily relate to access points that are not level or have slopes and cross-slopes that exceed ADA requirements.

- Hazardous Materials: During the building inspection, Stantec discovered hydraulic oil and diesel fuel leaks that should be corrected.

The remediation/renovation project is underway and is expected to be completed by February 2011, with elevator repair to be completed by April 2012. According to the latest figures posted by the BOE, the costs incurred thus far for mold remediation, exterior curtain wall maintenance, and interior tenant improvements (carpet and paint) equate to $32,006,670. The remaining mold remediation costs and additional costs associated with building maintenance, repair and renovation are projected at $25,885,793. The following table details the expended and projected remediation and renovation costs by category, as reported by the BOE:

REMEDIATION AND MODERNIZATION COSTS	
Expended Costs	
DGS Remediation to Date	$10,500,000
BOE Remediation FY 2007-2009	5,762,512
Curtain Wall Project	15,500,000
Carpet and Paint	244,158
Total Costs to Date	**$32,006,670**
Projected Remaining Costs	
DGS Remediation Costs	$7,269,570
BOE Remediation Costs FY 2009-2011	3,754,700
Carpet and Paint Remediation	2,532,023
Stantec Repairs Hard Costs	7,829,500
Stantec Repairs Estimated Soft Costs	2,200,000
Elevator Modernization	2,100,000
Elevator Infrastructure	200,000
Total Remaining Costs	**$25,885,793**

Examining the rentable area of the building in relation to the total land area, the floor area ratio (FAR) of the subject property is approximately 4.12. Parking is available via the aforementioned parking garage, in addition to metered street parking. Landscaping is minimal and consists of limited lawn, shrubs and trees around the perimeter of the property. Land uses in the immediate area consist primarily of office and residential development.

According to public records, the subject property has not been involved in any transactions within the previous three years. Furthermore, to the best of our knowledge, it is not currently being marketed for sale.

Type and Definition of Value

The purpose of this appraisal is to estimate the prospective market value of the subject property upon completion of remediation/renovation, the prospective market values of the subject property as of two separate dates of value upon completion of specific phases of the remediation/renovation project, and the market value for the subject as of the date of inspection (March 15, 2010). The estimates of value are without regard to stigma. Market value is defined as follows:

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

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of 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.[1]

Client, Intended User and Intended Use of the Appraisal

The client and intended user of this appraisal report is University Enterprises, Inc. – Research Administration and Contract Administration. It is our understanding the appraisal report is intended for use in assisting the client in evaluating alternatives relative to the remediation and/or sale of the property.

Property Rights Appraised

The value estimates derived herein are for the fee simple interest, defined as follows:

***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.[2]

The rights appraised are also subject to the *Extraordinary Assumptions, General Assumptions, Limiting Conditions*, *Significant Factors* and *Hypothetical Conditions* contained in this report, as well as any exceptions, encroachments, easements and rights-of-way recorded.

Appraisal Report Format

This report documents a Self-Contained Appraisal Report, intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP).

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[1] Code of Federal Regulations, Title 12, Section 34.42 (55 Federal Register 34696, Aug. 24, 1990; as amended at 57 Federal Register 12202, Apr. 9, 1992; 59 Federal Register 29499, June 7, 1994).
[2] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 78.

Dates of Inspection, Value and Report

An inspection of the subject property was completed on March 15, 2010, which represents the effective date of as-is market value. The prospective market value upon completion of remediation/renovation is April 2012. We have also been requested to provide estimates of prospective market value as of June 30, 2010 and December 31, 2010. This appraisal report was completed and assembled on March 30, 2010.

Scope of Work

The appraisal report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP). This analysis is intended to be an "appraisal assignment," as defined by USPAP; the intention is the appraisal service be performed in such a manner that the result of the analysis, opinions or conclusions be that of a disinterested third party.

We researched and documented several legal and physical aspects of the subject property. A physical inspection of the property was completed and serves as the basis for the site and improvement descriptions contained in this report. Interviews were conducted with Rosa Hernandez and Vincent Paul regarding the property history and current occupancy. The sales history was verified by consulting public records. We contacted the City of Sacramento Planning Department regarding zoning and entitlements. The subject's earthquake zone, flood zone and utilities were verified with applicable public agencies. Property tax information for the current tax year was obtained from the Sacramento County Treasurer-Tax Collector's Office.

We analyzed and documented data relating to the subject's neighborhood and surrounding market areas. This information was obtained through personal inspections of portions of the neighborhood and market areas, newspaper articles, real estate conferences and interviews with various market participants, including property owners, property managers, brokers, developers and local government agencies.

In this appraisal, we determined the highest and best use of the subject property as though vacant and as improved, based on the four standard tests (legal permissibility, physical possibility, financial feasibility and maximum productivity). In addition, we estimated a reasonable exposure time associated with the market value estimates.

We began the valuation by employing two of the three traditional approaches to value – the sales comparison and income capitalization approaches – to estimate the prospective market value of the subject property upon completion of remediation/renovation. The conclusions reached through these approaches were then reconciled into a final opinion of prospective market value by taking into account the strengths and weaknesses of both approaches. From this estimate of prospective market value, we deducted the estimated remediation/renovation costs to develop an opinion of market value for the subject as of the date of inspection. At the client's request, we also estimated the prospective market values of the subject as of two separate dates during the remediation/renovation process by deducting the remaining costs as of the specified dates. The projected remaining costs were provided by the BOE and are assumed to be accurate. It is noted that an estimate of loss in value due to stigma is not included in the scope of our analysis.

The cost approach was not considered reliable to produce a credible estimate of value. Market participants (buyers, sellers, brokers, etc.) put little, if any, reliance on the cost approach when assessing properties that are not of new or proposed construction. They typically rely more heavily on the sales comparison and income capitalization approaches. Due to the significant and ongoing contraction in the market, many improved properties are selling for less than replacement cost in the current market environment. As a result, the application of the cost approach would likely require a substantial deduction for external obsolescence associated with declining market conditions. Additionally, the improvements have accrued some physical depreciation as they were constructed nearly 20 years ago. Based on these factors, the cost approach was not considered relevant in the valuation of the subject property.

The individuals involved in the preparation of this appraisal include P. Richard Seevers, MAI; and Nelson Wong, Appraiser. Mr. Wong inspected the subject; collected and confirmed data related to the subject, comparables and the neighborhood/market area; analyzed market data; and prepared a draft report with preliminary estimates of value. Mr. Seevers inspected the subject property, offered professional guidance and instruction, reviewed the draft report, and made necessary revisions.

EXTRAORDINARY ASSUMPTIONS, SIGNIFICANT FACTORS AND HYPOTHETICAL CONDITIONS

The valuation is premised on the following extraordinary assumptions, significant factors and hypothetical conditions, the use of which may affect assignment results.

Extraordinary Assumptions and Significant Factors

1. Given the irregular shape and multiple floors within the building, we relied on information provided by the current occupant (BOE) to determine rentable area. If, at some future date, the rentable area of the building is reported to be different than that referenced in this appraisal, this could affect our conclusion(s) of value. Due to the complexity of the subject's layout/floor plan, the client is highly advised to obtain an expert in the field to verify the rentable area.

2. The appraiser is not an expert in the field of determining the impact of stigma that might be associated with the subject property due to the existence of mold and the extensive remediation project that is required. An estimate of loss in value due to stigma is not included in the scope of our analysis. Any stigma associated with the property would adversely affect the conclusions of value contained herein, the degree of which is unknown.

3. The prospective value opinions have future effective dates of value. The appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date(s) of prospective market value.

4. We have been provided remediation/renovation cost projections for the subject property. Any significant variations from the cost projections used in this analysis would have an impact on the values concluded in this report. If, at some future date, the actual remediation/renovation costs are reported to be different from the projected costs utilized in our analysis, this could affect the value opinion(s) contained herein.

5. It is assumed the building assessment prepared by LaCroix Davis, LLC and the infrastructure studies prepared by Stantec Architecture, Inc. are accurate and complete. If additional remediation/renovation work is required beyond that identified in the assessment and infrastructure reports, this would adversely impact value.

6. The subject property is operating at stabilized occupancy; thus, deductions for lease-up costs were not applied. However, if the Board of Equalization vacated the building and the subject property was marketed without a tenant in place, this would result in a reduction in value in order to account for required lease-up costs (rent loss, concessions, tenant improvements, commissions, and entrepreneurial incentive).

Hypothetical Conditions

(None)

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.

2. No responsibility is assumed for matters of law or legal interpretation.

3. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.

4. The information and data furnished by others in preparation of this report is believed to be reliable, but no warranty is given for its accuracy.

5. It is assumed there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.

6. It is assumed 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.

7. It is assumed the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in the appraisal report.

8. It is assumed 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 estimate contained in this report is based.

9. It is assumed the use of the land and improvements is confined within the boundaries or property lines of the property described and there is no encroachment or trespass unless noted in the report.

10. Unless otherwise stated in this report, the existence of hazardous materials, 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 and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user of this report is urged to retain an expert in this field, if desired.

11. The Americans with Disabilities Act (ADA) became effective January 26, 1992. I (we) have not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. Since compliance matches each owner's financial ability with the cost-to cure the property's potential physical characteristics,

the real estate appraiser cannot comment on compliance with ADA. A brief summary of the subject's physical aspects is included in this report. It in no way suggests ADA compliance by the current owner. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost-to-cure any deficiencies would be needed for the Department of Justice to determine compliance.

12. The appraisal is to be considered in its entirety and use of only a portion thereof will render the appraisal invalid.

13. Possession of this report or a copy thereof does not carry with it the right of publication nor may it be used for any purpose by anyone other than the client without the previous written consent of Seevers • Jordan • Ziegenmeyer.

14. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or any other media without the prior written consent and approval of Seevers • Jordan • Ziegenmeyer.

15. The liability of Seevers • Jordan • Ziegenmeyer and its employees/subcontractors for errors/ omissions, if any, in this work is limited to the amount of its compensation for the work performed in this assignment.

16. Acceptance and/or use of the appraisal report constitutes acceptance of all assumptions and limiting conditions stated in this report.

17. An inspection of the subject property revealed no apparent adverse easements, encroachments or other conditions, which currently impact the subject. However, the exact locations of typical roadway and utility easements, or any additional easements, which would be referenced in a preliminary title report, were not provided to the appraiser. The appraiser is not a surveyor nor qualified to determine the exact location of easements. It is assumed typical easements do not have an impact on the opinion (s) of value as provided in this report. If, at some future date, these easements are determined to have a detrimental impact on value, the appraiser reserves the right to amend the opinion (s) of value.

18. This appraisal report is prepared for the exclusive use of the appraiser's client. No third parties are authorized to rely upon this report without the express consent of the appraiser.

19. The appraiser is not qualified to determine the existence of mold, the cause of mold, the type of mold or whether mold might pose any risk to the property or its inhabitants. Additional inspection by a qualified professional is recommended.

CERTIFICATION STATEMENT

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

- The statements of fact contained in this report are true and correct;
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions, and conclusions;
- 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;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- I have not performed any service with respect to the subject property during the three years prior to the date of value noted in this report;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results;
- 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;
- I have made an inspection of the property that is the subject of this report;
- Nelson M. Wong, Appraiser, also inspected the subject property and provided significant real property appraisal assistance in the preparation of this report. This assistance included the collection and confirmation of data, and the analysis necessary to prepare a draft report with a preliminary estimate of value;
- 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 & Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practices;
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
- I certify that my State of California general real estate appraiser license has never been revoked, suspended, cancelled, or restricted;
- I have the knowledge and experience to complete this appraisal assignment and have appraised similar properties in the past. Please see the Qualifications of Appraiser portion of the Addenda to this report for additional information.
- As of the date of this report, I, P. Richard Seevers, MAI, have completed the requirements under the continuing education program of the Appraisal Institute.

P. Richard Seevers

P. Richard Seevers, MAI
State Certification No.: AG001723 (Expires: August 12, 2010)

April 1, 2010
DATE

CERTIFICATION STATEMENT

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

- The statements of fact contained in this report are true and correct;
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions and conclusions;
- 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;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- I have not performed any service with respect to the subject property during the three years prior to the date of value noted in this report;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results;
- 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;
- I have made an inspection of the property that is the subject of this report;
- 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 & Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practices;
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
- I certify that my State of California general real estate appraiser certificate has never been revoked, suspended, cancelled or restricted;
- I have the knowledge and experience to complete this appraisal assignment and have appraised similar properties in the past. Please see the Qualifications of Appraiser portion of the Addenda to this report for additional information.

Nelson M. Wong, Appraiser
State Certification No.: AG034862 (Expires: August 12, 2010)

April 1, 2010
DATE

MACROECONOMIC OVERVIEW

Introduction

Over the past year, an already weakened U.S. economy continued to contract, though there are some signs of stabilization. Some of the conditions contributing to the economic turmoil include the subprime lending and financial crisis, lack of available credit, and rising unemployment. In this section of the report, we will present a brief overview of current macroeconomic conditions and how they are impacting commercial real estate markets.

Subprime Lending and the Financial Crisis

Since mid-September 2008, the U.S. has experienced what most describe as the most significant financial crisis in decades, perhaps in history. Most experts attribute the crisis to subprime mortgage lending practices and the subsequent decline in the housing market. Financial institutions such as Bear Stearns, IndyMac, Lehman Brothers, Washington Mutual, Wachovia, Fannie Mae, Freddie Mac and the American International Group (AIG) failed or experienced catastrophic losses. By the time Congress passed legislation in early October 2008 aimed at stabilizing the financial system, the market crisis had spread globally and credit had all but seized up. While some banks have continued to lend, restrictions on borrowers are extremely tight. Many banks are in holding patterns as they weigh their options under recent or proposed bailout legislation. The following is a summary of events in the national and local economy that impact current market conditions:

Late 2007:

- Housing markets decline and foreclosure activity increases. Several Wall Street firms such as Merrill Lynch, JPMorgan Chase, Citigroup and Goldman Sachs experience huge losses after loaning money to two Bear Stearns-run hedge funds with large holdings of subprime mortgages. The Federal Reserve cuts the federal funds rate.

2008:

- Continued losses are reported by Citigroup, Merrill Lynch and Washington Mutual. Bear Stearns, the fifth largest investment bank in the U.S., collapses and is taken over by JP Morgan. The Federal Reserve continues to cut the federal funds rate. Wachovia Corp. reports big losses. HSBC writes off $3.2 billion in the first quarter linked to exposure to the U.S. subprime market.
- IndyMac Bank becomes the fourth largest bank failure in the U.S. as it goes into receivership of the FDIC. Fannie Mae and Freddie Mac are effectively taken over by the U.S. Treasury which places them into "conservatorship." Lehman Brothers files for bankruptcy after shares plummet to their lowest level in more than a decade. Stock markets plummet and central banks inject billions of dollars into money markets.

- Merrill Lynch is acquired by Bank of America due to liquidity problems. AIG Corp., the world's largest insurer, is bailed out by the U.S. Federal Reserve with an $85 billion loan. Morgan Stanley and Wachovia enter merger talks. The FDIC takes over Washington Mutual and sells its assets to JP Morgan. HSBC announces 1,100 job cuts worldwide.

- Citigroup and Wells Fargo battle over the purchase of Wachovia, until the Fed approves a takeover by Wells Fargo. The IMF forecasts a "major global downturn." Global stock markets continue to see significant volatility. The U.S. Federal Reserve leads a coordinated, global round of emergency interest rate cuts. The U.S. offers to take $250 billion worth of stakes in nine top banks.

- A new U.S. President is elected on November 4th, ending some uncertainty for investors. The U.S. Government announces a rescue package for Citigroup, agreeing to shoulder most losses on over $300 billion of the bank's risky assets. On November 25th, the U.S. Federal Reserve unveils an $800 billion plan to buy mortgage-related debt and back consumer loans.

- The big three auto makers in the U.S. – Ford, General Motors and Chrysler – report substantial losses. Initially the U.S. Senate refused to back a $14 billion rescue package for the auto industry; but by year-end, General Motors and Chrysler secured up to $17.4 billion in government-backed loans.

2009:

- Congress passed a $787 billion tax and spending bill in a recession-fighting effort that would extend the reach of the federal government across the U.S. economy by reshaping policy on energy, education, health care and social programs. More locally, California lawmakers approved a state budget package on February 19th to close a $42 billion deficit, with a slate of bills that aim to raise taxes, slash spending and increase borrowing. The governor signed the package of bills – 34 in total – on February 20th.

- Chrysler, LLC began restructuring under bankruptcy protection and announced it will eliminate roughly a quarter of its 3,200 U.S. dealerships by June. A 40 percent interest in Chrysler, LLC was sold to Italian carmaker Fiat, and General Motors Corp. filed for Chapter 11 bankruptcy. In exchange for the U.S. Government's $50 billion in aid, the U.S. will own 60 percent of the new GM.

- According to an article in USA Today, by Paul Davidson, titled "Commercial Real Estate Gets Worse," nearly $1 trillion in short term commercial mortgages is scheduled to mature by the end of 2010. Many owners are unable to refinance the loans, leading to the expectation that they will go into default. To date, lenders have foreclosed on less than 10% of the loans outstanding, which may delay any recovery by preventing problem properties from being resold at lower prices. The Federal Reserve is extending a program to lend investors up to $200 billion to buy commercial mortgage backed assets and consumer loans, which some say may help establish realistic asset prices and help revive the market.

- Testifying before an oversight panel on Thursday, September 10, Treasury Secretary Timothy Geithner suggested the U.S. economy is no longer on the brink of disaster, but still has a "long way to go" to recover. Gross domestic product in the U.S. was positive for the first time in a year at 3.5%. The general consensus is that government assistance played an extremely large role in producing the positive GDP result.

- In December 2009, GM and Chrysler both announced they would reconsider their planned dealership closings as part of a compromise meant to stave off federal legislation that would require them to keep the facilities open. The decision raises the prospect of new life for some of the more than 3,000 dealerships that were slated to close as part of the broad auto industry restructuring.

2010:

- The unemployment rate fell from 10.0 to 9.7 percent in January and nonfarm payroll employment was essentially unchanged (-20,000). Employment fell in construction and in transportation and warehousing, while temporary help services and retail trade added jobs.

- The U.S. Federal Reserve raised the rate it charges banks for emergency loans by a quarter percentage point to 0.75%. The move suggested that policy makers believed the nation's banks had healed enough to withdraw some of the extraordinary support that Washington put in place during the financial crisis.

Economy and Employment

Amid the turmoil in the financial system, economic and employment conditions in the U.S. are unstable. The national unemployment rate rose above 10% in 2009, marking the first time the unemployment rate reached double-digits in 26 years. Payrolls fell throughout 2009, bringing the total number of unemployed persons to nearly 15 million. However, in recent periods job losses have moderated in many industry sectors, and the national unemployment rate decreased below 10%.

The Sacramento region has also endured rising unemployment. The unemployment rate in the six-county Sacramento region was 12.3% in 2009, which marks a significant increase from the 8.8% unemployment rate experienced in 2008. While the unemployment rate in the Sacramento region has decreased in recent periods, it still remains in double-digits, which is being driven by continued declines in housing-related sectors and retail trade. Every major sector is expected to experience slowing job growth over the next year. With no new job growth on the horizon, recovery in the real estate sector is expected to be protracted. Employment is a driving force behind population growth for the region, which affects the demand for residential development and supporting commercial uses. Most experts believe job creation in the region will not occur until 2011 at the earliest.

The State budget deficit also significantly affected the local economy. Even with the passing of a budget in 2009 aimed at alleviating the ballooning deficit, the State of California remains in deficit. The Governor declared a fiscal "state of emergency" affecting both state and local governments. State government employees, who comprise a substantial portion of the employees in the region, were forced to take several unpaid furlough days each month in order to help improve the budget deficit. However, much of the savings from the mandatory furlough will be offset by reduced revenue due to decreasing property tax receipts, and increased costs to the state general fund in future years. Thus, the budget deficit is not expected to improve significantly in the near-term, which could prolong recovery in the local economy.

Amid this tumultuous timeline of events, the resultant loss of investor confidence has taken a heavy toll on financial markets. Deterioration in several indices reflects, in many instances, forced selling and deleveraging of positions by troubled financial, hedge fund and mutual fund institutions. The U.S. Treasury Department has collected billions in dividend payments from many of the hundreds of banks it loaned from the TARP money, with many of the nation's largest financial institutions repaying the money. Nonetheless, access to the capital markets remains difficult, with bank balance sheets reportedly clogged with troubled loans and other assets.

Impact on Land and Commercial Real Estate

The scarcity of credit and the shift to more conservative underwriting significantly affects land and commercial real estate markets. Stricter lending practices have made it very difficult for potential buyers to obtain financing in the current market. The credit situation is not the only factor reducing prices and sales activity: investors' skepticism about the future of the economy and tenant demand have affected activity as well. Overall, the buying pool has been greatly reduced and many investors remain in a holding pattern. Capitalization rates and yield rates are both increasing as lenders and equity investors perceive greater risk in real estate investments.

A Commercial Real Estate Outlook, prepared by Colliers International, projects that sales and leasing activity will increase in 2010, though slowly. The number of distressed properties is expected to increase over the course of this year, which is projected to fuel sales, though sales rates are anticipated to remain well below the rates experienced during the expansionary period. However, as previously noted, any recovery in the local market will be dependent on employment in the region and the state budget. If the budget worsens and layoffs are implemented for state workers, this would disproportionately impact the Sacramento region and would most likely delay recovery.

Investors surveyed in the Korpacz Real Estate Investor Survey report indicate capitalization rates are rising for nearly all types of commercial property, a trend that is not projected to subside in the near future. Even if income, vacancy and expenses were steady, increasing capitalization and yield rates result in decreasing property values.

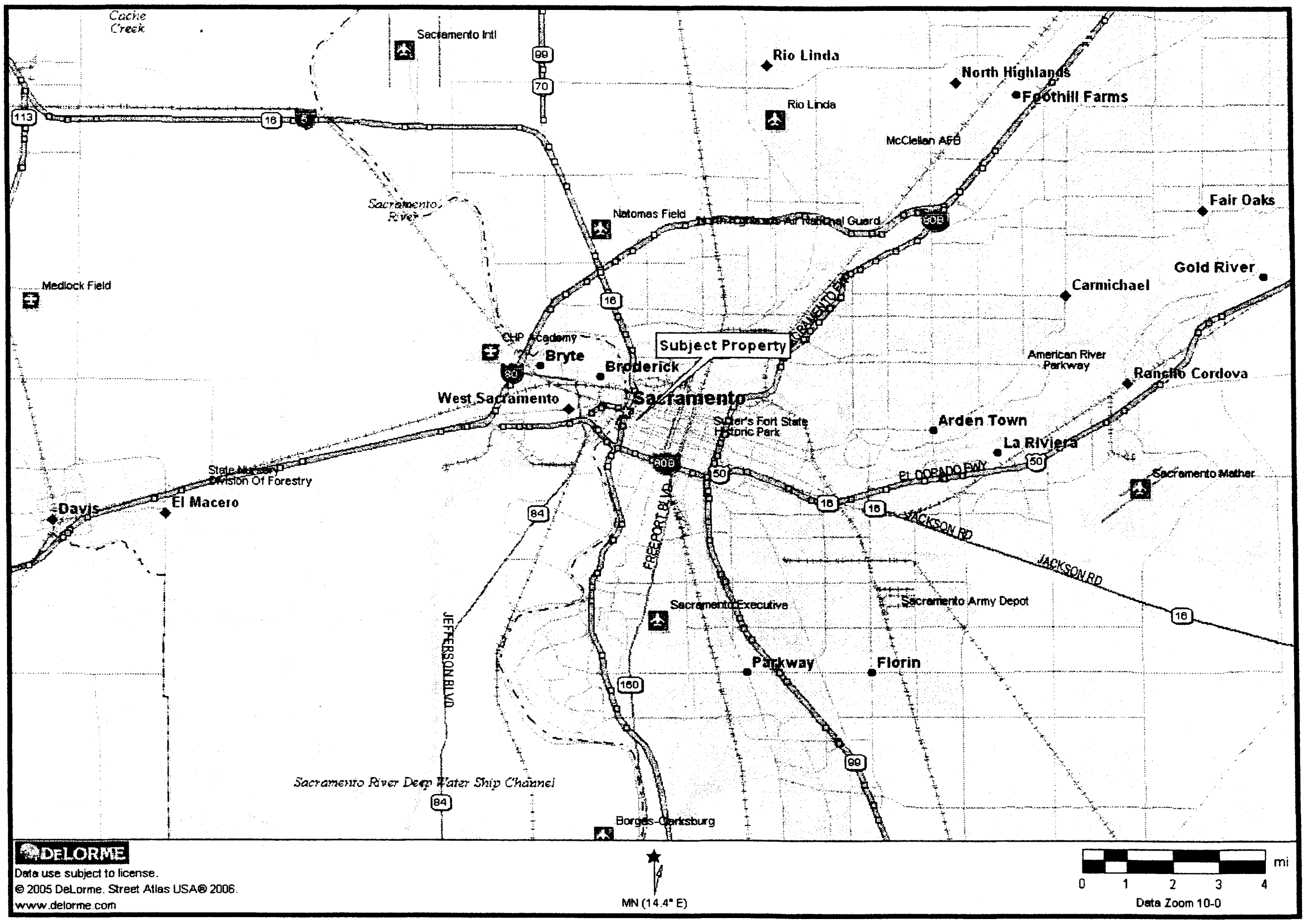
With respect to land, many developers that hold title to unimproved properties are holding for development until the market stabilizes and transitions into an improving market. Many improved properties are transferring for below replacement cost, indicating infeasibility of new construction in the current market. By most accounts, the market for vacant land is very limited, except for speculators willing to hold the land for a number of years, or properties for which build-to-suit arrangements have been made. Recovery in the land market is not expected until the commercial sector reaches a point where new construction is feasible.

Conclusion

Given the declines in nearly all investment markets and wider macroeconomic uncertainty, including the recent crisis in the credit markets, the expectation is that recovery in the real estate market will be protracted. Credit remains tight, the employment outlook is not improving significantly, the State budget deficit is not subsiding, and consumer confidence remains unstable. As a result, consumer spending – which comprises a large portion of gross domestic product (GDP) – has declined substantially, which has led to decreased demand for retailers and professional services. As a result, many national retail stores that were once considered credit tenants have filed for bankruptcy and/or are closing stores.

The overall uncertainty and contracting economic and market conditions are expected to continue to have an adverse impact on nearly all real estate sectors, especially in the near-term. With respect to commercial properties specifically, instability in vacancy rates, absorption and lease rates are anticipated over the foreseeable future, with corresponding increases in capitalization and yield rates.

SACRAMENTO METROPOLITAN AREA REGIONAL OVERVIEW



Introduction

The Sacramento Area is comprised of the six counties of Sacramento, Placer, El Dorado, Yolo, Yuba and Sutter. Located in the north-central part of the state of California, the Sacramento Area has proven to be one of the fastest-growing markets among major metropolitan areas in the United States. In order to provide a closer look at the region's progressive growth and its outlook for the next few years, we will present information on geographical, social, demographic, economic and environmental influences within the region. In the final section, we will summarize the impact these forces have on the overall desirability and competitiveness of the region.

The six-county region encompasses approximately 6,561 square miles, from the Sacramento River Delta in the west to the Sierra Nevada mountain range in the east. At the center of the region is Sacramento County, which encompasses approximately 996 square miles near the middle of the Central Valley. The county's largest city, Sacramento, is the seat of government for the County, as well as the State Capital. Surrounding Sacramento are several smaller towns and communities, including college towns, tourist destinations, suburban communities and agricultural centers. The city of Sacramento is located approximately 385 miles north of Los Angeles, 500 miles south of

Oregon, 85 miles northeast of San Francisco, 105 miles west of South Lake Tahoe, and 135 miles southwest of Reno, Nevada.

Geography & Climate

The geography, climate and seismic conditions in the region play an important role in the quality of life. The topography of the region ranges from relatively flat land along the valley floor, to steep mountain terrain in the eastern portion of the area. Elevations range from 15 feet below sea level near the Sacramento-San Joaquin River Delta, to 10,000 feet above sea level at the summit of the Sierra Nevada's. The American and Sacramento Rivers are the two major waterways in the region. The American River flows west along the southern part of the Sacramento Area, joining the Sacramento River just northwest of Sacramento's Central Business District. The Sacramento River traverses south along the western side of the city of Sacramento.

The region's climate is fairly mild, with moderate rainfall in winter, virtually none in summer, and a relatively comfortable temperature range year-round. However, temperatures can reach over 100°F in the summer on the valley floor, and heavy rain and snowfall can occur during winter months in the northeastern part of the region in the mountainous areas of Placer and El Dorado Counties. Sacramento's climate is warm and dry in the summer with an average daytime high temperature of 93°F, and a comfortable 58° at night. During Sacramento's winter, daytime high temperatures are typically between 53° and 60°. During the rainy season from November through April, an accumulation of about 18 inches of rain is normal.

The region has relatively stable seismic conditions, especially compared to the San Francisco Bay Area and Southern California. Sacramento and adjoining cities rank among the lowest in the state for the probability of a major earthquake. Most of the region is not located within an Alquist-Priolo Earthquake Fault Zone. Yolo County is the only county with an Earthquake Fault Zone, located in a small portion of the northwest part of the county known as Jericho Valley. The Dunnigan Hills fault, located 19 miles northwest of the city of Sacramento, is the closest known active fault mapped by the California Division of Mines and Geology. The closest branches of the seismically active San Andreas Fault system are the Antioch fault (42 miles southwest) and the Green Valley/Concord fault (45 miles southwest).

Recreation & Culture

The Sacramento Area appeals to a diverse range of interests, offering innumerable recreational and cultural opportunities. The American River Parkway offers 5,000 acres of recreation area along both sides of the river for 30 miles. Some of the destinations along the parkway are Discovery Park, Goethe Park, Nimbus Fish Hatchery, CSUS Aquatic Center, and Folsom Lake State Recreation Area. The parkway includes walking, biking and horseback riding trails, as well as picnic and beach areas. The Sacramento-San Joaquin Delta has over 1,000 miles of waterways. The rivers and lakes within the Sacramento Area offer boating, fishing and water-skiing opportunities. In addition, numerous parks and golf courses are located throughout the region.

Other recreational opportunities are available within a few hours drive of the Sacramento Area. To the west are the San Francisco Bay Area, the Napa Valley wine country, the coastal redwood forests, and the beaches of the Pacific Ocean. To the east are Lake Tahoe and the Sierra Nevada Mountains, which are home to more than a dozen snow-skiing resorts. Legalized casino gambling is available in Nevada, as well as several Indian casinos in the Sacramento region.

Cultural attractions in the region include the Old Sacramento Historic District, California State Railroad Museum, Towe Auto Museum, Crocker Art Museum, Historic Governor's Mansion, Sutter's Fort State Historic Park and Sacramento Zoo. Sacramento is home to the Sacramento Opera Association, Sacramento Ballet, Sacramento Theatre Company, Sacramento Philharmonic Orchestra and Sacramento Traditional Jazz Society. Annual events in Sacramento include the California State Fair, the Music Circus and the Sacramento Jazz Jubilee.

In terms of sports entertainment, the region is home to three professional athletic teams and numerous college teams. Sacramento acquired a National Basketball Association (NBA) franchise, the Kings, in 1985. The Kings play their home games in the 17,300-seat Arco Arena. The region is also home to the Sacramento River Cats, a triple-A minor league baseball team. The area often hosts regional, national and even international sporting events.

Population

The Sacramento Area is among the fastest-growing metropolitan areas in the United States, with growth of 20% between 1990 and 2000. The following table shows recent population growth in the six-county region.

POPULATION TRENDS

County	2004	2005	2006	2007	2008	2009	%/Yr
Sacramento	1,345,646	1,368,333	1,386,185	1,402,728	1,418,763	1,433,187	1.3%
Placer	296,735	307,987	318,026	326,107	333,766	339,577	2.9%
El Dorado	169,926	172,987	175,530	177,379	178,860	180,185	1.2%
Yolo	185,266	188,207	191,072	194,864	198,326	200,709	1.7%
Yuba	65,122	67,165	69,260	70,555	71,803	72,900	2.4%
Sutter	86,407	88,762	91,316	93,687	95,306	96,554	2.3%
Total	**2,149,102**	**2,193,441**	**2,231,389**	**2,265,320**	**2,296,824**	**2,323,112**	**1.6%**

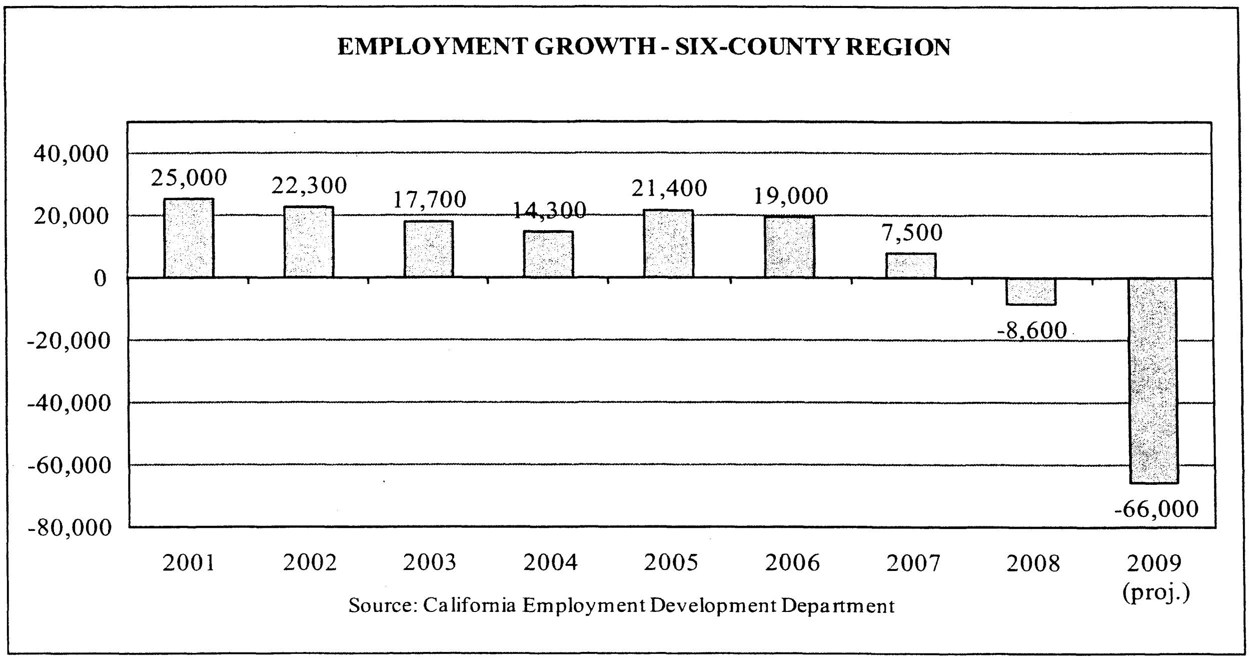
Source: California Department of Finance

The region's population grew by an average annual rate of 1.6% between 2004 and 2009. Placer County has led the region with growth of 2.9% per year. Most of this growth has occurred in the cities of Roseville, Rocklin and Lincoln. Much of the region's growth is attributed to in-migration of residents from other California and U.S. areas.

The population in the region is expected to continue growing. According to the California Department of Finance, the population in the Sacramento Area is projected to increase to about 3 million people by 2020. The region's growth is expected to outpace the growth of nearly all other metropolitan areas in California, as well as the state as a whole.

Employment Growth

Historically, the Sacramento Area has been one of the more stable employment centers in California, with a significant number of jobs in State government. However, employment has declined over the past couple of years in both the private and public sectors. The following chart exhibits annual employment changes in the region over the past several years.



Job growth in the region was relatively steady in the years 2001 through 2006, with slower growth seen in 2007. In 2008 and 2009, the region experienced a net loss in the number of jobs. The current weak performance is being driven by declines in housing-related sectors (such as construction, finance and insurance), retail trade and State government. Nearly every major sector, with the exception of Educational & Health Services, saw a reduction in jobs in 2009.

The unemployment rate in the six-county Sacramento region was 12.8% in November 2009, compared to 12.3% for the state of California and 10.0% for the nation. Most areas within the state and nation, including Sacramento, saw rising unemployment rates in 2001 and 2002, stabilization in 2003, declines in 2004 through 2006, and increases in 2007 through 2009. It is noted Sutter and

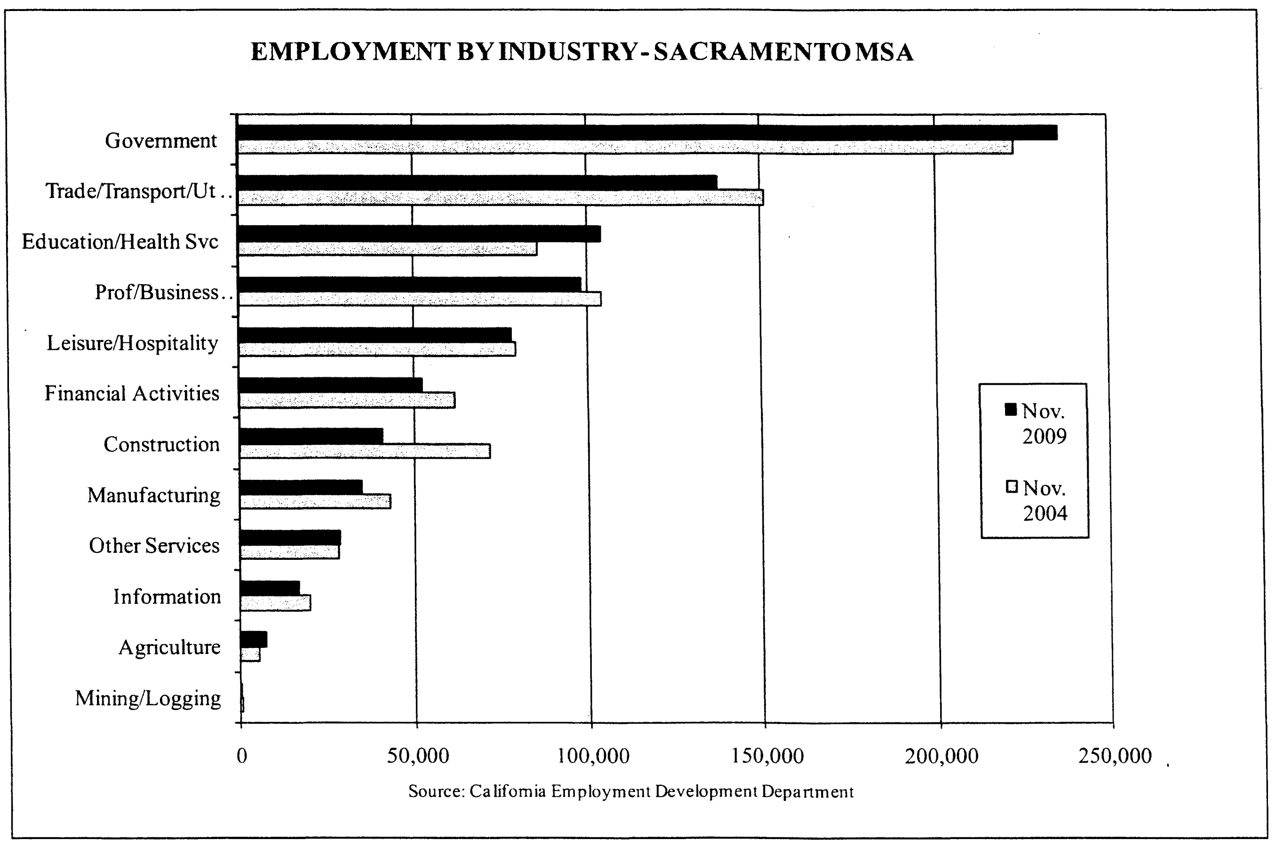
Yuba Counties have relatively high unemployment rates of 19.4% and 17.9%, respectively.

The Center for Strategic Economic Research publishes the Sacramento Region Business Forecast on a quarterly basis. The forecast for Third Quarter 2009 predicts the six-county region's rate of job losses will begin to improve over the next 12 months. The Center forecasts total job loss of about 39,000 jobs for the 12 months ending in September 2010. However, "the recovery back to positive growth on a consistent basis will likely be lengthy," according to the forecast.

Employment by Industry

The local economy has transitioned from a government and agricultural center to a more diverse economy, where the business services and trade sectors comprise nearly half of regional employment. Growing industries in the region include healthcare, technology, clean energy and life sciences. In 2005, Sacramento was one of the few places considered for a statewide stem cell research center. The region is also a western hub for data processing, customer call centers and other corporate back office support activities.

The following chart compares the region's employment by industry in 2004 and 2009. During this five-year period, only a few sectors showed positive job growth: Agriculture (+32.8%), Educational & Health Services (+21.6%), Government (+5.9%) and Other Services (+1.1%). The largest decline by far was in Construction, with a 42.6% decline in employment.



Government continues to be a significant employer in the Sacramento region. In fact, government entities, including universities and school districts, account for about 28% of total employment in the region (down only slightly from 30% in 1990). The largest government employers are the State of California and Sacramento County. The region's largest non-government employers are listed in the following table.

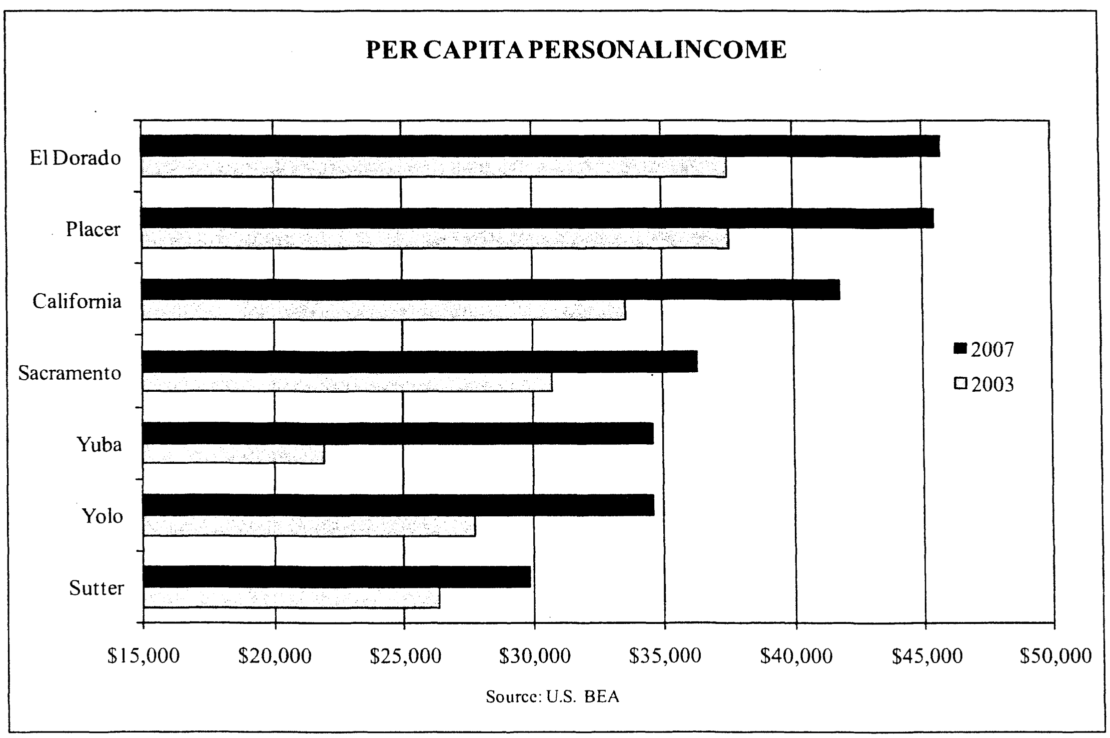
TOP 10 PRIVATE EMPLOYERS

Company	Industry	Year Est. in Area	Employees
Kaiser Permanente	Healthcare	1965	10,081
Mercy/Catholic Healthcare West	Healthcare	1896	8,279
Sutter Health Sacramento Sierra	Healthcare	1923	7,314
Intel Corp.	Semiconductors	1984	6,000
Wells Fargo & Co.	Financial Services	1852	3,690
Raley's	Retail grocery	1935	3,401
PRIDE Industries	Manuf. and logistics	1966	2,841
Health Net of California	Healthcare	1978	2,512
Cache Creek Casino Resort	Casino resort	1985	2,460
Hewlett-Packard Co.	Computer hardware	1979	2,000-3,000

Source: Sacramento Business Journal, Book of Lists 2009

Personal Income

The following chart shows per capita personal income trends by county for the six counties within the Sacramento region, as well as the state of California. Year 2007 data is the most recent available as of early 2010.



As indicated in the chart above, El Dorado and Placer Counties exhibit the highest personal income levels in the region. This is attributed in part to the large degree of high-tech employment in those areas, and a significant amount of in-migration of high-income households from the Bay Area. Personal incomes in these counties trail those in only four other counties in the state: Marin, San Mateo, Contra Costa and Santa Clara. Sutter and Yuba Counties have the lowest incomes in the Sacramento region, related to significant agricultural employment in these areas.

Education & Healthcare

The educational institutions in the region produce a well-educated community and stable work force. The Sacramento region offers a number of alternatives in terms of higher education. Two large universities, the University of California Davis and Sacramento State University, are located in the region and are recognized throughout the nation. Seven community colleges are located within the greater Sacramento region, including Sierra College, American River, Cosumnes River, Sacramento City, Woodland Community College and Yuba College. Several private colleges are located in the area, as well as satellite campuses of colleges headquartered elsewhere. The region also contains numerous vocational schools. At least two additional private universities are planning to open in the Sacramento area in the future.

The Sacramento region has become a hub for general and specialized healthcare in Northern California and the Central Valley. There are currently 28 major medical centers within the six-county region, operated by providers such as Kaiser Permanente, UC Davis Health System, Shriners, Mercy/Catholic Healthcare West and Sutter Health System. Several of the larger medical organizations are expanding their facilities or have plans to do so. Kaiser is constructing a new women and children's health center in Roseville. Sutter is also completing a large expansion at its Roseville facility. The UC Davis Medical Center in Sacramento recently completed a $40 million education building for medical students.

Transportation

A significant strategic advantage of the Sacramento region is its proximity to large markets and its transportation accessibility to these markets provided by extensive highway, rail, water and air systems.

The Sacramento region has over 800 miles of maintained state highways. The hub of freeways in the region makes the Sacramento Area a good center for freight distribution. U.S. Highway 50, Interstate 80, and the Capital City Freeway are the principal routes for commuters living in the densely populated eastern suburbs. Commuters from the north and south of Sacramento travel on Interstate 5 and State Highway 99. State Highways 65 and 70 link Yuba and Sutter Counties with the rest of the Sacramento Area. Interstate 5 provides a direct route to Redding, Oregon and Washington to the north and Los Angeles to the south. Interstate 80 permits travel to Nevada and Utah to the east and the San Francisco Bay Area to the west. Lake Tahoe and Nevada are reachable within a couple hours on U.S. Highway 50, which originates in Sacramento. State Highway 99 provides access to the San Joaquin and upper Sacramento Valleys.

Traffic congestion has intensified throughout the region in recent years along with population growth and the development of new suburban communities. Funding has been a challenge on both the State and Federal levels; however, several projects are proposed in the coming years. One major project completed in 2005 involved improving and reconfiguring the Douglas Boulevard/Sunrise Avenue interchange on Interstate 80 in Roseville. Another project in the planning pipeline is the 15-mile Placer Parkway, which would provide a new east-west route between State Highway 99/70 in Sutter County and State Highway 65 in Roseville. A bypass of State Highway 65 around the city of Lincoln is also planned.

The main public transit system in the Sacramento Area is operated by Sacramento Regional Transit (RT), with additional service provided by other local public and private transit operators. Regional Transit covers a 418-square mile service area that is serviced by 258 buses and 76 light rail vehicles, transporting over 27 million passengers annually. Light Rail began operation in 1987 along a two-pronged route linking Downtown Sacramento with populous suburbs to the east and north. In 2003 and 2004, RT completed extensions to the Meadowview area in South Sacramento and Sunrise Boulevard in Rancho Cordova to the east. In 2005, an eastward extension to the city of Folsom was completed. This route added seven new light rail stations and four park-and-ride lots, providing a viable transportation alternative for commuters on the Highway 50 corridor. During the next 20 years, RT plans to extend toward Elk Grove to the south, Natomas and the Sacramento International Airport to the north, Roseville to the east and Davis to the west.

The Sacramento region has access to a number of railroads. The north-south and east-west main lines of the Union Pacific Railroad intersect in Sacramento and, as a result of the merger of Union Pacific and Southern Pacific in 1996, Sacramento has access to the Burlington Northern Santa Fe Railway. Union Pacific's major freight classification facility for Northern California, Nevada and Oregon is located in Roseville. A $140 million upgrade to handle additional traffic volume was completed over the past few years. Amtrak provides daily passenger service in all directions from Sacramento. The Capital Corridor system provides high-speed commuter rail service from Roseville to San Jose.

Water transport is also available in the region. The Port of Sacramento is a deep-water port located 79 miles northeast of San Francisco in the city of West Sacramento, serving ocean-going vessels handling a variety of cargo types. The 30-foot depth of the channel, along with extensive rail and truck cargo handling facilities, make the Port highly productive for long distance shipping. The Port is equipped for handling bulk cargo and a number of agricultural and forest products. The Port has experienced shrinking revenue and net losses for several years; however, two cement companies will be adding operations at the Port, which should help offset declining revenue.

Finally, the region benefits from several air transport facilities. Most notably, Sacramento International Airport is served by 14 carriers – Alaska, Aloha, America West, American, Continental, Delta, Frontier, Hawaiian, Horizon, JetBlue, Mexicana, Northwest, Southwest and United/United Express. In 2004, Sacramento International opened a multi-story, 5,300-stall parking garage. Over 10 million passengers traveled through Sacramento International Airport during 2005. Besides the International Airport, the region is also served by several smaller facilities, including Sacramento Executive Airport, Lincoln Regional Airport, Yuba County Airport, Sutter County Airport, and Mather Airport (formerly Mather Air Force Base). Sacramento International and Mather Airport processed over 260 million pounds of airfreight in 2005.

Environment

As development in the region expands, various environmental issues exist, including water supply, air quality, flood control, endangered habitat/species, and open space preservation. Numerous environmental organizations are constantly addressing these issues as they pertain to the Sacramento region, and land developers face increasing time and costs due to environmental constraints.

The Sacramento Area benefits from abundant water resources. Purveyors draw surface water from the American, Sacramento and Feather Rivers, and pump groundwater from underground sources in the Sacramento Valley. The Sierra Nevada snowfields, about 70 miles east of Sacramento, normally provide a plentiful water supply during the dry summer months. According to the California Department of Water Resource's California Water Plan, approximately 30% of the Sacramento River Region is irrigated with groundwater. Nevertheless, water supply and quality issues continue to be environmental concerns in the area. The significant rate of growth that has occurred over the last decade has notably increased the demand for water, and the delivery of water to southern portions of the state continues to be a hot political and environmental issue. The future impact on all users depends on the natural replenishment of the water sources by geological factors, as no new dams are anticipated in the near future.

Air quality continues to be a concern in the Sacramento Valley. The region is designated a severe ozone "non-attainment area" by the U.S. Environmental Protection Agency (EPA). This non-attainment area includes all of Sacramento County and parts of El Dorado, Placer, Solano, Sutter and Yolo Counties. During the summer, the region fails to meet both the State and Federal health standards for ozone on a number of days. Because the Sacramento Valley is shaped like a bowl, smog presents a critical problem in the summer, when an inversion layer traps pollutants close to the ground, causing unhealthy air quality levels. However, in the past decade, air quality has improved in the Sacramento region. Factors contributing to the improvement include cleaner cars, smog check requirements, vapor recovery nozzles on gas dispensers, reformed gas, statewide regulation on the amount of solvents in consumer products, and Federal regulations on solvents contained in painting products. In addition, policymakers have taken steps to improve and expand public transportation systems in the region.

Another environmental concern in the area is flooding, in light of Sacramento's location along two major rivers with several creeks and tributaries. Major floods occurred in multiple areas in 1986 and 1997. Most flood-prone areas are concentrated in western Sacramento County and eastern Yolo County, where the American and Sacramento Rivers converge. The Sacramento Area Flood Control Agency (SAFCA) was established in 1989 to coordinate a regional effort to finance, implement and maintain facilities necessary to provide flood protection. Many proposed improvements were approved and funded by the SAFCA Assessment District, established in June 1996. A large portion of these improvements was completed in 1998, which resulted in a new flood designation outside the 100-year flood zone for most areas in northern Sacramento County. As a result of significant improvements to river and creek levees, in early 2005 the Federal Emergency Management Agency (FEMA) revised flood maps to designate the American River floodplain outside the 100-year flood zone. This area includes most of eastern and central Sacramento County. As a result, property owners in these areas are no longer required to maintain flood insurance. In 2006, another new map declared neighborhoods in the southern portion of the county out of the 100-year floodplain as well.

Despite the above improvements, the region continues to face flood concerns. In early 2007, FEMA announced it would revise its flood-risk maps to show North Natomas (northern Sacramento County) as a Special Flood Hazard Area. The action came in response to a ruling in 2006 by the U.S. Army Corps of Engineers, which found that Natomas levees no longer meet a minimal 100-year flood protection standard. FEMA has also designated that no new growth will be approved for the Natomas area until further levee repairs are made. Flood insurance is currently required for properties in Natomas with federally backed mortgages or home-equity loans. SAFCA and the U.S. Army Corps of Engineers are working on several construction projects to improve Natomas levees. According to an October 2009 update from the City of Sacramento, 100-year flood protection for Natomas is expected to be reached in the 2014 time frame.

Ongoing and future flood control projects include raising Folsom Dam by seven feet; installing new gates on Folsom Dam; constructing a new bridge over the American River just below Folsom Dam; and completing major levee-strengthening work already under way. The remaining work involving Folsom Dam will likely take more than a decade to complete, but will result in SAFCA's ultimate goal of 200-year flood protection for the entire region.

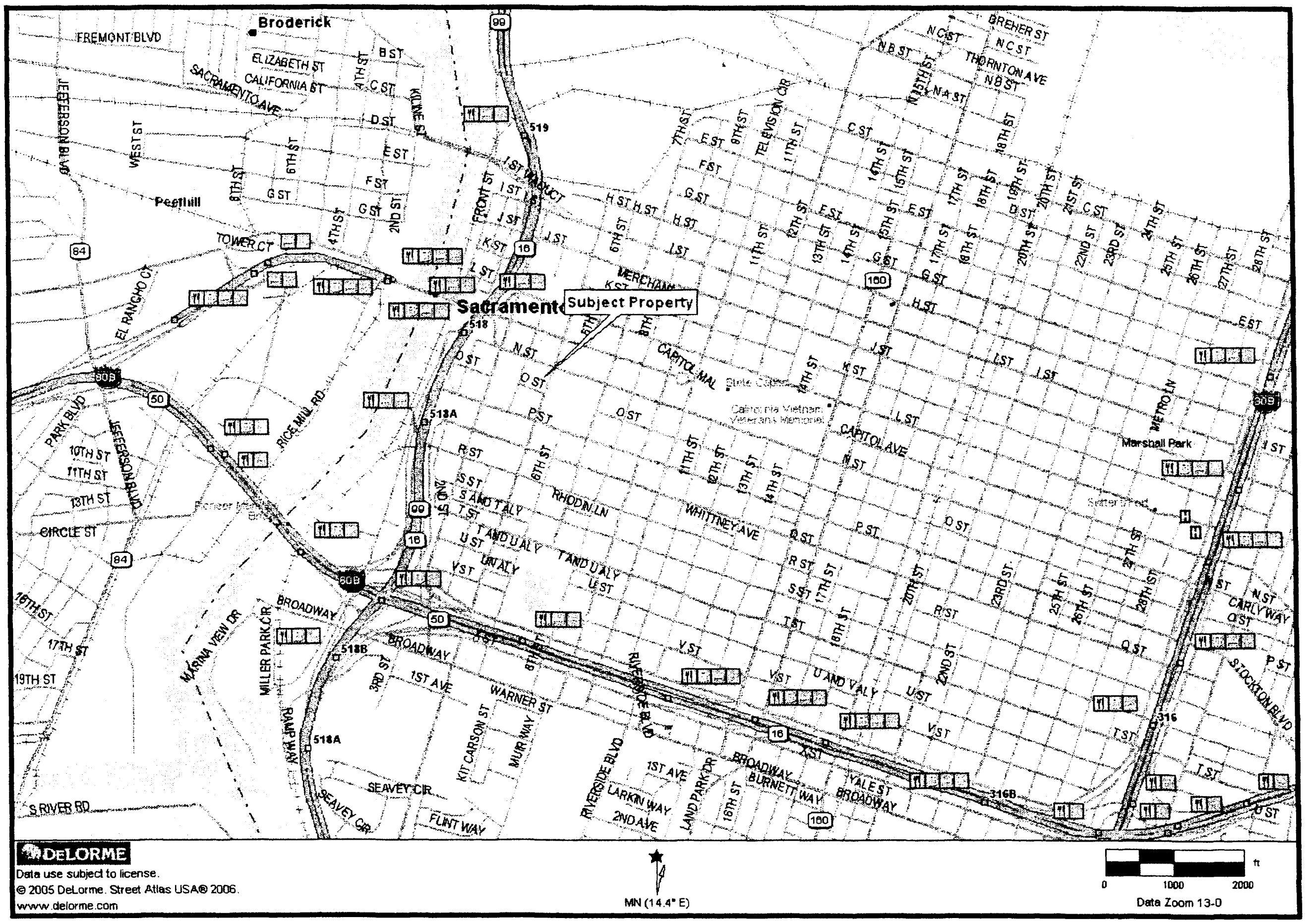
With rapid increases in development in the past few years, there has been growing concern regarding the protection of endangered habitats and species and the conservation of open space. Most development projects in the region, particularly in Placer and Yolo Counties, face opposition from various special interest groups. With regard to endangered habitats and species, development in the region is subject to Federal and State laws concerning this issue. The region contains an extensive list of endangered species and a significant amount of environmentally sensitive land, including vernal pools, wetlands, woodlands and grasslands. In 2002, the U.S. Fish and Wildlife Service proposed designating 154,000 acres in Sacramento and Placer counties as critical habitat for endangered species living in vernal pools. However, in August 2005, the Bush administration issued a revised rule exempting large portions of both counties where developers intend to build. As a result, only 37,098 acres in Sacramento County were designated as critical habitat. Most of this acreage is in the county's rural, southeastern corner, which is not currently planned for development. Placer County, meanwhile, was largely removed from the critical habitat category, with only 2,580 acres affected.

Summary

The Sacramento region is an integral part of California and the U.S. in terms of population, employment, government and economic productivity. The region has established itself as one of the most stable economies in the state. Several geographical, social and economic advantages have induced businesses and residents to relocate to the Sacramento region from other parts of the state and nation.

Between 2004 and 2006, the local economy expanded with large gains in the housing market and relatively strong job growth. However, the housing market began a rapid decline in late 2005, and most sectors of the commercial real estate market began to deteriorate in 2007. Like most metropolitan areas in the state and nation, the Sacramento region has been severely affected by the recent recession and financial crisis. Job losses were significant in 2009 and the region's unemployment rate was estimated at 12.8% at the end of the year. Employment is expected to decline further in 2010, although the rate of decline is expected to slow.

Beyond the current downturn, the long-term outlook for the region is good. Characterized by a diverse economy, mild climate, seismic stability, good water supply, ample recreational and cultural opportunities and expansive transportation systems, Sacramento has secured a locational advantage over similar sized markets. Further, the region remains relatively affordable compared to the Bay Area and Southern California. The combination of these resources and advantages provides a productive environment for business and a satisfying living environment for residents.



Introduction

This section of the report provides an analysis of the observable data that indicate patterns of growth, structure and/or change that may enhance or detract from property values. For the purpose of this analysis, a neighborhood is defined as "a group of complementary land uses; a congruous grouping of inhabitants, buildings or business enterprises."[3]

Neighborhood Boundaries

The boundaries of a neighborhood identify the physical area that influences the value of the subject property. These boundaries may coincide with observable changes in prevailing land use or occupant characteristics. Physical features such as the type of development, street patterns, terrain, vegetation and parcel size tend to identify neighborhoods. Roadways, waterways and changing elevations can also create neighborhood boundaries.

[3] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 133.

The subject property is located in the Central Business District (CBD) of the city of Sacramento. This area, which encompasses about seven square miles, is bounded by the American River to the north, the Capital City Freeway to the east, Broadway to the south and the Sacramento River to the west.

Demographics

The population in the 95814 zip code is 10,121 persons, with a median age of approximately 41 years. Over the past few years, this area's population has transitioned into primarily single persons, with less than 20% of the residents in the area currently being married. There are approximately 1.4 persons per household, which is much lower compared to suburban areas, where the average household size is typically between 2 and 3 persons. The average household income in the subject's neighborhood is $36,066. Of the 6,445 housing units in the neighborhood, approximately 5.4% are owner-occupied, 79.0% are renter-occupied and the remainder is vacant.

Transportation

The neighborhood has good access to all the major freeways serving the Sacramento Metropolitan Area. The Capital City Freeway borders the CBD on the east, Interstate 5 on the west, and Business 80/U.S. Highway 50 on the south. Within the neighborhood, the major surface streets are Highway 160, 15th Street, 16th Street, J Street, H Street, L Street and Capitol Mall.

The CBD is served by Sacramento Regional Transit (RT) bus and light rail systems. RT covers a 340-square mile service area that is serviced by 240 buses and 65 light rail vehicles, transporting over 27 million passengers annually. Light Rail began operation in 1987 and links Downtown Sacramento with populous suburbs to the north, east and south. The main light rail route is located on K Street, between 7th and 12th Streets. In addition to public transit, a Greyhound bus station is located on L Street, between 7th and 8th Streets, and an Amtrak train station is located at I Street and Interstate 5.

Land Uses

Land uses within the Central Business District include office, retail, single- and multifamily residential, lodging, some service/light industrial, and community uses. Immediately adjacent uses include office development to the north, south and east, and multifamily residential development to the west. The neighborhood is home to the State Capitol and numerous mid- and high-rise office buildings that are occupied by government agencies and private businesses. The Sacramento Convention Center is located northeast of the subject property, at J Street and 15th Street. The table on the next page summarizes some of the land use characteristics of the subject neighborhood.

Neighborhood Life Cycle Stage	Stability
Real Estate Cycle	Recession
Land Uses	Residential/Office/Retail
Predominate Land Use	Office/Retail
Age Range of R/E Improvements	0-100 years
General Quality & Condition of Improvements	Average
Percentage Developed (approximate)	95%
Infrastructure / Land Planning	Good

Office Development

The addition of several new high-rise office buildings has substantially changed the Sacramento skyline over the past two decades, such as the recently constructed building at 500 Capitol Mall (Bank of the West Building) and the U.S. Bank Tower at 621 Capitol Mall. Other developments of note include Meridian Plaza (240,000 SF), the State's East End project, Wells Fargo Center (493,000 SF), One Capitol Mall (210,000 SF), and the Renaissance Tower (325,000 SF). Renaissance Tower was built in 1989, and the Wells Fargo Center was constructed in 1992. Meridian Plaza represents a relatively new significant Class-A office development in Downtown Sacramento. This 12-story project offers 240,000 square feet across from Capitol Park and has attracted many law firm and lobbyist tenants.

Meridian Plaza complements the State of California's East End project, which is situated between N and L Streets, east of 15th Street. This project includes five buildings encompassing about 1.5 million square feet of office space. The East End Project was undertaken to consolidate the headquarters of the Departments of Health Services and Education, which in the past occupied several facilities located throughout Sacramento. The project's capacity is approximately 6,000 employees and totals 1.47 million gross square feet (1.18 million usable square feet). The buildings range from four to seven stories.

Other projects include the Sacramento County Courthouse at the southwest corner of 5th and H Streets, adjacent to the Federal Courthouse. The City of Sacramento's new City Hall was completed in 2005, as was an expansion of the CalPERS headquarters on R Street.

Community Uses

Notable community uses in the Downtown area include State Capitol Park, containing the California Vietnam Veterans Memorial; the Sacramento Convention Center; and the Sacramento Memorial Auditorium. The Convention Center was renovated and expanded a few years ago, and now hosts trade shows, business conferences and other events on a regular basis.

Popular tourist attractions in the CBD include Old Sacramento, the State Capitol, Sutter's Fort, the Railroad Museum, Crocker Art Museum, and the Historic Governor's Mansion. Old Sacramento is situated just west of Interstate 5 from the Downtown area, and is recognized nationally as being one of the most successful restoration projects in the country. This 28-block area is a National Registered Historic Landmark and has been recreated by restoring or reconstructing historical buildings on their original sites. The area is home to restaurants, retail shops, bars/night clubs, some offices, and the Railroad Museum.

Other community uses in the neighborhood include schools, churches, hospitals and recreational and cultural facilities. At the east end of the CBD are Sutter General Hospital and Sutter Cancer Center. Further east of the neighborhood, in Midtown Sacramento, are Sutter Memorial Hospital and Mercy General Hospital. The UC Davis Medical Center is located southeast of the neighborhood near Stockton Boulevard and Broadway.

Retail Development

The main retail development in the neighborhood is Westfield Downtown Plaza, a two-story, multi-tenant shopping mall with over 1,200 subterranean parking spaces. The mall is anchored by two Macy's department stores and Century Theatres. Several restaurants are situated in and around the mall, including Morton's Steakhouse.

The K Street corridor between 7th and 13th Streets represents an outdoor mall with several shops and restaurants. The Downtown area has seen several new restaurants and nightclubs open in recent years, including P.F. Chang's, Mikuni, Lucca Bar & Grill, Hukilau, Zocalo, Empire Club, Dragonfly and Icon. A new Safeway retail center was completed at 19th and R Streets. Additional retail development is scattered throughout the neighborhood, with many shops along J and K Streets.

Residential Development

Most existing residences in Downtown Sacramento are multifamily units. Regarding single-family residential development, it was reported that only 5.4% of all single-family homes are owner-occupied. Thus, the majority of downtown residents are renters. Most residential properties in the neighborhood were built more than 20 years ago, with many historic properties built in the early 20th century. Several new housing projects have been developed in the Downtown area in recent years. The central city housing surge can be traced back to 1998 when Metro Square was developed by Regis Homes in midtown Sacramento; the 45-home project sold out in one week. In 2003, the first phase of the East End Lofts was completed at 16th and J Streets. This project includes ground-floor restaurants and lofts on the top floors. Additionally, several loft-style and condo projects were completed between 2004 and 2006. However, some projects are being delayed or withdrawn due to escalating construction costs and a slowdown in the regional housing market. The Towers at Capitol Mall condominium project, construction on which began and was subsequently halted, has been taken over by CIM & CalPERS.

With regard to recent residential construction in the Downtown market area, 312 housing units (for sale and rentals) were completed in 2008, with 355 units under construction. Some of the projects under construction include for sale product that have been under construction and selling for at least the past year. It is estimated 16,402 housing units, both rental and for sale, are proposed for the Downtown area. Some of these projects have been in the planning stage for some time and are not expected to come online until after 2011. The most significant portion of this estimate is 11,085 units proposed for the Railyards project, which is expected to be completed by 2022. By 2011, it is expected 1,700 housing units will come online.

The current trend of new construction and renovation projects in Downtown Sacramento is helping to create an attractive business environment for the public and private sectors, as well as an alluring housing submarket for new residents. Many market participants describe the current market as a "renaissance" due to the number and type of projects under way and proposed.

Conclusion

In summary, the subject property is located in the Central Business District of Sacramento. The neighborhood represents an established neighborhood that is mostly built-out with a mix of commercial and residential development, with supporting community uses. Over the past decade all property types experienced an increase in demand due to the strengthening national and local economy. This trend, however, has subsided due to the recent economic recession fueled by housing and the credit market downturns. A new trend has emerged involving new residential development and conversion of warehouses to multifamily housing. The growth and redevelopment projects taking place are positive attributes for the area. However, declining macroeconomic conditions, as well as contracting conditions in the residential real estate market have resulted in a number of projects being delayed or cancelled. The neighborhood balance of uses and current activity indicate long-term growth and future property appreciation. For the short-term, however, market trends are projected to be contracting through at least the next 12 months.

OFFICE MARKET OVERVIEW

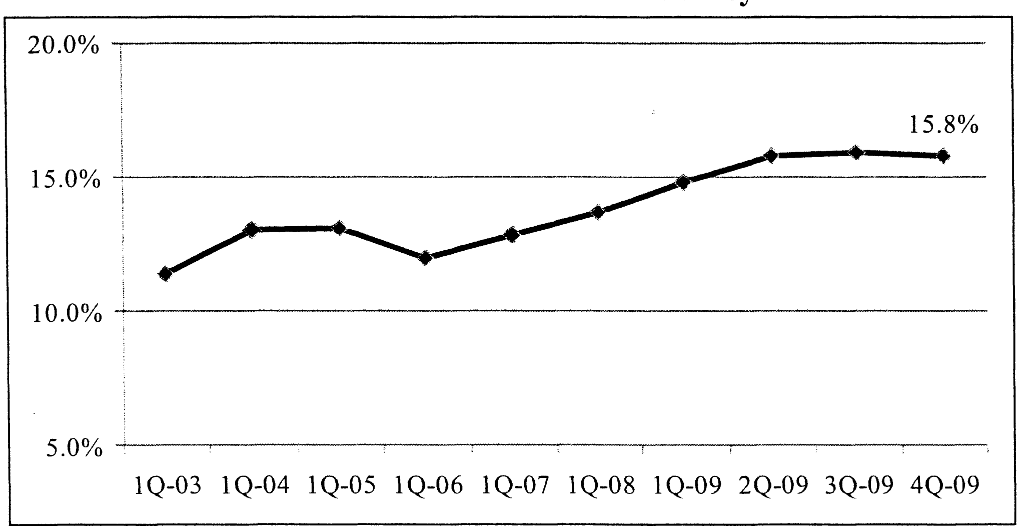
The Sacramento office market experienced contraction in the years 2008 and 2009 as high unemployment and tight credit conditions were coupled with a large inventory of new office buildings. These factors contributed to a regional vacancy rate in the range of about 15-16% throughout 2009. In the fourth quarter vacancy was 15.8%, compared to 15.9% in the previous quarter and 14.1% a year prior. Net absorption in the region was slightly positive at 122,380 square feet during the fourth quarter, after net absorption had been negative for the four previous quarters. In 2009 the strongest absorption levels were seen in the submarkets of Downtown and Folsom, while most other suburban areas showed a net loss of occupied space over the year. (The data presented in this overview is based on quarterly surveys published by Colliers International, which tracks all buildings over 5,000 square feet except government-owned properties.)

Many housing-related sectors have experienced severe job losses over the past couple years, including construction, financing, insurance and other related industries. These losses have been somewhat tempered by employment in healthcare, education and government, but looking forward there are many uncertainties regarding government employment due to the State's budget difficulties. The State, which represents the largest regional user of office space by far, has already implemented staff reductions and furloughs, and it is possible more significant layoffs could be necessary in the coming years.

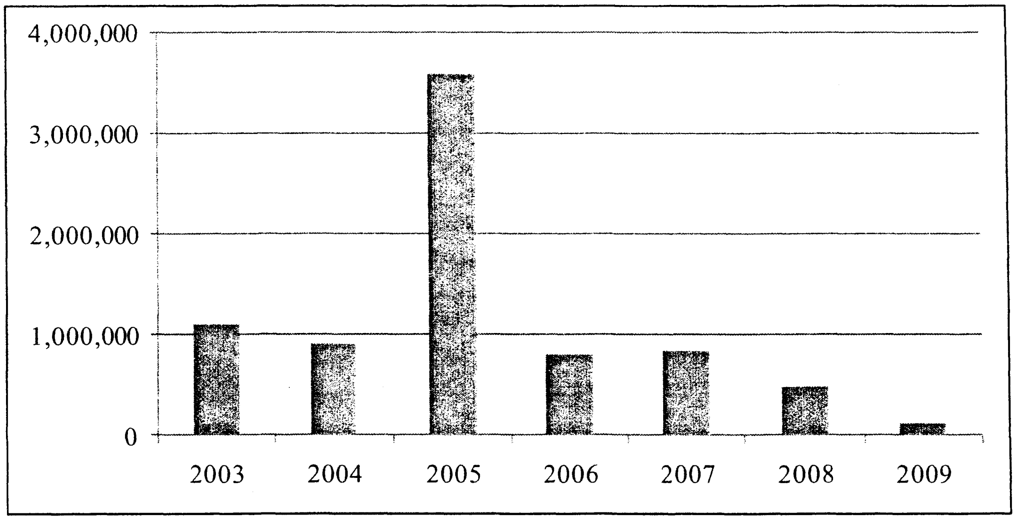
Vacancy & Absorption

The following charts summarize vacancy and net absorption in the region over the past several years.

Sacramento Office Market Vacancy



Sacramento Office Market Net Absorption (SF)



Office vacancy in the region rose from 2000 through 2004, declined in 2005, and has been rising for about four years. In terms of annual net absorption, 2005 was a very strong year, while most other years in the recent past have seen relatively consistent net absorption in the range of about 500,000 to 1.1 million square feet per year. However, a sharp decline was seen in the year 2009 when net absorption was barely positive at 123,343 square feet.

Roseville/Rocklin led the region in net absorption in the years 2005 and 2006. However, absorption levels dropped considerably in this submarket in 2007-2009 as market demand dropped. In 2009, net absorption was strongest in the submarkets of Downtown and Folsom.

In the fourth quarter of 2009, net absorption in the region was slightly positive at 122,380 square feet, after net absorption had been negative for the four previous quarters. Most of the region's submarkets had slightly positive net absorption in the fourth quarter, while Roseville/Rocklin's net figure was slightly negative.

The following table shows recent vacancy and absorption by submarket and also by class/quality.

Submarket	Total Inventory (Million SF)	3Q 2009 Vacancy Rate	4Q 2009 Vacancy Rate	Year 2009 Net Absorption
Suburban Areas				
Roseville/Rocklin	11.1	25.8%	26.6%	(121,909)
Highway 50 Corridor	16.0	16.2%	15.5%	(420,359)
Folsom	4.6	15.9%	14.6%	91,342
South Natomas	3.5	24.4%	23.5%	(30,675)
Other Suburban	35.5	15.8%	16.1%	34,389
Suburban Subtotal	70.6	17.9%	17.9%	(447,212)
Downtown	18.5	8.2%	7.8%	570,555
Market Total	**89.1**	**15.9%**	**15.8%**	**123,343**
Class A	25.2	18.3%	18.9%	296,427
Class B	38.6	17.9%	17.5%	(220,257)
Class C	25.3	10.4%	10.2%	47,173
Market Total	**89.1**	**15.9%**	**15.8%**	**123,343**

Office vacancy is particularly high in Roseville/Rocklin, South Natomas and Elk Grove, all of which represent areas that experienced significant new construction during the boom years of roughly 2002-2006. Colliers does not report vacancy figures for Elk Grove, but according to surveys by other local brokerages, the office vacancy rate in this submarket is estimated to be over 30%.

Lease Rates

For most types of buildings and locations, rental rates for new leases have been declining in recent quarters. According to surveys by Colliers International, the average asking lease rate for office space in the region was about $1.92 psf/month in the fourth quarter of 2009, down from $1.94 in the previous quarter and $2.04 a year prior (fourth quarter 2008). While asking rates have fallen slightly, effective rental rates have been falling to a greater degree as property owners have been offering longer periods of free rent and higher tenant improvement allowances. Many brokers report that free rent of one month for each year of the lease term is typical (e.g., five months free for a five-year lease). Another trend we are seeing is shorter lease terms of less than five years.

New Construction

In 2009, about 1.9 million square feet of new office space was added to the region's inventory. Previously in the year 2008, new deliveries totaled about 1.5 million square feet. As of the fourth quarter of 2009, about 530,000 square feet of new space was under construction.

Submarket Analysis

In order to analyze the office market in the subject's area, we have utilized demographic information provided by Site to Do Business (STDB), as well as market surveys published by Colliers International. In addition, we have analyzed data provided by CoStar Property, a commercial real estate information service, in order to specifically examine existing office properties in proximity to the subject property.

Demand for office space typically follows growth in population and/or employment. The Sacramento Metropolitan Statistical Area (MSA) has experienced stable population growth in recent years. During the five-year period of 2004 to 2009, the MSA's population grew from 2,149,102 to 2,323,112 persons, which translates into a growth rate of 1.6% per year. During the same time period, the population in the city of Sacramento grew by 1.3% per year. The subject's neighborhood is mostly built-out, with limited undeveloped land available to support future growth. However, the suburban areas outside of the Central Business District are continuing to grow, albeit at a significantly slower pace relative the expansionary period experienced in the early 2000s. There are multiple active subdivisions located in master planned communities throughout Sacramento, Natomas, and West Sacramento. Combined, these areas are expected to account for the bulk of new residents in relative proximity to the subject. However, as the primary employment center for the region, workers in the CBD reside in several other surrounding counties, including Placer, El Dorado, Yolo, Yuba and Sutter Counties.

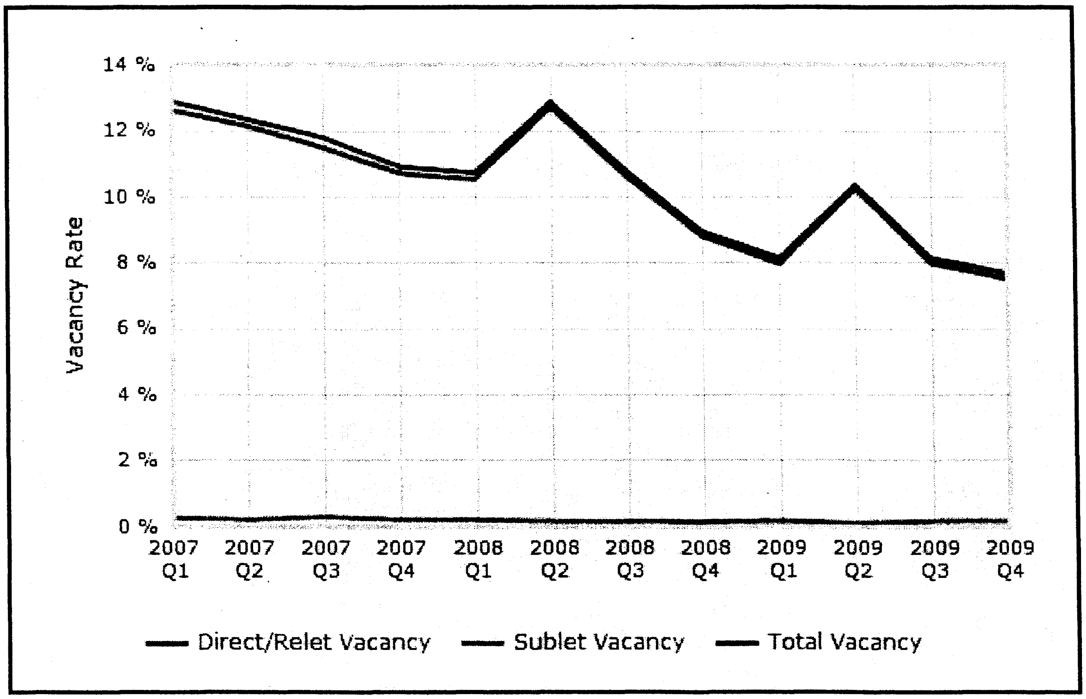
While population growth remains positive in the subject's market area, employment conditions are not as encouraging. Regionally, job growth has been negative in the Sacramento area in recent quarters and the unemployment rate has been rising. According to the California Employment Development Department, total employment in the four-county region (El Dorado, Placer, Sacramento and Yolo) fell by 42,300 jobs, or -4.8%, in 2009. Unemployment in the four-county region neared 13% last year. The city of Sacramento had a slightly higher unemployment rate of 13.3% during the same period, and job growth is declining.

Overall, demand for office space has declined in the Sacramento region in the past couple years. While some businesses have closed or downsized their office space usage, others have opened new offices and expanded – particularly medical/dental office users and government offices. We spoke with office broker Tom Bacci with Grubb & Ellis, who indicated that sale transactions are still very scarce, but that office leasing activity has picked up in the past few months, albeit at significantly lower rental rates when compared to the expansionary period during the earlier part of this decade.

According to Colliers International, the overall office vacancy rate in the Downtown submarket was approximately 7.8% for the Fourth Quarter 2009, which is significantly lower than the overall office vacancy rate for the Sacramento region (15.8% according to Colliers International). With respect to absorption, the submarket experienced a positive net absorption of 571,555 square feet.

Comparatively, numerous submarkets experienced negative net absorption as corporations have been downsizing or going out of business altogether. Overall, the submarket's lower than average vacancy rate and positive absorption numbers indicate that demand remains stable for office properties in the subject's immediate area.

In addition to examining the market surveys published by Colliers International, we searched CoStar Property for existing office properties within the Downtown submarket containing between 50,000 and 600,000 square feet of rentable area. This search revealed 74 properties with a total rentable area of 14,005,188 square feet. As reported by CoStar Property, these projects exhibit a vacancy rate of 7.9%, and vacancy has been on a general downward trend in the past two years. The following chart details the vacancy rate for office properties in the Downtown submarket since 2007.



The numbers indicated by CoStar Property are consistent with the figures reported by Colliers International. The following broker survey details the state of the office sector in the region.

- Yvette DeGuero – Cemo Commercial: There is substantial competition for tenants, especially as the market has softened. Owners have reduced rental rates over the past year in an effort to achieve stabilized occupancy at their projects. Additionally, landlords are giving concessions to attract tenants, which further decreases effective rental rates. It is not uncommon for prospective tenants to hire brokers to represent them in order to obtain the most competitive rental rate.

- Ed Benoit – TRI Commercial: Land sales have gone silent over the past 12 to 18 months for commercial parcels. There is no market for land in the current market except for users and bottom feeding investors willing to hold the land for a number of years. It would take deep discounts from historical pricing to get an investor interested.

- Thomas Walcott – Grubb and Ellis: Properties are experiencing increasing vacancies, and owners are more willing to give concessions. Renegotiations are not uncommon, even if the leases are not nearing expiration. Finding sales comparables today is very difficult, with most comps being dated. The lack of available credit is adversely affecting investors' ability to close transactions.

- Randy Getz – CB Richard Ellis: While the vacancy rate in the Sacramento CBD is lower than other submarkets, leasing activity for new tenants remains tepid. Buyers are generally separated into two segments: those looking to buy distressed or REO properties with good value added potential, and those looking to purchase properties with institutional tenants having long-term, secure leases. Capitalization rates are difficult to determine in the current market due to the limited amount of recent sales. Mr. Getz has properties listed with capitalization rates between 6.50% and 7.00% for buildings with long-term tenants in place. The majority of users demanding large space (50,000 square feet and greater) typically constitute government entities.

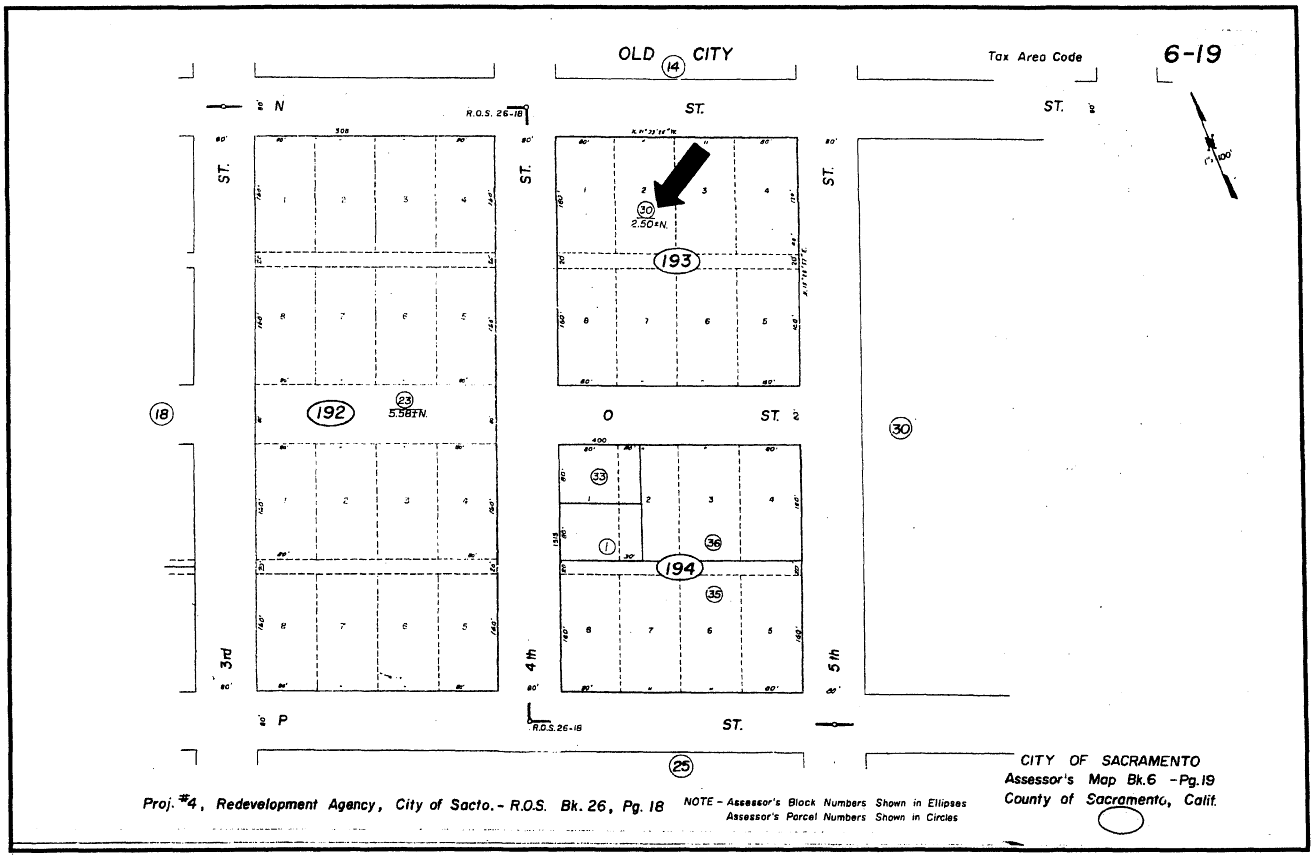
The general consensus among brokers is that business owners are in "hunker down" mode, and lack confidence in the current business environment to expand their businesses or take on additional debt. The market has slowed as owner-users are having difficulty obtaining financing, and many businesses in housing-related services have been largely unsuccessful in recent periods. However, the subject's location in the Sacramento CBD mitigates some of the risk associated with office properties in the current market. Office properties in the CBD are experiencing comparatively higher occupancy rates due to their location proximate to the State Capitol and the number of government and government-related agencies in the area. Future growth in the local market will be dependent on employment in the region and the state budget. If the budget worsens and layoffs are implemented for state and county workers, this would have a disproportionately adverse impact on office properties in the subject's immediate area.

Overall, the subject's Downtown location remains the most stable office submarket in the Sacramento region. However, like all of the submarkets in the region, activity has slowed over recent years and price points have declined due to worsening macroeconomic conditions. Additionally, brokers have reported properties are taking longer to lease up and landlords are offering longer free rent periods in order to finalize lease agreements. Fluctuations in the vacancy rate and absorption are expected in the short term. However, due to the desirability of the Downtown office market, improved performance is expected in the long term.

Looking Ahead

Over the course of the next year, most market participants expect the office market to continue contracting as more job losses are expected in the region. While demand is falling, supply will continue to increase as projects under construction come online. As a result, vacancy will likely increase, net absorption for 2010 is expected to be negative, and asking rental rates are projected to decline further. Significant concessions such as free rent and tenant improvement allowances will continue to be necessary to attract new tenants. The high-growth suburban submarkets will continue to see high vacancy due to their large amount of new construction over the recent past. In particular, vacancy is expected to remain very high in the areas of Roseville/Rocklin, Natomas and Elk Grove.

For much of the past year, there has been speculation among market participants that a wave of foreclosures among commercial properties would be coming much as it had in the residential sector. However, we are now seeing signs that the commercial markets may not see an abrupt wave of foreclosures and plummeting values, but rather a much longer and slower correction. This is because of "pretend and extend" practices, an increase in note sales, the return of the commercial mortgage backed-securities market, and an increase in refinancing and loan workouts. Some troubled assets are likely to return to the marketplace, but on a more limited and gradual basis than was once expected. While commercial real estate values may see further declines, they should not be as significant as those already seen from 2007 through 2009.



Street Address

450 N Street
Sacramento, California 95814

Location

The subject is located along the south line of N Street, east of 4th Street and west of 5th Street, within the city of Sacramento, California.

Assessor's Parcel Number(s)

The subject property is situated within the confines of a single assessor's parcels identified as 006-0193-030.

Legal Description

A complete legal description, which would typically be included in a preliminary title report, was not provided to the appraiser.

Owner(s) of Record

Title to the subject property is presently vested with the State of California.

Property Taxes and Assessments

The property tax system in California was amended in 1978 by Article XIII to the State Constitution, commonly referred to as Proposition 13. It provides for a limitation on property taxes and for a procedure to establish the current taxable value of real property by reference to a base year value, which is then modified annually to reflect inflation (if any). Annual increases cannot exceed 2% per year.

The base year was set at 1975-76 or any year thereafter in which the property is substantially improved or changes ownership. When either of these two conditions occurs, the property is to be re-appraised at market value, which becomes the new base year assessed value. Proposition 13 also limits the maximum tax rate to 1% of the value of the property, exclusive of bonds and supplemental assessments. Bonded indebtedness approved prior to 1978, and any bonds subsequently approved by a two-thirds vote of the district in which the property is located, can be added to the 1% tax rate.

According to the Sacramento County Treasurer-Tax Collector's Office, the subject property is not assigned an assessed value or ad valorem taxes due to the fact that the property is owned by a public entity (State of California). However, if the property were to transfer to a private ownership, ad valorem taxes would then be assessed. The property is encumbered by one direct charge – SAFCA Consolidate Capital Assessment – that totals $13,644.64 per year. This is an Assessment District bond that expires in the 2037-2038 tax year. The subject property is located in tax rate area 03-009, which has an annual tax rate of 1.1035% based on assessed value.

Conditions of Title

A preliminary title report was not provided for this appraisal. As a result, the appraiser assumes no negative title restrictions or easements affect the subject property. The client is advised to obtain a title report to determine any possible conditions of title affecting the property appraised. The appraiser accepts no responsibility for matters pertaining to title, and the opinion(s) of value stated herein could be negatively impacted by title restrictions.

Zoning

Source:	City of Sacramento Planning Department
Zoning:	C-3: Central Business District – Special Planning District
Purpose:	According to the City of Sacramento Municipal Code, the central

business district (CBD or C-3) zone applies to an approximate 70-block portion of the central city. This zone is intended for the most intense retail, commercial and office developments in the city. The goals of the zone are as follows:

1) Accelerate the economic revitalization process by creating a marketplace attractive to private investment;
2) Achieve a plan for long-term economic growth through private sector incentive measures;
3) Enhance the character of Sacramento's downtown and ensure the development of well-designed new projects by adopting the architectural design guidelines;
4) Provide for a pleasant, rich and diverse pedestrian experience by implementing the streetscape design guidelines;
5) Provide for the humanization of the downtown through promotion of the arts, program of special events and activities, and overall excellence of design.

Conclusion: As improved, the subject property represents a legal, conforming use.

Flood Zone

Source: Digital Media Services (www.floodmaps.com)

Flood Zone: Zone X500 – Areas of 500-year flood; areas of 100-year flood with average depths of less than one foot or with drainage areas less than one square mile; areas protected by levees from 100-year flood; and areas inundated by 0.2% annual chance flooding.

Map Panel: 060266-0160G

Panel Date: December 8, 2008

Conclusion: Flood insurance is not required.

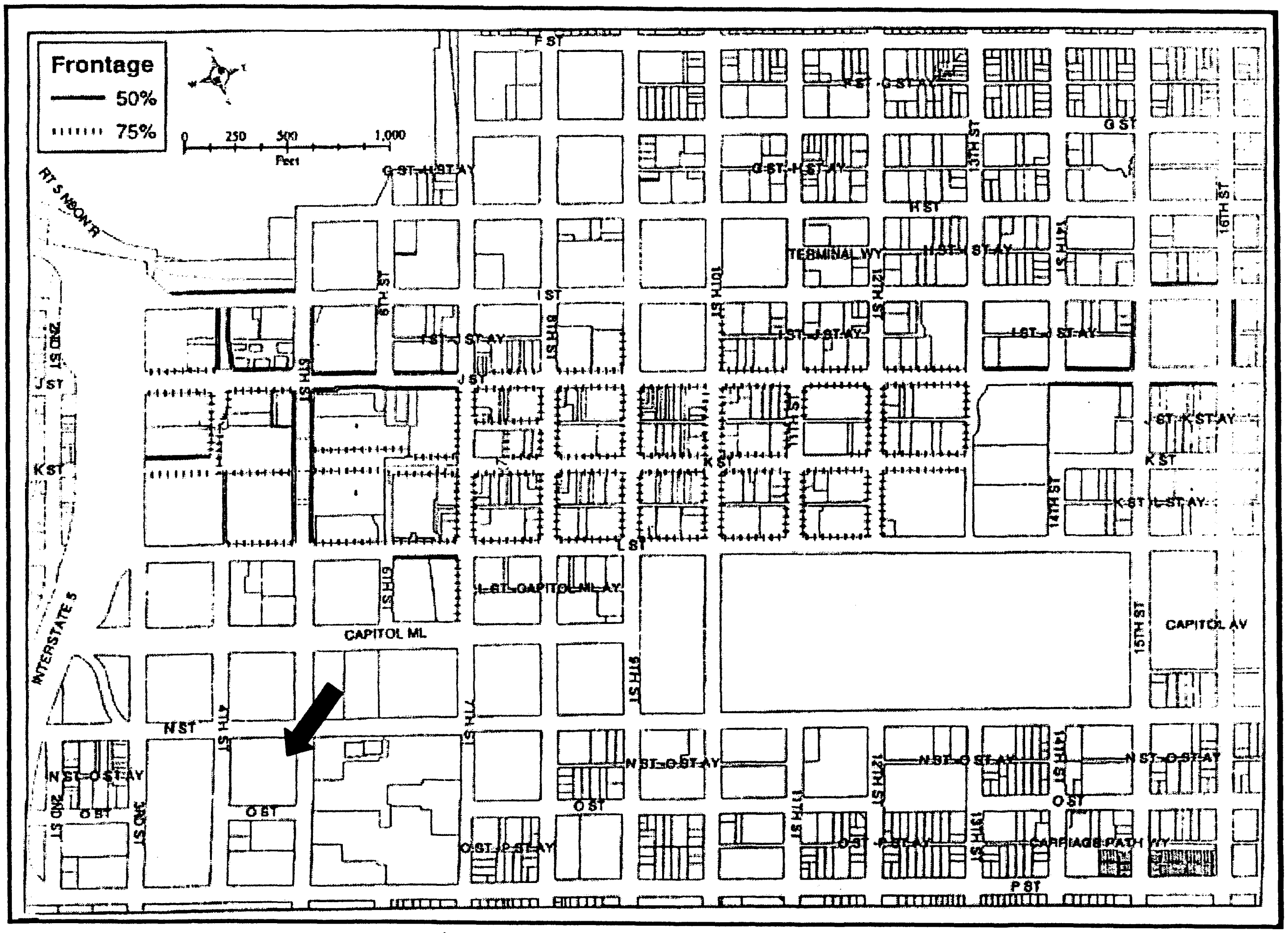
Earthquake Zone

According to the Seismic Safety Commission, the subject is located within Zone 3, which is considered to be the lowest risk zone in California. There are only two zones in California: Zone 4, which is assigned to areas near major faults; and Zone 3, which is assigned to all other areas of more moderate seismic activity. In addition, the subject is not located in a Fault-Rupture Hazard Zone (formerly referred to as an Alquist-Priolo Special Study Zone), as defined by Special Publication 42 (revised January 1994) of the California Department of Conservation, Division of Mines and Geology.

Easements

An inspection of the subject property revealed no apparent adverse easements, encroachments or other conditions currently impacting the subject. However, the exact locations of typical roadway and utility easements, or any additional easements, which would be referenced in a preliminary title report, were not provided to the appraiser. The appraiser is not a surveyor nor qualified to determine the exact location of easements. It is assumed any easements noted in a current preliminary title report do not have an impact on the opinion(s) of value as provided in this report. If, at some future date, any easements are determined to have a detrimental impact on value, the appraiser reserves the right to amend the opinion(s) of value contained herein.

SITE DESCRIPTION



Assessor's Parcel Number(s): 006-0193-030

Census Tract No.: 8.00/1

Land Area: 2.50±acres (108,900± square feet)

Topography: The topography of the subject property is generally level and at street grade.

Shape: Rectangular

Soils: The appraiser has not been provided a soils report to determine the load bearing capacity of the subject property. No adverse subsoil conditions are apparent. Based on the existence of the subject structure, as well as buildings on adjacent parcels, it appears the subject possesses adequate load-bearing capacity for development.

Frontage/Access/Visibility:

Off-Site Characteristics	N Street	5th Street	4th Street
Paving	Asphalt	Asphalt	Asphalt
Curbs	Yes	Yes	Yes
Gutters	Yes	Yes	Yes
Sidewalks	Yes	Yes	Yes
Lanes	3	3	2
Direction of Traffic	East (One-Way)	North (One-Way)	North-South
Condition	Average	Average	Average
Traffic Levels	Good	Good	Good
Access/Curb Cuts	Average	Average	Average
Visibility	Good	Good	Good

Drainage:

Based on our physical inspection of the subject property, it appears the property has been graded and paved in such a way so as to provide adequate drainage.

Utilities:

Public utilities, including electricity, natural gas, water and telephone service, are available to the property.

Environmental Issues:

At the time of inspection, the appraiser did not observe the existence of hazardous material, which may or may not be present on the property. The appraiser has no knowledge of the existence of such materials on the property. However, the appraiser is not qualified to detect such substances. The presence of potentially hazardous materials could affect the value of the property. The value estimate is predicated on the assumption 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 the field if desired.

Adjacent Uses:

North	Office development
South	Office development
West	Multifamily residential and office development
East	Office development

Functional Adequacy:

Overall, the subject property is functional in terms of its size, topography, shape and overall location within the city of Sacramento. There appear to be no unusual or restrictive physical limitations to the property.

Conclusion:

The subject property is considered physically suitable for development.

IMPROVEMENT DESCRIPTION

The subject property represents a 24-story, Class A professional office building located at 450 N Street, within the city of Sacramento, California. The building contains 449,138± square feet of rentable area and is occupied by the California State Board of Equalization (BOE). The primary entrance is on the south side of the building and provides access to a large entry way with an atrium and reception area. A hallway extends from the main entrance that leads to a board room, a café, a large copy room, a print shop, and a mail distribution area. Additionally, there is a space on the east side of the building that is used as a daycare center. Directly past the front entrance are elevators and stairwells that provide access to each floor, and numerous private offices, open office areas, break rooms and restrooms are located on the upper floors. The following tables detail the breakdown of rentable area by floor. It is noted that Floors 12 and 13 are used for mechanical rooms and the building's HVAC system. Thus, these floors are not included in the calculation of rentable area.

Floor	Rentable Area (SF)
Floor 1	35,088
Floor 2	20,138
Floor 3	19,367
Floor 4	19,852
Floor 5	19,244
Floor 6	19,728
Floor 7	21,520
Floor 8	21,346
Floor 9	21,531
Floor 10	19,703
Floor 11	19,941

Floor	Rentable Area (SF)
Floor 14	20,056
Floor 15	22,138
Floor 16	20,896
Floor 17	20,153
Floor 18	20,346
Floor 19	20,293
Floor 20	20,495
Floor 21	20,394
Floor 22	20,554
Floor 23	12,983
Floor 24	13,372
Total	449,138

Given the irregular shape and multiple floors within the building, we relied on information provided by the BOE to determine rentable area. If, at some future date, the rentable area of the building is reported to be different than that referenced in this appraisal, this could affect our conclusion(s) of value. Due to the complexity of the subject's layout/floor plan, the client is highly advised to obtain an expert in the field to verify the rentable area.

A description of the improvements is provided below based on our inspection of the property on March 15, 2010. The appraiser is not an expert in the field of construction; thus, portions of the improvement description were taken from an infrastructure study prepared by Stantec Architecture, Inc. and dated May 19, 2009.

Structural/Exterior/Mechanical

Foundation:	Precast concrete pile foundation
Structure:	Steel beam and column framing construction, with

	composite metal decking floor plates
Exterior Walls:	Aluminum framed 'stick-system' curtain wall, with both insulated vision and monolithic spandrel glass. Additionally, the building corners, mechanical floors, and parapets are of precast concrete panels.
Roof:	The roof was not inspected but was reported to be of an elastomeric coated membrane assembly that returns to a precast concrete panel (helicopter landing pad). Roof features also include steel parapet angle braces, davit supports, and conduit and utility penetrations.
Doors/Windows:	The entrances to the building consist of aluminum framed doors with tinted glass. The windows also have aluminum frames with tinted glass.
Building Area:	
Gross	602,519± square feet
Rentable	449,138± square feet
Number of Stories:	The building is 24 stories. Floors 12 and 13 are used for mechanical rooms and the HVAC system. These floors are not included in the calculation of rentable area.

Interior

Flooring:	A combination of commercial grade carpet, ceramic tile, and vinyl tile flooring
Interior Walls:	The interior walls consist primarily of taped, textured and painted drywall, in addition to some wallpaper and ceramic tile wall coverings. The ground level entryway, atrium, and hallways have marble tile walls.
Ceilings:	Primarily acoustical T-bar panels and finished ceilings. The entryway and atrium has finished wood ceilings.
Lighting:	Recessed fluorescent, incandescent and affixed lighting fixtures
HVAC:	The building is heated and cooled via a central HVAC system.

Electrical: The electrical system and related components are deemed adequate for office use.

Plumbing: There is at least one set of men's and women's restrooms per floor, excluding floors 12 and 13.

Fire Protection: The building has a full fire sprinkler system in place (wet system).

Patio: There are outdoor patio areas on Floor 23. These patios are not included as rentable area.

Elevators: There are 13 elevators in total, in addition to two sets of stairwells. Five elevators are gearless traction elevators that provide access to the upper floors, and four geared traction elevators access the lower floors. A single geared traction service elevator serves all floors. Finally, three hydraulic elevators serve the parking garage.

Stairwells: The building has two sets of stairwells that provide access to all floors.

Flex/Warehouse Space: The large copy room, print shop, and mail distribution area are conditioned but are representative of flex/tech space rather than professional office space, as they do not have the same level of office build-out as the balance of the office areas within the building. Additionally, there are unfinished warehouse areas on the ground-level that are used for storage.

Site Improvements

Floor Area Ratio (FAR): The subject property exhibits a floor area ratio of 4.12 based on the square footage of the building in relation to the total land area.

Parking: There is a three-story parking structure on the south side of the building with 711 parking spaces, inclusive of the spaces located on the roof top of the garage. Additionally, there is metered street parking available.

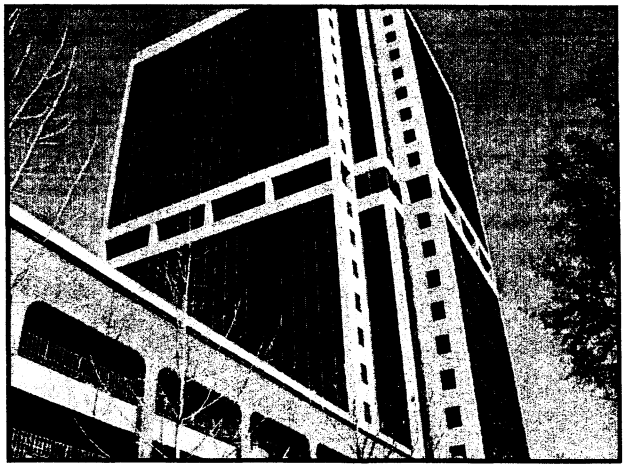
The garage structure consists of steel reinforced precast concrete shear walls on a reinforced concrete foundation.

Landscaping:	Landscaping is minimal and consists of limited lawn, shrubs and trees around the perimeter of the property.

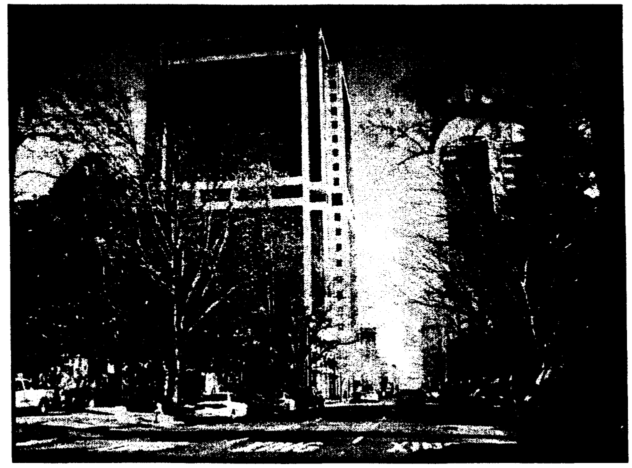
Age/Condition

Chronological Age:	The building was reportedly constructed in 1991, while the parking garage was constructed in 1963 (renovated in 1990).
Effective Age:	15 years (upon completion of remediation and renovation)
Remaining Economic Life:	30-35± years, assuming an average level of maintenance will be applied to the subject property as part of prudent and competent ownership.
Maintenance Issues:	Over the past several years, the property has had issues with water leaks, burst-pipe floods, and window failures, all of which lead to mold spreading throughout the building. Additionally, the building is in need of maintenance, repair, and renovation to comply with current building code. Please refer to page 5 of this report for greater detail. The remediation/renovation project is underway and is expected to be completed by February 2011, with elevator repair to be complete by April 2012. According to the latest figures posted by the BOE, the costs incurred thus far for mold remediation, exterior curtain wall maintenance, and interior tenant improvements (carpet and paint) equate to \$32,006,670. The remaining mold remediation costs and additional costs associated with building maintenance, repair and renovation are projected at \$25,885,793.
Functional Obsolescence:	None determined
Condition:	Good (upon completion of remediation/renovation)
Quality:	Good

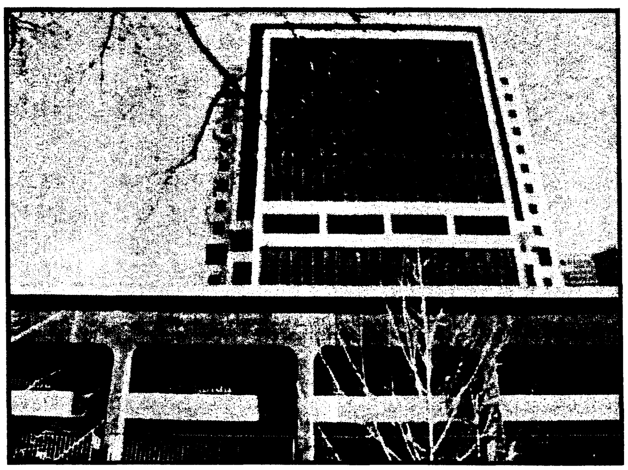
SUBJECT PHOTOGRAPHS



Exterior view of the subject

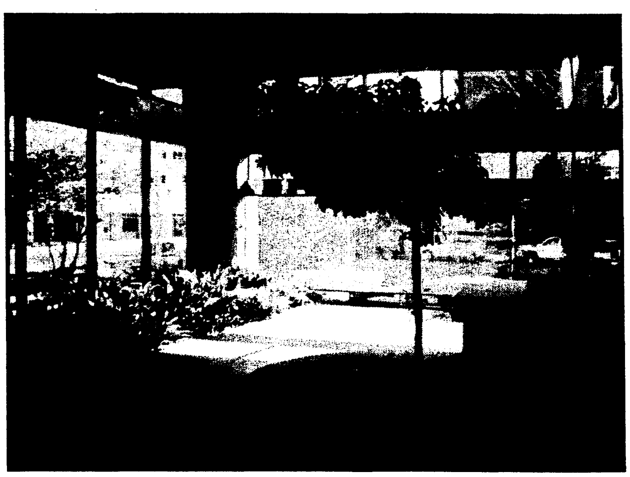


View of the subject from 5th Street

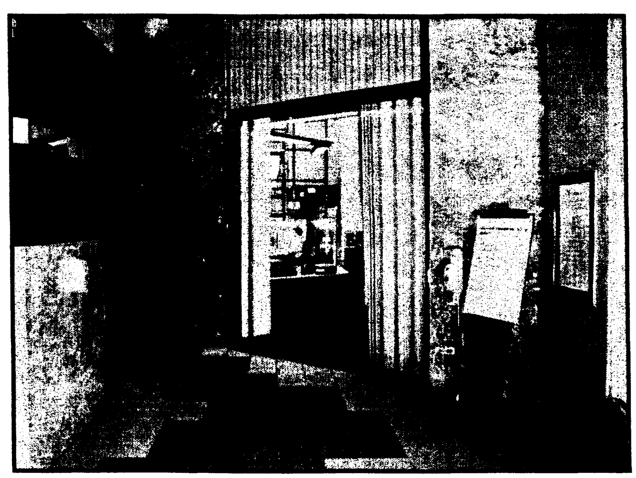


South side of the building

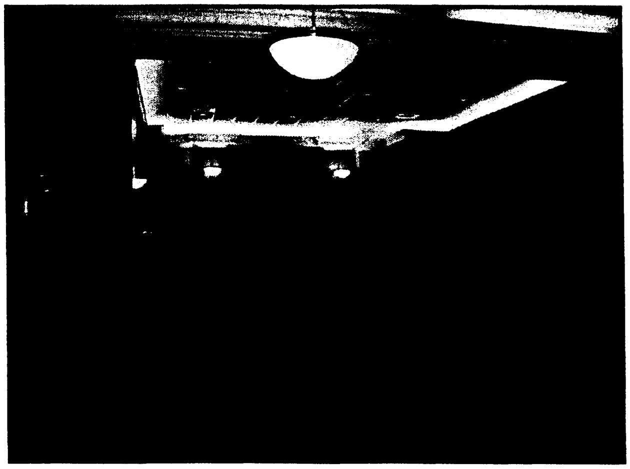
Parking structure



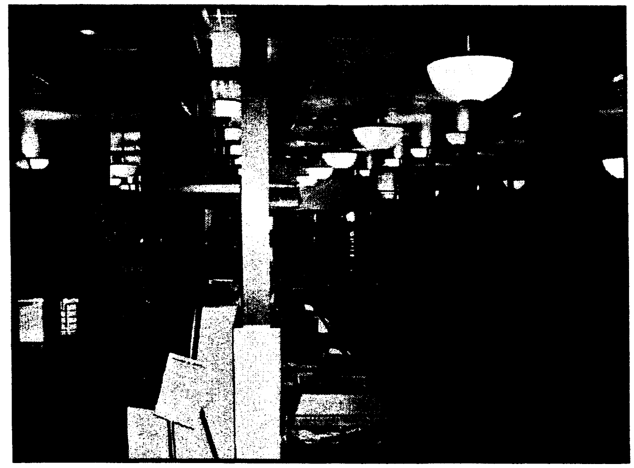
Entrance/atrium



Reception area/entrance

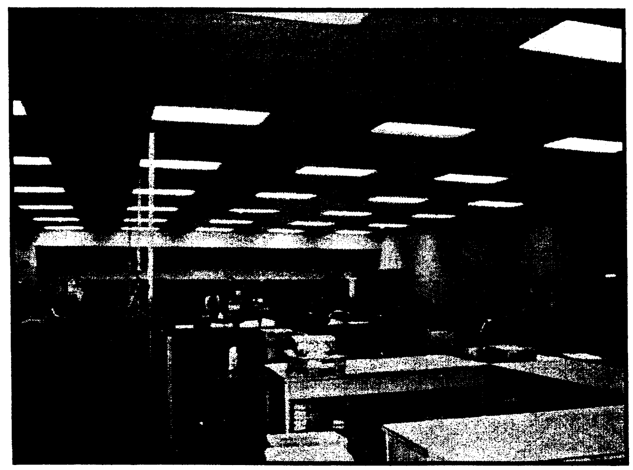


Boardroom

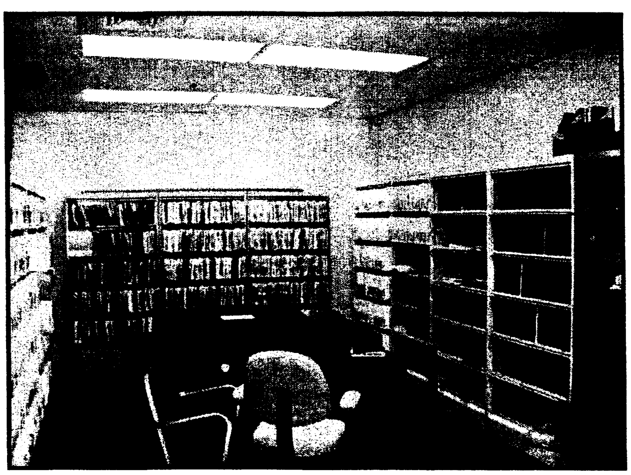


Café/dining area

Print shop

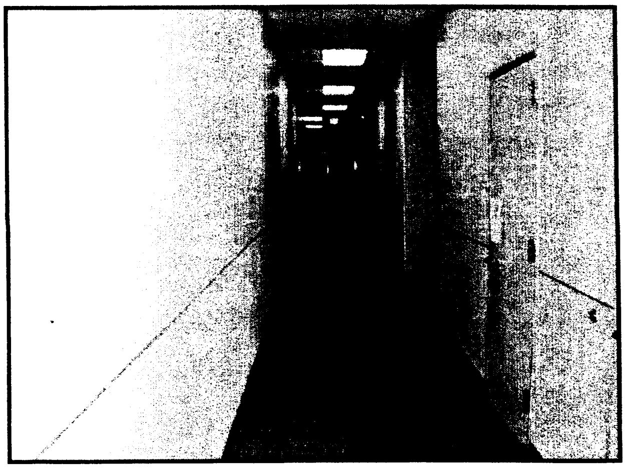


Mail distribution room

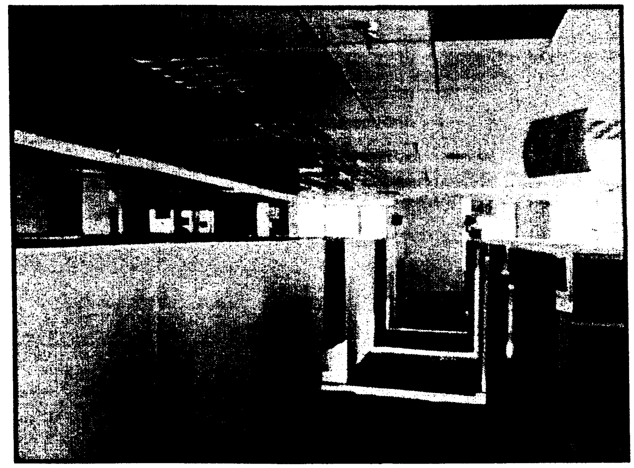


Typical conference room

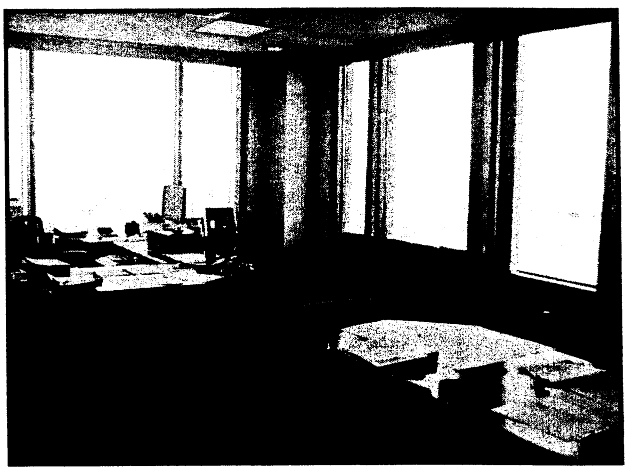
Private office



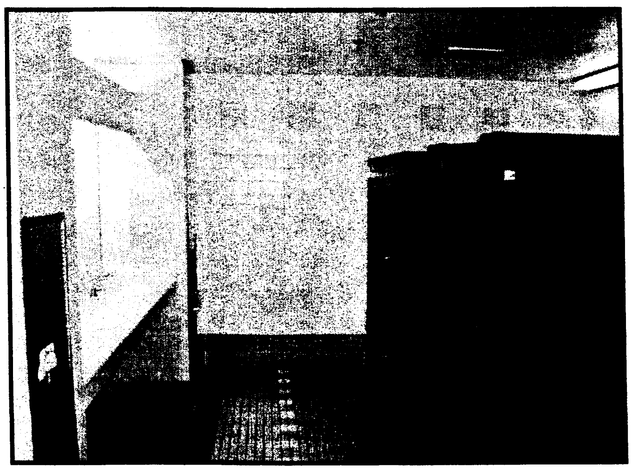
Hallway



Open office area



Executive office



Typical restroom

Looking north along 5th Street

Looking south along 5th Street

HIGHEST AND BEST USE ANALYSIS

The term "highest and best use," as used in this report, is defined as follows:

> 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 legal permissibility, physical possibility, financial feasibility, and maximum productivity. 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.[4]

Two analyses are typically required for highest and best use. The first analysis is highest and best use of the subject property as though vacant. The second analysis will determine the highest and best use of the property as improved. Definitions of these terms are provided in the *Glossary of Terms* in the Addenda to this report.

Highest and Best Use – As Vacant

In accordance with the definition of highest and best use, it is appropriate to analyze the subject property as though vacant as it relates to legal permissibility, physical possibility, financial feasibility and maximum productivity. The subject property is zoned C-3 – Central Business District, and it is located in an area consisting primarily of office development. This area has undergone extensive planning and review; zoning modifications are considered highly unlikely. Office use is legally permissible and physically possible; however, the significant and ongoing decline in market conditions (please refer to the *Office Market Overview* earlier in this report) limit the feasibility of new construction in the current market.

While the subject's Downtown location remains the most stable office submarket in the Sacramento region, activity has slowed over recent years and price points have declined due to worsening macroeconomic conditions. Additionally, brokers have reported properties are taking longer to lease up and landlords are offering longer free rent periods in order to finalize lease agreements. It is our opinion the highest and best use of the subject property as though vacant would be to hold for future development, unless in a build-to-suit scenario. The timing of future development would depend on improvement in market conditions as it relates to the expected absorption timeline for the lease-up of new space, as well as market rent levels.

Highest and Best Use - As Improved

As with the highest and best use as though vacant, the four tests of highest and best use must also be applied to the subject property considering the in-place improvements. Consideration must be given

[4] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 93.

to the continued as-is use of the subject, as well as alternative uses for the property. The potential alternative uses consist of demolition, expansion, conversion or renovation. A discussion of the possible "as improved" uses is offered below.

Demolition

One alternative would be to demolish the subject structure, creating a vacant site. Although it is physically possible to demolish the building, it is not financially feasible. Dividing the estimate of market value by the subject's land area yields a land value (per square foot) that is higher than has been historically been achieved in the Sacramento CBD. Thus, the value of the property as improved exceeds the value of the land as vacant. Therefore, demolition is not considered economically prudent.

Expansion

The building is situated on the site in such a way that a significant amount of additional space, or a separate improvement, could not be added, especially due to parking requirements. Expansion is not considered to be an appropriate alternative.

Conversion

The subject property was specifically designed for office use. Conversion to a significantly different use would not be financially feasible or in line with the highest and best as vacant analysis. Therefore, conversion is not an appropriate alternative.

Renovation

The office tower was constructed in 1991, and the parking garage was constructed in 1963 (renovated in 1990). Over the past several years, the office building has had issues with water leaks, burst-pipe floods, and window failures, all of which lead to mold spreading throughout the building. Additionally, the building is in need of maintenance, repair, and renovation to comply with current building code. Please refer to page 5 of this report for greater detail. The remediation/renovation project is underway and is expected to be completed by February 2011, with elevator repair to be complete by April 2012. Curing of the maintenance issues as planned is considered appropriate in order to allow for the continuation of existing use. Additionally, the costs associated with remediation/renovation do not exceed the estimate of market value of the subject upon completion of renovation, indicating feasibility of the remediation/renovation project.

Continued Use – As-Is

The subject property can legally and physically continue to be utilized in its exact as-is condition, although remediation/renovation is required due to the mold and maintenance issues. While market conditions have slowed in recent periods within the subject's market area, the subject is located in the Central Business District of Sacramento, an area that is considered to be a viable location for office properties over the long term.

Conclusion

Legal, physical and financially feasible considerations, as well as alternative uses and market considerations, have been analyzed to evaluate the highest and best use of the subject property as improved. Based on this analysis, the subject's highest and best use as improved is for completion of the remediation/renovation project as planned and for continuation of the existing office use. Given the specifics of the subject property (location, design, rentable area, etc.), the probable buyer would be an investor looking to manage the subject property as a leased investment (as opposed to an owner-user). This is substantiated by the fact that the majority of larger office properties such as the subject transfer to investors rather than single, owner-user entities.

There may be stigma associated with the subject property due to the existence of mold and the extensive remediation project that is required. The appraiser is not an expert in the field of determining the impact of stigma, and an estimate of loss in value due to stigma is not included in the scope of our analysis. The degree of stigma (if any) and the resultant impact on the typical buyer's purchasing decision due to stigma is unknown.

APPROACHES TO VALUE

The valuation process is a systematic procedure used in the valuation of real property.[5] This process involves the investigation, organization and analysis of pertinent market data and other related factors that affect the market value of real estate. The market data is analyzed in terms of any one or all of the three traditional approaches to estimating real estate value. These are the cost, sales comparison and income capitalization approaches. Each approach to value is briefly discussed and defined as follows:

Cost Approach

The cost approach is based on the premise that no prudent buyer would pay more for a particular property than the cost to acquire a similar site and construct improvements of equivalent desirability and utility. Thus, this approach to value relates directly to the economic principle of substitution, as well as supply and demand. The cost approach is most applicable when valuing properties where the improvements are new or suffer only a minor amount of accrued depreciation, and is especially persuasive when the site value is well supported. The cost approach is also highly relevant when valuing special-purpose or specialty properties and other properties that are not frequently exchanged in the market.

The definition of the cost approach is offered as follows:

> A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.[6]

Sales Comparison Approach

The sales comparison approach is based on the premise that the value of a property is directly related to the prices being generated for comparable, competitive properties in the marketplace. Similar to the cost approach, the economic principles of substitution, as well as supply and demand are basic to the sales comparison approach. This approach has broad applicability and is particularly persuasive when there has been an adequate volume of recent, reliable transactions of similar properties that indicate value patterns or trends in the market. When sufficient data are available, this approach is the most direct and systematic approach to value estimation. Typically, the sales comparison approach is most pertinent when valuing land, single-family homes and small, owner-occupied commercial and office properties.

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[5] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 205.
[6] The Dictionary of Real Estate Appraisal, 47.

The definition of the sales comparison approach is offered as follows:

> The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.[7]

Income Capitalization Approach

The income capitalization approach is based on the premise that income-producing real estate is typically purchased as an investment. From an investor's point of view, the potential earning power of a property is the critical element affecting value. The concepts of anticipation and change, as they relate to supply and demand issues and substitution, are fundamental to this valuation approach. These concepts are important because the value of income-producing real estate is created by the expectation of benefits (income) to be derived in the future, which is subject to changes in market conditions. Value may be defined as the present worth of the rights to these future benefits. The validity of the income capitalization approach hinges upon the accuracy of which the income expectancy of a property can be measured.

Within the income capitalization approach there are two basic techniques that can be utilized to estimate market value. These techniques of valuation are direct capitalization and yield capitalization.

> *Direct Capitalization*: A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.[8]

> *Yield Capitalization*: A method used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment's income pattern, holding period, value change, and yield rate.[9]

The definition of the income capitalization approach is offered as follows:

> A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.[10]

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[7] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 175.
[8] The Dictionary of Real Estate Appraisal, 58.
[9] The Dictionary of Real Estate Appraisal, 211.
[10] The Dictionary of Real Estate Appraisal, 99.

APPRAISAL METHODOLOGY

We will begin the valuation by employing two of the three traditional approaches to value – the sales comparison and income capitalization approaches – to estimate the prospective market value of the subject property upon completion of remediation/renovation. The conclusions reached through these approaches will then be reconciled into a final opinion of prospective market value by taking into account the strengths and weaknesses of both approaches. From this estimate of prospective market value, we will deduct the estimated remediation/renovation costs to develop an opinion of market value for the subject as of the date of inspection. At the client's request, we will also estimate the prospective market values of the subject as of two separate dates during the remediation/renovation process by deducting the remaining costs as of the specified dates. The projected remaining costs were provided by the BOE and are assumed to be accurate. It is noted that an estimate of loss in value due to stigma is not included in the scope of our analysis.

The subject property is operating at stabilized occupancy; thus, deductions for lease-up costs will not be applied. However, if the Board of Equalization vacated the building and the subject property was marketed without a tenant in place, this would result in a reduction in value in order to account for required lease-up costs (rent loss, concessions, tenant improvements, commissions, and entrepreneurial incentive).

The cost approach is not considered reliable to produce a credible estimate of value. Market participants (buyers, sellers, brokers, etc.) put little, if any, reliance on the cost approach when assessing properties that are not of new or proposed construction. They typically rely more heavily on the sales comparison and income capitalization approaches. Due to the significant and ongoing contraction in the market, many improved properties are selling for less than replacement cost in the current market environment. As a result, the application of the cost approach would likely require a substantial deduction for external obsolescence associated with declining market conditions. Additionally, the improvements have accrued some physical depreciation as they were constructed nearly 20 years ago. Based on these factors, the cost approach is not considered relevant in the valuation of the subject property.

SALES COMPARISON APPROACH

Using the sales comparison approach, the prospective market value of the subject property upon completion of remediation/renovation will be estimated by a comparison to similar properties that have recently sold, are listed for sale, or are under contract. The underlying premise of the sales comparison approach is the market value of a property is directly related to the price of comparable, competitive properties in the marketplace.

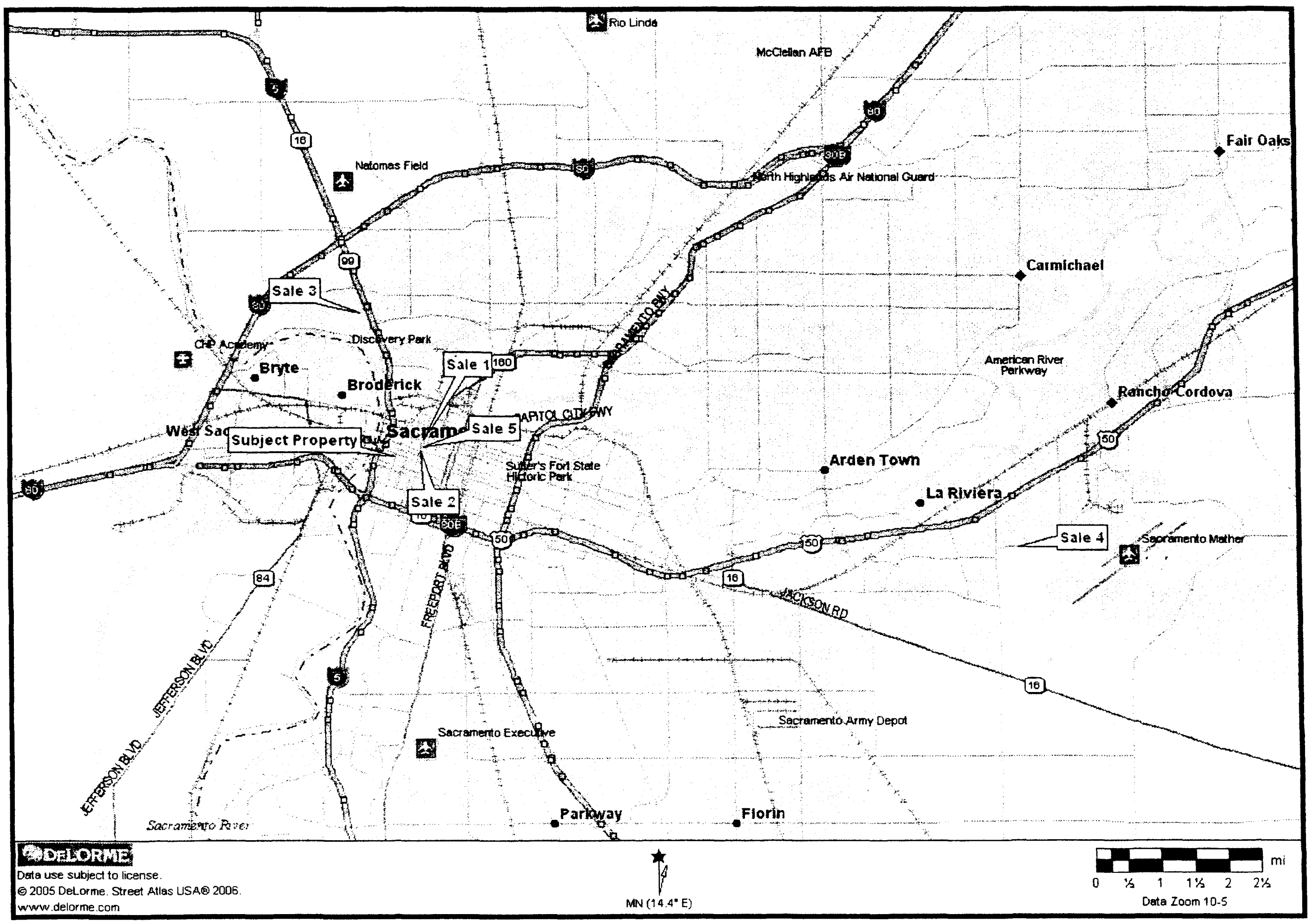
This approach is based on the economic principle of substitution. According to The Appraisal of Real Estate, 13th Edition (Chicago: Appraisal Institute, 2008), "*The principle of substitution holds that the value of property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time. The principle implies that the reliability of the sales comparison approach is diminished if substitute properties are not available in the market.*"

The proper application of this approach requires obtaining sale data for comparison with the subject property. In order to assemble the comparable sales, we searched public records and other data sources for leads, then confirmed the raw data obtained with parties directly related to the transactions (primarily brokers, buyers and sellers).

On the following pages, we will present and analyze five comparable sales. We will begin by presenting a summary tabulation and location map, followed by sales sheets, a discussion of necessary adjustments, and our conclusion of prospective market value via this approach. These sales are the most recent transactions considered reasonably similar to the subject property. Due to the limited amount of recent transactions of larger professional office properties in the subject's immediate area, we expanded our search parameters to include properties throughout the region.

IMPROVED SALES SUMMARY

No.	Property Identification	Sale Date	Sale Price	Rentable Area (SF)	Price per SF	OAR	Year Built
1	980 9th Street and 1010 8th Street Sacramento	Dec-09	$97,000,000	454,914	**$213.23**	N/Av	1992
2	915 L Street Sacramento	Dec-09	$40,000,000	163,425	**$244.76**	N/Av	1988
3	2450 Venture Oaks Way Sacramento	Nov-08	$20,600,000	101,500	**$202.96**	7.75%	1988
4	9838 Old Placerville Road Sacramento	Sep-08	$27,000,000	139,500	**$193.55**	7.75%	1986
5	801 K Street Sacramento	Dec-07	$87,500,000	336,104	**$260.34**	N/Av	1989



IMPROVED SALE 1

Property Identification
Office Building

980 9th Street and 1010 8th Street
Sacramento, CA 95814
Sacramento County

APN: 006-0036-031, -036 and 006-0094-009

Sale Data	
Grantor	TIAA-CREF
Grantee	CIM Group, LP
Sale Date	December 18, 2009
Deed Book Page	200912210004
Property Rights	Leased Fee
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	$97,000,000
Land Data	
Land Area	96,211 SF
Zoning	C-3, Central Business District
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	9th Street and J Street
Topography	Generally level
Improvement Data	
Rentable Area	454,914 SF
Year Built	1992 (office tower), 1960 (garage)
Number of Stories	See remarks
Tenancy	Multiple
Construction Type	Steel frame
Parking	Parking garage and street parking. Tenants are charged a monthly fee for spaces in the garage.
Floor Area Ratio	4.73
Indicators	
Sale Price per SF	$213.23
Overall Capitalization Rate	Undisclosed

Remarks

Information regarding this sale is not available via public records, and the broker involved was unable to provide specific information due to a confidentiality agreement. Other active brokers aware of the sale provided a general consensus on the sale price. The transaction includes two properties, a 25-story office tower with 442,639 square feet (980 9th Street), and a four-story parking garage with 12,275 square feet of ground-level retail space (1010 8th Street). The office tower also has some ground-level retail space, a fitness center, and an eight-story parking garage with 801 spaces. Brokers acknowledged that the transaction price is less than replacement cost for the improvements.

IMPROVED SALE 2

Property Identification
Office Building

915 L Street
Sacramento, CA 95814
Sacramento County

APN: 006-0102-017 and -019

Sale Data	
Grantor	TIAA-CREF
Grantee	GPT Properties Trust
Sale Date	December 17, 2009
Deed Book Page	200912180183
Property Rights	Leased Fee
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	$40,000,000
Land Data	
Land Area	22,311 SF
Zoning	C-3, Central Business District
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	9th Street and L Street
Topography	Generally level
Improvement Data	
Rentable Area	163,425 SF
Year Built	1988
Number of Stories	14
Tenancy	Multiple
Construction Type	Steel frame
Parking	Parking garage and street parking. Tenants are charged a monthly fee for spaces in the garage.
Floor Area Ratio	7.32
Indicators	
Sale Price per SF	$244.76
Overall Capitalization Rate	Undisclosed

Remarks

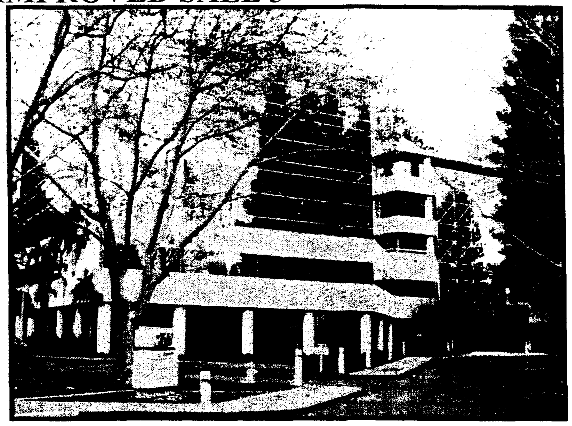
The buying entity is a Real Estate Investment Trust (REIT). The property was reportedly 98% leased at the time of sale to 24 tenants. However, we were unable to verify net operating income and the overall capitalization rate. The majority of the space is leased to two entities associated with the State of California, and the leases have approximately eight years remaining. The sale price is reported on public records.

IMPROVED SALE 3

Property Identification
Office Building

2450 Venture Oaks Way
Sacramento, CA 95814
Sacramento County

APN: 072-0610-034



Sale Data	
Grantor	Alexandria & Baldwin, Inc.
Grantee	KBS City Gate Plaza LLC.
Sale Date	11/25/2008
Deed Book Page	81125-1071
Property Rights	Leased Fee
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	$20,600,000
Land Data	
Land Area	564,930 SF
Zoning	OB, Office Building
Shape	Irregular
Corner Orientation	No
Street Frontage	Venture Oaks Way
Topography	Generally level
Improvement Data	
Rentable Area	101,500 SF
Year Built	1988
Number of Stories	5
Tenancy	Multiple
Construction Type	Steel frame with concrete exterior
Parking	Adequate
Floor Area Ratio (FAR)	0.18
Indicators	
Sale Price per SF	$202.96
Overall Capitalization Rate	7.75%

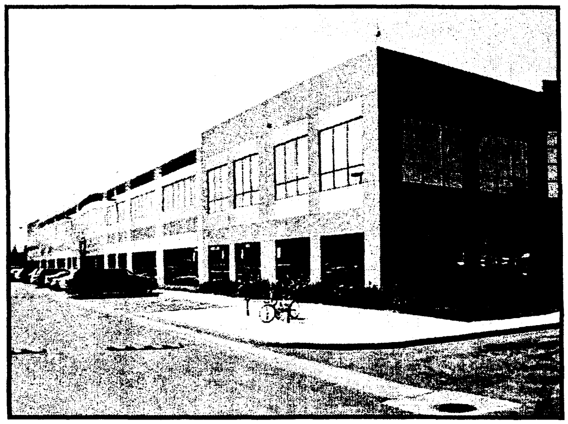
Remarks
The broker reported this building was in good condition at the time of sale. The net rentable area of the office building is 101,500 square feet. The property was 100% leased at the time of sale, and the buyer reportedly purchased the property to continue managing it as a leased asset. Due to the property's location outside of the Sacramento CBD, secondary consideration is given to this comparable.

IMPROVED SALE 4

Property Identification
Office Building

9838 Old Placerville Road
Sacramento, CA 95827
Sacramento County

APN: 067-0170-031



Sale Data	
Grantor	CPGE South Bradshaw, LLC
Grantee	Popi, LP
Sale Date	09/26/2008
Deed Book Page	80926-595
Property Rights	Leased Fee
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	$27,000,000
Land Data	
Land Area	438,649 SF
Zoning	MP, Office Park
Shape	Rectangular
Corner Orientation	No
Street Frontage	Along Old Placerville Road
Topography	Generally Level
Improvement Data	
Rentable Area	139,500 SF
Year Built	1986
Number of Stories	2
Tenancy	Single
Construction Type	Wood frame
Parking	Adequate
Floor Area Ratio (FAR)	0.32
Indicators	
Sale Price per SF	$193.55
Overall Capitalization Rate	7.75%

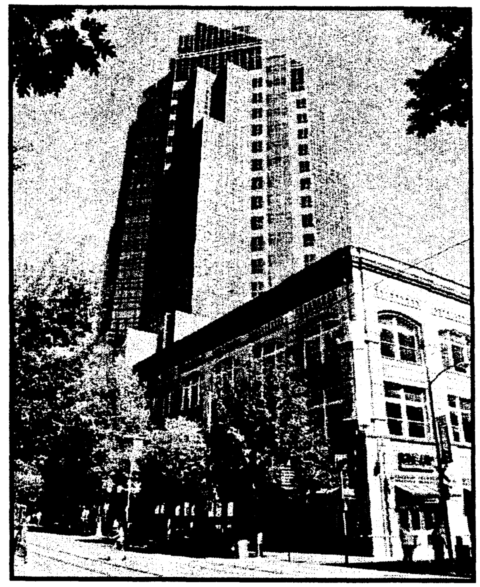
Remarks
This two-story office building is 100% occupied by the State of California Department of Corrections. The property is located in an area identified as the South Bradshaw Business Park. The overall location is deemed inferior to the subject's location. Due to the property's location outside of the Sacramento CBD, secondary consideration is given to this comparable.

IMPROVED SALE 5

Property Identification
Office Building

801 K Street
Sacramento, CA 95814
Sacramento County

APN: 006-0097-013



Sale Data	
Grantor	RT Sacramento Funding Co., Inc.
Grantee	Sacramento Equities Trust
Sale Date	12/27/2007
Deed Book Page	71227938
Property Rights	Leased Fee
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	$87,500,000
Land Data	
Land Area	31,520
Zoning	C-3, Central Business District
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	8th Street and K Street
Topography	Generally Level
Improvement Data	
Rentable Area	336,104
Year Built	1989
Number of Stories	28
Tenancy	Multiple
Construction Type	Steel frame
Parking	Parking garage and street parking. Tenants are charged a monthly fee for spaces in the garage.
Floor Area Ratio (FAR)	10.66
Indicators	
Sale Price per SF	$260.34
Overall Capitalization Rate	Undisclosed

Remarks
This building is known as the Renaissance Tower. The 28-story building was leased to nine tenants at the time of sale, most of which were government related entities. The vacancy rate at the time of sale was approximately 17%. Market conditions have been in a continual state of decline since the date of this transaction; thus, this sale is considered to provide a high indication of value.

Adjustment Discussion

In order to estimate the prospective market value of the subject property upon completion of remediation/renovation, the comparable transactions are adjusted to the subject with regard to categories that affect value. If a comparable has an attribute that is considered superior to that of the subject, it is adjusted downward to negate the effect the item has on the price of the comparable. The opposite is true of categories considered inferior to the subject.

To isolate and quantify the adjustments on the comparable sales data, it is considered appropriate to use percent adjustments. At a minimum, the appraiser considers adjustments for the following items:

- Property rights conveyed
- Financing terms
- Conditions of sale (motivation)
- Expenditures after sale
- Market conditions
- Physical features

A paired sales analysis is performed in a meaningful way when the quantity and quality of data are available. However, as a result of the limited data present in the market, many of the adjustments require the appraiser's experience and knowledge of the market and information obtained from those knowledgeable and active in the marketplace. Additionally, many of the adjustments are subjective and reflect the premiums and discounts a typical buyer would most likely assign for differing attributes between the comparables and the subject property. This analysis relies on qualitative adjustments, with adjustments being characterized as being slightly superior/inferior, superior/inferior, or significantly superior/inferior, where approximate percent adjustments would be assigned as follows:

Adjustment	Identification	Percent
Sig. Inferior	+ + +	20%
Inferior	+ +	10%
Sl. Inferior	+	5%
Similar		0%
Sl. Superior	-	-5%
Superior	- -	-10%
Sig. Superior	- - -	-20%

A discussion involving each of the adjustment categories is presented on the following pages.

Property Rights Conveyed

In transactions of real property, the rights being conveyed can vary widely and have a significant impact on the sales price. The fee simple market value of the subject property is estimated in this report. All of the comparables represent leased fee transactions. To the best of our knowledge, these properties sold within market parameters and were not influenced by above or below market contract rental rates. Consequently, no adjustments are required for property rights conveyed.

Financing Terms

In analyzing the comparables, it is necessary to adjust for financing terms that differ from market terms. Typically, if the buyer retained third party financing (other than the seller) for the purpose of purchasing the property, a cash price is presumed and no adjustment is required. However, in instances where the seller provides financing as a debt instrument, a premium may have been paid by the buyer for below market financing terms or a discount may have been demanded by the buyer if the financing terms were above market. The premium or discounted price must then be adjusted to a cash equivalent basis. The comparable sales represented cash to the seller transactions and, therefore, do not require adjustments.

Conditions of Sale

Adverse conditions of sale can account for a significant discrepancy from the sales price actually paid compared to that of the market. This discrepancy in price is generally attributed to the motivations of the buyer and the seller. Certain conditions of sale are considered to be non-market and may include the following:

- a seller acting under duress,
- a lack of exposure to the open market,
- an inter-family or inter-business transaction for the sake of family or business interest,
- an unusual tax consideration,
- a premium paid for site assemblage,
- a sale at legal auction, or
- an eminent domain proceeding.

The comparable transactions represent arm's-length, market transactions and do not require adjustments.

Expenditures After Sale

Expenditures after sale include expenses that are incurred after the purchase of a property, such as lease-up costs that would be required to bring a property to stabilized occupancy, or renovation costs. None of the comparables had deferred maintenance issues at the time of sale. Comparable 5 was not operating at stabilized occupancy and receives an upward adjustment to account for required lease-up costs. No additional adjustments are necessary for this element of comparison.

Market Conditions

Market conditions generally change over time, but the date of this appraisal is for a specific point in time. Therefore, in an unstable economy, one that is undergoing changes in the value of the dollar, interest rates and economic growth or decline, extra attention needs to be paid to assess changing market conditions. Significant changes in price levels can occur in several areas of a municipality, while prices in other areas remain relatively stable. Although the adjustment for market conditions is often referred to as a time adjustment, time is not the cause of the adjustment.

In evaluating market conditions, changes between the sale dates and the effective date of this appraisal may warrant adjustment; however, if market conditions have not changed, then no adjustment is required. The office market has been declining in recent periods as a result of weakening conditions in the real estate sector and wider macroeconomic uncertainty. Overall, the negative trends, coupled with the ongoing credit crisis, have resulted in declines in property values. While the office market in the subject's CBD area has higher occupancy rates relative to other submarkets, local brokers are reporting longer exposure times and falling prices, especially since the expansionary years of 2005/2006 and prior. Additionally, overall capitalization rates have been rising.

According to the Korpacz Real Estate Investment Survey, average capitalization rates for the national CBD office market have increased from 7.14% to 8.24% over the past year, or 110 basis points. Holding rental rates and vacancy steady, the resultant decrease in property values would be approximately 15% due to the increase in capitalization rates. However, rental rates have been declining and vacancy rates generally been increasing, suggesting an adjustment factor of greater than 15% for properties transferring over one year ago. The downward pressure on pricing is highlighted by a recent sale of a high-rise office building at 980 9th Street for less than $100 million, and the property was previously acquired in 2005 for $159 million. Brokers knowledgeable about the sale reported the recent sale price was below replacement cost for the improvements.

While the contraction period is not expected to last over the long-term, we have made downward adjustments for market conditions to Comparables 3 through 5, since they transferred in late -2007 to late-2008. This adjustment also takes into consideration information relayed by brokers active in the submarket who reported that the ongoing credit crisis has severely limited the availability of prospective purchasers to obtain financing.

Physical Characteristics

The physical characteristics of a property can impact the selling price. Those that may impact value include the following:

Location

The subject is located in the Sacramento Central Business District, and the overall location is considered to be good for an office property. Comparables 3 and 4 are located in areas that are deemed inferior to the subject's location within the CBD. As a result, upward adjustments are applied to these sales for location. No further adjustments are required for location.

Visibility/Accessibility

The visibility and accessibility of a property can have a direct impact on property value. For example, if a property is landlocked, this is considered to be an inferior position compared to a property with open accessibility. However, if a property has good visibility or is in proximity to major linkages, this is considered a superior amenity in comparison to a property with limited visibility. All of the comparables exhibit similar levels of visibility/accessibility as the subject property, with no adjustments applied for this factor.

Rentable Area (SF)

In general, due to economies of scale, the market exhibits an inverse relationship between building area and price per square foot such that larger buildings sell for a lower price per square foot than smaller buildings, all else being equal. As such, it is considered reasonable to adjust Comparables 2 through 4 downward, since these properties have appreciably less rentable area than the subject property.

Overall Quality

The subject property represents a Class A office building and has good overall quality of construction. Most of the comparables have similar quality construction in comparison to the subject property. Unlike the subject, Comparable 4 is not representative of a Class A office property and exhibits inferior overall quality of construction. This sale is adjusted upward for this element of comparison.

Parking

The subject property has a three-story parking garage that has income producing potential. Since the subject is entirely owner-occupied, there is no rent being charged for the garage. However, if the property were to transfer, it is expected the garage would be leased on a per space basis, similar to other high-rise office buildings in the subject's immediate area with parking garages. Comparables 1, 2 and 5 also have parking garages that are income-producing. However, Comparables 3 and 4 do not have parking garages and are adjusted upward.

Effective Age/Condition

The subject property exhibits an effective age of 15 years. An adjustment of approximately 1% per year difference in effective age is applied to the comparables with different effective ages compared to the subject. Those with higher effective ages are adjusted upward to reflect the discrepancy in remaining economic life, and vice versa.

Adjustment Grid

During our investigation, we identified several professional office properties located throughout the region that were analyzed to estimate the prospective market value of the subject property upon completion of remediation/renovation. The adjustment grid on the following page details the unadjusted and adjusted value ranges presented by the comparable sales.

IMPROVED SALES ADJUSTMENT GRID

Elements of Comparison:	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Price per SF (Unadjusted)		**$213.23**	**$244.76**	**$202.96**	**$193.55**	**$260.34**
Property Rights Conveyed	Fee Simple	Leased Fee	Leased Fee	Leased Fee	Leased Fee	Leased Fee
Adjustment						
Financing Terms	Cash Equiv.	Cash Equiv.	Cash Equiv.	Cash Equiv.	Cash Equiv.	Cash Equiv.
Adjustment						
Conditions of Sale	Market	Market	Market	Market	Market	Market
Adjustment						
Expenditures After Sale	None	None	None	None	None	Lease-Up
Adjustment						(+)
Market Conditions	Mar-10	Dec-09	Dec-09	Nov-08	Sep-08	Dec-07
Adjustment	(appraisal)			(- -)	(- -)	(- - -)
Physical Characteristics:						
Location	Good	Similar	Similar	Inferior	Inferior	Similar
Adjustment				(+ +)	(+ +)	
Visibility/Accessibility	Good	Similar	Similar	Similar	Similar	Similar
Adjustment						
Rentable Area (SF)	449,138	454,914	163,425	101,500	139,500	336,104
Adjustment			(- -)	(- -)	(- -)	
Quality of Construction	Good	Similar	Similar	Similar	Inferior	Similar
Adjustment					(+ +)	
Parking Income	Yes	Yes	Yes	No	No	Yes
Adjustment				(+ +)	(+ +)	
Effective Age/Condition	15 yrs/Avg	Similar	Similar	Similar	Similar	Similar
Adjustment						
Net Adjustment		**Similar**	**Downward**	**Similar**	**Upward**	**Downward**
Adjusted Price per SF		**≈ $213.23**	**< $244.76**	**≈ $202.96**	**> $193.55**	**< $260.34**
Concluded Value per SF	**$205.00**					

Prospective Market Value Conclusion – Sales Comparison Approach

The market data set involves five sales of office properties throughout the region that are deemed reasonable indicators of prospective market value for the subject property. Prior to adjusting for differences between the comparables and the subject property, the data set reflects an unadjusted range of \$193.55 to \$260.34 per square foot of rentable building area. Adjustments were required to most of the sales for differing characteristics, and the application of adjustments resulted in a narrowing in the range of data.

In analyzing the data set, no individual sale is considered to give the best indication of market value. While Comparable 1 did not require any adjustments, guarded reliance is given to this sale since the purchase price was not disclosed on public records and the broker was not willing to confirm the sale price due to a confidentiality agreement. However, several brokers not involved in the sale but knowledgeable about the transaction were contacted and provided a consistent consensus on the purchase price. Comparable 2 is located in the subject's immediate area, but the purchase price per square foot is considered to provide a high indication of value since the building has significantly less rentable area than the subject property. Due to the locations of Comparables 3 and 4 outside of the Sacramento CBD, less emphasis is given to these comparables. Finally, Comparable 5 represents a year 2007 transaction and provides a high value indicator.

The adjusted range of the data set indicates a market value greater than Comparable 4, less than Comparables 2 and 5, and similar to Comparables 1 and 3. Consideration is also given to the ongoing decline in market conditions. Conversations with local brokers underscore the contraction in property values due to the high unemployment rate and lack of investor confidence.

Based on the indication of the data set, and after the application of adjustments, a market value estimate of \$205 per square foot is concluded. Applying this unit indicator to the subject's rentable area results in the following estimate of prospective market value upon completion of remediation/renovation:

449,138± square feet x \$205 per square foot = \$92,073,290

Rd. \$92,100,000

In addition to analyzing recent sales, we attempted to locate current listings of comparable Class A office properties in the subject's market area. While there are some listings, all of the listings have undisclosed pricing and require registration agreements with the listing brokers. Additionally, CB Richard Ellis is listing a portfolio of 11 office properties throughout San Francisco, Los Angeles, and Sacramento, but we were unable to obtain list prices for the individual properties.

INCOME CAPITALIZATION APPROACH

For income-producing real estate, the future earning power of the property is widely regarded as the single most critical element affecting its value. Hence, the income capitalization approach is often deemed the most meaningful indication of value. We will apply the direct capitalization method of the income capitalization approach.

Direct capitalization converts an estimate of a single year's net operating income into an indication of value in one direct step. This step is accomplished either by dividing the income estimate by the relevant income rate (an overall capitalization rate), or by multiplying the income estimate by a proper factor (such as a gross, effective gross or net income multiplier). In the subject's market area, buyers and sellers of properties like the subject typically handle direct capitalization by using an overall rate as opposed to a multiplier. Therefore, this method of direct capitalization will be employed in this analysis.

The components of the direct capitalization method are tabulated as follows:

- Potential Gross Income
- Vacancy and Collection Loss
- Operating Expenses
- Overall Capitalization Rate

These four components are discussed below and will be combined at the end of this section to provide an estimate of prospective market value of the subject property.

Potential Gross Income

Contract Rent

The subject property represents a high-rise Class A professional office building located at 450 N Street, within the city of Sacramento, California. The building is almost entirely owner-occupied by the California State Board of Equalization (BOE), a state agency that collects sales and use tax, as well as fuel, alcohol, and tobacco taxes and fees that provide revenue for state government, counties, cities, and special districts. Two other entities – a café and a daycare center – also occupy minimal space within the building; however, these entities reportedly have non-arm's length leases. Since there is no contract rent associated with the subject property, we will use market rent to estimate potential gross income.

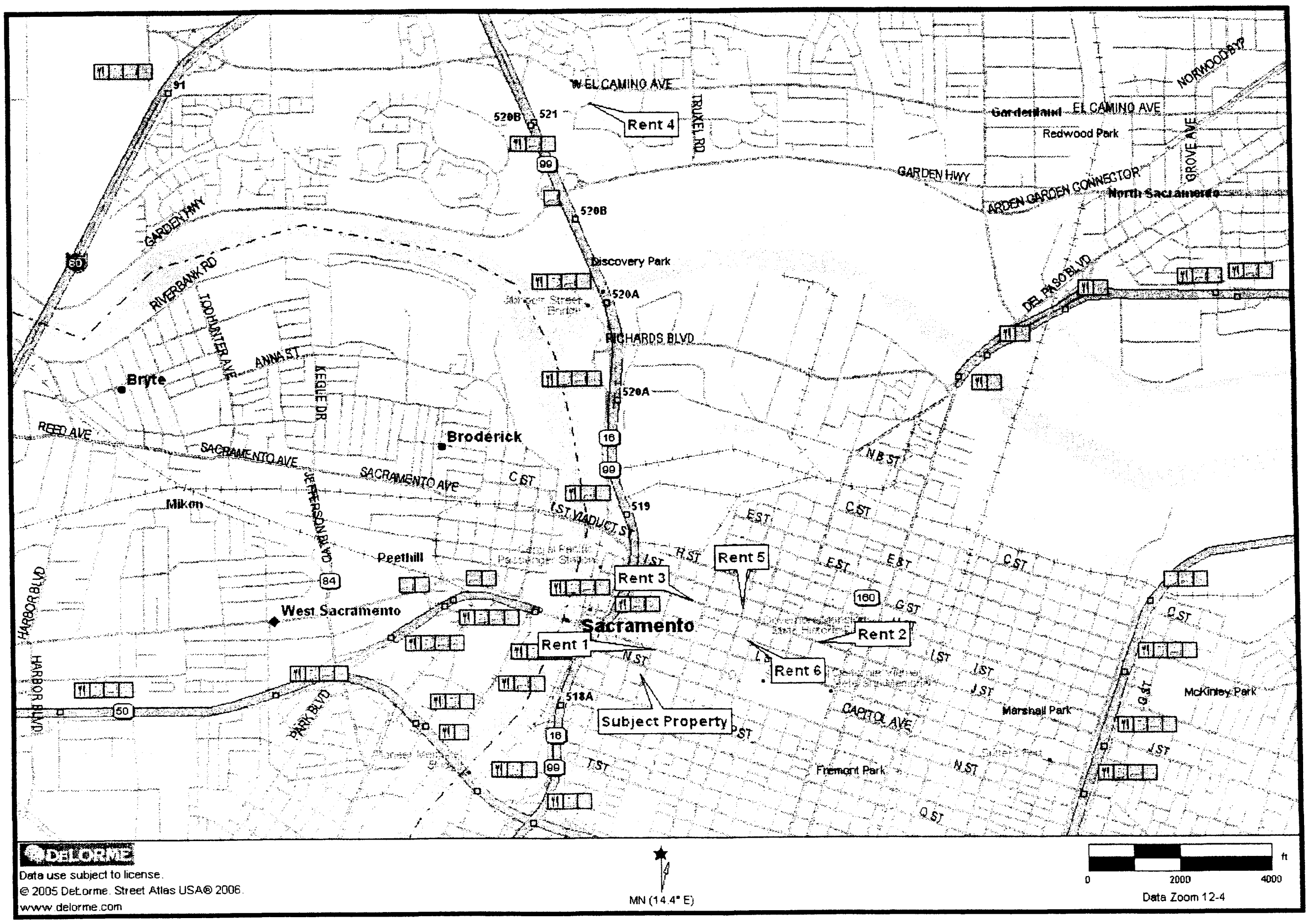
Market Rent

In order to estimate market rent for the subject, we have conducted a rental survey of office properties in the subject's market area and surrounding areas. Adjustments will be applied to account for any differences between the comparables and the subject property relating to differences in rentable area, location, effective age/condition, visibility/accessibility and overall quality. The subject will be analyzed on full service terms, as this is a predominant lease type for office properties in the subject's market area. Under full service terms, the owner is responsible for all operating expenses associated with the property.

It is noted that large high-rise office properties such as the subject are typically leased/occupied by multiple tenants as opposed to a single entity. This is substantiated by the fact that the lease comparables represent lessees occupying suites and/or floors within buildings rather than entire buildings. Based on the subject's design, the building could accommodate multiple tenants and would not need to be leased to a single user. It is expected that if the property were not occupied by the BOE, it would be leased/occupied by multiple tenants/users. The results of the rent survey are summarized on the following page.

RENT SURVEY

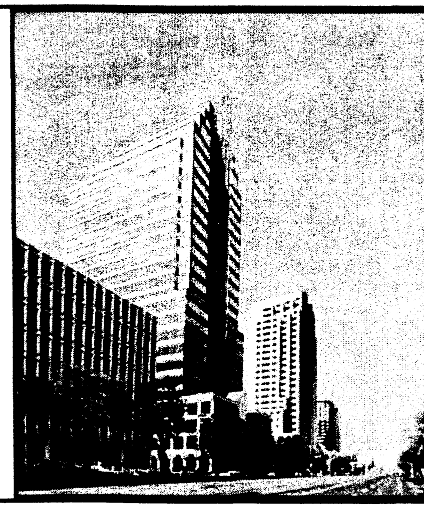
No.	Tenant / Property Identification	Lease Began	Lease Term	Rentable Area (SF)	Rent PSF/Mo.	Lease Type	Rent Increases	Rent Concessions
1	**California Housing and Finance Agency** 500 Capitol Mall Sacramento	Sep-10 (occup. date)	13 years	65,000	$2.70	Full Service	2% annually	7 months free
2	**Army Corps of Engineers** 1325 J Street Sacramento	Aug-09	10 years	227,490	$2.34	Full Service	Flat	None
3	**California Department of General Services** 501-525 J Street Sacramento	Aug-09	4 years, 3 months	132,207	$1.90	Full Service	$0.05 psf/month annually	3 months free
4	**CH2MHILL, LLC** 2485 Natomas Park Drive Sacramento	Jul-09	6 years, 3 months	51,980	$1.95	Full Service	$0.05 psf/month annually	7 months free
5	**California State Managed Care** 980 9th Street Sacramento	Oct-08	8 years	52,261	$2.37	Full Service	$0.05 psf/month annually	10 months free
6	**Listing** 825 K Street Sacramento	Listing	5-10 years	65,000	$2.10	Full Service	Negotiable	Negotiable



RENTAL 1

California Housing and Finance Agency
500 Capitol Mall
Sacramento

While the lease was recently signed, the tenant does not take occupancy until September 2010, after completion of interior improvements for their space. The tenant improvement allowance was $50 per square foot above warm shell.



RENTAL 2

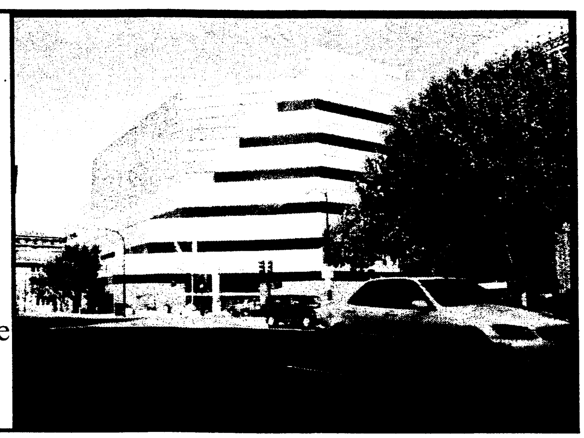
Army Corps of Engineers
1325 J Street
Sacramento

The Army Corps of Engineers signed a lease renewal for space they are occupying in the building at 1325 J Street. With the renewal, they were provided a $7 per square foot tenant improvement allowance to cover new carpet and paint. This tenant occupies the majority of the building.

RENTAL 3

California Department of General Services
501-525 J Street
Sacramento

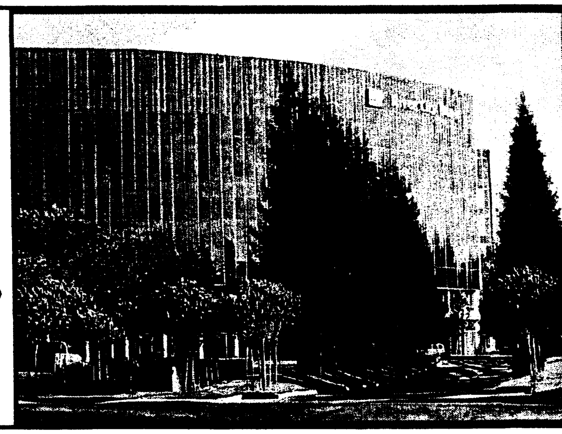
This Class A building is located across from the Downtown Plaza on J Street. The tenant received three months of free rent and took occupancy in August 2009. Information regarding the tenant improvement allowance (if any) is unknown.



RENTAL 4

CH2MHILL, LLC
2485 Natomas Park Drive
Sacramento

This property is located in an area of the city of Sacramento known as South Natomas, which is considered to be an overall inferior location compared to the subject's location within the Sacramento CBD. The building was reportedly constructed in 1989.



RENTAL 5

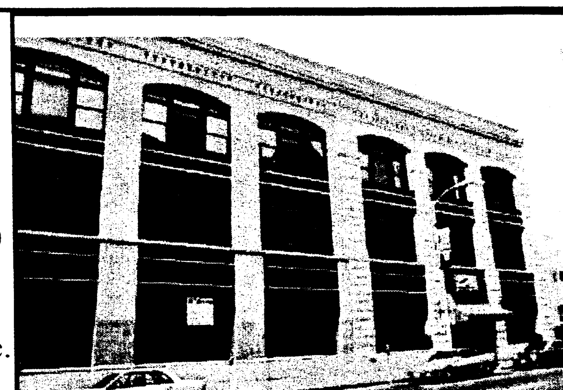
California State Managed Care
980 9th Street
Sacramento

This 25-story building was constructed in 1992. The tenant took occupancy in October 2008, with an eight-year lease duration. The owner provided 10 months of free rent as a rent concession.

RENTAL 6

Listing
825 K Street
Sacramento

This comparable represents the current listing for 65,000 square feet of available space within a three-story Class B building located on K Street in Downtown Sacramento. The list rate is $2.10 psf/month, full service.



Adjustment Discussion

In order to determine market rent for the subject property, lease comparables were gathered from similar properties in the subject's market area and surrounding areas. Most are buildings (or rentable units within buildings) with generally similar attributes, parking, access, etc. The comparable properties considered most similar to the subject property were presented on the previous pages. For the most part, the comparables exhibited similar attributes; however, adjustments were required for factors relating to lease type, lease conditions, market conditions, and physical characteristics. A discussion of these elements of comparison is offered as follows:

<u>Lease Type</u>

The expense structure utilized for this analysis is full service, in which the property owner is responsible for all operating expenses. No adjustments are required in this category as all of the comparables are leased on full service terms.

<u>Lease Conditions</u>

Most of the lease comparables represent arm's length, market transactions. Comparable 6 is a listing and is adjusted downward to reflect typical negotiations in the market.

<u>Market Conditions</u>

Until recent periods, the office market within the subject's market area had been relatively stable. However, over the last 12-24 months, the continuing contraction in the real estate market, coupled with the ongoing credit crisis, has resulted in declines in rental rates in the subject's market area. While this contraction period is not expected to last over the long-term, we have made downward adjustments for market conditions to Comparable 5.

<u>Location</u>

The next element to be considered is location. The subject property is located in the city of Sacramento and is considered to possess a good overall location for an office property, as it is located within the Central Business District. Surrounding land uses are commercial and residential in nature. Comparable 4 is not located in the CBD and receives an upward adjustment.

<u>Visibility/Accessibility</u>

The subject property consists of a high-rise office tower and has a good level of visibility and accessibility. We have analyzed the visibility and accessibility of the subject and the comparables in terms of location along a thoroughfare and orientation. All of the comparables have similar visibility/accessibility attributes as the subject property and are not adjusted.

Rentable Area

The difference in rentable area between properties affect lease rates due to the economies of scale associated with larger rentable units. That is, all else being equal, larger suites tend to rent for less per square foot than smaller suites. The subject property contains 449,138 square feet of rentable area, which is divisible to potentially accommodate multiple tenants. It is expected the typical tenant would occupy one to two floors, or between 20,000± to 40,000± square feet of rentable area. The comparables have generally similar typical suite sizes and are not adjusted.

Quality of Construction

The quality of the subject property is judged to be good in terms of architecture and design, construction materials, ease of ingress/egress and other features. Comparables 3 and 6 exhibit inferior overall quality of construction than the subject property and are adjusted upward for this element of comparison.

Effective Age/Condition

The subject property exhibits an effective age of 15 years. An adjustment is applied to the comparables with different effective ages compared to the subject. Those with higher effective ages are adjusted upward, and vice versa. The adjustment reflects the discrepancy in remaining economic life.

Adjustment Grid

The following table incorporates the necessary adjustments to equate the rent comparables with the subject property.

RENT ADJUSTMENT GRID

Elements of Comparison:	Subject	Rent 1	Rent 2	Rent 3	Rent 4	Rent 5	Rent 6
Rent PSF/Mo. (Unadjusted)		**$2.70**	**$2.34**	**$1.90**	**$1.95**	**$2.37**	**$2.10**
Lease Type	Full Service	Full Service	Full Service	Full Service	Full Service	Full Service	Full Service
Adjustment	-						
Adjusted Value							
Lease Conditions	Market	Market	Market	Market	Market	Market	Listing
Adjustment							(-)
Adjusted Value							
Market Conditions	Mar-10	Sep-10	Aug-09	Aug-09	Jul-09	Oct-08	Mar-10
Adjustment	(appraisal)	(occup.date)				(- -)	
Physical Characteristics:							
Location	Good	Similar	Similar	Similar	Inferior	Similar	Similar
Adjustment					(+ +)		
Visibility/Accessibility	Good	Similar	Similar	Similar	Similar	Similar	Similar
Adjustment							
Rentable Area (SF)	449,138	65,000	227,490	132,207	51,980	52,261	65,000
Adjustment	(divisible)						
Overall Quality	Good	Similar	Similar	Sl. Inferior	Similar	Similar	Inferior
Adjustment				(+)			(+ +)
Effective Age/Condition	15 yrs/Average	Superior	Sl. Superior	Similar	Similar	Similar	Inferior
Adjustment		(- -)	(-)				(+ +)
Net Adjustment		**Downward**	**Downward**	**Upward**	**Upward**	**Downward**	**Upward**
Adjusted Rent PSF/Mo.		**< $2.70**	**< $2.34**	**> $1.90**	**> $1.95**	**< $2.37**	**> $2.10**
Concluded Rent PSF/Mo.	**$2.15**						

Market Rent Conclusion

Market rent is the rental income that a property would most probably command in the market place. For purposes of our analysis, market rent will be estimated according to the following assumptions:

- Local or regionally recognizable tenant;
- Moderate rent concessions;
- Full service lease terms; and
- 5-10 year lease duration

A number of comparable office properties within the subject's market area and surrounding areas were surveyed in order to estimate market rent for the subject property. The comparable properties presented on the preceding pages are considered the most similar to the subject that we could accurately confirm.

The survey of comparable office properties indicates an unadjusted rental rate range of $1.90 to $2.70 psf/month. Factors considered when adjusting the comparables consist of lease type, lease conditions, market conditions, location, visibility/accessibility, rentable area, overall quality and effective age/condition. In equating the comparables to the subject, all are considered reasonable indicators of market rent for the subject. After comparing the market data to the subject property, and considering the differing property characteristics, the indicated market rent is greater than $2.10 psf/month but less than $2.34 psf/month. Based on our survey of brokers in the area, rental rates have continued to decline over the past year. Additionally, most brokers are noting that concessions are increasing as demand tightens and the market continues to contract. The general consensus is that most recently signed leases include some concessions, whether it be a free rent period, a tenant improvement allowance, or a combination of both. Thus, while the adjusted rental range is $2.10 to $2.34 psf/month, the effective rental range is somewhat lower when considering concessions. An effective rental rate of $2.15 psf/month is concluded for the subject property.

The upper floors of high-rise office buildings typically command higher rents than lower floors due the view amenity associated with being on an upper floor. For example, list rates for the newly constructed Class A building at 500 Capitol Mall are approximately 10% to 15% higher for the upper floors compared to the lower levels. However, the subject also contains ground-level flex/tech space such as a large copy room, a print shop and a mail distribution area. Due to the lower quality build-out of these flex/tech areas, market rent for these areas is estimated to be lower than the previously concluded rent of $2.15 psf/month. As such, any premium associated with the subject's upper floors is considered to be offset by the discounted rent that would be assigned to the flex/tech space. Additionally, similar to the subject property, many high-rise office buildings include non-office related amenities, such as a café or even a workout facility. Market rent for the subject's areas used for the daycare center and café is estimated to be similar to the previously concluded rent. Based on the preceding discussion and analysis, market rent of $2.15 psf/month (full service) will be applied to the entire rentable area of the building.

Garage Income

Since the subject is entirely owner-occupied, there is no rent being charged for the garage. However, if the property were to transfer, it is expected the garage would be leased on a per space basis, similar to other high-rise office buildings in the subject's immediate area with parking garages. With a parking ratio of 1.42 spaces per 1,000 square feet of rentable area, it is projected the subject's garage would receive stable demand so long as the building remained occupied. This is substantiated by the fact that the parking garage was not open to the public at the time of our inspection (i.e., there were no additional spaces available that were not already accounted for by occupants in the building). The following table details the monthly rental rates per space for several parking garages in the Sacramento area. With exception to the Downtown Plaza, all of the garages reported limited vacancy.

No.	Address	Rate
1	400 Capitol Mall Sacramento	$155/month
2	Westfield Downtown Plaza Sacramento	$145/month
3	401 I Street Sacramento	$105/month
4	812 L Street Sacramento	$125/month
5	1321-1331 Garden Highway Sacramento	$120/month
6	500 Capitol Mall Sacramento	$155/month

Based on the rent comparables presented, market rent of $125 per parking space per month is considered to be reasonable and will be included in the estimate of potential gross income.

Total Potential Gross Income

The total potential gross income for the subject is calculated in the *Income Capitalization Approach* summary sheet at the end of this section.

Vacancy and Collection Loss

This portion of the analysis considers the valuation of the subject property at stabilized occupancy. Stabilized occupancy is defined as follows:

> An expression of the expected occupancy of a property in its particular market considering current and forecasted supply and demand, assuming it is priced at market rent. [11]

In keeping with the concept of stabilized occupancy, an allowance for vacancy and collection loss must be considered for reductions in potential income attributable to vacancies, tenant turnover and nonpayment of rent. As noted in the *Office Market Overview* section of this report, according to Colliers International, the overall office vacancy rate in the Downtown submarket was approximately 7.8% for the Fourth Quarter 2009, which is significantly lower than the overall office vacancy rate for the Sacramento region (15.8% according to Colliers International). With respect to absorption, the submarket experienced a positive net absorption of 571,555 square feet. Comparatively, numerous submarkets experienced negative net absorption as corporations have been downsizing or going out of business altogether. Office properties in the CBD are experiencing

[11] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 185.

comparatively higher occupancy rates due to their location proximate to the State Capitol and the number of government and government-related agencies in the area. Overall, the submarket's lower than average vacancy rate and positive absorption numbers indicate that demand remains stable for office properties in the subject's immediate area.

Overall fluctuations are expected in the vacancy and absorption numbers given the continuing declines in the regional real estate sector and wider macroeconomic uncertainty, including the recent crisis in the credit markets, which has reduced the financing available to investors seeking to purchase buildings/properties. After taking into account all market factors, a stabilized vacancy rate of 8% is considered reasonable over the life of the property.

Operating Expenses

While requested, a summary of historical operating expenses was not provided for use in our analysis. Therefore, for the purpose of estimating the subject's stabilized operating expenses, we have considered operating expenses reported by the Institute of Real Estate Management (I.R.E.M.), as well as expenses presented in the Korpacz Real Estate Investor Survey. This data is presented in the following table, along with our discussion and conclusions for the subject property.

Property Type	Location		Property Taxes	Property Insurance	CAM/ Utilities	Maint/ Repairs	Janitorial	Property Mgmt	TOTAL
Institute of Real Estate Management (IREM)									
Downtown Office Buildings- 11+ Stoies	National	Min.	$1.38	$0.20	$1.53	$1.39	$0.73	$0.33	**$5.56**
		Max.	$3.80	$0.44	$2.85	$2.00	$1.28	$0.86	**$11.23**
Office Buildings	Sacramento	Min.	$1.47	$0.43	$1.88	$0.75	$0.82	$0.60	**$5.95**
		Max.	$1.99	$0.54	$2.84	$1.88	$1.12	$0.91	**$9.28**
Korpacz Real Estate Investor Survey									
National Suburban Office		Property Management Fees:		2.00%	to	5.00%	of EGI		
2009		Replacement Allowances:		$0.10	to	$1.00	psf/year		

Property Taxes and Assessments

As discussed in the *Property Identification and Legal Data* section of this report, the appraised property is subject to a tax rate of 1.1035%. The subject property is not currently assigned an assessed value or ad valorem taxes due to the fact that the property is owned by a public entity (State of California). However, if the property were to transfer to a private ownership, ad valorem taxes would then be assessed. Thus, we have estimated property taxes by applying the tax rate to the market value estimate via the income capitalization approach. Additionally, the property is encumbered by one direct charge – SAFCA Consolidate Capital Assessment – that totals $13,644.64 per year.

Property Insurance

A range of $0.20 to $0.44 psf/year was reported by I.R.E.M. for national downtown office properties, while a range of $0.43 to $0.54 psf/year was reported for office properties in the Sacramento region. An insurance estimate of $0.50 psf/year is concluded for the subject property.

CAM/Utilities

This figure considers common area utilities including sewer, water, trash removal and common area electricity, in addition to electricity and gas costs. The general range reported by I.R.E.M. for common area maintenance and utilities is $1.53 to $2.85 psf/year. The subject has utility charges for the office tower as well as the parking garage. Since the utilities are applied only to the rentable area of the office building, we have estimated a common area maintenance and utilities expense towards the upper end of the range of $2.50 psf/year for the subject property.

Janitorial

The I.R.E.M. reports a range of $0.73 to $1.28 psf/year, and a janitorial expense estimate of $1.00 psf/year appears reasonable.

Maintenance and Repairs

This category includes ongoing maintenance and repairs to the structure. Consideration is given to the subject's quality, condition and effective age. The I.R.E.M. data indicates a range of $0.75 to $2.00 psf/year. A maintenance and repairs expense towards the higher end of the range of $1.75 psf/year is concluded given the subject's effective age of 15 years, as well as the fact that the parking garage will require ongoing maintenance and repairs.

Property Management

Property management expenses for office properties in the subject's market area are typically between 2.00% and 5.00% of effective gross income. Based on the subject's larger size and the management required to collect parking revenue, a management fee toward the upper end of the spectrum is concluded (5.00% of effective gross income).

Replacement Allowance

A replacement reserve expense has not been estimated for the subject property since the overall capitalization rates extracted from the sales data did not include this as an expense.

Overall Capitalization Rate

To provide an estimate of market value for the subject property via the direct capitalization method of the income capitalization approach, an overall rate must be derived. The overall capitalization rate is the ratio between the net operating income as of the date of value and a property's cash equivalent sales price. The overall rate is a reflection of the present value of anticipated future benefits. As with the sales comparison approach, this method also relies upon the similarity between comparable sales and the subject property.

In our derivation of the appropriate capitalization rate, three sources are considered: 1) market sales, 2) a band of investment analysis and 3) national surveys. These sources are discussed below.

Market Sales

In the *Sales Comparison Approach*, we analyzed five sales of office properties. We were only able to confirm capitalization rate information for two of the transactions. To supplement the data set, we compiled capitalization rate information for two other office properties in the region that were leased at the time of sale. This information is presented in the following table.

Property Identification	Sale Date	Sale Price	Rentable Area (SF)	Overall Cap Rate
9800 Goethe Road Sacramento	Dec-09	$15,085,000	110,500	**8.90%**
2450 Venture Oaks Way Sacramento	Nov-08	$20,600,000	101,500	**7.75%**
9838 Old Placerville Road Sacramento	Sep-08	$27,000,000	139,500	**7.75%**
100 Howe Avenue Sacramento	Jul-08	$23,850,000	129,846	**7.20%**

The market data indicates a range of overall capitalization rates from 7.20% to 8.90%. Overall capitalization rates can reasonably be viewed as a function of risk. That is, the riskier the investment, the higher the overall capitalization rate. In determining a capitalization rate, consideration is given to the subject's location, building area, visibility/accessibility, condition, effective age and overall quality.

Examining the income-producing potential of the subject in comparison to other properties in the region, an overall rate towards the middle-upper end of the range of data appears reasonable. Market conditions have been in a continual state of decline, which elevates the risk for all investment properties. Consideration is also given to the fact that brokers in the subject's market area have been reporting an increase in capitalization rates over recent months. This is substantiated by the fact that the most recent sale in the data set exhibits the highest overall capitalization rate. However, a positive attribute of the subject is that is represents a Class A property with a higher overall quality than the majority of the comparable sales. Based on these factors, we have concluded a capitalization rate for the subject of 8.00%.

Band of Investment Analysis

One method of determining an overall capitalization rate is to build a rate based on current financing requirements through band of investment. Since most income-producing properties are purchased with debt and equity capital, the overall capitalization rate must satisfy the market return requirements of both investment positions. Lenders must anticipate receiving a competitive interest rate commensurate with the perceived risk of the investment or they will not make funds available. Similarly, equity investors must anticipate receiving a competitive equity cash return commensurate with the perceived risk, or they will invest their funds elsewhere.

Band of Investment is defined as follows:

> Band of Investment: a technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment.[12]

Based on a database compiled for commercial properties throughout the region, financing parameters from recent loans generally indicate loan-to value ratios between 65% to 75%, beginning interest rates from 6.00% to 7.50%, and amortization periods from 20 to 40 years (with a tendency towards 25 to 30 years). In the analysis of the subject property, a loan-to-value ratio of 65%, a mortgage interest rate of 6.75%, and a loan amortization period of 25 years, is concluded.

As for the equity dividend rate, the market data indicates a relatively wide range among investors in similar properties. The equity dividend rates extracted from recent sales of other commercial properties have generally ranged from 2.00% to 10.00%. Equity dividend rates generally reflect the risk associated with an investment; i.e., the higher the risk, the higher the return that would be required by the investor. During the expansionary period, it was not uncommon to see low (or even negative) equity dividend rates, as investors were involved in exchanges and/or purchased properties on the speculation of increasing values. However, with real estate currently in a period of contraction, higher equity dividend rates are required to account for the risk of decreasing property values. Additionally, in the current market it is expected the equity dividend rate requirement would be greater than safer, more liquid assets such as a Certificates of Deposits (CDs) or the 10-Year Treasury bond.

To estimate an equity dividend rate for the subject property, it is necessary to consider current target rates that real estate investors are attempting to obtain on a wide variety of investments. The following table shows dividend comparisons reported in a leading publication within the appraisal industry, the *Korpacz Real Estate Investor Survey*, published by PricewaterhouseCoopers. The Korpacz Dividend Indicator represents a composite average rate for a variety of commercial real estate markets.

Year	Korpacz Dividend Indicator	Equity REITs	10-Year Treasuries
2004	8.62%	5.27%	4.21%
2005	7.94%	4.75%	4.29%
2006	7.42%	4.19%	4.76%
2007	7.01%	3.93%	4.56%
2008	6.99%	5.07%	3.77%
2009	8.36%	5.86%	4.01%

In consideration of the contracting market conditions, and based on the moderate risk associated with the subject, we have concluded an equity dividend rate in the range of 8.00% to 9.00% for the subject property.

Based on our financing and equity conclusions above, the band of investment analysis is presented in the following table. This analysis indicates a reasonable range of overall capitalization rates for the subject property.

BAND OF INVESTMENT														
Mortgage Interest Rate	6.75%													
Amortization Period (Years)	25													
Loan-to-Value Ratio	65%													
Mortgage Constant	0.08291													
Equity Dividend Rate	8.00%	to	9.00%											
Mortgage Requirement	65%	x	0.08291	=	5.39%		65%	x	0.08291	=	5.39%			
Equity Requirement	35%	x	0.08000	=	2.80%		35%	x	0.09000	=	3.15%			
	100%				8.19%		100%				8.54%			
Indicated Overall Cap Rate:				**(Min.)**	**8.19%**					**(Max.)**	**8.54%**			

12 The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010), 16.

National Investor Survey

An overall rate can also be determined by employing surveys of investors, such as the *Korpacz Real Estate Investor Survey*, published by PricewaterhouseCoopers. The capitalization rates for a variety of investment properties are summarized in the following table.

NATIONAL OVERALL CAPITALIZATION RATES

Property Type	Low	High	Average
Regional Mall	5.00%	11.00%	7.98%
Power Center	7.50%	10.00%	8.63%
Strip Shopping Center	7.50%	11.00%	8.41%
CBD Office	5.00%	11.00%	8.11%
Suburban Office	7.00%	12.00%	8.72%
Flex / R&D	7.00%	11.50%	8.77%
Warehouse	6.50%	12.00%	8.46%
Apartment	5.75%	10.00%	7.84%
Net Lease	7.00%	10.00%	8.90%

Source: Korpacz Real Estate Investor Survey

The subject property is identified as a CBD office type investment property. The survey for this property type supports an overall capitalization rate in the range of 5.00% to 11.00%, with an average of 8.11%. Limited emphasis is placed on the analysis of the survey since the figures reported represent national averages.

Capitalization Rate Conclusion

The following table summarizes the capitalization rates derived via the various sources:

Source	Range		
Comparable Sales	7.20%	to	8.90%
Band of Investment	8.19%	to	8.54%
National Survey (Korpacz)	5.00%	to	11.00%

There are certain challenges when determining an overall capitalization rate in a contracting market. While brokers and other market participants in the subject's market area anticipate increasing capitalization rates, there are limited recent sales to provide support for this expectation. As th market continues to contract and foreclosure sales become more prevalent, the projection is th capitalization rates will increase for nearly all commercial property types. However, with the lack of recent sales data in the subject's immediate area, the band of investment is considered to provide a good indication of a capitalization rate because it takes into account current return requirements for both debt and equity investment positions.

The Korpacz Real Estate Investor Survey summarizes current conditions as follows: "In the year since the onset of the national credit crunch, the availability of debt for real estate investments has practically vanished, fundamentals have weakened in all property sectors, and the economy has shown few signs of rebounding." Investors surveyed in the Korpacz report indicate capitalization rates are rising for nearly all types of commercial property. As an example, the average capitalization rates reported in the current Korpacz Real Estate Investor Survey are 100 basis points or more higher this year relative to a year ago. Furthermore, an overwhelming majority of survey participants expect cap rates to increase over the next six months.

The scarcity of credit and the shift to more conservative underwriting significantly affects land and commercial real estate markets. Stricter lending practices have made it very difficult for potential buyers to obtain financing in the current market. The credit situation is not the only factor reducing prices and sales activity: investors' skepticism about the future of the economy and tenant demand have affected activity as well. Overall, the buying pool has been greatly reduced and prices are declining for nearly all types of real estate assets. Capitalization rates and yield rates are both increasing as lenders and equity investors perceive greater risk in real estate investments.

The following table summarizes our opinion of the strengths and weaknesses of the subject and its competitive position in the local market area.

Risk Factor	Effect on Overall Rate
Location	↓
General Market Conditions	↑↑
Competitive Market Position	↔
Contract Income Characteristics	↓
Age / Condition of Improvements	↔
Mid- to Long-term Upside Potential	↓
Overall Impact on Applicable Overall Rate	↓

Considering the attributes of the subject property and the current state of the local economy, a capitalization rate of 8.00% is estimated for the subject property.

Prospective Market Value Conclusion – Direct Capitalization

Applying the components discussed on the preceding pages (potential gross income, vacancy, operating expenses and overall capitalization rate), the market value conclusion via the direct capitalization method of the income capitalization approach is offered on the following page. This value estimate is based on the prospective condition of the subject property upon completion of remediation/renovation.

INCOME CAPITALIZATION APPROACH

POTENTIAL GROSS INCOME CALCULATION

Income	Rentable Area (SF)	Rent PSF/Mo.	Monthly Income	Annual Income
Market Rent - Office Building	449,138	$2.15	$965,647	$11,587,760
Garage Income (711 spaces at $125/month)			$88,875	$1,066,500
Total Potential Gross Income				$12,654,260
VACANCY & COLLECTION LOSS @	8%			($1,012,341)
EFFECTIVE GROSS INCOME				$11,641,920
EXPENSES	**$/SF/Year**	**$/Year**	**% of EGI**	
Property Taxes	$2.40	$1,074,649	9.2%	
Special Assessments	$0.03	$13,645	0.1%	
Building Insurance	$0.50	$224,569	1.9%	
Utilities	$2.50	$1,122,845	9.6%	
Janitorial	$1.00	$449,138	3.9%	
Maintenance and Repairs	$1.75	$785,992	6.8%	
Management at 5% of EGI	$1.30	$582,096	5.0%	
Total Expenses	$9.47	$4,252,933	36.5%	($4,252,933)
NET OPERATING INCOME				$7,388,986
OVERALL CAPITALIZATION RATE				8.00%
VALUE CONCLUSION (NOI ÷ CAP RATE)				$92,362,327
			Rd.	**$92,400,000**

RECONCILIATION

The prospective market value conclusions indicated by the sales comparison and income capitalization approaches to value are:

Sales Comparison Approach	**$92,100,000**
Income Capitalization Approach	**$92,400,000**

In reconciling these approaches to value, consideration is given to the individual strengths and weaknesses of each approach.

Sales Comparison Approach

We analyzed several comparable sales of office properties in the subject's market area and surrounding areas. The sales comparison approach is relevant in appraising property for which recent market sales data can be obtained. This approach is applicable to the valuation of the subject property because there have been recent sales of high-rise office buildings in the subject's immediate area. As detailed in the highest and best use analysis, the probable buyer would be an investor who would manage the property as a leased investment, rather than an owner-user. All of the comparable sales represented leased fee transactions, and two of the properties are located in the subject's immediate area, which adds credibility to this approach. The data obtained for this analysis was reasonably similar to the subject, and the adjustments accounted for any differences between the comparables and the subject. In addition, the adjustments resulted in a narrowing of the range of data. Overall, the sales comparison approach is considered to provide a good indication of market value.

Income Capitalization Approach

We began the income capitalization approach by estimating the potential gross income for the subject property. Then, with consideration given to a stabilized vacancy factor and reasonable operating expenses, a pro-forma net operating income was calculated. At this point, the method chosen to estimate the value of the subject property was direct capitalization. An appropriate capitalization rate was selected based on the indications of several recent comparable sales, in addition to a band of investment analysis.

Buyers of income-producing real estate rely primarily upon the income capitalization approach when assessing the feasibility of an investment. This approach is considered applicable to the valuation of the subject because large, high-rise office buildings like the subject are typically managed as leased assets. The reliability of this approach is good in light of the fact that we identified several leases of comparable properties, most of which were located in the Sacramento Central Business District (CBD). Additionally, the data obtained in estimating vacancy, operating expenses and a capitalization rate for the subject property are considered reliable.

Conclusion

Overall, equal emphasis is given to the sales comparison and income capitalization approaches in formulating our final conclusion of prospective market value of the subject property upon completion of remediation/renovation. Both approaches are deemed relevant to the analysis because of the quality and quantity of comparables obtained. As such, our final conclusion of prospective market value of the subject property (*fee simple estate*) is **$92,250,000**.

The prospective value opinion has a future effective date of value. The estimation of future appreciation/depreciation is highly speculative, especially in the current market. The value estimate is based on market conditions as of the date of inspection and is not trended. The appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date(s) of prospective market value.

MARKET VALUE AS OF THE DATE OF INSPECTION

The preceding analysis considered the subject property in its prospective condition upon completion of remediation/renovation, which is underway and is expected to be completed by February 2011 (except for elevator repair). According to the latest figures reported by the Board of Equalization (BOE), the costs incurred thus far for mold remediation, exterior curtain wall maintenance, and interior tenant improvements (carpet and paint) equate to $32,006,670. The remaining mold remediation costs and additional costs associated with building maintenance, repair and renovation are projected at $25,885,793. The following table details the expended and projected remediation and renovation costs by category, as reported by the BOE:

REMEDIATION AND MODERNIZATION COSTS

Expended Costs	
DGS Remediation to Date	$10,500,000
BOE Remediation FY 2007-2009	5,762,512
Curtain Wall Project	15,500,000
Carpet and Paint	244,158
Total Costs to Date	**$32,006,670**
Projected Remaining Costs	
DGS Remediation Costs	$7,269,570
BOE Remediation Costs FY 2009-2011	3,754,700
Carpet and Paint Remediation	2,532,023
Stantec Repairs Hard Costs	7,829,500
Stantec Repairs Estimated Soft Costs	2,200,000
Elevator Modernization	2,100,000
Elevator Infrastructure	200,000
Total Remaining Costs	**$25,885,793**

Any significant variations from the cost projections could have an impact on the values concluded in this report. If, at some future date, the actual remediation/renovation costs are reported to be different from the projected costs utilized in our analysis, this could affect the value opinion(s) contained herein.

We must also take into account the entrepreneurial incentive that an investor would require to purchase the building in its as-is condition and complete remediation/renovation. According to a survey of market participants, typical profit expectations for developers to undertake construction projects range from 8% to 15%. In the analysis of the subject property, an entrepreneurial incentive of 10% of the remaining remediation/renovation costs will be deducted.

Based on the preceding discussions and analysis, the estimate of market value is presented as follows:

Prospective Market Value Upon Completion of Remediation/Renovation		$92,250,000
Less: Remaining Costs		($25,885,793)
Less: Entrepreneurial Incentive		($2,588,579)
Market Value as of the Date of Inspection		$63,775,628
	Rd.	**$63,800,000**

The subject property is operating at stabilized occupancy; thus, deductions for lease-up costs were not applied. However, if the Board of Equalization vacated the building and the subject property was marketed without a tenant in place, this would result in a reduction in value in order to account for lease-up costs (rent loss, concessions, tenant improvements, commissions, and entrepreneurial incentive).

PROSPECTIVE MARKET VALUES UPON COMPLETION OF REMEDIATION/RENOVATION, BY PHASE

At the client's request, we will estimate the prospective market value of the subject property upon completion of two separate phases of the remediation/renovation project. The effective dates of prospective market value are June 30, 2010 and December 31, 2010. Similar to the analysis presented on the preceding page, we will deduct remaining construction costs as of the effective dates of value to develop opinions of prospective market value.

The Board of Equalization provided a breakdown of total expended and projected remediation and renovation costs; however, we were not given estimates of remaining costs as of the future effective dates of value. Instead, they provided a projected timeline for completion of remediation/renovation. Using the timeline, we can allocate the remaining costs based on the schedule. The bulk of the remediation/renovation project is projected to be complete by February 2011, with elevator repair scheduled for completion by April 2012.

PROJECTED REMAINING COSTS	
February 2011 Completion	
DGS Remediation Costs	$7,269,570
BOE Remediation Costs FY 2009-2011	3,754,700
Carpet and Paint Remediation	2,532,023
Stantec Repairs Hard Costs	7,829,500
Stantec Repairs Estimated Soft Costs	2,200,000
Total	$23,585,793
April 2012 Completion	
Elevator Modernization	$2,100,000
Elevator Infrastructure	200,000
Total	$2,300,000

There are 10.5 months remaining for the majority of the remediation/renovation work to be completed, and 24.5 months remaining for elevator work to be completed. The following table details the number of months remaining for each category as of the effective dates of prospective market value.

	As of June 30, 2010	As of December 31, 2010
No. of Months Remaining for Remediation/Renovation	7	1
Allocation % for Remediation/Renovation	66.67%	9.52%
Remaining Costs for Remediation/Renovation	$15,723,862	$2,246,266
No. of Months Remaining for Elevator Repair	21	15
Allocation % for Elevator Repair	85.71%	61.22%
Remaining Costs for Elevator Repair	$1,971,429	$1,408,163
Total Remaining Costs	$17,695,291	$3,654,429

This method of allocating costs is imprecise, as construction costs not incurred on a linear basis according to the project timeline. However, in the absence of a detailed itemization of specific costs that will be incurred as of the prospective dates of value, the allocation method is the best way to estimate remaining costs.

Similar to the analysis presented in the previous section, an entrepreneurial incentive of 10% of the remaining remediation/renovation costs will be deducted. Based on the preceding discussions and analysis, the estimates of prospective market value are presented as follows:

PMV AS OF JUNE 30, 2010

Prospective Market Value Upon Completion of Remediation/Renovation		$92,250,000
Less: Remaining Costs		($17,695,291)
Less: Entrepreneurial Incentive		($1,769,529)
Prospective Market Value		$72,785,180
	Rd.	**$72,800,000**

PMV AS OF DECEMBER 31, 2010

Prospective Market Value Upon Completion of Remediation/Renovation		$92,250,000
Less: Remaining Costs		($3,654,429)
Less: Entrepreneurial Incentive		($365,443)
Prospective Market Value		$88,230,128
	Rd.	**$88,200,000**

CONCLUSIONS OF VALUE

The purpose of this appraisal has been to estimate the market values (*fee simple estate*) of a 24-story Class A office property located at 450 N Street, within the city of Sacramento, California. As a result of our analysis, and in accordance with the assumptions and limiting conditions contained herein, it is our opinion the market values of the subject property, are...

Value Estimate*	Date of Value	Conclusion
Prospective Market Value Upon Completion of Remediation/Renovation	April 1, 2012	$92,250,000
Market Value as of the Date of Inspection	March 15, 2010	$63,800,000
Prospective Market Value Upon Completion of Remediation/Renovation, By Phase		
Phase 1	June 30, 2010	$72,800,000
Phase 2	December 31, 2010	$88,200,000

* The estimates of value are without regard to stigma (if any). Additionally, the value estimates take into consideration the fact that the subject is operating at stabilized occupancy.

Exposure Time

Exposure time is the period a property interest 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. For a complete definition of exposure time, please reference the *Glossary of Terms* in the Addenda.

In attempting to estimate a reasonable exposure time for the subject property, we looked at both the historical exposure times of a number of sales, as well as current and past economic conditions. The office market in the subject's region has been in a state of decline. However, a transfer of office properties in the region has typically occurred within 12 months of exposure. This is substantiated by the fact that most of the properties analyzed in the *Sales Comparison Approach* transferred within 12 months of exposure. It is estimated the exposure time for the subject property, if appropriately priced, would be within 12 months.

ADDENDA

READDRESSING / REASSIGNING APPRAISAL REPORTS

Readdressing/Reassigning Appraisal Reports

Seevers Jordan Ziegenmeyer adheres to the requirements of the 2008-2009 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP). This edition is effective January 1, 2008 through December 31, 2009. The following excerpts pertain to readdressing/reassigning appraisal reports:

Advisory Opinion 26, Page A-90:

> Once a report has been prepared for a named client(s) and any other identified intended users and for an identified intended use, the appraiser cannot "readdress" (transfer) the report to another party.

Advisory Opinion 27, Page A-92:

> Situations often arise in which appraisers who have previously appraised a property are asked by a different party to appraise the same property..... Accepting the assignment from the second potential client is not prohibited by USPAP, assuming any existing confidential information is handled properly..... If there is a new potential client, valuation services performed for that new client would constitute a new assignment and the assignment results would be specific to that new assignment.

Frequently Asked Questions, Page F-36:

> It is never permissible to "readdress" a report by simply changing the client's name on a completed report, regardless of whether the first client gave a release. The request from Lender B must be treated as a new assignment.

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Unless otherwise noted, the following definitions are from The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

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

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.

Band of Investment: A technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment.

Bulk (Discounted) Value: The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under stress. (Appraisal Standards For Land-Secured Financing, California Department Advisory Commission, 1994)

Comparative-Unit Method: A method used to derive a cost estimate in terms of dollars per unit of area or volume based on known costs of similar structures that are adjusted for time and physical differences; usually applied to total building area.

Cost Approach: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

Depreciation: In appraising, a loss in 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.

Direct Capitalization: A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.

Discounted Cash Flow (DCF) Analysis: The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.

Discount Rate: A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for *yield rate*.

Disposition Value: The most probable price that a specified interest in real property should bring under the following conditions: 1) consummation of a sale within a future exposure time specified by the client; 2) the property is subjected to market conditions prevailing as of the date of valuation; 3) both the buyer and seller are acting prudently and knowledgeably; 4) the seller is under compulsion to sell; 5) the buyer is typically motivated; 6) both parties are acting in what they consider to be their best interests; 7) an adequate marketing effort will be made during the exposure time specified by the client; 8) payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; 9) 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.

Easement: The right to use another's land for a stated purpose.

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.

External Obsolescence: An element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant.

Extraction: A method of estimating land value in which the depreciated cost of the improvements on the improved property is calculated and deducted from the total sale price to arrive at an estimated sale price for the land.

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.

Fair Market Value: 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. (California Code of Civil Procedure, Section 1263.320(a))

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.

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

Functional Obsolescence (Incurable): An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design that cannot be practically or economically corrected.

Highest and 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 legal permissibility, physical possibility, financial feasibility, and maximum productivity. 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.

Highest and Best Use of Property as Improved: The use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

Highest and Best Use of Land or a Site as though Vacant: Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.

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.

Income Capitalization Approach: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

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.

Leasehold Interest: The tenant's possessory interest created by a lease. (Negative leasehold: A lease situation in which the market rent is less than the contract rent. Positive leasehold: A lease situation in which the market rent is greater than the contract rent.)

Liquidation Value: See *Disposition Value*.

Market Value: The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: buyer and seller are typically motivated; both parties are well informed or well advised, and acting in what they consider their best interests; a reasonable time is allowed for exposure in the open market; payment is made in terms of 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. (Code of Federal Regulations, Title 12, Part 34, Section 34.42)

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 an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

Neighborhood: A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises.

Obsolescence: One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external.

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

Quantity Survey Method: A cost-estimating method in which the quantity and quality of all materials used and all categories of labor required are estimated and unit cost figures are applied to arrive at a total cost estimate for labor and materials.

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.

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 the deficiencies, superadequacies, and obsolescence of the subject building.

Sales Comparison Approach: The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.

Site Coverage Ratio: The gross area of the building footprint divided by the site area.

Stabilized Occupancy: An expression of the expected occupancy of a property in its particular market considering current and forecasted supply and demand, assuming it is priced at market rent.

Subdivision Development Method: A method of estimating land value when subdivision development is the highest and best use of the parcel of land being appraised. When all direct and indirect costs and entrepreneurial incentive are deducted from an estimate of the anticipated gross sales price of the finished lots (or residences), the resultant net sales proceeds are then discounted to present value at a market-derived rate over the development and absorption period to indicate the value of the land.

Superadequacy: An excess in the capacity or quality of a structure or structural component; determined by market standards.

Unit-In-Place Method: A cost-estimating method in which total building cost is estimated by adding together the unit costs for the various building components as installed; also called the *segregated cost method.*

Yield Capitalization: A method used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment's income pattern, holding period, value change, and yield rate.

Yield Rate: A rate of return on capital, usually expressed as a compound annual percentage rate. A yield rate considers all expected property benefits, including the proceeds from sale at the termination of the investment.

QUALIFICATIONS OF APPRAISER(S)

Northern California/Nevada
3825 Atherton Road, Suite 500
Rocklin, California 95765
P: (916) 435-3883 F: (916) 435-4774

P. Richard Seevers, MAI, Partner

Introduction
Mr. Seevers is the principal of an appraisal firm that engages in a wide variety of real estate valuation and consultation assignments for loan underwriting and estate planning. The scope of his practice includes office, retail, industrial, apartments, subdivisions, large tracts of vacant land and special purpose properties. With 30 years of experience, he has developed the expertise and background necessary to deal with complex properties and valuation assignments. The client base includes financial institutions, government agencies, developers and investors. The geographic scope of the practice includes Redding to Bakersfield, California.

Professional Affiliations
Appraisal Institute - MAI and SRA designations
Certified General Real Estate Appraiser - State of California (No. AG001723)
Licensed California Real Estate Broker
Association of Commercial Real Estate (ACRE)
Past President - Appraisal Institute Sacramento-Sierra Chapter

Education
Academic:
Bachelor of Science in Business Administration, Bowling Green State University, Ohio
Masters in Business Administration (MBA), Golden Gate University, San Francisco

Representative Appraisal and Real Estate Courses:
2010 Economic Forecast
The Masters Class
Introduction to Business Valuation
Skills of Expert Testimony
Dynamics of Office Building Valuation
Valuation and Exchange of Real Property in Western Europe and the Pacific Rim
Valuation of Special Purpose Properties
Inverse Condemnation
Valuation of Contaminated Properties
The Appraiser as an Expert Witness
The Appraisal of Partial Acquisitions
Litigation Valuation
Practical Overview of Evaluation and Other Limited Scope Assignments
Standards of Professional Practice, Parts A & B
Highest and Best Use and Market Analysis
Assessment Bond Seminar
Investment Analysis
Subdivision Analysis
Easement Valuation Workshop
(*continued on next page...*)

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Attacking and Defending an Appraisal in Litigation
Lease Abstracting and Analysis
Public Interest Value vs. Market Value
Valuation from the Investor/Developer View Point
Vineyard Valuation
Standards of Professional Practice, Part C
Federal Land Exchanges & Acquisitions
Partial Interest Valuation - Undivided
The Law & Value: Communication Corridors, Tower Sites and Property Rights
Entitlements, Land Subdivision & Valuation
Conservation Easement Valuation
Real Estate Finance, Value and Investments
Rates, Ratios and Reasonableness
Supporting Capitalization Rates
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Current Issues and Misconceptions in Appraising
California Conservation Easements
Eminent Domain Update

Appraisal Experience
General-purpose:
Offices
Retail
Industrial
Apartments
Subdivisions
Land

Special-purpose:
Athletic Clubs
Churches
Educational Facilities
Restaurants
Refrigerated Warehouses
Assisted-living Facilities
Auto Sales and Service
Lodging Facilities

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Nelson M. Wong, Appraiser

Introduction

Mr. Wong is a Certified General real estate appraiser with Seevers Jordan Ziegenmeyer, a real estate appraisal firm that engages in a wide variety of real estate valuation and consultation assignments. Since beginning his career in real estate in August 2001, Mr. Wong has been writing narrative appraisal reports for a variety of properties. Today, he is involved in appraisal assignments covering office, retail, industrial, apartments, subdivisions, land and special-purpose properties. He has also been involved in appraisals for bond-underwriting purposes relating to the formation of new community facilities districts and assessment districts. His geographical experience has been predominantly within the Sacramento Metropolitan Area, but includes areas extending to Chico to the north, Modesto to the south, Reno to the east and the San Francisco Bay Area to the west. Mr. Wong has developed the experience and background necessary to deal with complex assignments covering an array of property types.

Professional Affiliations

Certified General Real Estate Appraiser - State of California (No. AG034862)
Certified General Real Estate Appraiser - State of Nevada (No. A.0006030-CG)

Education

Academic:
Bachelor of Arts in Economics, University of California, Davis

Appraisal and Real Estate Courses:
Uniform Standards of Professional Appraisal Practice
Appraisal Principles
Appraisal Procedures
Basic Income Capitalization
California Real Estate Economics
Report Writing and Valuation Analysis

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Sample of Appraisal Experience

Vintage Ranch Subdivision American Canyon, California	This appraisal involved the valuation of 674 single-family residential lots at various stages of development. The property is situated in the city of American Canyon, which is located in South Napa County. In the analysis, we estimated as-is market value of the property, the prospective market value of the property as finished lots, and the hypothetical market values of nine proposed floor plans. This report was prepared for Washington Mutual Bank.
I Street Office Building Sacramento, California	This project involved the valuation of a three-story professional office building in Downtown Sacramento. The property is leased to multiple tenants and has frontage and visibility along I Street. This report was prepared for the Special District Risk Management Authority.
Highland Reserve, Parcel 18C Roseville, California	This project involved the valuation of a proposed 248-lot cluster housing subdivision in the city of Roseville. The property contained 26.17 acres of land area, with an overall density of 9.48 units/acre, as proposed. The report was prepared for Bank of America.
Lot 5 of the Innovative Technology Business Park Modesto, California	This project involved the market valuation of a proposed office building in Modesto. In this appraisal, we estimated the prospective market value of the property at completion of construction and at stabilized occupancy, as well as the as-is market value of the property. This report was prepared for Central California Bank.
Florin Perkins Road Industrial Sacramento, California	This report involved the market valuation of a multi-tenant light industrial building in the Power Inn submarket of Sacramento. This report was prepared for Sonoma National Bank.
Sunridge-Anatolia CFD No. 2003-1 Rancho Cordova, California	This report involved the hypothetical market valuation and aggregate, or cumulative, valuation of the properties within Sunridge-Anatolia Community Facilities District (CFD) No. 2003-1, assuming the completion of the infrastructure to be financed by the District. There are several components, including a detached, single-family residential component (2,795 single-family residential lots), a multifamily residential component (12.01 acres), a commercial component comprising five separate sites (46.10 acres), a medium density residential land component (25.45 acres) and a recreation center site (3.83 acres). This report was prepared for the City of Rancho Cordova.