BAHA
BAY AREA HEADQUARTERS AUTHORITY

BAY AREA HEADQUARTERS AUTHORITY
Regional Agency Headquarters
375 Beale Street, San Francisco, CA 94105
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Memorandum

Agenda Item 3a

TO: Bay Area Headquarters Authority DATE: October 19, 2016

FR: Executive Director W. I. 9130

RE: **375 Beale Street Status Report – October 2016**

1. Construction Update/Project Close Out
Staff is currently working with McCarthy Builders, Inc. (McCarthy) to complete the punch list items and project closeout. A graphic map of the Bay Area and directional signage has been installed. BAHA is working with TEF Architects to install a more visible directory in the Floor 1 Lobby area that will benefit all agency and commercial tenants.

2. Streetscape/Rincon Place
Sidewalk improvements for Main Street are underway. Rincon Place construction work by Tishman Speyer is underway and expected to be completed in early 2017. Streetscape improvements to relocate water main lines and make permanent grade changes along Beale Street will be underway by early next year.

3. Furniture Procurement
Hogue and Associates (Hogue), BAHA's furniture dealer, completed delivery of furniture for all offices, workstations, conference rooms and other ancillary areas. Hogue has completed all outstanding punch list items, is developing the furniture inventory for fixed asset tracking and plans to provide staff training on making minor adjustments to accommodate staff needs.

4. Ada's Café and Resource Center ("The Hub")
Construction work was completed in September and installation of furniture, fixtures and audio-visual, technology and food service equipment is underway for the combined spaces. Both Ada's and the Hub operators are in the process of hiring, training and orienting staff for their official grand opening currently planned for January 11, 2017.

5. Twilio
Twilio selected Skyline Construction for its tenant improvement work, which is underway on Levels 3 and 4. Twilio received approval from the Office of the State Fire Marshal and Division of the State Architect for all permits. Twilio expects to occupy the 3rd floor space in November and the 4th floor by end of the year.

6. Degenkolb Engineers
Degenkolb Engineers (Degenkolb) selected BCCI Builders to complete its tenant improvement work, which is underway on Level 5. Plans have been submitted to the Office of the State Fire Marshal and the Division of the State Architect for approval. Degenkolb desires to complete the work and occupy the space no later than February 2017. Under agenda item 4a, staff will be recommending utilizing BCCI resources to complete the 5th floor corridor work, a landlord obligation and required in order for Degenkolb to receive approval to occupy its suite.

7. San Francisco Bay Conservation and Development Commission (BCDC) Relocation
Staff is diligently working with the Department of General Services (DGS) to finalize the approvals needed to relocate BCDC to the building. This includes final approval of the proposed BCDC space plan and final lease costs based on the State's requirement for a fully loaded turnkey rate (build-out, furniture and annual operating expenses) over the entire term of the lease. Staff expects to seek BAHA approval of a lease and funding for tenant improvements by year's end.

8. Level 5 BCDC/MTC Space Build-out
TEF Architects is under contract to provide design services for the Level 5 space that will house the BCDC offices and MTC expansion space. Once approved, TEF will submit drawings to Office of the State Fire Marshal and the Division of the State Architect for approval. Staff expects to issue a request for competitive bids to complete the tenant improvements for this space.

9. Regional Operations Center ("The ROC")
Design work is completed and a contract will be executed to construct the ROC facility dedicated to the monitoring and operation of several transportation management systems, including the BAIFA Express Lane Network, and the toll bridges and plazas. This project includes build-out of 750 square foot and installation of toll system equipment, closed-circuit video displays and workstations.

10. Large Retail Space
Staff is exploring options for the large retail space (4,400 rental square feet). At a minimum, staff recommends completing the minimum fire life safety improvement required to convert the space into an informal eating space, overflow space for public meetings, and "pop-up" retail. This option is the most financially feasible option to activate this highly visible space until a food service deal is made.

11. 375 Beale Street Appraisal
Hamilton, Ricci and Associates completed an updated appraisal of the building. Below are valuations over the last five (5) years:

Date	Valuation Method	$ millions
July 2016	Stabilized market value	**$307.5**
October 2014	Stabilized market value	**$272.0**
May 2012	Stabilized market value	**$191.0**
September 2011	"as-if complete and stabilized market value"	**$166.0**

A copy of the 2016 appraisal is included as Attachment A.

12. Election Polling Place
On November 8th, 375 Beale will be a polling place for the Consolidated General and Presidential Election.

Steve Heminger

SH:tg
Attachment

Attachment A

APPRAISAL OF

375 Beale Street

San Francisco, CA
An Office Building

AT THE REQUEST OF

Mr. Andrew Fremier
Deputy Executive Director, Operations
Bay Area Headquarters Authority
375 Beale Street, Suite 800
San Francisco, CA 94105

AS OF

July 22, 2016

PREPARED BY

HAMILTON, RICCI & ASSOCIATES, INC.
930 Montgomery Street, Suite 100
San Francisco, CA 94133

HAMILTON, RICCI & ASSOCIATES, INC., 930 MONTGOMERY ST., 4TH FLOOR SAN FRANCISCO, CA 94133 415 788-7722 FAX 415 394-7778

September 19, 2016 16-07-155

Mr. Andrew Fremier
Deputy Executive Director Operations
Bay Area Headquarters Authority
375 Beale Street, Suite 800
San Francisco, California 94105

RE: 375 Beale Street
San Francisco, California

Dear Mr. Fremier:

Hamilton, Ricci & Associates, Inc. (HRA) appraised 375 Beale Street, in San Francisco. The subject is one assessor's parcel of 75,625 square feet, improved with an eight-story office building of 400,671 rentable square feet and a 31,976-square-foot 78-car garage. The improvements are reinforced concrete-frame construction, built in 1942, and have undergone a total gutting and rehab to high quality office space. The property was acquired October 14, 2011 for $93,000,000 by the Metropolitan Transportation Commission (MTC) and Bay Area Transportation Authority (BATA) who together constitute the Client. As of the date of value (DOV) the subject is occupied by the MTC, BATA and various other tenants. Some leases and pre-lease agreements have already been signed and one vacant space remains, a 4,827-square-foot retail unit.

The appraisal estimates the "as-is" market value of the leased fee interest and the hypothetical "as-if-complete and stabilized" market value of the leased fee interest for the exclusive use of the Client to assist with asset-monitoring and decision-making, with no other intended users.

HRA has inspected the subject, including the site and its general environment, using the Sales Comparison and Income approaches to estimate value. This information is conveyed in an appraisal report.

Based on our investigation and analysis, subject to our Limiting Conditions, Extraordinary Assumptions and Hypothetical Conditions, it is our opinion that the **"as-is" market value** of the leased fee interest in the subject, as of July 22, 2016, is as follows.

TWO HUNDRED EIGHTY ONE MILLION THREE HUNDRED THOUSAND DOLLARS

($281,300,000)

Furthermore, subject to our Limiting Conditions, Extraordinary Assumptions and Hypothetical Conditions, it is our opinion that the **hypothetical "as-if-complete & stabilized" market value** of the leased fee interest in the subject, as of July 22, 2016, is as follows.

THREE HUNDRED SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS

($307,500,000)

Marketing and exposure times are estimated to be 12 months or less.

The report summarizes the details of our investigation and analysis, subject to the limiting conditions, extraordinary assumptions and hypothetical conditions, produced in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, and subject to the requirements of the Code of Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

Respectfully submitted,

HAMILTON, RICCI & ASSOCIATES, INC.

Walter L. Ricci, MAI, CCIM
Certified General Appraiser
California Certificate #AG009489

Tax ID 94-3190470

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STATEMENT OF LIMITING CONDITIONS

1. Date and definitions of value, together with other definitions and assumptions on which our analyses are based, are set forth in appropriate sections of this report. These are to be considered part of these limiting conditions as if included here in their entirety.

2. The conclusions, including values that are in terms of the U.S. Dollar, apply only as of the date of value and are based on prevailing physical and economic conditions and available information at that time. No representation is made as to the effect of subsequent events.

3. Title to the property is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is appraised assuming it to be under responsible ownership and competent management, and available for its highest and best use.

4. All facts and data set forth in this report are true and accurate to the best of the appraiser's knowledge and belief. The appraisal is based upon the assumption that data which is of public record or which has been secured through interviews with owners, agents or other informed persons is true and correct. The appraisers reserve the right to make appropriate revisions in the event of discovery of additional or more accurate data.

5. The appraiser reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

6. The appraiser assumes no responsibility for hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for arranging for engineering studies that may be required to discover them.

7. The property is appraised assuming it to be in full compliance with all applicable federal, state, and local environmental regulations and laws, unless otherwise stated.

8. The property is appraised assuming that all applicable zoning and use regulations and restrictions have been complied with, unless otherwise stated.

9. The property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any 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, unless otherwise stated.

10. No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable and no encroachment of real property improvements is considered to exist.

11. The existence of hazardous material, which may be present on the property, was not observed. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value. The value estimate assumes 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 should retain an expert in this field, if desired.

12. Earthquakes are not uncommon in the area so no responsibility is assumed due to their possible impact on individual properties.

13. This appraisal covers only the real property described herein. It does not include consideration of mineral rights or related right of entry, nor personal property or the removal thereof. Values reported herein are not valid in any other context, nor are any conclusions as to unit values applicable to any other property or utilization than that specifically identified herein.

14. By reason of this assignment, testimony or attendance in court or at any government or other hearing with reference to the property is not required without prior arrangements having been made relative to such additional employment.

15. No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials except as is expressly stated.

16. Maps, plats and exhibits are for illustration only as an aid in visualizing matters discussed in the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from the report.

17. No opinion is expressed for matters that require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.

18. The distribution, if any, of the total value between land and improvements applies only under the stated program of use. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

19. Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially the conclusions as to value, the identity of the appraiser or the firm with which he is connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication, without prior written consent and approval.

20. The liability of HRA, its owner and staff is limited to the Client only and to the amount actually paid for the services rendered, as liquidated damages, if any related dispute arises. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the Client, the Client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The Appraiser is in no way to be responsible for any cost incurred to discover or correct any deficiencies of any type present in the property, physically, financially and/or legally. The Client also agrees that in case of lawsuit (brought by lender, partner or part owner in any form of ownership, tenancy or any other party), Client will hold appraisers completely harmless from and against any liability, loss, cost or expense incurred or suffered by appraiser in such action, regardless of its outcome.

SPECIAL LIMITING CONDITIONS AND CRITICAL ASSUMPTIONS

Extraordinary Assumptions

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

This appraisal uses the following Extraordinary Assumptions.

1. The appraisers were not provided with a preliminary title report, but the appraisers are not experts in title matters in any case. Title to the property is assumed to be marketable, and free and clear of all liens, encumbrances, easements and restrictions, unless specifically discussed in the report.

2. Unless otherwise stated in this report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value stated herein. Compliance is assumed. Failure to comply with the requirements of the ADA may negatively affect the value of the property. The appraisers recommend that an expert in the field be retained should there be any concerns regarding the subject and compliance with ADA.

3. The appraisers have not been provided with an environmental assessment report regarding the subject. ***The appraisers are not qualified to make any judgments regarding hazardous materials or assess the impact of hazardous substances and toxics in regard to the subject. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is required.***

4. The subject's building area is based on information from the Client and public record, measurements which are approximate, and are considered to be sufficiently accurate for the purpose of appraisal. If more precise measurements are required, the Client should hire an architect or the like. If the square footage estimate were materially incorrect the value could be affected accordingly.

5. Estimated rehab / remodel costs provided by the Client are assumed to be accurate. Also estimated time to complete the rehab project provided by the Client is assumed to be accurate. If either estimate or both were materially incorrect the value estimate could be affected accordingly.

Hypothetical Conditions

A hypothetical condition is defined by *USPAP* as “that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”

1. We assume the hypothetical conditions that the rehab project is complete, including the TIs for each tenant, and that the building is fully leased and occupied to estimate the “hypothetical as-if-complete-and-stabilized” value as of the date of our inspection.

EXECUTIVE SUMMARY

Property:	The subject is one assessor's parcel of 75,625 square feet, improved with an eight-story office building of 400,671 rentable square feet and a 31,976-square-foot-garage that has the capacity to park 78 cars. The improvements are of reinforced concrete-frame construction, built in 1942, and have undergone a total gutting and rehab to high quality office space. The property was acquired October 14, 2011 for $93,000,000 by the Metropolitan Transportation Commission (MTC) and Bay Area Transportation Authority (BATA) who together constitute the Client. As of the date of value (DOV) the subject is occupied by the MTC, BATA and various other tenants. Some leases and pre-lease agreements have already been signed and one lease opportunity remains for a 4,827 square foot retail unit. The subject is in the South of Market (SOMA) submarket.
Location / Zip Code:	390 Main Street & 375 Beale Street, 94105-5005
Census Tract:	Tract 615.00
Assessor's Parcel:	3746-002
Land Area:	75,625 square feet
Zoning:	RH – DTR, Rincon Hill Downtown Residential
Building Area:	400,671-square-foot office (rentable) and a 31,976-square-foot garage (78 spaces).
Flood Zones:	Not in a FEMA Flood Zone (Undated, Community / Panel Number 060298/-/0001 N).
Earthquake Zones:	Not in an Alquist-Priolo Special Studies zone.
Highest & Best Uses:	
Vacant:	High-rise mixed-use (retail/office/residential)
As Improved:	Class A Office
Rights Appraised:	Leased Fee
Date of Inspection:	July 22, 2016
Date of Appraised Value:	July 22, 2016
Marketing Time:	12 months or less

Value Summary

"As-Is" Market Value

Sales Comparison Approach	$282,300,000
Income Approach	$281,300,000
Final Value Estimate	**$281,300,000**

Hypothetical Stabilized Market Value:

Sales Comparison Approach	$308,500,000
Income Approach	$307,500,000
Final Value Estimate	**$307,500,000**

INTRODUCTION

Identification

The subject is one assessor's parcel, 75,625 square feet, improved with an eight-story 400,671-square-foot office building (rentable) and a 31,976-square-foot 78-car garage. The improvements are reinforced concrete construction built in 1942 and have undergone a total gutting and rehab to high quality office space. The property was acquired October 14, 2011 for $93,000,000 by the Metropolitan Transportation Commission (MTC) and Bay Area Transportation Authority (BATA) who together constitute the Client. As of the date of value (DOV) the subject is occupied by the MTC, BATA and various other tenants. Some leases and pre-lease agreements have already been signed and one vacant space remains, a 4,827-square-foot retail unit. The subject is in the South of Market (SOMA) submarket, identified as San Francisco Assessor's Parcel 3746-002, with street addresses 375 Beale Street and 390 Main Street.

Purpose of the Appraisal

The appraisal estimates the "as-is" and hypothetical stabilized value of the leased fee interest.

Intended Use

The appraisal is for the exclusive use of the Client to assist with asset-monitoring and decision-making, with no other intended users.

Property Rights Appraised

The rights appraised are the leased fee interest (see *Definitions* section).

Date of Inspection

The subject was inspected on July 22, 2016.

Date of Appraised Value

The DOV is July 22, 2016.

Competency

HRA has extensive experience in the appraisal of office properties in the Bay Area so no steps to competency were required.

Property Sales History

The US Postal Service (USPS) acquired the subject June 2010 for $59,630,000. MTC / BATA bought the subject from the USPS October 14, 2011 for $93,000,000 to congregate a variety of regional agencies in one building. The subject was constructed in the 1940s by the US Navy to provide assembly facilities for government projects. In the interim, the subject was used by the USPS. The appraisers do not know of other sales, listings or options involving the subject.

Scope of Work

The subject was inspected on July 22, 2016. Costs to achieve stabilized value are deducted from the estimated stabilized value to estimate “as is” market value. The appraisers reviewed county records and talked with brokers, appraisers, buyers and sellers, leasing agents and property managers to find comparable improved sales and comparable rents. The appraisers reviewed published data and interviewed investment participants. Unless otherwise noted, all comparables were confirmed with principals, or participatory agents, and / or via public record and were inspected.

DEFINITIONS

Market Value

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

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale (*Office of the Comptroller of the Currency under 12 CFR, Part 34*).[1]

Fee Simple Interest

The term "fee simple interest" is defined:

“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]

Leased Fee Interest

The term "leased fee interest" is defined:

“An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.”[3]

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[1] *Office of the Comptroller of the Currency under 12 CFR, Part 34 Subpart C Appraisals, 34.42 Definitions* (*g*).

[2] *The Dictionary of Real Estate Appraisal,* 5th Edition (Chicago: Appraisal Institute, 2010), p. 113.

[3] *The Dictionary of Real Estate Appraisal,* 5th Edition (Chicago: Appraisal Institute, 2010), p. 161.

LEGAL DATA

Ownership of Record:	Bay Area Headquarters Authority
Assessor's Parcel:	3746-002
Zoning:	RH – DTR, Rincon Hill Downtown Residential.
Legal Description:	The appraisers did not review the subject's title report, but HRA is not an expert in title matters in any case. The subject is assumed to be marketable, and free and clear of all liens, encumbrances, easements and restrictions. The subject's address and APN are used for identification.
Easements / Encroachments:	It is assumed that there are no easements, encroachments or other restrictions that would materially affect the subject's utility or highest and best uses.
Tenancy:	The upper floors (part of 5 and 6 through 8) of the building are occupied by the MTC. They also occupy parts of the 2nd Floor (air lab.) The other floors are non-agency leases with two ground floor retail spaces.
Planning:	There are no proposed planning changes know of by HRA that would detrimentally affect the use of the subject.

ASSESSMENT DATA

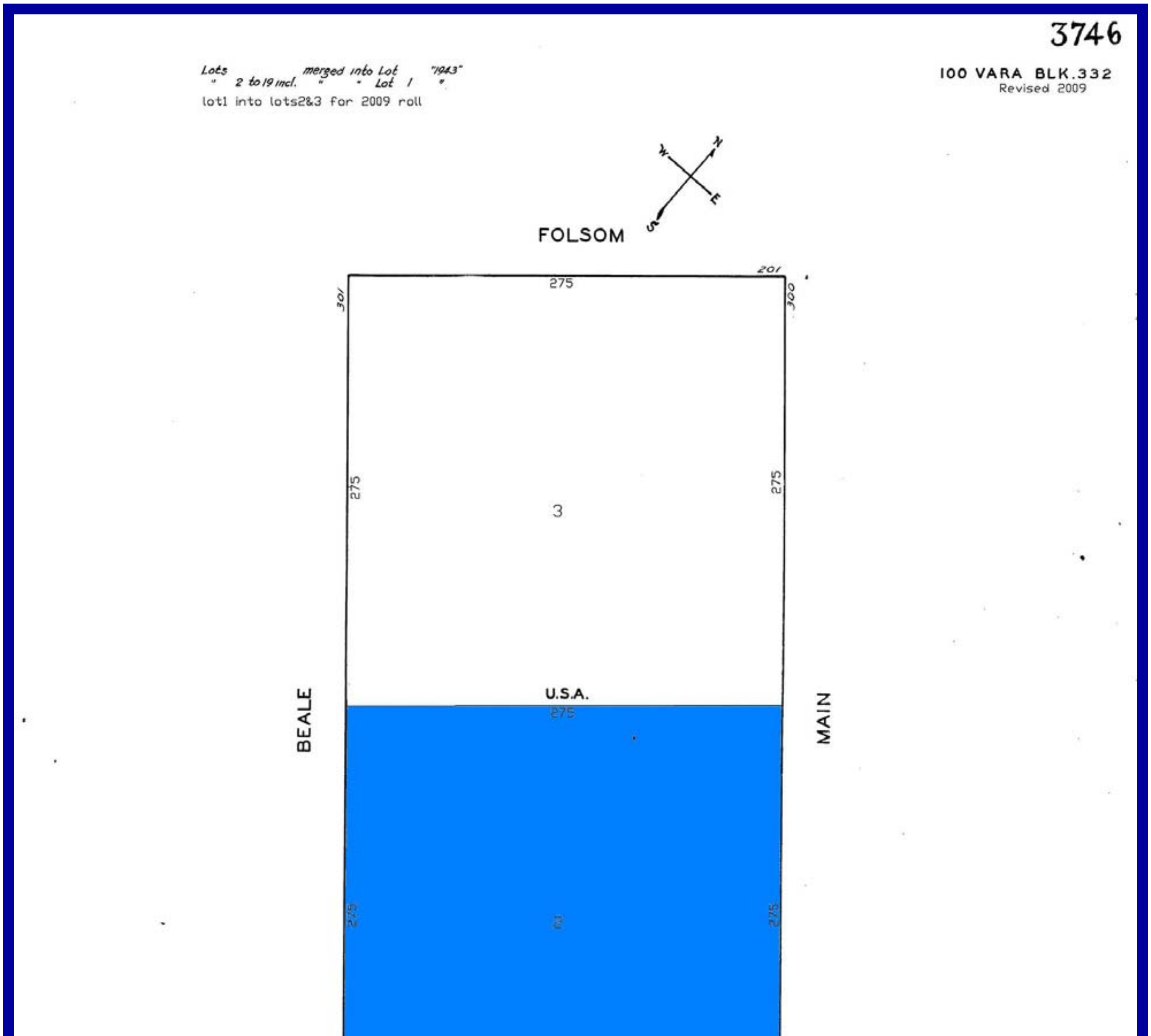
The subject is one parcel with assessments and taxes for the fiscal year 2015/16 as follow.

Assessed Value & Tax					
Parcel	**Item**	**Value**	**Tax-Rate**	**Fxd Chrgs**	**Tax**
3746-002	Land	$0	1.1826%	$44,704.34	$44,704
	Building	$0	1.1826%		None
Totals		**$0**		**$44,704.34**	**$44,704**

The subject's 2015-16 composite tax-rate is 1.1826%. Because it is owned by a government entity no assessments are levied, only fixed charges are assigned. The tax-rate is city-wide. We will use the above tax-rate and the fixed charges with the value estimated in the Income Approach as the assessed value (State Proposition 13) to estimate the next 12 months real estate taxes, based on the assumption that a buyer in an assumed sale would not be a government entity.

Under State Proposition 13, real property assessments can only be increased a maximum of 2% per year. Reassessment is permitted only upon change of ownership or completion of new construction. Typically, market value assumes a sale. Accordingly, pro forma real estate taxes are based on the market value of the subject estimated in the Income Approach. Following is the subject’s Plat Map.

PLAT MAP



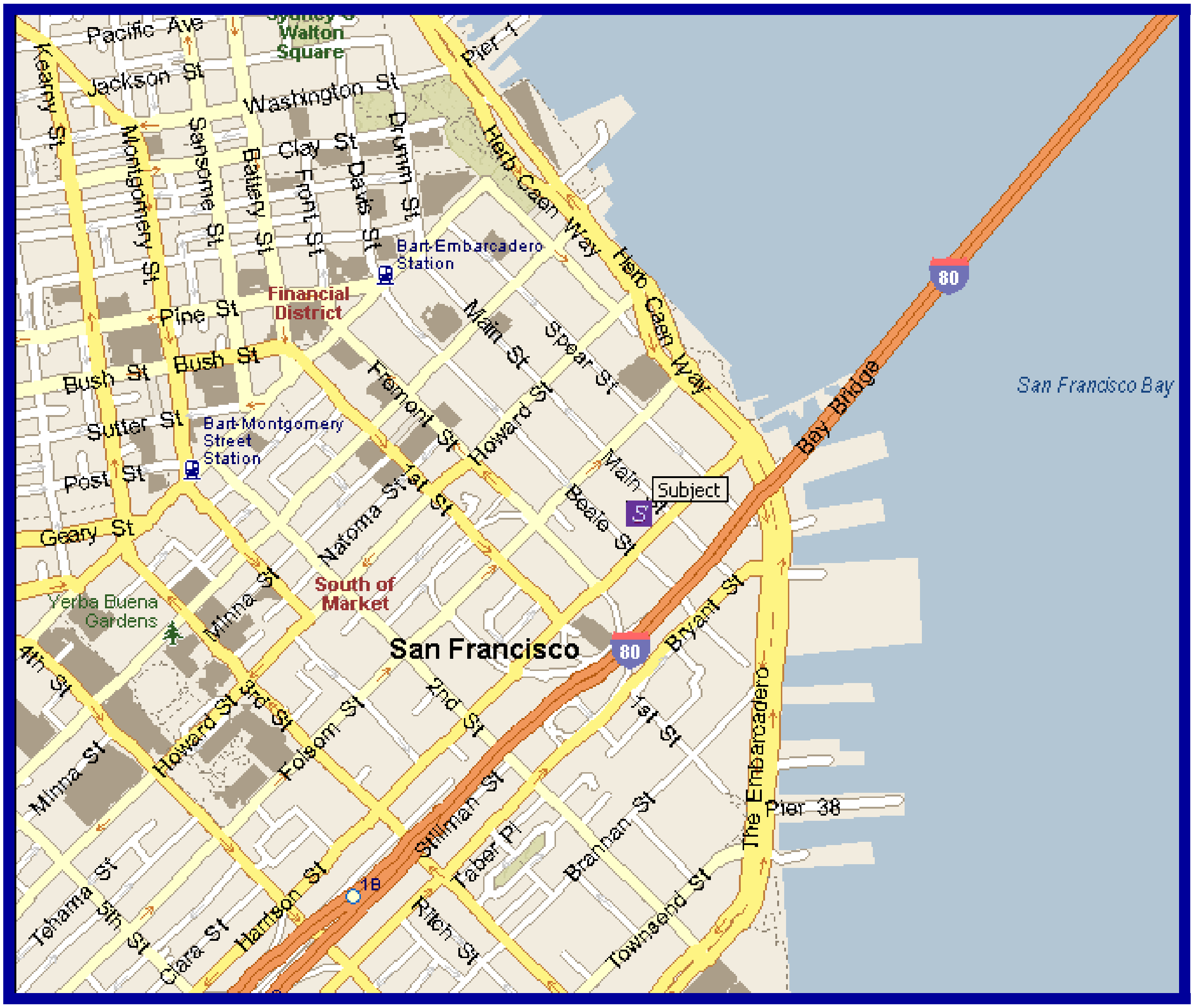
The subject has 275 feet of frontage on Beale, Harrison, and Main streets (it is square).

AREA DESCRIPTION

Regional Overview: San Francisco is the economic and cultural center of the nine-county Bay Area, a region with a population of nearly 6 million people, and the fourth largest metropolitan area in the United States. The City and County of San Francisco, sharing identical geographic boundaries, comprise a peninsula containing 47 square miles. San Francisco is bordered on the west by the Pacific Ocean, on the north by the straits of the Golden Gate joining the Pacific Ocean and San Francisco Bay, on the east by San Francisco Bay, and on the south by San Mateo County.

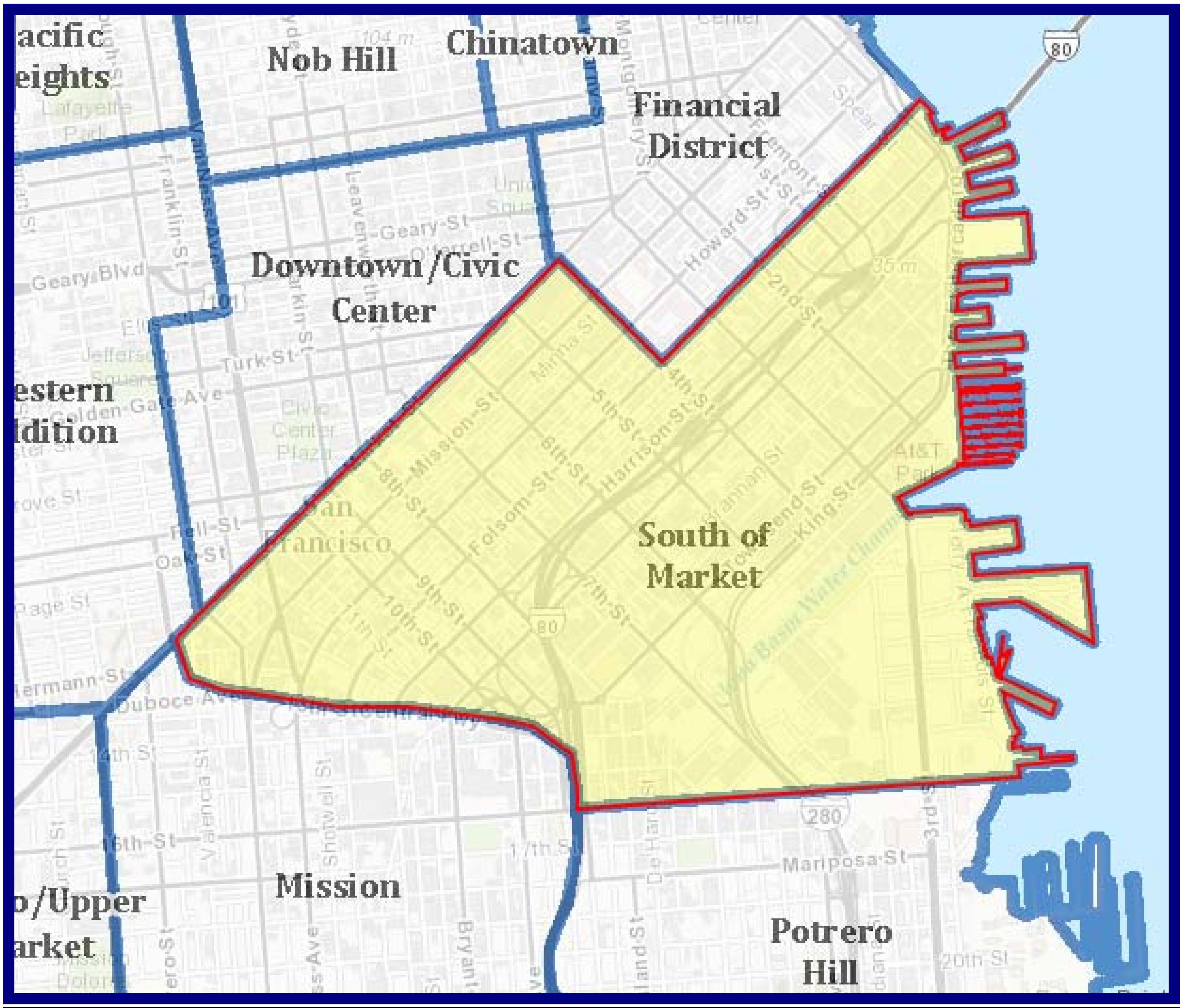
The Bay Area has a diverse and balanced economic base. San Francisco is a center for service industries: city, state, and federal government; public and private health care; finance; insurance; real estate; and support services such as law, accounting and architecture. The East Bay cities of Oakland, Richmond and Hayward are industrial centers, providing most of the region's manufacturing base, distribution services and port facilities. Santa Clara County, particularly the cities of Palo Alto, Sunnyvale and San Jose, comprises a commercial region known as Silicon Valley. The Silicon Valley is a national center for research, development, manufacturing and distribution of computer, software and communications related goods and services. In addition, biotechnology enterprise represents the fastest growing industry, and of strategic importance to the communities surrounding the Bay Area's preeminent research institutions; the University of California at Berkeley and San Francisco, and Stanford University. Following is a location map showing the subject's general area in San Francisco.

LOCATION MAP



Neighborhood: The subject is bordered by Main Street on its northeast side, Harrison Street on its southeast side and Beale Street on its southwest side, in the South of Market (SOMA) District, generally defined by Market Street to the northwest (and Folsom Street via 4th Street along the northwestern edge), the Embarcadero and the Bay to the east, and 16th Street and the Central Freeway to the south. The SOMA District is shown below (the Planning Department's map).

DISTRICT MAP



The location is in the northeast sector of SOMA, southeast of the Financial District. SOMA is a mixed-use area characterized by residential, commercial, technology and industrial properties of various qualities and ages. Adjacent to the subject's immediate neighborhood and to the southwest is the Yerba Buena neighborhood. Adjacent and to the south and southeast is the South Beach / Multi Media Gulch neighborhood. In terms of office use, this location is preferred by new technology industries (social media, digital game and internet search). These tenants' demand for office space is dramatically altering the overall SOMA office sector.

Access: The neighborhood is surrounded by major streets. Harrison Street is a major northeast / southwest arterial. Beale and Main streets are northwest / southeast routes. Interstate 80 eastbound is accessed by entrance ramps two blocks southwest of the subject at 1st Street. Highway 101 southbound is accessed five blocks southwest of the subject at the intersection of 4th and Harrison Streets (it's an entrance ramp to I-80 which ties into US 101 about six blocks southwest of the entrance ramp to I-80)). Access to I-280 is at 6th and Brannan streets, eight blocks southwest of the subject. The subject is ½ block southeast of the temporary location of the *Transbay Terminal* and within the *Transbay Redevelopment* area, generally defined by Folsom Street to the southeast, Mission Street to the northwest, Spear Street to the northeast and 2nd Street to the southwest. Construction on the Transbay development is underway, expected to be completed in 2017 (although completion will likely occur later than that.

Transbay Redevelopment's primary objective is to link public transportation systems (bus, train, light rail (MUNI and BART), etc.) at one hub to the northwest of the subject. The $4 billion project is one of the largest private/public development projects under construction in the US. In addition to transportation infrastructure goals, the *Transbay Redevelopment* will add thousands of residential units, and millions of square feet of office space. The benefit of the subject's proximity to the Transbay is substantial. Overall, the subject benefits from good existing public access and will benefit further from the *Transbay Redevelopment* project.

Development Trends: Adjacent to the subject on the northwest and taking up the balance of the block (Beale, Folsom and Main streets) is the *LUMINA* condominium project by Tishman Speyer, which will include over 1,000,000 square feet of upscale residential space with 656 residential condominiums in two high-rise towers (37 stories & 42 stories) and two eight-story buildings. The 1st phase was completed in 2015 and the last phase will be completed by the end of 2016. To the northwest of the subject is Infinity, a multi-tower high-rise residential project completed by Tishman-Speyer. The Rincon Hill neighborhood, adjacent and to the south of the subject experienced the most rapid residential development and is the home to the tallest residential tower west of the Mississippi River, One Rincon, completed in 2007.

The subject's area and the adjacent South Beach / Multi Media Gulch and Mission Bay submarkets are experiencing strong office demand from late-stage, and oftentimes profitable, new-economy and bio-tech start-up companies financed by venture capital. Examples include *Twitter*, *Zygna*, *Saleforce.com* and *Fibro Gen*. Large office investments have been made by healthcare focused investors, such Alexandria Real Estate Equities (a bio-tech office REIT) in the Mission Bay area. The northeastern SOMA, the subject's neighborhood, and adjacent areas are preferred by the new-economy technology businesses and have some of the highest office rents in the city.

Conclusion: The subject is in the northeast portion of the SOMA District, one of the city's strongest office submarkets. Being within the *Transbay Redevelopment* area and nearby the now under construction *Transbay Terminal* and existing public transportation options provides the subject with strong public transportation access and within easy walking distance to the central CBD. Office development trends bode well for the subject's neighborhood, as demand is strong and showing signs of sustained momentum. The subject's submarket has some of the highest office rents in San Francisco. Overall, market expectations are positive for the subject's neighborhood.

OFFICE MARKET ANALYSIS

The subject's space is now good quality mid-rise Class A office in a part of the SOMA District that competes most directly with office space in the South Financial neighborhood and South Beach neighborhood. This area consists of average to good quality office space in mid- to high-rise office structures, most of which was constructed in the 1960 to 1990 period, except for the rehab projects like the subject where former industrial space has been converted to high quality office, much of it referred to as "creative office" space. The following section considers the current state and trends in the San Francisco Office Market, referencing market reports by *Cushman & Wakefield* (*CW*) and Kidder Mathews (***Cushman & Wakefield's MarketBeat Office Snap Shot 2nd Q 2016*** **and** ***Kidder Mathews*** (KM) ***Real Estate Market Review San Francisco Office 2nd Q 2016***).

Office Market Overview: KM reports that The San Francisco office market was buoyed by the technology giants in the second quarter 2016, with 346,838 square feet of positive net absorption stemming mainly from recently completed, preleased buildings that were occupied by *Twilio* (375 Beale Street) and *Splunk* (270 Brannan Street). Citywide vacancy rose from 5.8% to 6.1%, as tenants left their old spaces to move onto recently completed buildings and portions of the new buildings remained vacant. Leasing activity increased to 2,247,341 square feet and over 310 transactions, with two tech-sector firms, *Fitbit* and *Lyft*, accounting for 14% of the deal volume in a pair of subleases. While the supply of available space in San Francisco is at its highest point in nine quarters, asking rents are stable to slightly higher, leading companies to look in the East Bay for more affordable space. Leases over $100 per square foot per year are still common in both view space in trophy buildings and Classes B / C creative spaces in prime locations such as South Park. Meanwhile, San Francisco office buildings remain some of the world's most sought-after commercial real estate assets, attracting record-breaking investments from domestic and foreign investors alike.

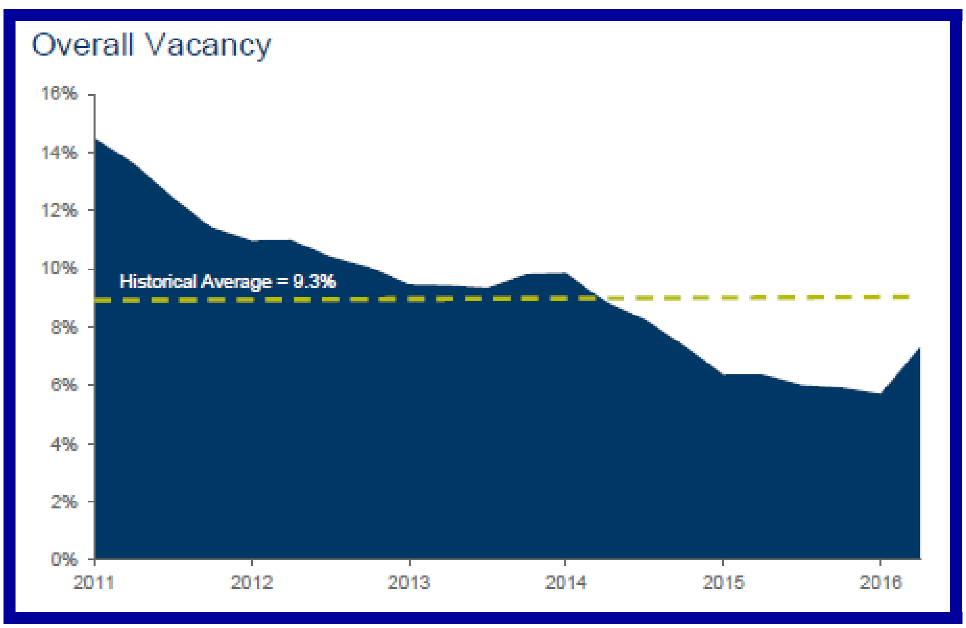
Following is a summary table of KM's market data as of the end of the 2nd Q 2016.

SUMMARY MARKET DATA

Market Breakdown

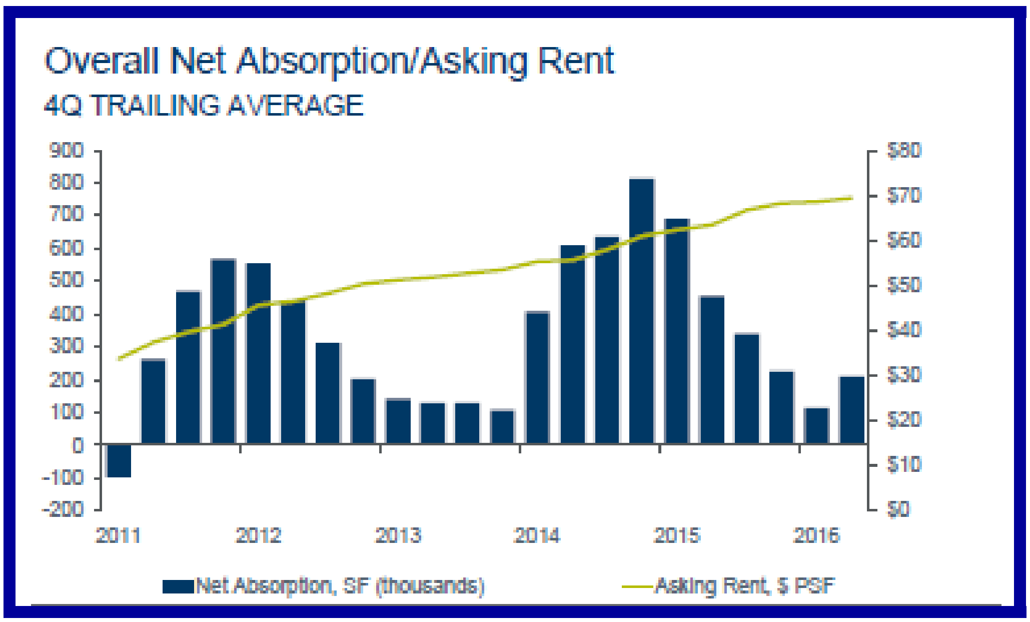
	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	6.1%	5.8%	5.4%	12.96%
Availability Rate	9.6%	9.0%	8.3%	15.66%
Asking Lease Rate	$68.71	$70.33	$66.09	3.96%
Leased SF	2,247,341	2,159,819	2,683,469	-16.25%
Sold SF	878,843	829,190	468,944	87.41%
Net Absorption	346,838	802,538	625,759	N/A

Vacancy and Absorption: The increase in sublease vacancy and several large blocks of direct space hitting the market has propelled the citywide vacancy 7.3% in the second quarter of 2016, up 160 basis points (BPS) from the first quarter of 2016 and the largest quarterly increase since the first quarter of 2009, according to CW (CW's estimated vacancy is much higher than KM's, likely due to their sampling methods). Sublease vacancy stood at 1.5 million square feet, up from 822,000 square feet one quarter ago, with former tech space accounting for 48.0% of the recent figure. CBD vacancy was reported at 8.0%, up from the previous quarter and non-CBD also increased to 5.9%, according to CW. The following graph shows the vacancy trend based on CW's data



The citywide asking rent continued to climb (this metric being slow to adjust in a quickly changing market according to CW), closing at a record high of $69.30 per square foot. KM reports that net absorption (the change in occupied space) was a positive 346,838 square feet in the second quarter, bringing the year-to-date gain to 1,149,376 square feet. The Financial District came out virtually even on balance, with 320,031 square feet gained in the south and 325,249 square feet lost in the north, tracking the southward shift in the city's center of gravity, according to KM. Class A absorption was negative 85,060 square feet, the first period in the red since the third quarter of 2013 for Class A space, mainly as a result of move-outs by companies that are now seeking subtenants. Direct-leased Class A spaces had 59,172 square feet of growth in occupied space while 174,232 square feet of space went to sublease availability, according to KM.

The following graph and histogram summarize the trends in asking rent and net absorption, based on CW's data.



Asking rents for full-service (FS) Class A space ranged from the mid-$60s per square foot near the northern edge of the Financial District to the low-$100s on the upper floors of choice buildings such as 4 Embarcadero Center, according to KM. Class B asking rents also varied across submarkets, from the low-$50s per square foot at 220 Montgomery Street north of Market Street to the low-$80s at 501 2nd Street in Rincon / South Beach. Class C buildings had the widest asking-rent spread, even within preferred submarkets. Some desirable buildings in SOMA and particularly in Rincon / South Beach have asking rents in the high-$50s per square foot per year FS, while South Park, just blocks away, has asking rents that are sometimes above $100 per square foot per year, according to KM. Following is a summary of major leases in the quarter based on CW's data.

Key Lease Transactions 2Q 2016

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
215 Fremont Street	305,500	Fitbit	Charles Schwab	Sublease	South Financial District
185 Berry Street	206,000	Lyft	Dropbox	Direct / Sublease	East SOMA
185 Berry Street	102,400	Stripe	Dropbox	Sublease	East SOMA
499 Illinois Street	97,700	UCSF	Illumina	Sublease	Mission Bay

Office Supply/New Construction: CW reports there were four office buildings completed in the second quarter, all of which were 100% pre-leased: (1) *Kilroy Realty Corporation's* 444,000-square- foot building at 350 Mission Street in the South Financial submarket, completed in May 2016 with *Salesforce* occupying the entire building; (2 & 3) *Dropbox's HQ* at 333 Brannan Street and 345 Brannan Street; and (4) *Splunk's* building at 270 Brannan Street. As of the end of the quarter, there were 3.8 million square feet of space under construction citywide, of which 25.0% was pre-leased. There is one building scheduled to be completed in 2016 - the 55,000-square-foot building at 500 Pine Street that is 100% un-leased. In 2017, four major projects are expected to be completed (*Salesforce Tower*, *181 Fremont Street*, *The Exchange on 16th Street*, and *350 Bush Street*).

The following table summarizes CW's market data as of the end of the 2nd Q 2016.

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)**	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
North Financial District	25,853,335	480,496	2,129,843	10.1%	(386,245)	(545,134)	933,086	425,000	$70.40	$71.15
South Financial District	25,195,356	568,400	902,108	5.8%	466,521	1,103,962	898,374	2,568,398	$70.96	$71.96
CBD	51,048,691	1,048,896	3,031,951	8.0%	80,276	558,828	1,831,460	2,993,398	$70.58	$71.42
Jackson Square	1,490,806	26,566	33,769	4.0%	(6,971)	(22,017)	20,988	0	$61.07	$60.79
North Waterfront	3,176,308	15,779	136,028	4.8%	25,622	57,192	127,483	0	$47.69	$56.02
East SOMA	4,838,815	119,407	379,793	10.3%	411,906	431,597	303,477	153,117	$68.64	$74.24
West SOMA	851,672	0	3,500	0.4%	0	0	0	0	$48.00	N/A
The Presidio	1,030,627	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,173,989	51,293	174,001	7.1%	(80,144)	(113,602)	124,819	0	$66.35	$65.73
Van Ness Corridor	785,956	0	16,614	2.1%	(1,410)	(3,401)	2,796	0	$56.88	$56.88
Showplace Square / Potrero Hill	3,111,042	117,046	91,521	6.7%	(9,497)	(89,237)	5,769	0	$66.58	$68.03
Mission Bay	1,056,735	0	0	0.0%	0	0	97,700	680,000	N/A	N/A
Yerba Buena	3,108,383	36,770	219,604	8.2%	(49,930)	(92,470)	169,355	0	$72.40	$73.16
Civic Center / Mid-Market	3,159,668	67,776	40,712	3.4%	(26,418)	(53,962)	63,580	0	$54.83	$57.13
Third Street Corridor	349,465	N/A	N/A	N/A	N/A	N/A	N/A	0	N/A	N/A
TOTAL	77,182,157	1,483,533	4,127,493	7.3%	343,434	672,928	2,747,427	3,826,515	$69.30	$71.09

*Rental rates reflect full service asking $psf/year
**Under Construction (sf) includes renovations

Office Investment Market: According to CW, while uncertainty continues to be a major theme in the capital markets (China, oil, BREXIT fallout, US election, etc.), the San Francisco office market is still viewed as an attractive investment for institutional, high net worth individuals, and foreign capital. KM reported six investment sales this quarter with the average price per square foot at $727.33, the highest quarterly mean ever recorded. The following chart from CW shows the major sales of the last quarter with 799 Market Street setting the city's record for highest price per square foot at $972.

Key Sale Transactions 2Q 2016

PROPERTY	SF	BUYER	SELLER	PRICE / $PSF	SUBMARKET
Market Center	770,000	Blackstone	John Hancock Real Estate	$506,000,000 / $657	South Financial District
140 New Montgomery Street	295,177	Pembroke Real Estate	Stockbridge Capital Group	$284,000,000 / $962	South Financial District
180 Montgomery Street	299,188	Sidra Capital	CBRE Global Investors	$185,000,000 / $618	North Financial District
799 Market Street	145,400	ASB Real Estate Investments	Jamestown	$141,000,000 / $972	Yerba Buena

While many investors believe that the market has stabilized and may be cooling, investors still consider San Francisco to be a great long-term investment.

Overall capitalization rates (OARs) for office properties in San Francisco range from 3.50% to 5.00%. The lower end of the range is for buildings in prime locations with high-credit tenants and below-market rent. The upper end of the range is for properties with secondary locations, and in inferior condition. Market participants report that investors typically use a 5% vacancy and collection loss factor in calculating pro forma income for valuation purposes.

Most Likely Buyer: The subject is a large mid-rise office building in an area that is attractive to so-called new-economy technology tenants. The subject has unusually large floor plates that these users prefer. It has poured-in-place concrete construction that allows for open un-obstructed work areas and has been fully rehabbed to Class A space. Given recent office investment activity, the most likely buyer is an investor who would lease the subject to one or more tech type tenant(s) when space becomes vacant. Therefore, it is estimated that the subject is most attractive to a well-capitalized investor.

Office Market Analysis Conclusion: Market participants report the east SOMA office market is extremely attractive to tenants and investors. Recent trends in the area indicate that the demand from new-economy tech tenants, in an environment of restricted supply even considering the amount of new construction, will support the office markets in and around the city-center, providing stability after years of appreciating rents and sale prices. It is reported that the demand for office space by the technology firms has increased average rents in East SOMA to approximately $70 per square foot, similar to the Class A offerings in the Financial District.

KM reports that the Federal Reserve postponed its planned increase in the short-term interest rate, and many investors now believe the benchmark rate will remain at 0.5% until the 4th Q 2016. From a real-estate perspective, lower short-term interest rates can boost investment activity by improving buyers' projected cash-on-cash returns. San Francisco office buildings are highly coveted by both domestic and foreign investors, and a delay in the Fed's interest-rate hikes could foretell an increase in sales velocity this summer and fall.

The appraisers do not offer an opinion regarding the stability and durability of the industries that are presently creating strong demand for office space in East SOMA. Nevertheless, office investment trends in the subject's competitive market are clear. Experienced and well capitalized investors are purchasing properties of the subject's profile, to provide space to technology tenants that pay Class A rents. Expectations for the market are positive, though less bullish than the last two years.

PROPERTY DESCRIPTION

Site Description

Location: The site has 275 feet of frontage on Main, Harrison and Beale streets.

Shape/Size/Frontage: The square site is 75,625 square feet with equal frontage on Harrison, Main and Beale streets.

Streets: Harrison is a major northeast / southwest arterial. Along the subject's frontage, Main and Beale streets are two-way northwest / southeast roads. Surrounding streets are asphalt paved and have concrete curbs, gutters, sidewalks, and street lights. The streets are in average condition, and have curbside parking.

Utilities: All utilities are available at the property lines. Pacific Gas and Electric provides gas and electricity. Sewer and water services are provided by the city of San Francisco. AT&T provides telephone service.

Toxic Contaminants/ Hazardous Waste: The site inspection did not reveal the presence of hazardous materials, evidence of underground storage tanks, or indications of on-site sources of environmental impairment, but the appraisers are not qualified to detect or advise on such matters, and offer no warranty or opinion. ***This appraisal assumes there is no toxic contamination.***

Soils: This appraisal assumes the soils are adequate to provide necessary support and drainage for the subject improvements.

Topography: Sloping to the southeast and below grade of Harrison Street.

Access: The site has excellent access to major surface transportation routes and public transportation.

Earthquake Zone: The subject is not in an Alquist-Priolo Special Studies Zone.

Parking: The subject has 31,976 square feet of parking (78 spaces) half of which is accessible from Harrison Street and half of which is accessible from Beale Street.

Flood Zone: Not in a FEMA Flood Zone (Undated, Community / Panel Number 060298/-/0001 N).

Zoning Designation: RH – DTR, Rincon Hill Downtown Residential, with the Folsom & Main Res Comm Special Use District overlay.

General Information: The subject falls under the recently adopted RH-DTR (Rincon Hill Downtown Residential Mixed-Use District) zoning. RH-DTR zoning encourages a combination of high-density dwellings, with compatible commercial uses on the ground floor to protect and enhance neighborhoods with mixed-use character. The **Folsom & Main Res Comm SUD**'s purpose is to convert an under-used and outmoded industrial area to a unique residential neighborhood close to downtown which will contribute significantly to the city's housing supply, create tapered residential buildings, provide an appropriate mixture of retail sales and personal services to support new residential development, provide a buffer of office and parking use between the bridge and freeway ramps and the housing sites, and allow the existing industrial, service and office uses to remain, and it also imposes decreased height limits. The zone does not establish specific densities based on site area. Rather, residential density is limited by other factors, such as site coverage, height, setbacks, open space and required unit mix. This is a distinct departure from the density limits applied in the subject's prior RC-4 zoning district. Some non-residential uses are allowed, including office, but on a very limited basis – for every square foot of non-residential use six square feet of residential space is required.

Height Limit: On the northwest edge of the parcel (about 34.33 feet on Main & Beale streets with depth of 275 feet) the height limit is 400 feet. On the remainder (240.67 feet x 275 feet) the parcel's maximum height limit is split down the middle between Main & Beale streets, each with a base podium (full building site coverage) of 85 feet. The Beale Street side allows additional tower height (setback) up to 200 feet while the Main Street side allows additional tower height of 150 feet.

Commercial Density (FAR): The maximum nonresidential FAR for newly constructed buildings or additions of twenty percent (20%) or more of an existing building shall be 0.75. Otherwise the FAR for the Residential/Commercial sub district shall be 5 to 1.

Residential Density: None specified – based on other requirements (see above)
Rear Yard Setback: Maximum site coverage of 80%.

Parking:	Generally one space for each dwelling unit. Non-residential parking is limited to 7% of GLA.
Wind Currents:	New development may not generate more than 11 MPH winds at ground level.
Usable Open Space:	75 square feet per dwelling unit; up to 50 square feet per unit may be provided off-site.
Unit Mix:	At least 40% of units must have two bedrooms or more.
Inclusionary Housing:	12% of units in developments of 10 or more units must be below market rate (BMR). Developer's may make an *in lieu* payment as an alternative. The per unit payment schedule is published annually by the Mayor's Office of Housing.
Zoning Conclusion:	The subject improvements are legally non-conforming.

Site Conclusions: The site is functionally adequate for its proposed and highest and best uses.

Improvement Description

General Description: The improvements consist of an eight-story Class B (reinforced concrete) building, containing a rentable building area of 400,671 square feet (building support space of 10,326 square feet not included). In addition, there are 31,976 square feet of parking, with about ½ on the 1st level (accessed from Beale Street) and about ½ on the 2nd level (accessed from Harrison Street). The square footages are based on the property's conversion to Class A office space, and are derived from the stacking plan provided by the Client, reproduced below. Due to the property's design, the space has a large amount of open floor areas. The renovation included upgrading the building structure, plant, systems and equipment (referenced hereafter as the *base* improvements), and turn-key tenant improvements of the office space (TIs). The remaining costs are discussed later in this section. The subject's building areas are summarized below.

STACKING PLAN

FLOOR						
8	Agency (MTC, ABAG, BAAQMD) 55,700 RSF					
7	Agency (MTC, ABAG, BAAQMD) 57,300 RSF					
6	Agency (BAAQMD) 58,100 RSF					
5	Agency (MTC) 14,900 RSF	BCDC (pending negotiations) 21,000 RSF	DEGENKOLB 22,536 RSF (occupy: 2-1-2017)			
4	TWILIO 58,290 RSF (occupy: 10-15-2016)					
3	BATA-Fastrak 9,170 RSF	RUTHERFORD & CHEKENE 13,892 RSF (occupy: 6-1-16)	TWILIO 33,533 RSF (occupy: 10-15-2016)			
2	PARKING 16,064	BIKES/ LOCKERS 4,396	BAAQMD & BAHA 9600 RSF	CW 1,082 RSF	BATA-Fastrak CSC 21,100 RSF (occupy: 4-25-16)	
1	BUILDING SUPPORT 10,326	PARKING 15,912	LOBBY 14,606	Board Rooms & Public Meeting Rooms 14,200 RSF	Resource Center & ADA's 1,521 RSF	RETAIL A (pending) 4,827 RSF

The property has been fully rehabbed and retrofitted to high-quality office space, much of which resembles high-quality "creative office" space. Hence, overall, the subject is high-quality Class A office space. Following is a building summary.

Footings & Substructure: Reinforced concrete footings and concrete slab.

Framing & Exterior Walls: Reinforced concrete, substantially seismically retrofitted exterior walls.

Exterior Facade: Painted concrete

Roof System: Bitumen composition, heat sealed roof system reported to be in good condition with a big skylight over the atrium and 3 smaller ones.

Clear-Height: 10 feet to concrete ceiling and 8 feet to drop down wood panel acoustics (floors 6-8).

Windows: Aluminum framed windows, dual pane and fixed.

Floor Coverings:	Carpet flooring throughout the office spaces with linoleum tile in the break room and pantry areas. 1st floor lobby has new polished concrete.
Restrooms:	There are two restrooms on each floor with an additional two private bathrooms on the 8th Floor. Each restroom has ceramic tiled floor with painted drywall. The 2nd Floor has a locker room with showers.
Kitchen:	There are two break areas / food pantries per floor (Floors 6 - 8) with aggregate counter tops, refrigerators, sinks, microwaves, and dishwashers. The bottom floor has a commercial grade kitchen with a washer / dryer.
Electrical Service:	12 KV primary feed with a backup generator if needed.
Lights:	Combination of halogen, LED, and fluorescent.
HVAC:	Roof-mounted heat / AC with four air handler units, two ceiling towers, and three chillers.
Fire Security:	The building has a wet sprinkler system and four emergency staircases from the roof to the ground level.
Interior Finishes:	Office TIs are all new, high-quality.
Elevator:	Five total.
Parking:	47 spaces off of Harrison Street (2nd floor) and 31 spaces off of Beale Street (1st floor).
Quality/Condition:	The improvements are *good* quality / new condition Class A quality office space relative to its competitive market.
Effective Age/Life:	According to *Marshall & Swift*, reinforced concrete buildings have an expected economic life of 60 years. The subject has an estimated effective age of five years, providing for a remaining economic life of 55 years.
Functional Utility:	The subject building has above-*average* functional utility.

Renovation & Stabilization Costs

The rehabilitation and remodeling (rehab) project is ongoing and almost complete, with only some TIs and leasing commissions remaining, plus opportunity costs of lost rent while the last few spaces are being improved. Based on information provided by the Client as of the DOV, the total remaining hard and soft construction costs are estimated at **$21,126,000**. This includes all renovation work, TIs, and leasing commissions.

Based on the Client's projected time schedule to complete the project and discussions with *C&W*, which is the leasing agent to non-agency tenants, it is estimated that the last space (4,827-square-foot retail space) will be occupied / paying rent within 12 months, by August 2017. Also, there are several spaces leased, or space that will be occupied by the agencies, but which will not be ready for occupancy until the TIs are completed (estimated to be between October 2016 and April 2017). For un-occupied space we estimate the opportunity costs / loss in rent at either the contract rent per month (3rd party tenants) or the estimated market rent per month (agency). The total estimated opportunity cost is $3,115,000 rounded (see Income Approach).

Based on these estimates we project the following in renovation and stabilization costs.

RENOVATION & STABILIZATION COSTS

Category	Cost
Building Renovation / Rehab	$19,700,000
Opportunity Costs	$3,115,000
Leasing Commissions	$1,426,000
Total Estimated Cost	$24,241,000

These costs will be used later in the Sales Comparison and Income approaches in estimating an "as-is" market value.

HIGHEST AND BEST USE

Highest and Best Use is defined as, "That reasonable and probable use that will supply the highest present value, as defined, as of the effective date of the appraisal."

Alternatively, highest and best use is, "The use, from among reasonable, probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and that results in the highest present land value."

Highest and Best use is determined by the following.

1. Assuming the site is vacant and available for development and improvement;
2. Defining what improvements could and should be made to existing improvements, if any, to provide the maximum return to the property; and
3. Evaluating which use, among those that are feasible, results in the highest land value. Feasibility requires fit with legal/political constraints (zoning and planning requirements, as well as the political environment), technical constraints (soils, topography, design), linkage constraints (streets, sewers, services, etc.), market constraints (supply, demand, competitive standards), and financial constraints (cost-benefit relationships).

Highest and Best Use as if Vacant

Legally Permissible: The subject is zoned RH-TDR (see *Zoning* under Site Description). RH-TDR is designed as a high-density residential zone. Non-residential uses are allowed, including office, but to a limited percent of the total development.

Physically Possible: The site is level and at grade with Main and Beale streets and below the grade of Harrison Street. The subject has *excellent* access to area freeways and public transportation. There are no apparent physical characteristics that would preclude development. City streets adequately serve the site, and all the necessary utilities and public services are available. Therefore, the subject is physically capable of accommodating the permissible uses.

Financially Feasible: Based on adjacent development / development in the area, multifamily development is clearly financially feasible and it is the only development allowed on vacant sites in its zone, with some limited ground level commercial uses.

Maximally Productive: The appraisers have concluded that the subject's most likely development is multi-family and that such development is financially feasible. Therefore, it is concluded that the highest and best use of the site, as if vacant, is multifamily development.

Highest and Best Use as Improved

For the highest and best use as improved, the functional utility of the existing improvements is considered. The subject is improved with an eight-story building constructed in 1942 and renovated to Class A office space. The improvements conform to established demand, are compatible with surrounding uses, and contribute significant value to the site. Legally it would be difficult to raze the subject to re-develop the site because it is rated a Class A Historic Resource. Therefore the highest and best use "as improved" is the current use. The subject would be most attractive to an investor.

VALUATION METHODOLOGY

Value is estimated through one or more of three approaches to value, the Cost Approach, the Sales Comparison Approach and the Income Approach.

The Cost Approach uses the depreciated cost of improvements, land value as vacant, and an entrepreneurial profit, based on the premise that the value would not be greater than the cost of constructing a building of similar utility on a comparable site.

The Sales Comparison Approach is an analysis of sales of similar properties, with adjustments for differences in location, quality, size, tenancy, age, and other characteristics, based on the principle that a buyer would not pay more for one property than for another that was equally desirable.

The Income Approach is based on the income generating capabilities of a property. The capitalization rate is applied to projected net income. The Income Approach is based on the principle of anticipation, that value is created by the expectation of benefits.

The Income and Sales Comparison approaches were used to estimate market value. For the Income Approach we used Direct Capitalization. Due to the age and total gutting and rehab, the cost approach is considered an unreliable indicator of market value. Furthermore, the Cost Approach employs the least likely method to be used by buyers and sellers in the subject's market. Consequently the appraisers are not including a Cost Approach.

SALES COMPARISON APPROACH

The Sales Comparison Approach is most appropriate when an active market produces a sufficient number of comparable sales. Units of comparison are used, such as price per square foot, price per room, and price per unit to compare sales to the subject. For office buildings like the subject, the most relevant unit of comparison is price per square foot of rentable building area.

Numerous sales were investigated and four sales were selected in the subject's general competitive market. The sales occurred between December 2015 and June 2016, so an adjustment for market conditions is required for only the oldest sale. The sales range from $608 per square foot of rentable area to $990 per square foot of rentable area. The sales are summarized chronologically on the next page followed by a location map, with an adjustment grid at the end of this section and photographs in the *Addendum*. The following discussion relates the comparable sales to the subject assuming that the remodel / rehab project is complete, which renders an estimate of the subject's hypothetical value "as-if-complete and stabilized". From this the estimated costs to arrive at completion and stabilization are deducted to estimate an "as-is" value.

COMPARABLE IMPROVED SALES

	Location Market APN	Date/ Date DOM[1]	Price	Financing Conditions	NRA Cover	Zoning SF Acres Frontage	Built Floors Constn Parking[2]	$/SF	OER (c.) NOI/sf Exp/ OAR a	Buyer Seller
1.	799 Market Street Financial 3706-047	June 16 NAV	$141,500,000	Conventional Arm's Length	142,902 100%	C3R 17,000 0.39 Corner	1968 8 Concrete 0.0	**$990**	**3.80%**	ASB Real Estate Investments Jamestown, L.P.
2.	180 Montgomery St Financial 0289-009	May 16 84	$185,000,000	Conventional Arm's Length	304,162 100%	C3O 18,600 0.43 Corner	1979 25 Wood-Frame 0.0	**$608**	**4.75%**	Sidra Capital CBRE Global Investors Ltd
3.	140 New Montgomery St Financial 3722-080	April 16 NAV	$284,000,000	Conventional Arm's Length	295,177 100%	C3O 23,522 0.54 3-Street	1925 26 Concrete 0.2	**$962**	**4.70%**	Pembroke Real Estate Stockbridge Capital Group,LLC
4.	116 New Montgomery St Financial 3722-071	Dec 15 NAV	$111,100,000	Conventional Arm's Length	137,056 100%	C3O 16,117 0.37 Corner	1901 9 Concrete 0.0	**$811**	**4.80%**	Jamestown, L.P. Hines
S.	***375 Beale Street SOMA 3746-002***	***July 22, 2016***	***$308,500,000***		***400,671 100%***	***RH – DTR 75,625 1.74 3-Street***	***1942 8 Concrete 0.2***	***$770***	***4.50%***	

Comments

One: This sale is the highest to ever record on the market at $990 per square foot . The building has modern building systems and prime access to San Francisco's major commercial hub. This sale is one mile west of the subject.

Two: This building is in the heart of the North Financial District. Recently renovated in 2008, this building has reconfigured open floor plans for creative space making it desirable for technology tenants. This is one mile northwest of the subject.

Three: This was a near record price at $962 per square foot. It was fully renovated in 2013 to modern office space and it is one of the city's most impressive buildings from an architectural perspective. The space includes brand new amenties and flexible open floor plans. The building is about .75 mile west of the subject.

Four: Another recently renovated building (2013) offers the highly desireable large exposed brick walls and concete floor plates. The building is about .75 mile west of the subject.

Footnotes

(1.) Days on the market.

(2.) Parking ratio is parking spaces per 1,000 sf of building area.

COMPARABLE SALES

Analysis & Adjustments

The comparable sales have been analyzed and adjustments have been made based on factors such as property rights transferred, financing terms, conditions of sale, market conditions, location, size, frontage, effective age, quality/condition and parking.

Costs to Stabilize, Deferred Maintenance & Other: None of the sales had any costs in this regard so no adjustments are estimated.

Property Rights Transferred: All of the comparables are leased fee transactions. No unusual ownerships interests were involved. Therefore no adjustments were warranted.

Financing Terms: The sales were all "cash to seller" with either conventional market rate financing or all cash, so no adjustment for this factor was required.

Conditions of Sale: All of the sales were arm's-length transactions so no adjustments for conditions of sale were required.

Market Conditions (Time): The oldest sale required adjustment for market conditions due to an improving market.

Location: The subject and three of the sales are in the SOMA District, but Sales One, Three and Four have superior locations, nearer attractive amenities (restaurants and the like) and BART, and not boxed in so much by the surrounding freeway (Bay Bridge) and street (Harrison Street is elevated along the subject's southeastern border). These three sales are adjusted downward for location. Sale Four is north of Market Street in a less favored location, estimated to be slightly inferior in this regard, so it is adjusted up slightly.

Building Size: Smaller buildings tend to draw a larger demand population which pushes up the price, within somewhat broad size ranges when the overall prices are above $100,000,000. Two sales are substantially smaller than the subject (Sales One and Four) so they are adjusted downward accordingly for size.

Frontage: The subject has three-street frontage. Properties with corner locations offer superior light, access and exposure compared to interior located buildings, while three-street frontage is superior to corner frontage, except in the subject's case this is negated because Harrison Street is elevated along the subject's southwestern portion (it is considered more like a corner or two-street frontage site). For purposes of comparison, two-street frontage is considered equivalent to corner frontage. No adjustments are estimated for frontage.

Basement Space: Neither the subject nor any of the sales includes basement space so no adjustment is estimated for this.

Below-Market Rent: The subject is assumed to be rented at market regarding the agency or agency-related space and the other leases are recent, so the subject's pro forma rent is more-or-less at market. The rents at the comparable sales are also estimated to be more-or-less at market, so no adjustments are estimated.

Views: The subject and Sales One, Two and Four are estimated to have average views so no adjustments are estimated for these sales. Sale Three is estimated to have above-average views, so a downward adjustment is estimated for this.

Effective Age: The subject was originally constructed in 1942 and is just completing a gutting / rehab / renovation, as discussed earlier, to reflect good utility. All of the sales are estimated to be equal in this regard (recently rehabbed), so no adjustments are estimated..

Quality/Condition: Upon completion of construction (and it is almost complete), the subject improvements will reflect *good* quality / condition. Sales Two and Four are inferior so they are adjusted upward accordingly, while Sale Three is estimated to be superior as it is an architectural masterpiece and is thus adjusted downward.

Parking: The subject has a parking ratio of 0.2 spaces per 1,000 square feet of rentable area. Sale Three has a similar parking ratio, requiring no adjustment. The other three sales required an upward adjustment for lack of parking.

Hypothetical "As-If-Complete & Stabilized" Market Value: An adjustment grid on the following page summarizes the adjustments. The comparable sales indicate an adjusted range from $715 per rentable square foot to $780 per rentable square foot with an mean adjusted price of $760 per rentable square foot and a median adjusted price of $773 per rentable square foot. The sales required only modest aggregate adjustments, and therefore are considered to provide strong support for the subject's hypothetical market value. The subject would be expected to achieve a market value near the middle of the adjusted range, say $770 per square foot or $308,516,670 overall (400,671 sq ft x $770 / SF = $308,516,670) rounded to $308,500,000. Based on the foregoing discussion and analysis, the estimated hypothetical "as-if-complete and stabilized" market value of the subject's leased fee interest, as of July 22, 2016, is estimated as follows.

THREE HUNDRED EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS
($308,500,000)

"As Is" Market Value: To estimate the subject's "as is" market value, remaining costs to renovate and stabilize must be deducted from the stabilized market value estimated above. These costs are discussed in the Description of the Improvements and the Income Approach, and include such items as tenant improvement (TI) costs, leasing commissions and loss of rent / opportunity costs while TI work is completed. A developer's profit is also estimated. Totals costs to stabilize are estimated at $26,180,000 (rounded). Deducting these costs from the market value estimated above provides for an "as-is" market value of $282,320,000 rounded to $282,300,000. Therefore, the rounded "as-is" market value of the subject's leased fee interest, as of July 22, 2016, is as follows.

TWO HUNDRED EIGHTY TWO MILLION THREE HUNDRED THOUSAND DOLLARS
($282,300,000)

Marketing and exposure times are estimated at 12 months or less.

COMPARABLE IMPROVED SALES ADJUSTMENT GRID

	Subject *390 Main St.*	One 799 Market Street	Two 180 Montgomery St	Three 140 New Montgomery St	Four 116 New Montogmery St
Building Sq Ft:	***400,671***	142,902	304,162	295,177	137,056
Price:		$141,500,000	$185,000,000	$284,000,000	$111,100,000
Capital Costs:		$0	$0	$0	$0
Adjusted Price:		$141,500,000	$185,000,000	$284,000,000	$111,100,000
Price/SF:		$990	$608	$962	$811
Rights Transfered:	***Leased Fee***	Leased Fee	Leased Fee	Leased Fee	Leased Fee
Adjustment:		0.0%	0.0%	0.0%	0.0%
Adjusted Price:		$141,500,000	$185,000,000	$284,000,000	$111,100,000
Financing Terms:	***Conventional***	Conventional	Conventional	Conventional	Conventional
Adjustment:		$0	$0	$0	$0
Adjusted Price:		$141,500,000	$185,000,000	$284,000,000	$111,100,000
Condition of Sale:	***Arm's Length***	Arm's Length	Arm's Length	Arm's Length	Arm's Length
Adjustment:		0.0%	0.0%	0.0%	0.0%
Adjusted Price:		$141,500,000	$185,000,000	$284,000,000	$111,100,000
Market Conditions:	***July 22, 2016***	June 16	May 16	April 16	Dec 15
Adjustment:		0.0%	0.0%	0.0%	3.5%
Adjusted Price:		$141,500,000	$185,000,000	$284,000,000	$114,988,500
Adjusted $/SqFt:		$990	$608	$962	$839
Location:	***Average+***	Abv-Avg-	Average	Abv-Avg--	Abv-Avg--
Adjustment:		-12.5%	5.0%	-10.0%	-10.0%
Building Size:	***400,671***	142,902	304,162	295,177	137,056
Adjustment:		-10.0%	0.0%	0.0%	-10.0%
Frontage:	***3-Street***	Corner	Corner	3-Street	Corner
Adjustment:		0.0%	0.0%	0.0%	0.0%
Basement:	***No***	No	No	No	No
Adjustment:		0.0%	0.0%	0.0%	0.0%
Blw-Mkt Rent:	***Not Materially***	No	No	No	No
Adjustment:		0.0%	0.0%	0.0%	0.0%
Views:	***Average***	Average	Average	Above-Avg	Average
Adjustment:		0.0%	0.0%	-5.0%	0.0%
Age:	***Almost New***	1968	1979	1925	1901
Adjustment:		0.0%	0.0%	0.0%	0.0%
Quality/Condition:	***Good***	Good	Average+	Good++	Average+
Adjustment:		0.0%	10.0%	-5.0%	10.0%
Parking:	***0.2***	0.0	0.0	0.2	0.0
Adjustment:		1.3%	2.5%	0.0%	2.5%
Total Adjustment:		**-21.3%**	**17.5%**	**-20.0%**	**-7.5%**
Adjusted Range:		**$780**	**$715**	**$770**	**$776**

INCOME APPROACH

The Income Approach is based on the income generating capabilities of a property and is based on the principle of anticipation, which means that value is created by the expectation of benefits to be derived in the future. The Direct Capitalization method is the procedure by which stabilized net income is converted into a present value estimate by use of an overall capitalization rate. Deductions may be made for immediate capital expenditures or lease up costs. Overall rates were derived from the comparable sales investigated in the Sales Comparison Approach. The primary steps in the Direct Capitalization method are:

1. Analyze current contract rent and economic (market) rent
2. Estimate an allowance for vacancy and credit loss
3. Analyze and deduct typical operating expenses
4. Select an appropriate capitalization rate to convert stabilized net income into a value estimate.

These steps are discussed in the following sections:

Contract Rent

The following table summarizes the agency occupied space and the leased space showing contract rents.

RENT ROLL

Floor	Tenant	Type	NRA SF[1]	Contract Rent/Mo.	$/SF Annually	Market Rent / Mon	Pro Forma Rent[2]	Begin Date	End Date	Term Mos.	Expenses[3] Type	Expenses[3] %	Esc.
1	Vacant	Retail	4,827	$0	$0.00	$20,113	**$20,113**	NAP	NAP	NAP	NNN	1.2%	3%
1	ADA's Café	Retail	720	$0	$0.00	$3,000	**$0**	Feb-17	Jan-22	60	NNN	0.2%	NAP
1	Agency	Mtg Spc	29,607	$0	$0.00	$148,035	**$148,035**	NAP	NAP	NAP	MG	7.4%	NAP
2-3	BATA-Fastrak	Office	30,266	$111,076	$44.04	$151,330	**$151,330**	Apr-16	Nov-19	44	MG	7.6%	3%
3	Rutherford	Office	13,892	$49,178	$42.48	$69,460	**$49,178**	Jun-16	Aug-23	87	MG	3.5%	~2.35%
3-4	Twilio	Office	91,823	$413,204	$54.00	$459,115	**$413,204**	Oct-16	Oct-24	96	MG	22.9%	2%
5	Degenkolb	Office	21,559	$87,134	$48.50	$111,388	**$87,134**	Feb-17	Jan-27	120	MG	5.4%	2%
5	BCDC (vacant)	Office	21,977	$0	$0.00	$113,548	**$113,548**	Apr-17	Mar-27	120	MG	5.5%	NAP
5	Agency	Office	14,900	$0	$62.00	$76,983	**$76,983**	NAP	NAP	NAP	F/S	3.7%	NAP
6	Agency	Office	58,100	$0	$0.00	$305,025	**$305,025**	NAP	NAP	NAP	F/S	14.5%	NAP
7	Agency	Office	57,300	$0	$0.00	$305,600	**$305,600**	NAP	NAP	NAP	F/S	14.3%	NAP
8	Agency	Office	55,700	$0	$0.00	$301,708	**$301,708**	Jul-10	Jun-15	60	F/S	13.9%	NAP
Totals			400,671	$660,592		**$2,065,305**	**$1,971,857**					100.0%	

BUILDING SUMMARY

Rentable Area:	**400,671**	
Mean Unit Size:	**33,389**	
Vacancy (SF)	**26,804**	
Vacancy (%):	**7%**	
	Yr. Income	**$/SF/Yr.**
Pro Forma Rent:	**$23,662,290**	**$59.06**
Market Rent:	**$24,783,662**	**$61.86**
Pro Forma as % of Market	**95%**	
Other Income (Parking):[4]	**$305,540**	

Notes

1. All area measuresare net rentable area (NRA) as estimated by the buyers agent and the properties leassing broker.
2. Analysis applies contract rent reflecting all rent steps taking place during calendar year 2008 for spaces on lease. M-T-M tenancies and vacant space is assumed to be
3. Triple net = NNN; Modified Gross = MG; Industrial Gross = IG; Full Service = F/S. All rents are MG b/c tenant pays electricity
4. See related discussion in Narrative.

The BATA / Fastrack lease summarized above is not an "arm's-length" lease and it is estimated to be below-market, so estimated market rent will be used for this space. Also, estimated market rent is used for the vacant retail space and the various spaces occupied by the agency. The Ada Café pays only the NNN expenses of a regular retail tenant by agreement with the agency, so only operating expenses are projected for this space. The ground-floor space, except for the area used by building services and parking, is assumed to be agency space for meetings and events and therefore it is assigned a market rent assumed to be accounted for by the agency tenants.

Market Rent

To estimate market rent for the subject the appraisers have surveyed recent leases of similar office space in the subject's competitive market, resulting in five rent comparables. During our market research, we interviewed leasing brokers, investment brokers, developers, and investors. Average Class A asking rates in the subject's submarket was $74.24 per square foot at the end of the 2nd Q 2016, while the average asking rent for all classes was $68.64 per square foot in the subject's submarket (East SOMA). Most space is quoted on a full-service (FS) expense basis. TI allowances presently range from $25 per square foot to $110 per square foot for Class A space. The subject is being leased with new high-end TIs which are part of the rehab budget. Rent free time is provided in situations where tenant improvements required more time to complete than typical.

The subject's small amount of retail space is estimated to have approximately the same rent as its office space, slightly more because the retail leases include the pass-through of operating expenses typical of NNN leases, all of which will be fully remodeled space (there is only one vacant retail space). In concluding to our estimated market rent at the end of this section we review several retail leases in support of our estimated retail market rent.

Market Rent Analysis: The surveyed leases have annual rents ranging from $67.50 per square foot per year full-service (FS) to $84.00 per square foot per year FS. TI allowance ranged from $25.00 per square foot to $47.50 per square foot, with two spaces leased "as-is". The surveyed leases had annual escalations of 3%, except for one which had no escalations. The surveyed leases have start dates that are recent so no time adjustments are estimated. Lease durations range from 24 months to 108 months. Rentable areas ranged from 16,685 square feet to 76,899 square feet. These spaces are more-or-less within the sizes the subject's tenants occupy. The lease survey follows, with a map on the next page and pictures of the comparables in the Addendum. All leases are compared to the subject's weighted average space (depending on the floor and position on the floor the actual market rent will vary, but we consider the weighted average typical space). All of the following comparable leases are full-service (FS), while for the most part the subject's tenants pay their own electricity. Because of the subject's location along the Bay Bridge / I-80, its location is estimated to be slightly inferior to the comparables.

OFFICE LEASE COMPARABLES

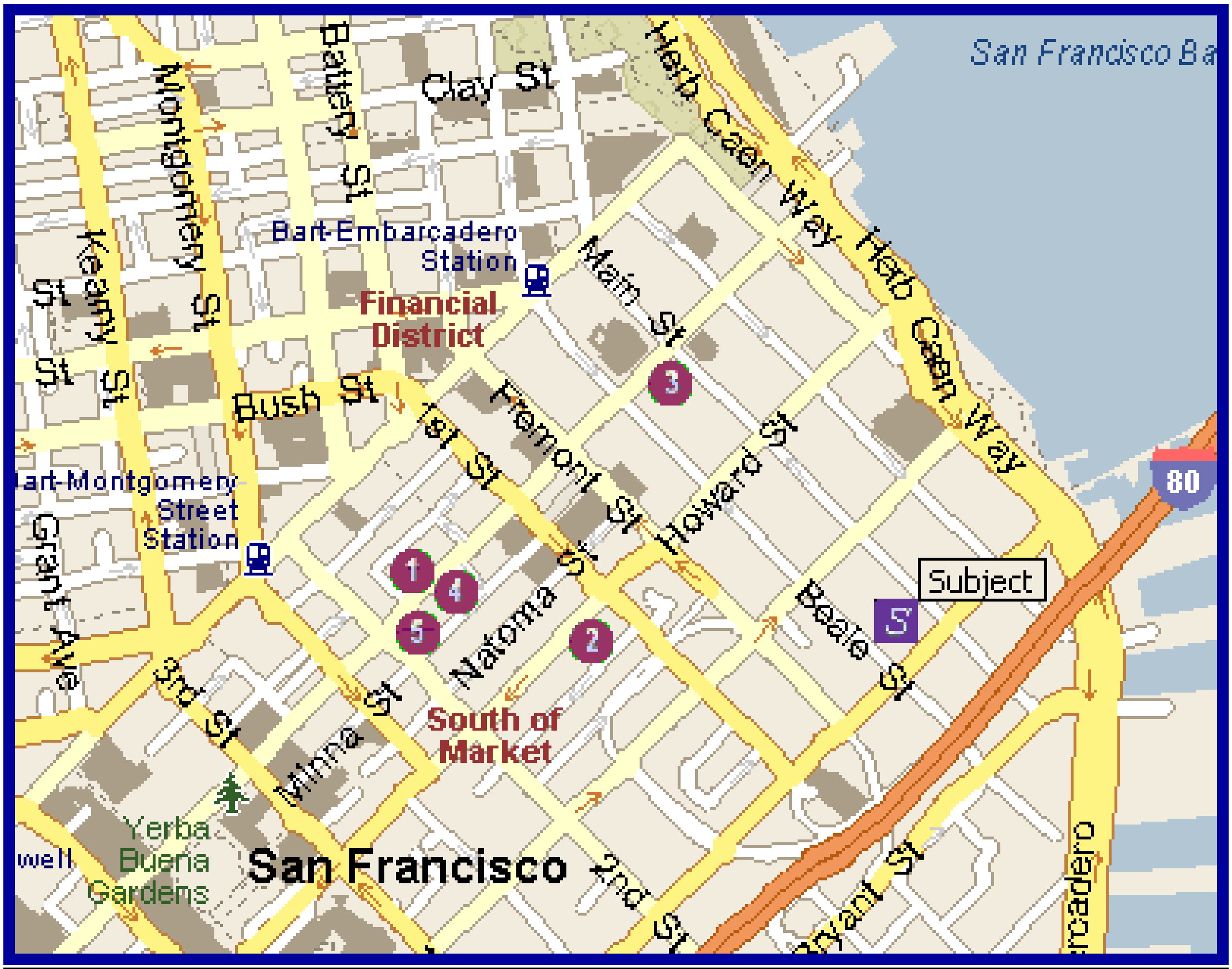
	Address	Lessee Submarket	Lease SF Floor (s) Type	Date Term[1]	$/SF	Exp's[2] Esc'ns[3] TIs / SF	Comments
1.	560 Mission Street San Francisco	ARUP North America Financial District	49,832 6th & 7th Renewal	Jun-16 108	**$68.00**	FS 3.0% $47.50	Highrise class A building with somewhat superior location on Mission Street.
2.	505 Howard Street San Francisco	Blackrock (Xulu) Financial District	76,899 2nd, 3rd & 4th Sublease	Jun-16 24	**$84.00**	FS Flat As - Is	Slightly superior Class A building and somewhat superior location.
3.	201 Mission Street San Francisco	The Brattle Group Financial District	16,685 16th Renewal	May-16 60	**$71.00**	FS 3.0% $25.00	Tradional highrise Class A building. Superior location to subject.
4.	555 Mission Street San Francisco	Continental Casualty Financial District	18,453 18th New Lease	Mar-16 84	**$74.00**	FS 3.0% As - Is	Highrise Class A building with superior location.
5.	101 Second Street San Francisco	Colliers International Financial District	17,447 1 New Lease	Feb-16 72	**$67.50**	FS 3.0% $40.00	Midrise Class A building with superior location, on the corner of 2nd and Mission streets.
S.	***375 Beale Street***	***SOMA***	***424,000***	***22-Jul-16***	***$60.00 to $65.00***	***MG***	

Notes

1. The term is in months.
2. FS is full-service expense basis. MG is modified full-service with tenant paying electricity expense.
3. Annual escalations.

Rent One is a 49,832-square-foot space on the 6th and 7th floors that leased for $68.00 per square foot in June 2016, about five blocks west of the subject in a slightly superior SOMA location that is considered part of the Financial District also. The building is new and similar in quality / condition to the subject. The tenant received $47.50 per square foot in TIs. The rent requires a small downward adjustment for location, this building's superior "curb-appeal" and because the subject's tenants generally pay for their own electricity. Overall, a small downward adjustment is required to be indicative of the subject's estimated market rent for the top three floors, which we estimate below to have market rent ranging from $63 per square foot per year (6th Floor) to $65 per square foot per year (8th Floor).

COMPARABLE RENTS



Rent Two is a 76,899-square-foot space on the 2nd, 3rd and 4th floors that leased for $84.00 per square foot in June 2016, about four blocks west of the subject in a slightly superior SOMA location that is considered part of the Financial District also. The building is new and similar in quality / condition to the subject but it has superior "curb appeal to the subject. The tenant took the space "as-is" although it was in turn-key condition with superior TIs. The lease requires downward adjustment for location, its superior "curb appeal", more expensive TIs and because the subject's tenants pay for their own electricity. Overall, downward adjustment is required to be indicative of the subject's estimated market rent.

Rent Three is a 16,685-square-foot space on the 16th Floor that leased for $71.00 per square foot in May 2016, about three blocks northwest of the subject in a slightly superior SOMA location that is considered part of the Financial District also. The tenant received $25 per square foot in TIs and two months rent free. This building is slightly inferior to the subject in quality / condition. The lease requires upward adjustment for quality / condition, with somewhat more than offsetting downward adjustment for location, being on the 16th Floor (views), because the subject's tenants pay for their own electricity and for the rent-free period. Overall, small to moderate downward adjustment is required to be indicative of the subject's estimated market rent.

Rent Four is an 18,453-square-foot space on the 18th Floor that leased for $74.00 per square foot in March 2016, about five blocks west of the subject in a slightly superior SOMA location that is considered part of the Financial District also. The tenant took the space "as-is" with no rent free period. The building is new and similar in quality / condition to the subject but it has superior "curb appeal to the subject. The space is thought to be slightly inferior to the subject's newly improved interiors as the tenant took the space with no new TIs. The lease requires upward adjustment for the difference in TIs, with more than offsetting downward adjustment for location, the building's superior "curb-appeal", being on the 18th Floor (views), and because the subject's tenants pay for their own electricity. Overall, moderate downward adjustment is required to be indicative of the subject's estimated market rent

Rent Five is a 17,447-square-foot space on the 11th Floor (views average) that leased for $67.50 per square foot in February 2016, about five blocks west of the subject in a slightly superior SOMA location that is considered part of the Financial District also. The building is new and similar in quality / condition to the subject but it has superior "curb appeal to the subject. The tenant received $40 in TIs with no rent free period. The lease requires downward adjustment for location, its superior "curb-appeal" and because the subject's tenants pay for their own electricity. Overall, a small downward adjustment is required to be indicative of the subject's estimated market rent for its top three floors, with larger downward adjustments for the lower floors.

Market Rent Conclusion: After adjustment the comparable rents indicate $60 per square foot per year MG (tenant's pay for their own electricity) for the subject's lower floors, up to $65 per square foot per year MG for the top floor. This is in the range estimated by investment and leasing brokers who generally estimated the subject's market rent to fall between $60 per square foot per year and $65 per square foot per year. Hence, the subject's market rent is estimated at **$60** per square foot per year MG for floors one through four, **$62** per square foot per year MG for the 5th Floor, **$63** per square foot per year MG for the 6th Floor, **$64** per square foot per year MG for the 7th Floor and **$65** per square foot per year MG for the 8th Floor**.**

In support of our estimate that the subject's retail space (5,547 square feet or 1.4% of the space) has market rent of $50.00 per square foot per year NNN, we note that among six recent retail leases in the subject's area (March 2015 to a deal currently pending), the range of starting rents is from $48.50 per square foot per year NNN (April 2015) to $70.00 per square foot per year NNN (December 2015 – for restaurant space) and four of the six rents are between $48.50 per square foot per year NNN to $55.00 per square foot per year NNN, which ranges tightly around our estimate of $50 per square foot per year NNN for the retail space.

Gross Income Summary

Office & Retail Rental Income: To project pro forma rental income, estimated market rent is used for agency space and the vacant space, while contract rent is used for the space leased to 3rd parties, which renders **$23,662,290** (see Rent Roll above for the calculation of pro forma rent).

Parking Income: The subject has 51 striped spaces (self-park), 19 valet spaces, one un-rented space for contractors who visit the building for various reasons (R&M, TIs, etc.), one un-rented space for the building's management company, and six spaces that are not leased to provide room for loading and unloading. Monthly parking in the subject's neighborhood ranges from $375 to $475. $450 per month is estimated for the subject's self-parking spaces, as this is the amount specified in the only 3rd party lease that states what the parking rent per month is. The table below summarizes the subject's estimated pro forma parking income. Monthly parking revenue, based on a market rent of $450 per month (with one space discounted to $300 per month for Ada's Café), is $273,600 per year (50 spaces x $450 / month x 12 months = $270,000 plus $300 per month x 12 months = $3,600). The following assumptions are applied to the subject's valet spaces based on the appraiser's experience, and the captive parking demand generated by the subject's approximate 400,000 square feet of rentable space.

ESTIMATED PRO FORMA PARKING INCOME		
Parking Income Assumptions		
Striped Spaces (Tenant)	51	
Striped Rent / Space / Month	$450	
Valet Spaces	19	
Mean Valet Ticket / Work Day[1]	$12	
Valet Space Turns / Day	2.5	
Work Days / Month	20	
Municipal Parking Tax Rate	20%	
Pro Forma Annual Parking Revenue		
Revenue		
Striped Spaces		$273,600
Valet Spaces		136,800
Total Parking Revenue		$410,400
Expenses		
Parking Taxes (Valet)		$27,360
Payroll		70,000
Administrative & Other		7,500
Total Expenses		$104,860
Parking Net Income		**$305,540**

Notes

1. $2.50 every 20 minutes to a maximum of $20 / day.

Valet Parking Revenue: Hourly parking in the subject's immediate vicinity ranges from $2.25 per 20 minutes to $2.75 per 20 minutes, equating to $6.75 to $8.25 per hour. According to market participants, the typical parking fee during a work day is about $10. Valet spaces typically range from two to three 'turns' per work day. Using the mid-point of 2.5 turns per day, and 20 work days per month, annual pro forma valet parking revenue is estimated at $136,800.

Parking Expenses: Parking taxes (20%) are applied to valet parking revenue rendering $27,360 annually. Payroll for two employees is estimated at $70,000. Administrative & Other expenses are estimated at $7,500. Total parking expenses are estimated to be $104,860 annually.

Parking Income: Pro forma parking income is estimated to be **$305,540 per year**.

Expense Pass-Through Income: The smaller retail space is being occupied by Ada Café, a non-profit which will pay no rent but which will pay its pro rata share of operating expenses (NNN expense reimbursements). The other retail space is assumed to also be leased on a NNN basis to a for-profit tenant which will pay market rent and NNN expenses. The two spaces total 5,547 rentable square feet (1.38% of the space), so it is estimated that they collectively reimburse 1.38% of the expenses which includes everything except replacement reserves ($9,049,846 less $100,168 in replacement reserves = 1.38% x $8,949,678 = **$123,902** in expense pass-through income).

Total Other Income: Total other income is $305,540 (parking) plus $124,441 in expense recoveries which yields **$429,442**.

Potential Gross Income (PGI): Pro forma PGI is estimated to be **$24,091,731**.

<u>Vacancy & Collection Loss</u>

To estimate vacancy / collection loss for the subject, the appraisers had discussions with knowledgeable buyers, sellers and investment brokers. Market participants report that investors use a vacancy / collection loss of 5% for large multi-tenanted office buildings in San Francisco. Hence, the subject's pro forma vacancy / collection loss is estimated at 5% of the PGI.

<u>Expenses</u>

The subject is assumed to be leased on a MG expense basis whereby the landlord pays for all expenses except increases over base-year and each tenant's electricity expense. Because the subject does not have an operating history, the appraisers relied on comparable expense data, discussions with brokers and our experience to estimate the subject's pro forma expenses. Following is a discussion of each line item expense.

Seven expense comparables in the downtown area of San Francisco are summarized in the following table.

COMPARABLE EXPENSE DATA

Property Address	South Financial	North Financial	North Financial	South Financial	South Financial	North Financial	North Financial
Year Built	1965	1983	1980	1901	1925	1979	1986
Year Renovated	2014			2014	2013		
Rentable Square Feet	752,738	1,251,454	243,214	137,056	295,177	302,401	116,861
Total Expenses	$22.78	$23.28	$14.88	$16.38	$16.80	$18.10	$17.60

The comparable expense data range from $14.88 per square foot per year to $23.28 per square foot per year, with an average of $18.55 per square foot per year. Because the appraisal assumes a sale, and a sale triggers a re-assessment at the sale price, the subject's real estate taxes are based on the estimated value in the Income Approach, and therefore higher than most Class A buildings that have not sold within the last year or two. Hence, the subject's pro forma expenses are expected to be similar to the two comparables at the top of the range ($22.78 / square foot and $23.28 / square foot).

Real Estate Taxes: Real estate taxes are based on the hypothetical stabilized market value estimate in the Income Approach, the tax-rate (1.1826%) and the fixed charges ($44,704).

Insurance: This expense provides for the cost to insure the subject building against loss. Insurance expense for mid-rise office buildings in the downtown area generally vary from $1.25 per square foot per year to $2.45 per square foot per year. The subject's pro forma insurance cost is estimated at **$1.55 per square foot per year**.

Utilities: Utilities cover the leased space, common area and garage, except that most tenants pay for their own electricity. Full-service utility expense is expected to range from $1.55 per square foot per year to $1.75 per square foot per year. An estimate of **$1.65 per square foot per year** is used in consideration of the subject's MG expenses for most tenants.

Repairs & Maintenance (R&M): R&M expense relates to the normal costs of repairing and maintaining the property's structural components, plumbing, electrical systems, elevator maintenance, HVAC systems and common areas. R&M expenses tend to vary more than most expenses due to the variable quality and upkeep of building improvements. R&M expenses (on a "best-fitting" trend line) generally range from $2.30 per square foot per year to $3.50 per square foot per year. Given the subject's rehab, pro forma R&M expenses are expected to fall toward the bottom of the range, say $2.50 per square. Therefore, pro forma R&M expense is estimated at **$2.60 per square foot per year**.

Janitorial: The landlord pays for cleaning service to the leased space and common areas. Janitorial expenses typically range from $2.10 per square foot per year to $3.10 per square foot per year. We estimate this expense at **$2.80 per square foot per year**.

Security: This expense ranges from nothing for some buildings to $1.00 per square foot per year. Given that the majority of tenants will be various government agencies, we estimate this expense at the top of the range, **$1.00 per square foot per year**.

Administrative & Other (A&O): Administrative expenses include outside services such as advertising, bookkeeping, legal and accounting fees and miscellaneous charges. Also included in the category are expenses that do not fall into the expense categories discussed above. A&O expenses for large office properties typically range from $1.30 per square foot per year to $1.80 per square foot per year. We estimate this expense at **$1.55 per square foot per year**.

Management: This expense provides for professional contract management. Discussions with investors, investment brokers and property managers indicate that management expense for multi-tenanted office buildings in San Francisco typically range from 2.5% to 5.5% of the EGI. The subject's expected tenant configuration suggests that a management expense below the middle of the range is reasonable. Therefore the subject's management expense has been estimated at **3.5% of EGI**.

Reserves for Structural Replacements: Structural reserves are non-cash expenses that reflect the natural depreciation and deterioration of long-lived building components. Investors typically use a reserve factor of $0.20 to $0.30 per square foot for large office properties in San Francisco. We estimate reserves at **$0.25 per square foot per year**.

Expense Conclusion: Total operating expenses are estimated at $9,049,846 or $22.59 per square foot, equaling 40% of the EGI. Concluded pro forma expenses fall comfortably within the range expected for large office buildings in San Francisco that are leased on a near FS expense basis. The comparable sales presented earlier provide strong support for the concluded expenses.

Overall Capitalization Rate (OAR) Selection

The appraisers considered the overall capitalization rates (OARs) from the Sale Comparison Approach in selecting an appropriate OAR for the subject, summarized in table below. The range in OARs is from 3.80% to 4.80%. Sales generally reflect somewhat below-market rents (except for new buildings), which the subject has less of because its leases are all recent or we are using estimated market rent for agency space. Offsetting the below-market factor (which is not pronounced among the comparables) is that the subject is in excellent repair with all mechanical new systems and new TIs, which also lowers the OAR.

OVERALL CAPITALIZATION RATES

Sale	Address	Date	Price	OAR
1.	799 Market Street	June 16	$141,500,000	**3.80%**
2.	180 Montgomery St	May 16	$185,000,000	**4.75%**
3.	140 New Montgomery St	April 16	$284,000,000	**4.70%**
4.	116 New Montogmery St	Dec 15	$111,100,000	**4.80%**
	Mean OAR			**4.51%**

Based on the sales, the new condition of the subject and broker opinions, we estimate that the appropriate OAR is in the middle of the above range, **4.50%**.

Direct Capitalization

Hypothetical "As-If-Complete & Stabilized" Market Value: The capitalized analysis is summarized at the end of this section. Estimated market rent and contract rents were used to project the PGI. A market derived vacancy / collection loss factor was deducted to estimate the EGI. From the EGI, expenses based on market data, expense comparables, published data and the appraisers' experience were deducted to estimate the NOI. The resulting NOI was capitalized at a market derived rate of 4.50%. The hypothetical "as-if-complete and stabilized" market value of the subject's leased fee interest, as of July 22, 2016 via the Income Approach was estimated at $307,495,532 rounded as follows.

THREE HUNDRED SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS
($307,500,000)

"As-Is" Market Value: The hypothetical stabilized market value estimated above assumes the subject is fully stabilized. Therefore, to estimate the subject's "as-is" market value, deductions for costs to stabilize are made, which include completing TIs, remaining leasing commissions, rent loss during construction of TIs and entrepreneurial profit.

Construction Costs: Based on information provided by the Client as of the DOV, the remaining hard and soft construction costs are estimated at **$19,700,000**. This includes primarily the remaining TI work.

Opportunity Costs / Rent Loss: Based on the Client's projected time schedule to complete the TI work and either the contract rent for the space or in the absence of contract rent, estimated market rent, the estimated **opportunity cost / rent loss** is $3,114,812 rounded to **$3,115,000**, summarized below.

RENT LOSS

Tenant / Space	Rent/Month	Months	Rent Loss
Grd Floor Retail	$20,113	12	$241,350
Twilio	413,204	2	826,407
Degenkolb	87,134	6	522,806
BCDC (vacant)	113,548	8	908,383
Agency Space 5th Flr	76,983	8	615,867
Total Rent Loss			$3,114,812
Rounded To			**$3,115,000**

Leasing Commissions: Ms. Teri L. Green, Director Bay Area Headquarters Authority, Metropolitan Transportation Commission, has estimated the remaining leasing commissions at $1,425,839 rounded to **$1,426,000**.

Total Cost to Reach Stabilization: Based on the above estimates we summarize the estimated cost to complete the project and reach stabilization in the following table.

RENOVATION & STABILIZATION COSTS	
Category	**Cost**
Building Renovation / Rehab	$19,700,000
Opportunity Costs	$3,115,000
Leasing Commissions	$1,426,000
Total Estimated Cost	$24,241,000

Entrepreneurial Profit: The subject is largely owner/occupied and the remaining costs are small compared to the overall size of the project. Given today's low rates of return in the bond market and the relatively low, developer's profit is estimated at 8% of the above costs or **$1,939,280.**

Hence, the estimated total cost to complete the project and reach stabilized occupancy is $26,180,280. When deducted from $307,495,532 the resulting estimated "as-is" value is $281,315,252 rounded to $281,300,000. Hence, the "as-is" value of the subject's leased fee interest as of July 22, 2016 is as follows.

TWO HUNDRED EIGHTY ONE MILLION THREE HUNDRED THOUSAND DOLLARS
($281,300,000)

Marketing and exposure times are estimated at 12 months or less.

DIRECT CAPITALIZATION

	Item		Amount	$/SF	Pro Forma
Square Feet	**400,671**				
POTENTIAL GROSS INCOME					
Office	400,671			$59.06	23,662,290
Other Income[1]					429,442
Total PGI					24,091,731
Vacancy & Collection Loss	5%				(1,204,587)
EFFECTIVE GROSS INCOME					22,887,145
EXPENSES					
Fixed Expenses					
Real Estate Taxes	1.1826%	% Value	3,681,146		
Insurance	$1.55	$/SF	621,040		
Total Fixed			4,302,187		
Operating Expenses					
Utilities	$1.65	$/SF	661,107		
Repairs & Maintenance	$2.60	$/SF	1,041,745		
Janitorial	$2.80	$/SF	1,121,879		
Security	$1.00	$/SF	400,671		
Administrative & Other	$1.55	$/SF	621,040		
Management[2]	3.5%	% EGI	801,050		
Capital Reserves	$0.25	$/SF	100,168		
Total Operating			4,747,659		
TOTAL EXPENSES	40%	% EGI		$22.59	(9,049,846)
NET OPERATING INCOME				$34.54	13,837,299
CAPITALIZATION RATE	4.50%				
VALUE INDICATION - "STABILIZED"				**$767**	**307,495,532**
ROUNDED TO:				**$767**	**307,500,000**
ADJUSTMENTS TO STABILIZED					
Costs to Stabilize					**24,241,000**
Entreprenurial Profit	@8%				**1,939,280**
TOTAL STABILIZATION COSTS					**26,180,280**
VALUE INDICATION "AS IS"				**$702**	**281,315,252**
ROUNDED TO:				**$702**	**281,300,000**

Notes

1. Parking income & pass-through of operating expenses for the two retail tenant spaces.
2. Percent of EGI.

FINAL VALUE RECONCILIATION

The Sales Comparison and Income approaches were used to estimate market value. Following is summary of values estimated and a brief discussion of the estimate values.

Hypothetical "As-If-Complete & Stabilized" Market Value

Sales Comparison Approach:	**$308,500,000**
Income Approach:	**$307,500,000**

"As Is" Market Value

Sales Comparison Approach:	**$282,300,000**
Income Approach:	**$281,300,000**

In the Sales Comparison Approach we identified a cross-section of improved sales of office properties that met acceptable parameters of size, quality/condition and age. The comparables were analyzed in relation to the subject on a price per square foot basis, with adjustments made for physical, legal and transactional differences.

In the Income Approach the appraisers estimated market value by Direct Capitalization. An overall capitalization rate was estimated by studying sales of comparable properties and by confirmation with buyers, sellers and investment brokers in the subject's market. Expenses were projected based on expense comparables and from indications provided by market participants.

Because market participants indicated office properties of the subject's use, size and quality trade primarily on the basis of anticipated income, the Income Approach is given the greater weight. The Sales Comparison Approach provides additional support. Therefore, it is our opinion that the **hypothetical "as-if-complete & stabilized" market value** of the leased fee interest in the subject as of July 22, 2016, is as follows.

THREE HUNDRED SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS

($307,500,000)

Furthermore, based on our investigation and analysis, it is our opinion that the **"as-is" market value** of the leased fee interest in the subject as of July 22, 2016 is as follows.

TWO HUNDRED EIGHTY ONE MILLION THREE HUNDRED THOUSAND DOLLARS

($281,300,000)

Marketing and exposure times are estimated at 12 months or less.

SUBJECT & NEIGHBORHOOD
PHOTOGRAPHS

SUBJECT & NEIGHBORHOOD PHOTOGRAPHS

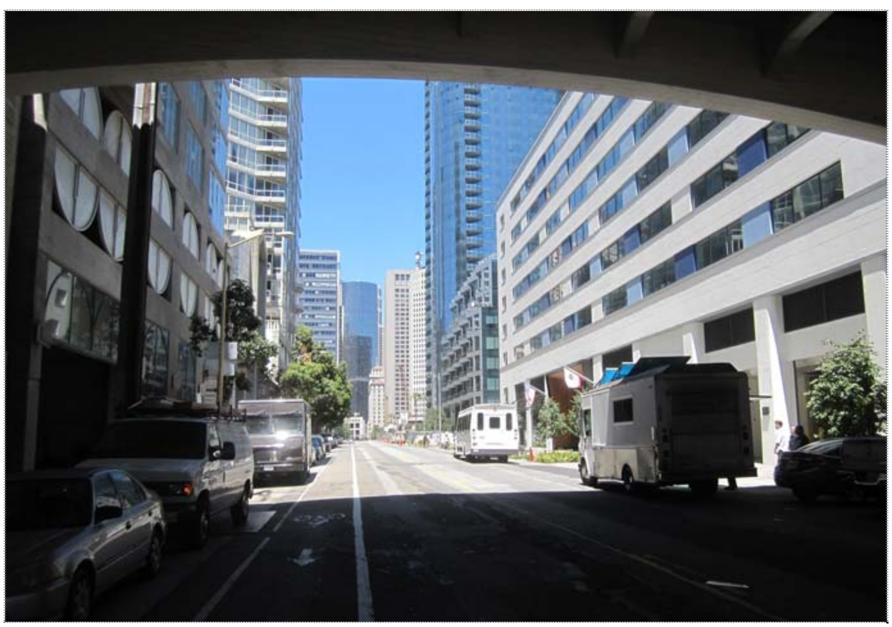
Subject from the West

Subject from the North

Subject from the East

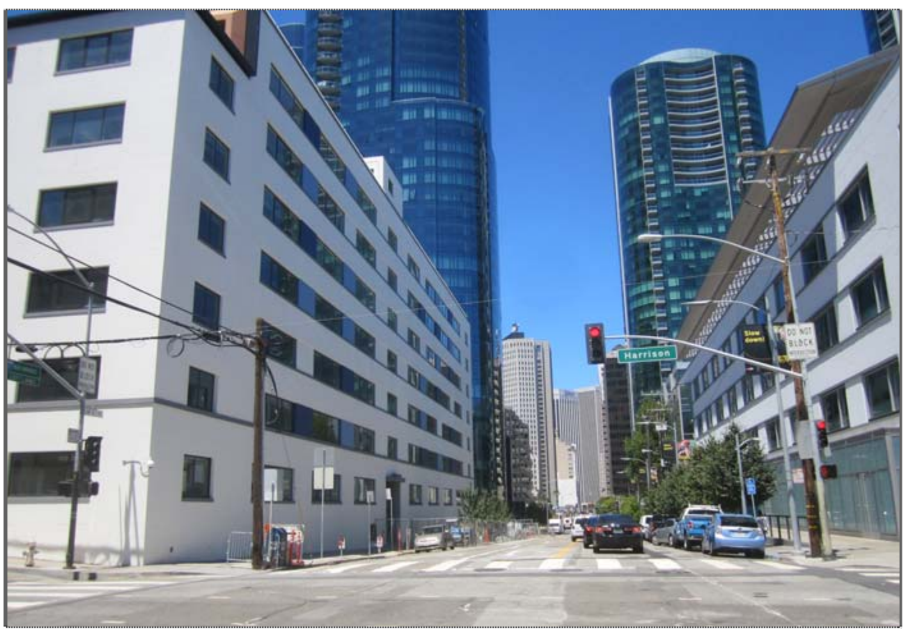
Subject from the South on Harrison overpass

Beale Street looking southeast



Beale Street looking northwest

Main Street looking southeast



Main Street looking northwest

Harrison Street looking southwest

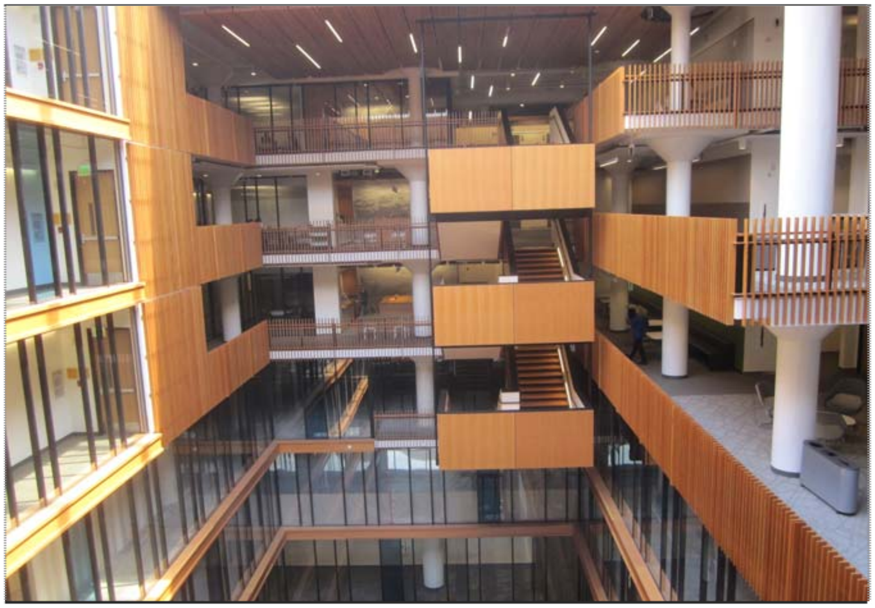
Harrison Street looking northeast

Lobby

1st Floor Large Board Room

1st Floor Conference Room

Middle Floors Still Under Construction

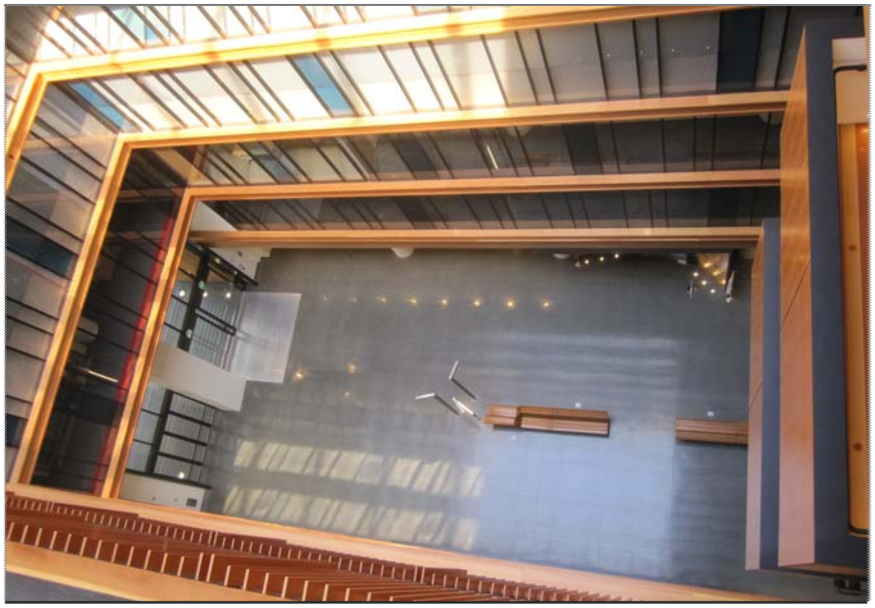


Floating Staircase

Upper Floor Pantry

Upper Floors Conference Room

Outside Patio 8th Floor



Atrium looking from 8th Floor Down

Locker Rooms 2nd Floor

Garage

SALES COMPARABLES PHOTOGRAPHS

<u>COMPARABLE SALES</u>

Sale No. 1—799 Market Street

Sale No. 2—180 Montgomery Street

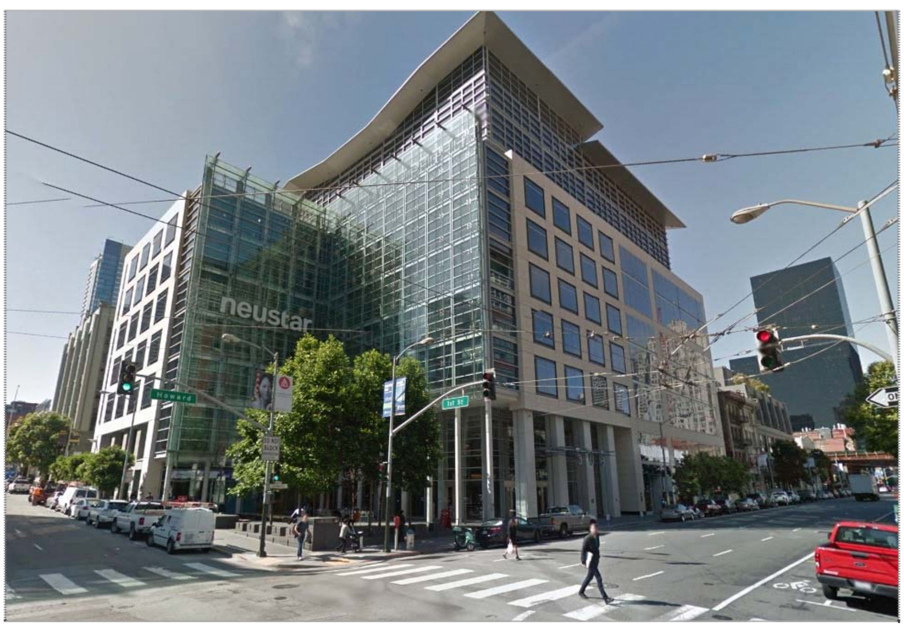
Sale No. 3—140 New Montgomery Street

Sale No. 4— 116-118 New Montgomery Street

RENT COMPARABLES
PHOTOGRAPHS

COMPARABLE RENTS

Rent No. 1—560 Mission Street



Rent No. 2—505 Howard Street

Rent No. 3—201 Mission Street

Rent No. 4—555 Mission Street

Rent No. 5—101 2nd Street

CERTIFICATIONS

CERTIFICATION

I certify to the best of my knowledge and belief, ...

- the statements of fact contained in this appraisal report are true and correct.
- the reported appraisal 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 I have no personal interest or bias 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.
- 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.
- my analyses, opinion, and conclusions were developed, and this report has been prepared, in conformity with Uniform Standards of Professional Appraisal Practice.
- Walter L. Ricci has made a personal inspection of the property that is the subject of this appraisal report.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the 3 year period immediately preceding acceptance of this assignment.
- David Howard, CRE provided significant professional assistance to the person signing this report.
- as of the date of this report, Walter L. Ricci, MAI, CCIM has completed the continuing education requirements of the Appraisal Institute.

Date: 09/19/2016

Walter L. Ricci, MAI, CCIM
Certified General Appraiser
California Certificate #AG009489

QUALIFICATIONS

QUALIFICATIONS OF WALTER L. RICCI, MAI, CCIM

Professional Experience

Hamilton, Ricci & Associates, Inc., San Francisco, California (1986). Provide appraisal and consultation services for a variety of improved and vacant real estate products.

Appraisal

Various residential and income producing properties, both existing and proposed, including commercial, industrial, office buildings, apartments, shopping centers, motels, subdivisions, mixed use properties, parking garages, low income housing tax credit apartments, congregate care facilities, cold-storage facilities, trade centers, conversions, rehabilitations, and restaurants. Appraisals have been prepared for investment, disposition, mortgage lending, loan workout, condemnation, and litigation support purposes.

Consultation

Syndication, mortgage financing, acquisitions, dispositions, competitive product analysis, highest and best use studies, project feasibility, market rent surveys, and lease negotiations.

Expert Testimony/Arbitration

Qualified as an expert witness in the Superior Courts of San Francisco County, Alameda County, Marin County, Santa Clara County, Contra Costa County, San Mateo County, Napa County, San Joaquin County, Placer County and Federal District Court for the Northern District of California, Federal Bankruptcy Court, American Arbitration Association, San Francisco and Sacramento JAMS, ADR and the City and County of San Francisco and Marin County Assessment Appeals Board. Litigation assignments for both plaintiffs and defendants include eminent domain, construction defects, title work, toxic contamination, and partial interest analysis. Arbitration assignments include fair market rent and fair market value determinations.

Speaking Engagements

Appraising Low Income Housing Tax Credit Apartments
Developers Tax Credit Conference, Sheraton Palace Hotel, San Francisco, CA
September 29, 1994

Education

B.S. Business Administration, Finance
San Diego State University, May 1986

Certification

Certified General Appraiser in State of California through May 21, 2017. Appraiser No. AG9489.

Professional Associations and Memberships

Member: Appraisal Institute (#9547)
Member: Commercial Investment Real Estate Institute
The San Francisco Apartment Association