



THE DORÉ GROUP  
INTERNATIONAL REAL ESTATE CONSULTATION  
AND FORENSIC VALUATION

## Market Rent Analysis

### COUNTY OF MONTEREY RENT STUDY



Prepared For:

Monterey County



April 16, 2013

Ms. Gina Encallado  
 Deputy Purchasing Agent  
 Monterey County  
 168 W. Alisal Street, 3<sup>rd</sup> Floor  
 Salinas, California 93901

Re: Market Rent Analysis  
 County of Monterey Rent Study  
 File Name: TDG 2013 009

Dear Ms. Encallado:

At your request, I have prepared an appraisal of the Fair Market Rent and Highest and Best Use for the properties which may be briefly described as follows:

The subject, known as the County of Monterey Rent Study, is comprised of seven buildings located in Salinas and Monterey, California. The free-standing buildings total approximately 700,865 square feet. The address and approximate square feet of each property is illustrated in the following table;

| County of Monterey Rent Survey             |                 |                   |
|--|-----------------|-------------------|
| Address                                    | Description     | Total Square Feet |
| 168 West Alisal Street<br>Salinas CA 93901 | Administration  | 134,478           |
| 240 Church Street<br>Salinas, CA 93901     | Courthouse      | 98,208            |
| 1422 Natividad Road<br>Salinas, CA 93906   | Juvenile Admin  | 17,581            |
| 1410 Natividad Road<br>Salinas, CA 93906   | Monterey Jail   | 273,800           |
| 1200 Aguajito Road,<br>Monterey, CA 93940  | Courthouse      | 88,420            |
| 1420 Natividad Road<br>Salinas, CA 93906   | Juvenile Jail   | 44,602            |
| 1270 Natividad Road<br>Salinas CA 93906    | Health Services | 43,776            |
| <b>Total</b>                               |                 | <b>700,865</b>    |

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The properties are currently occupied and in very good to average condition based on their use and occupancy in comparison to the market. The County of Monterey currently uses the buildings as; a Health Services Administration building (1270 Natividad Road), Probation, Juvenile Hall (1420 Natividad Road), Probation, Juvenile Administration and Superior Courtroom (1422 Natividad Road), Sheriff, Adult Detention (1410 Natividad Road), Superior Court, County Administration Building (168 West Alisal Street), and the Monterey Superior Courthouse and Health Services, including the associated Superior Court parking structure (1200 Aguajito Road).

Please reference page 6 of this report for important information regarding the scope of research and analysis for this appraisal, including property identification, inspection, highest and best use analysis and valuation methodology.

I certify that I have no present or contemplated future interest in the property beyond this estimate of fair market rent. The appraiser has not performed any prior services regarding the subject within the previous three years of the appraisal date.

Your attention is directed to the Limiting Conditions and Assumptions section of this report. Acceptance of this report constitutes an agreement with these conditions and assumptions. In particular, I note the following:

**Hypothetical Conditions:**

There are no hypothetical conditions for this appraisal.

**Extraordinary Assumptions:**

There are no Extraordinary Assumptions for this appraisal.

Based on the appraisal described in the accompanying report, subject to the Limiting Conditions and Assumptions, Extraordinary Assumptions and Hypothetical Conditions (if any), I have made the following fair market rent conclusion(s):

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 Monterey County  
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## FAIR MARKET RENTS BY CATEGORY AND LEASE TYPE

| FAIR MARKET RENTS                   |       |                              |                   |                 |                     |                    |
|-------------------------------------|-------|------------------------------|-------------------|-----------------|---------------------|--------------------|
| Location                            | Class | Identification / Description | Lease \$/SF Month | Lease Structure | Total Square Feet   | Total Monthly Rent |
| 1270 Natividad Road, Salinas, CA    | A     | Health Services              | \$2.10            | Gross           | 43,776              | \$91,930           |
| 1420 Natividad Road, Salinas, CA    | Jail  | Juvenile Jail                | \$1.00            | Gross           | 44,602              | \$44,602           |
| 1422 Natividad Road, Salinas, CA    | C     | Juvenile Administration      | \$1.30            | Gross           | 17,581              | \$22,855           |
| 1410 Natividad Road, Salinas, CA    | Jail  | Monterey Jail                | \$0.50            | Gross           | 273,800             | \$136,900          |
| 240 Church Street, Salinas, CA      | A     | Courthouse                   | \$2.25            | Gross           | 98,208              | \$220,968          |
| 168 West Alisal Street, Salinas, CA | A     | Administration               | \$1.90            | Gross           | 134,478             | \$255,508          |
| 1200 Aguajito Road, Monterey, CA    | B     | Courthouse                   | \$2.25            | Gross           | 88,420              | \$198,945          |
| <b>Total Monthly Rent</b>           |       |                              |                   |                 | <b>\$971,708</b>    |                    |
| <b>Total Annual Rent</b>            |       |                              |                   |                 | <b>\$11,660,497</b> |                    |

The market exposure time<sup>1</sup> preceding April 4, 2013 would have been 5 months and the estimated marketing period<sup>2</sup> as of April 4, 2013 is 5 months. Please note, referenced exposure and marketing times reflect typical exposure to negotiate and sign a lease.

Respectfully submitted,

The Doré Group



Lance W. Doré, MAI, FRICS  
 President and CEO  
 lwdore@thedoregroup.com

<sup>1</sup> Exposure Time: see definition on page 10.

<sup>2</sup> Marketing Time: see definition on page 9.

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## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

### GENERAL

|  |   |
|--|---|
| <b>Subject:</b>                        | County of Monterey Rent Study<br><br>Commercial buildings located at:<br><br><ol style="list-style-type: none"><li>1. 1270 Natividad Road, Salinas, Monterey County, California 93901</li><li>2. 1420 Natividad Road, Salinas, Monterey County, California 93901</li><li>3. 1422 Natividad Road, Salinas, Monterey County, California 93901</li><li>4. 1410 Natividad Road, Salinas, Monterey County, California 93901</li><li>5. 240 Church Street, Salinas, Monterey County, California 93901</li><li>6. 168 West Alisal Street, Salinas, Monterey County, California 93901</li><li>7. 1200 Aguajito Road, Salinas, Monterey County, California 93901</li></ol><br>The free-standing buildings total approximately 700,865 square feet. |
| <b>Owner:</b>                          | Monterey County   |
| <b>Assessor Parcel Numbers (APNs):</b> | 003-851-018, -019; 002-253-027; 001-781-013; and 002-253-027  |
| <b>Date of Fair Market Rent:</b>       | April 4, 2013   |
| <b>Date of Report:</b>                 | April 16, 2013  |
| <b>Intended Use:</b>                   | The intended use is to provide the client with an estimate of fair market rental value for seven commercial and special purpose properties for internal due diligence.  |

**Intended User(s):** Monterey County

**Assessed Value/Taxes:** Not applicable – Municipal ownership

**Sale History:** The subject has not sold in the last three years, according to public records. The Scope of Work was to establish Fair Market Rent only. Therefore, a sales history is not applicable.

**Current Listing/Contract(s):** The subject is not currently listed for sale, or under contract.

**FAIR MARKET RENT INDICATIONS**

**Reconciled Fair Market Rents by Category and Lease Type**

| FAIR MARKET RENTS                   |       |                              |                   |                 |                     |                    |
|-------------------------------------|-------|------------------------------|-------------------|-----------------|---------------------|--------------------|
| Location                            | Class | Identification / Description | Lease \$/SF Month | Lease Structure | Total Square Feet   | Total Monthly Rent |
| 1270 Natividad Road, Salinas, CA    | A     | Health Services              | \$2.10            | Gross           | 43,776              | \$91,930           |
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| <b>Total Monthly Rent</b>           |       |                              |                   |                 | <b>\$971,708</b>    |                    |
| <b>Total Annual Rent</b>            |       |                              |                   |                 | <b>\$11,660,497</b> |                    |

**Effective Date(s)** April 4, 2013

**Property Rights** Leased Fee (Monterey County Interest as Landlord)

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## SCOPE OF WORK REQUIREMENTS

|  |  |
|--|--|
| Report Type:                                   | This is a Self-Contained Report as defined by Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2(b). This format provides a comprehensive analysis of the appraisal process, subject and market data and valuation analyses.                        |
| Property Identification:                       | The subject has been identified by information provided by the client. The properties are known as the County of Monterey Rent Study.  |
| Inspection:                                    | A complete interior and exterior inspection of the subject property has been made, and photographs taken.  |
| Market Area and Analysis of Market Conditions: | A complete analysis of market conditions has been made. The appraiser maintains and has access to comprehensive databases for this market area and has reviewed the market for rental lease rates.   |
| Highest and Best Use Analysis:                 | A limited as vacant and as improved highest and best use analysis for the subject has been made. Physically possible, legally permissible and financially feasible uses were considered, and the maximally productive use was concluded. See Highest and Best Use for details. |
| Hypothetical Conditions:                       | There are no hypothetical conditions for this appraisal.   |
| Extraordinary Assumptions:                     | There are no Extraordinary Assumptions for this appraisal.   |

This appraisal is prepared for Ms. Gina Encallado and Monterey County. The problem to be solved is to estimate the fair market rental rate and highest and best use for the seven subject properties. The intended use is to provide the client with an estimate of fair market rental value for seven commercial and special purpose properties for internal due diligence. The seven buildings are all used by the County of Monterey for public services (i.e. Health Administration, Courts, etc.). Of concern in the analysis is the ability to reflect market rent for public use facilities. This infers the difference between Rent in Exchange<sup>3</sup> and Rent in Use<sup>4</sup>. This will be discussed in more detail in the Highest and Best Use.

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<sup>3</sup> Rent in Exchange is the attribution of rent to goods or services based on what can be obtained for them in exchange for other goods and services in the market

<sup>4</sup> Rent in Use is the rent of the property assuming a specific use, which may or may not be the property's highest and best use on the effective date of the appraisal. Rent in Use may or may not be equal to market rent (Rent in Exchange), but is different conceptually.



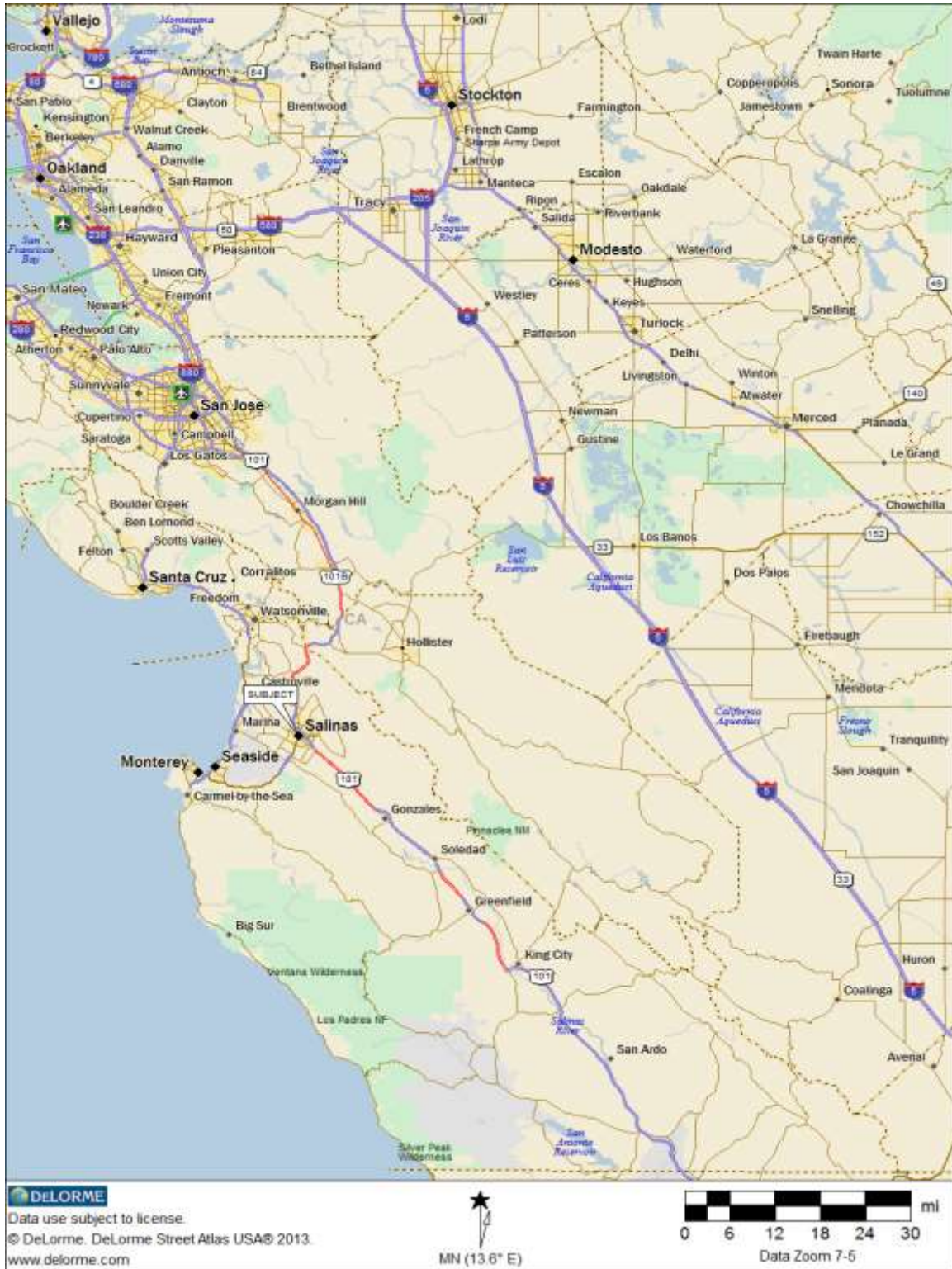
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This appraisal is intended for the use of client, Monterey County.

### GENERAL PROPERTY INFORMATION

|                                     |  |
|-------------------------------------|--|
| Statement of Ownership:             | As of the date of fair market rent (April 4, 2013), title to the subject property was vested with Monterey County.   |
| Property History:                   | According to RealQuest, a provider of public information, the subject property has not transferred in the prior three years.   |
| Prior Appraisal Services:           | As noted, I have not performed appraisal services with this property in the past three years.  |
| Intended Use:                       | The intended use is to provide the client with an estimate of fair market rental value for seven commercial and special purpose properties for internal due diligence. |
| Intended User(s):                   | The client, Monterey County.   |
| Date of Appraisal / Date of Report: | The date of fair market rent is April 4, 2013, and the date of the appraisal report is April 16, 2013.   |

# AREA MAP



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## REGIONAL DESCRIPTION – MONTEREY COUNTY

### LOCATION / TRANSPORTATION



Monterey County is situated near the midpoint of California, 125 miles south of San Francisco and 350 miles north of Los Angeles. It is bordered by Santa Cruz, San Benito, Fresno, Kings, and San Luis Obispo Counties. With a land area of 3,771 square miles, the county has two distinct sections – the Monterey Bay/Peninsula/Big Sur Coast with 100 miles of scenic California coastline and the agriculturally rich Salinas Valley that runs almost the entire length of the county. The 170-mile long Salinas River, the third longest river in California, winds through the valley and, along with its aquifer, serves as a water supply for the region. The county has 12 incorporated cities and 16 unincorporated communities. The two primary urban areas are Salinas, which serves as the county seat, and the Monterey Peninsula.

The Transportation Agency of Monterey County (TAMC) partners with Caltrans, other county agencies, and city governments to develop and maintain multiple modes of transportation throughout the county. Major highways serving the county include U.S. Route 101 (north/south), State Routes 1 and 183 (north/south), and State Routes 68, 146, 15, and 198 (east/west). These highways facilitate efficient transport of goods and people throughout the region and are maintained in satisfactory condition through ongoing repairs or expansion. Monterey-Salinas Transit provides bus service throughout most of Monterey County, with buses to Big Sur, King City, Monterey, Salinas, Carmel and San Jose and Santa Clara Counties. Long distance ground travel is offered by Amtrak (via train) and Greyhound Lines (via bus). Monterey Airport is a two-runway "medium non-hub" airport with passenger service offered by American Eagle, Allegiant Air, United Airlines and US Airways. There is also a single runway municipal airport in the city of Marina on the former site of the Fritzsche Army Air Field, which closed in 1994.

### SERVICES / RECREATION

The county offers a complete array of services to its residents including gas and electricity (provided by Pacific Gas & Electric) and water/sewer (primarily California Water Service Company). Law enforcement is provided by the Monterey County Sheriff's Department and individual city police departments. The three-station Monterey County Regional Fire Protection District offers fire protection and emergency medical services. Monterey's medical community provides a wide range of services, including emergency care at four acute care hospitals, including Community Hospital of Monterey, Natividad Medical Center, George L. Mee Memorial Hospital, and Salinas Valley Memorial Hospital. There are three public school districts overseeing

six schools with an estimated total enrollment of 73,621 students (2012/13). Post-secondary education is available through California State University-Monterey Bay, Golden Gate University-Monterey, Hartnell College, Heald College, Monterey College of Law, Monterey Institute of International Studies, Defense Language Institute, Naval Postgraduate School, and Monterey Peninsula College.

The Monterey Peninsula, along with other coastal areas of the county, has long been a recreational destination for tourists from around the world. Mild weather, picturesque scenery, and numerous historical monuments and tourist attractions consistently bring visitors to the county. Top attractions include the world-renowned Monterey Bay Aquarium and surrounding Cannery Row waterfront project, Fisherman’s Wharf, and the upscale communities of Pebble Beach and Carmel-by-the-Sea. The Monterey Bay National Marine Sanctuary provides a multitude of aquatic-based activities, including scuba diving, kayaking, and fishing. A designated “State Scenic Highway” and “All-American Road”, the 17-Mile Drive along the coast is one of the most scenic drives in the world. Passing through the Del Monte Forest, high-end homes, and golf courses, it provides access to Pebble Beach with its eight championship golf courses and top-rated spa. Pfeiffer Big Sur State Park, known as the “mini-Yosemite,” has waterfalls and redwood groves and offers opportunities for hiking and camping. In 2013, President Obama continued the efforts of President Theodore Roosevelt and expanded the former Pinnacles National Monument to Pinnacle National Park. Encompassing 26,000 acres, the park offers opportunities for hiking, bird watching, stargazing, and rock climbing. Extensive hiking trails are also located on the Monterey Bay Coastal Recreation Trail. The 4,789-acre Toro County Park provides 17 miles of trails, a youth camping area, a nature center, an equestrian staging area and numerous picnic areas. The Bureau of Land Management (BLM) has preserved 7,200 acres surrounding the former Fort Ord, which has 50 miles of trails for hiking, mountain biking, and horseback riding.

| Monterey County's City Population Estimates |                |                |            |
|---|----------------|----------------|------------|
| City  | 1-Jan-11       | 1-Jan-12       | % change   |
| Carmel-by-the-Sea                           | 3,737          | 3,763          | 0.7        |
| Del Rey Oaks                                | 1,631          | 1,642          | 0.7        |
| Gonzales                                    | 8,220          | 8,269          | 0.6        |
| Greenfield                                  | 16,396         | 16,510         | 0.7        |
| King City                                   | 12,942         | 13,028         | 0.7        |
| Marina                                      | 19,758         | 19,996         | 1.2        |
| Monterey                                    | 28,018         | 28,460         | 1.6        |
| Pacific Grove                               | 15,107         | 15,219         | 0.7        |
| Salinas                                     | 150,989        | 152,401        | 0.9        |
| Sand City                                   | 335            | 337            | 0.6        |
| Seaside                                     | 32,806         | 33,160         | 1.1        |
| Soledad                                     | 26,285         | 26,239         | -0.2       |
| Balance Of County                           | 100,744        | 101,644        | 0.9        |
| <b>County Totals</b>                        | <b>416,968</b> | <b>420,668</b> | <b>0.9</b> |

Source: California Department of Finance

Additionally, the county has numerous beaches, bike paths, museums, theaters, and hosts several well-known cultural events.

#### POPULATION / DEMOGRAPHICS

The California Development Department reported Monterey County’s January 2012 population at 420,668, a 0.9% increase from the January 2011 estimate and a 1.35% from the 2010 Census estimate of 415,057. Population is projected to increase approximately 0.5% annually to reach 436,107 by 2020. Population growth in the county was

steadily increasing throughout the 1980s, declining in the early 1990s, and relatively constant after this point. There has been a significant amount of domestic migration out of the county as a result of housing affordability.

According to 2010 census data, the county had 125,217 households with an estimated 3.14 persons per household. The American Community Survey indicated a total of 138,925 housing units, of which 90% were occupied, 63% were single family detached, 7% were single family attached, and 27% were multi-family. There were 138,788 housing units and census data

| Historical & Projected Population Growth |            |            |            |            |            |                      |
|--|------------|------------|------------|------------|------------|----------------------|
|  | 2010       | 2020       | 2030       | 2040       | 2050       | % Change (2010-2050) |
| Monterey County                          | 416,259    | 436,107    | 475,957    | 513,045    | 542,899    | 30%                  |
| California                               | 39,135,676 | 44,135,923 | 49,240,891 | 54,226,115 | 59,507,876 | 52%                  |

Source: California Department of Finance

indicated a countywide homeownership rate of 51.4%,

which is lower than the state (57.4%) as a result of high home prices. The median household income was \$59,737 with 15.1% below the poverty level. The median age in the county is 32.9 years.

## REGIONAL ECONOMY

Trends in employment are a key indicator of economic health and strongly correlate with real estate demand. Monterey County's economy is heavily weighted toward tourism (coastal regions) and agriculture (Salinas River Valley). The majority of the labor force resides on the Monterey Peninsula and in the city of Salinas, where there is also the majority of housing.

According to the California Employment Development Department, as of February 2013, the county's labor force totaled 226,000, of which 195,600 were employed indicating a 13.5%

| Monterey County Employment Statistics |             |            |            |            |                   |            |
|---------------------------------------|-------------|------------|------------|------------|-------------------|------------|
| Date                                  | Labor Force |            | Employment |            | Unemployment Rate |            |
|                                       | Monterey    | California | Monterey   | California | Monterey          | California |
| Jan-13                                | 223,900     | 18,550,600 | 191,600    | 16,628,800 | 14.4%             | 10.4%      |
| Feb-13                                | 226,000     | 18,646,900 | 195,600    | 16,836,500 | 13.5%             | 9.7%       |
| 2012                                  | 226,500     | 18,489,600 | 200,800    | 16,689,200 | 11.4%             | 9.7%       |
| 2011                                  | 221,800     | 18,384,900 | 194,000    | 16,226,600 | 12.5%             | 11.7%      |
| 2007                                  | 205,800     | 17,921,000 | 191,100    | 16,960,700 | 7.1%              | 5.4%       |
| 2006                                  | 203,600     | 17,686,700 | 189,500    | 16,821,300 | 6.9%              | 4.9%       |
| 2005                                  | 207,000     | 17,544,800 | 191,800    | 16,592,200 | 7.3%              | 5.4%       |
| 2004                                  | 208,100     | 17,444,400 | 190,800    | 16,354,800 | 8.3%              | 6.2%       |
| 2003                                  | 210,300     | 17,390,700 | 191,400    | 16,200,100 | 9.0%              | 6.8%       |
| 2002                                  | 208,900     | 17,343,600 | 190,200    | 16,180,800 | 8.9%              | 6.7%       |
| 2001                                  | 204,800     | 17,152,100 | 188,900    | 16,220,000 | 7.8%              | 5.4%       |
| 2000                                  | 203,200     | 16,857,600 | 188,200    | 16,024,300 | 7.4%              | 4.9%       |

Source: California Employment Development Dept

unemployment rate. This is quite a bit higher than the corresponding statewide jobless rate of 9.7% and the national rate of 7.6%. Unemployment was generally decreasing from January to October 2012, going from 16.1% to 9.4%. Since then, it has been fluctuating posting at 9.4% in November, 13.1% in December, 14.4% in January 2013, and the aforementioned rate of 13.5% in

February. According to the Employment Development Department, increases in unemployment rates from November to January are typical due to seasonal farm and retail job losses.<sup>5</sup>

The top three employment sectors (in number of employees) are Agriculture (39,000), Government (31,000), Trade/Transportation/Utilities (24,800) and Leisure/Hospitality (21,600).

<sup>5</sup> "Merced County jobless rate rises to 18.4%", *Merced Sun-Star*, Mike North, March 23, 2013.

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Farming/fishing/ forestry and agriculture occupations are projected to gain the most jobs between 2008 and 2018.

An expanding and increasingly vital part of the county's economic picture includes small business development. Almost 70% of the businesses in Monterey County employ fewer than ten workers. Existing small businesses and entrepreneurs already in the area are creating jobs in the local economy, and public awareness of small businesses' job creation capacity is increasing as well.

Following is a discussion of key economic influences in Monterey County:

#### AGRICULTURE

Agriculture comprises about 17% of the Monterey County's total economic output, as compared with 2% for the nation as a whole. The county is the largest vegetable-producing county in the United States and is the third largest agricultural county in California. The *2010 Monterey County Crop Report* reported agricultural production of over \$4 billion for the county. High-value agricultural products (including wine grapes and vegetables) and higher value-added products (bagged lettuce, dehydrated fruits/vegetables, etc.) account for the majority of this productivity.

#### TOURISM

Monterey County has an established international reputation based on key destinations such as Big Sur, Pebble Beach, Carmel and Monterey. Its close proximity to several northern California metropolitan areas also lends to tourism being a major regional industry. The county accounted for just over 2% of statewide travel spending, generating \$2 billion in 2010 despite the recession.

#### POST-SECONDARY EDUCATION / RESEARCH

Monterey County is home to numerous post-secondary education and research institutions - i.e., universities, community colleges, a law school, specialized military educational institutions, and research organizations. It's known as the "Language Capital of the World" due to the location of six institutions providing language programs at the community college through graduate level. Employing about 14,000 people to serve 60,000 students, the economic impact is estimated at more than \$2 billion annually.

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## REAL ESTATE DEVELOPMENT

Salinas, the county's government center and its largest city, is located in the northern part of the Salinas Valley. It has become a regional trade center for California's central counties and serves as the industrial, commercial and residential hub of the valley. The county has a variety of real estate development and property types. The high price of land, its limited availability due to agricultural usage, and the current economic climate all contribute to limited new construction.

## RESIDENTIAL

Monterey County is similar to many California counties in that it faces the issue of affordable housing. Despite recent decreases, county home prices are still among the highest in the state. According to Dataquick Information Systems, as of February 2013, the median home price in Monterey County was \$286,000, a 19.7% increase from February 2012. Because the local economy is heavily tied to the agricultural industry of the Salinas and Pajaro Valleys, very little land is available to accommodate new housing construction that can provide the economies of scale to assist the low and moderate-income families. The county is seeking state and federal funding under the various housing assistance programs to assist families with housing, however current high pricing levels limit the ability of a significant portion of the local population to purchase a home and contribute to an out-migration of area residents.

## RETAIL

According to Terranomics, the county has four retail submarkets: North County (3,023,781 square feet of existing inventory as of the 4<sup>th</sup> Quarter 2012), Central County (700,989 square feet) and South County (3,138,209 square feet). Of the total 6,862,979 square feet of retail inventory, 3,763,909 were in neighborhood/community centers, 430,704 were in strip centers, 2,287,230 were in power/regional centers, and 381,136 were specialty retail space. As of the 4<sup>th</sup> Quarter 2012, shopping center vacancy within the county was 6.1%, down from 6.7% in the 3<sup>rd</sup> Quarter and 6.4% in the 4<sup>th</sup> Quarter 2011. This is the second consecutive quarter of growth in the retail market. Throughout 2012, the Monterey retail market absorbed 18,000 square feet of previously vacant space. The current average annual

| MONTEREY COUNTY HOME TRENDS |        |              |           |          |
|-----------------------------|--------|--------------|-----------|----------|
| City                        | Sales  | Median Price |           |          |
|                             | Feb-13 | Feb-12       | Feb-13    | % Change |
| Carmel                      | 11     | \$621,500    | \$950,000 | 52.86%   |
| Carmel Valley               | 9      | \$775,000    | \$698,000 | -9.94%   |
| Castroville                 | 3      | \$165,000    | \$320,000 | 93.94%   |
| Gonzales                    | 10     | \$173,000    | \$199,000 | 15.03%   |
| Greenfield                  | 11     | \$170,000    | \$180,000 | 5.88%    |
| King City                   | 9      | \$160,000    | \$178,000 | 11.25%   |
| Marina                      | 10     | \$285,000    | \$338,500 | 18.77%   |
| Monterey                    | 30     | \$355,000    | \$335,000 | -5.63%   |
| Pacific Grove               | 11     | \$446,250    | \$650,000 | 45.66%   |
| Pebble Beach                | 10     | \$1,068,750  | \$700,000 | -34.50%  |
| Salinas                     | 111    | \$215,000    | \$250,000 | 16.28%   |
| Seaside                     | 14     | \$281,000    | \$360,750 | 28.38%   |
| Soledad                     | 13     | \$180,000    | \$182,500 | 1.39%    |
| County                      | 270    | \$239,000    | \$286,000 | 19.67%   |

Source: Data Quick News

asking rent for all types of retail space is \$16.79 per square foot, up 7% from the one year ago. Neighborhood/ community centers struggled the most, posting a negative absorption of (20,000) square feet in 2012, and increased vacancy of 6.8%. Unanchored strip centers

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performed best with 8.3% vacancy, down significantly from 14.1% from one year earlier, and positive absorption of 25,000 square feet.<sup>6</sup>

## OFFICE

Overall, the county's office sector showed its best performance of the year, but only a slight improvement, posting only a 0.1% growth rate during the 3<sup>rd</sup> Quarter 2012. This is primarily a result of continued cautiousness regarding the economy, the county's geographic isolation from major metropolitan markets, and the limited impact of tourism and agriculture on the demand for local goods and services. According to Cassidy Turley, the county has four office submarkets: Monterey (3,364,874 square feet of existing inventory as of the 3<sup>rd</sup> Quarter 2012), Sand City/Seaside/Marina (258,556 square feet), Salinas/Castroville (4,122,739 square feet), and Carmel/Pacific Grove (559,253 square feet). Of the total 8,305,422 square feet of office inventory, 2,376,512 were Class A space and 4,373,284 was Class B space. As of the 3<sup>rd</sup> Quarter, countywide office vacancy was 10.2% and year-to-date absorption totaled a negative (40,825) square feet. The average asking rent for all types of office space was \$2.02 per square foot, up slightly from \$2.00 in the 2<sup>nd</sup> Quarter 2012 and up 3% from the 3<sup>rd</sup> Quarter 2011. No new space was under construction. Until job creation and consumer confidence are stronger, a drastic change in the market is not expected, which Cassidy Turley does not expect to occur until at least the 2<sup>nd</sup> or 3<sup>rd</sup> Quarter 2013.<sup>7</sup>

## INDUSTRIAL

The county's industrial sector continues to struggle despite the ongoing economic recovery, especially in the coastal regions, as indicated by a negative (0.4%) growth rate during the 3<sup>rd</sup> Quarter 2012. This is primarily a result of continued cautiousness regarding the economy and restricted demand for local goods and services. The inland regions fare better than the tourist-oriented coastal areas, although more in sales than in leasing, due to the impact from surrounding agricultural uses. According to Cassidy Turley, the county has four industrial submarkets: Monterey (589,319 square feet of existing inventory as of the 3<sup>rd</sup> Quarter 2012), Sand City/Seaside/Marina (1,246,224 square feet), Salinas/Castroville (15,331,961 square feet), and South County (3,631,123 square feet). The most active industrial users are food users and distribution/logistics firms. As of the 3<sup>rd</sup> Quarter, countywide industrial vacancy was 8.3% and year-to-date absorption totaled (100,453) square feet. The average asking rent for all types of industrial space was \$0.47 per square foot, down from \$0.52 in the 3<sup>rd</sup> Quarter 2011. No new space was under construction. Until job creation and consumer confidence are stronger, a

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<sup>6</sup> *Monterey County Shopping Centers Report Q4-2012*, Terranomics Retail Services.

<sup>7</sup> *Office Market Snapshot (Monterey County)*, Third Quarter 2012, Cassidy Turley Commercial Real Estate Services.



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drastic change in the market is not expected, which Cassidy Turley does not expect to occur until at least the 2<sup>nd</sup> or 3<sup>rd</sup> Quarter 2013.<sup>8</sup>

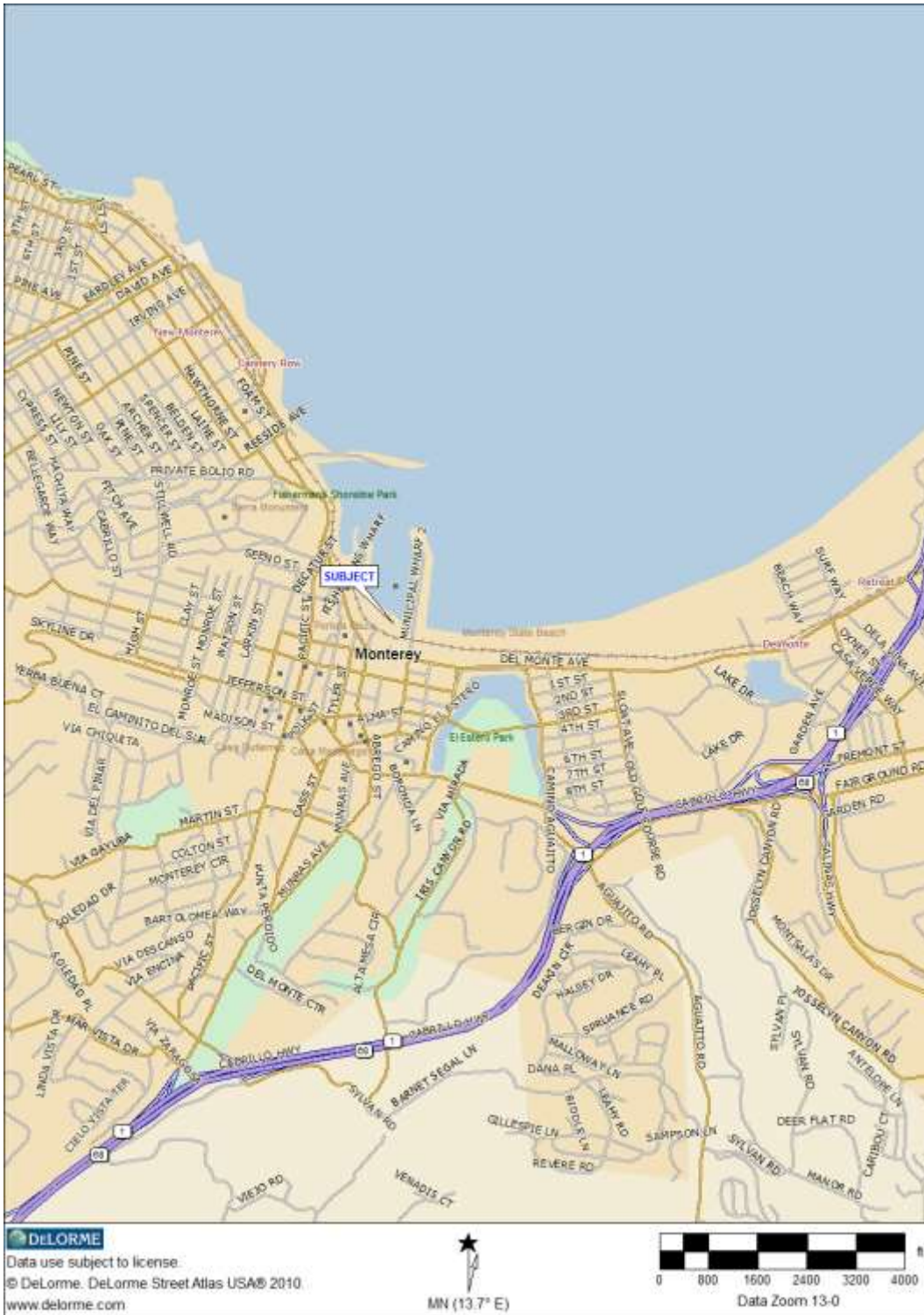
#### SUMMARY

In the short term, Monterey County is expected to remain stable to slightly increasing in the current post-recessionary economy. Affordable housing will continue to be an issue impacting the area due to the inability of the lower-end service employees to afford the area's high property values. Several factors, including the strong agricultural industry, the presence of the military, the established tourism industry, the year-round mild climate, and overall quality of life, are primary reasons why the region is expected to continue to grow over time.

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<sup>8</sup> *Industrial Market Snapshot (Monterey County)*, Third Quarter 2012, Cassidy Turley Commercial Real Estate Services.

# NEIGHBORHOOD MAP



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## CITY DESCRIPTION – CITY OF MONTEREY



### LOCATION / ACCESS

The city of Monterey is located in the north-western portion of Monterey County on the southern edge of Monterey Bay. It has a land area of 8.62 square miles. The city has historical significance for the State of California and is a popular tourist destination for visitors coming from all over the world. Given its coastal location, this area has always been strategically significant to the military, who has maintained a presence here since the city's founding. The city is bounded by Del Monte Forest, Pebble Beach,

and Carmel (west/northwest), the communities of Sand City, Seaside and Del Rey Oaks (east), Monterey Bay and the city of Pacific Grove (north), and Monterey County lands (south/southwest). Further north are the cities of Santa Cruz (42 miles), San Jose (72 miles), and San Francisco (118 miles). These cities provide major goods and services to the Monterey coastal region.

The city is accessible via State Route 68 (east/west) and State Route 1 (north/south). State Route 218 (east/west) connects SR 1 and SR 68 via Seaside and Del Rey Oaks. Other major thoroughfares include Aguajito Road, Munras Avenue, Fremont Street, and Del Monte Avenue. Together these thoroughfares provide good access to the city. Monterey-Salinas Transit provides daily bus service throughout Monterey County from Simoneau Plaza in downtown Monterey. Seasonal summer service to Big Sur and free trolley service along Monterey's waterfront is also provided. Air transportation is provided by Monterey Peninsula Airport, which provides passenger, commercial and charter service.

### POULATION / DEMOGRAPHICS

According to 2010 Census data, the population of the city of Monterey was 27,810, which was a decrease of (6.3%) from the 2000 population estimate of 29,674. Based on historic trends, the city continues to experience a decline in population largely a function of the majority of the residents being unable to afford housing in the city and moving to more affordable areas of the county.

According to Census 2000, the city's average population per household was 2.08 persons, and the average family size was 2.81 persons. There were 13,584 housing units, of which 4,360 (35.8%) were owner-occupied and 7,824 (64.2%) were renter-occupied housing units. The median age was 36.9 years.

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## SERVICES

The city of Monterey has adequate schools, police and fire protection, medical and public facilities, and utilities. There are several institutes of higher education and a community college in the area, as well as the Monterey Peninsula Unified School District. There is one city-maintained police station and four fire stations. Pacific Gas & Electric provides natural gas and electricity and water/sewer services are provided by Monterey Regional Water Pollution Control Agency. The city also has a public library, several city parks, and a variety of cultural venues. Monterey Harbor and the Monterey Municipal Marina, which are under the jurisdiction of the Monterey Harbormaster, are located within city limits along Del Monte Avenue and provide access to a variety of recreational and commercial opportunities, including boat launching, for both residents and visitors.

## TOURISM

Monterey is a popular tourist destination in California. Local attractions within the city limits include, but are not limited to, the Monterey Bay Aquarium, Cannery Row, and Fisherman's Wharf. The Monterey Jazz Festival also attracts visitors to the area every September. Cannery Row, named after John Steinbeck's novel set here during the height of the sardine industry, has numerous shops, restaurants, and activities catering to tourists. Located at the southern end of Cannery Row, the aquarium is one of the largest and most renowned in North America in terms of its scientific significance and tourist attraction. Lake El Estero is a popular local destination for paddle boating. Other popular activities include kayaking, scuba diving, surfing, whale watching, golf and shopping.

## MILITARY PRESENCE

The city's strategic coastal location has resulted in a military presence beginning with Presidio of Monterey established in the late-1700s. Today the Defense Language Institute (DLIFLC), the Naval Postgraduate School (NPS), and Fleet Numerical continue the military tradition. The DLIFLC is a language school serving approximately 3,500 active and reserve domestic military personnel, foreign military students, and civilian personnel working in the federal government and various law enforcement agencies. The NPS is a graduate level research university offering master and doctoral programs in 60+ fields of study. Fleet Numerical provides worldwide meteorology and oceanography support to U.S. and coalition forces.

## REAL ESTATE DEVELOPMENT

The city of Monterey has numerous land-use plans in order to facilitate orderly development. The goal of these plans is to maintain distinct development zones and consistency in development standards, as well as facilitating redevelopment and historical preservation. As a result, the city of Monterey is an attractive city that has a long-standing positive reputation.

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Two factors have a significant impact on development opportunities in the city. There are a limited amount of available sites to facilitate new construction. Those sites that are available almost always have existing older structures resulting in the need for costly demolition. As a result, most developers seek out more affordable land in unincorporated Monterey County. In order to encourage development within the city, particularly affordable housing, the city has various incentive programs. In addition to the often prohibitive cost of development, the limited availability of water also places significant constraints on new development in the city. The city has adopted programs to address water capacity giving preference to affordable housing projects.

Monterey is approximately 80-90% built-out with most existing property constructed between approximately 1940 and the mid-2000s. It is estimated that over 60% of city housing is over 40 years old. The majority of new housing is high density and replaces older low density structures. As a result, the city has a higher ratio of multi-family housing than other cities in the county. The homeownership rate is significantly lower than the state average due to the high cost of land within the city limits. The city makes ongoing efforts to preserve existing single family homes and encourage the development of for-sale condominiums in order to keep homes available for private ownership. <sup>9</sup>

The city has several commercial business districts. Cannery Row is a major tourist attraction with a wide variety of shopping, cultural, and entertainment businesses. The recently upgraded and expanded Del Monte Center is the regional shopping center and is home to 90+ businesses. Downtown Monterey has been the economic center of the city since its inception and is the location of the Old Monterey Market Place. Heritage Harbor on the downtown waterfront is where professional or service-based businesses can find relatively lower cost space. New Monterey, which is just three blocks from Cannery Row, is a growing hub for an eclectic mix of businesses. North Fremont is east of Highway 1, adjacent to the Monterey Fairgrounds, and is home to service and retail businesses capitalizing on the high traffic to the area.

The city attracts technologically advanced companies who take advantage of the international environment, close proximity to Silicon Valley and its complementary high tech businesses, a language-skilled workforce, access to transportation, and a high quality of life. Industrial development is primarily in Ryan Ranch and on Garden Road. Ryan Ranch is an excellent quality industrial park catering to high tech companies located on SR- 68, near the airport. Garden Road is adjacent to the airport and has several high quality office and industrial buildings.

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<sup>9</sup> *City of Monterey Housing Element (2009 – 2014)*, July 7, 2009, [http://www.monterey.org/Portals/1/housing/pdfs/housingelement\\_genplan.pdf](http://www.monterey.org/Portals/1/housing/pdfs/housingelement_genplan.pdf).

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## CONCLUSION

The city of Monterey is relatively stable in terms of growth and development and makes a concerted effort toward maintaining consistent development standards and redeveloping blighted property. As a result of expensive real estate, the city has seen a decline in population as younger generations move to areas with more affordable housing. Efforts are ongoing to increase the inventory of affordable housing and water availability. The city is a popular tourist destination and is well-served by local and state highways and public transportation enabling it to attract visitors, a variety of businesses, and residents seeking to take advantage of the high quality of life. The outlook for the city is considered to be favorable.

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1270 Natividad Road, Salinas, CA  
(Health Administrative Services)

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1270 Natividad Road, Salinas, CA

Subject Aerial Photograph





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## IMPROVEMENTS DESCRIPTION

|                |   |
|----------------|---|
| Property Name: | 1270 Natividad Road, Salinas, CA  |
| Property Type: | Two-story office building   |
| Zoning:        | Public/Semipublic (PS) - City of Salinas  |
| Overview:      | Two-story office building located at 1270 Natividad Road, Salinas, Monterey County, California 93906. |

This free-standing building totals 43,776 square feet. The property is currently occupied by The County of Monterey Health Department. The building is a modern style steel frame construction with stucco exterior and glass. The build-out is of good quality, and overall construction standards are of very good quality and condition.

The hallways are larger than typical office hallways. The ceilings are 12 foot in height. The finish includes drop T-bar acoustic ceilings with fluorescent lighting and restrooms with marble tile counters. There is central heating and air conditioning, fire sprinklers in place and a security system. A portion of the building is built-out with lab and testing areas. This has been reflected in the overall rent.

Parking is available in an open lot surrounding the building. It appears to be adequate.

## BUILDING SUMMARY

|                             |  |
|-----------------------------|--|
| Building Class:             | The subject property is predominantly improved with a Class A office building. |
| Year Built Range:           | 2001 (per Mario Salazar, Facilities Manager, County of Monterey)               |
| Actual Age / Effective Age: | 12 years / 7 years   |
| Areas, Ratios & Numbers:    | Approximate gross area: 43,776 square feet                                     |

## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The building is rectangular in shape. Its design and functionality would cater to a variety of office type uses. The interior build out includes bullpens style as well as individual office areas, general

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administration areas with breakout rooms and employee areas, laboratory space, and biosafety level III rooms. There are one men's and one women's bathroom per floor on each of the two floors. There one unisex bathroom with showers in the laboratory area, and one unisex bathroom on the first floor.

Deferred Maintenance: Typical for age of improvements

Parking: Parking is available in an open lot surrounding the building. It appears to be adequate.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Front Exterior



Rear Exterior



Rear Exterior and North Side



Employee Breakout Room



Typical Hallway



Interior Office Area



Interior Office Area

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1420 Natividad Road, Salinas, CA  
(Juvenile Jail)

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1420 Natividad Road, Salinas, CA

Subject Aerial Photograph





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## IMPROVEMENTS DESCRIPTION

|                |  |
|----------------|--|
| Property Name: | 1420 Natividad Road, Salinas, CA   |
| Property Type: | Commercial building operated as the Monterey County Juvenile Hall  |
| Zoning:        | Public/Semipublic (PS) - City of Salinas   |
| Overview:      | <p>One-story buildings located at 1420 Natividad Road, Salinas, Monterey County, California 93906.</p> <p>The multiple buildings total approximately 44,602 square feet. The property is currently occupied and used as the Monterey County Juvenile Hall facility. The Juvenile Hall facility is a myriad of painted concrete block buildings and temporary trailers that were built in the 1970s. The buildings include wood frame windows, heating and air-conditioning, flat tar roof, and roof mounted security lights. There is minimal parking in front of the main building.</p> |

## BUILDING SUMMARY

|                            |  |
|----------------------------|--|
| Building Class:            | The subject property is predominantly improved with multiple attached buildings utilized as the Monterey County Juvenile Hall. |
| Construction:              | Concrete block buildings   |
| Quality:                   | The buildings are predominantly of fair quality.   |
| Year Built Range:          | 1970's   |
| Actual Age /Effective Age: | 43 years / 40 years  |
| Condition:                 | The buildings are predominantly of average to fair condition.  |
| Areas, Ratios & Numbers:   | The combined gross square feet area of the Juvenile Hall buildings is approximately 44,602 square feet.                        |

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## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The buildings are attached and generally rectangular in shape. They encompass two open space interior yards. The design of the buildings and functionality limit alternative uses, but may be conducive to a variety of institutional or educational facility uses. Significant reconfiguration would be required to find alternative uses for the existing jail facility. The only practical or alternative use for the facility is the existing jail, or a similar detention facility.

**Deferred Maintenance:** The buildings are in average to fair condition and require some remodeling and upgrades.

**Parking:** Parking is limited. There are is a parking lot with approximately 24 marked spaces on the northwest side of the buildings.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Exterior



Exterior



Juvenile Hall



Interior Yard



Interior – Communal Education Area



Interior – Hallway and entry to detention areas



Typical Common Bathroom

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1422 Natividad Road, Salinas, CA  
(Juvenile Administrative Services)

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1422 Natividad Road, Salinas, CA

Subject Aerial Photograph





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## IMPROVEMENTS DESCRIPTION

|                |  |
|----------------|--|
| Property Name: | 1422 Natividad Road, Salinas, CA   |
| Property Type: | Probation, Juvenile Administration and Superior Courtroom                            |
| Zoning:        | Public/Semipublic (PS) - City of Salinas   |
| Overview:      | Building located at 1422 Natividad Road, Salinas, Monterey County, California 93906. |

This free-standing building totals 17,581 square feet. The property is currently occupied by the County of Monterey Probation Department of the Superior Court, Juvenile Department.

The Juvenile Probation building is primarily of average quality and condition. It is of concrete block construction, comprised of a two-story office administrative facility which is connected to a single-story courthouse for juveniles, with a waiting room and some small offices. It is connected via two long hallways that lead to the Juvenile Jail facility. An elevator serves the two-story administrative office.

## BUILDING SUMMARY

|                             |   |
|-----------------------------|---|
| Building Class:             | The subject property is most similar to a Class C office building.  |
| Construction:               | Concrete block construction   |
| Quality/Condition:          | Primarily average quality and condition.  |
| Year Built Range:           | 1970  |
| Actual Age / Effective Age: | 43 years / 35 years   |
| Areas, Ratios & Numbers:    | The combined gross square feet area of the Probation, Juvenile Administration and Superior Courtroom buildings is approximately 17,581 square feet. |

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## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The building is rectangular in shape and comprised of a two-story office administrative facility which is connected to a single-story courthouse for juveniles, with a waiting room and some small offices. It is connected via two long hallways that lead to the Juvenile Jail facility to accommodate the adjacent Juvenile Jail.

Its design and functionality would cater to a variety of office type uses. The two-story administrative office is serviced by an elevator. The office interior build out includes carpeted and vinyl flooring, T-bar ceilings, fluorescent lighting, wood frame in aluminum windows and minimal buildups. Some construction and ongoing upgrades were noted during inspection. However, the facility is only in average condition. A stand-alone office use would require that the connecting hallway between the Juvenile Jail and the Administrative Facility be sealed and closed. Because of the adjacent use to the Jail, the most reasonable use for the Juvenile Administrative offices is for continued use to the jail.

**Deferred Maintenance:** Typical for age of improvements

**Parking:** There is parking available in the open, marked parking lot with approximately 65 parking spaces in and around the immediate perimeter that serves the buildings.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Front Exterior - Entry



Front Exterior (Two Story Office)



Parking



Main Entry



Exterior – Rear Parking



Exterior- Rear



Administration Office



Kitchenette – Administration Office

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1410 Natividad Road, Salinas, CA  
(Monterey Jail)

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1410 Natividad Road, Salinas, CA

Subject Aerial Photographs





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## IMPROVEMENTS DESCRIPTION

|                |   |
|----------------|---|
| Property Name: | 1410 Natividad Road, Salinas, CA  |
| Property Type: | Adult Rehabilitation Building and County Jail   |
| Zoning:        | Public/Semipublic (PS) - City of Salinas  |
| Overview:      | Buildings located at 1410 Natividad Road, Salinas, Monterey County, California 93906. |

The multiple buildings total approximately 273,800 gross square feet. The property is currently occupied by the County of Monterey Probation Department and the Monterey County Jail for adults. The facility has both men's and women's detention areas, with an open dorm setup and an isolation area for the various inmates. The workout area is on the roof. The facility has an infirmary, large kitchen area, inmate receiving area and other aspects typical of a jail. The designed number of beds is 825. It has a history of overcrowding and is currently 40% above designed capacity.

There is a rehabilitation area comprised primarily of open dorms where the trustee inmates provide the primary labor force for the kitchen, janitorial and laundry services.

Access to the interior of the buildings was provided. The interior areas are minimally built out primarily with concrete floors, walls and ceilings. Lighting is adequate, and there is extensive monitoring and security throughout the various areas.

This is a prison facility with concrete wall construction, concrete roofs and secure fencing. The facility is concrete tilt up construction. The adult rehabilitation center was built in 1970, the main jail was built in 1977, and the new jail was built in 1993.

## BUILDING SUMMARY

|                      |   |
|----------------------|---|
| Building Class:      | The subject property is a prison of average quality.    |
| Construction:        | Concrete wall construction                              |
| Quality / Condition: | The predominant quality level and condition is average. |

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Year Built Range: The adult rehabilitation center was built in 1970, the main jail was built in 1977, and the new jail was built in 1993

Actual Age / Effective Age: 43 years / 30 years

Areas, Ratios & Numbers: The multiple buildings total approximately 273,800 gross square feet.

## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The buildings are irregular in shape and connected via long and narrow hallways for security purposes. The entire property is fenced.

The jail facility is comprised of several polygon shaped buildings, including a large octagon shaped building connected via a hallway to a decagon shape building. This portion is connected to two smaller hexagon shaped buildings which connect to a larger hexagon building on the west and a rectangular building on the south, which also extends into two separate rectangular shaped buildings.

The design of the buildings and functionality limit alternative uses, but may be conducive to a limited number of institutional uses. Educational uses or dorms are not practical due to the overall layout and small spaces. Significant reconfiguration would be required to find alternative uses for the existing jail facility. The only reasonable or alternative use for the facility is the existing jail, or a similar detention facility.

Deferred Maintenance: Typical for age of improvements

Parking: There is adequate parking on site.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Adult Rehabilitation Facility Entry



Adult Rehabilitation Facility Grounds



Primary Jail Entry



Parking Area



Rear Entry



Yard



Interior - Entry



Interior Jail (Herald Photo)

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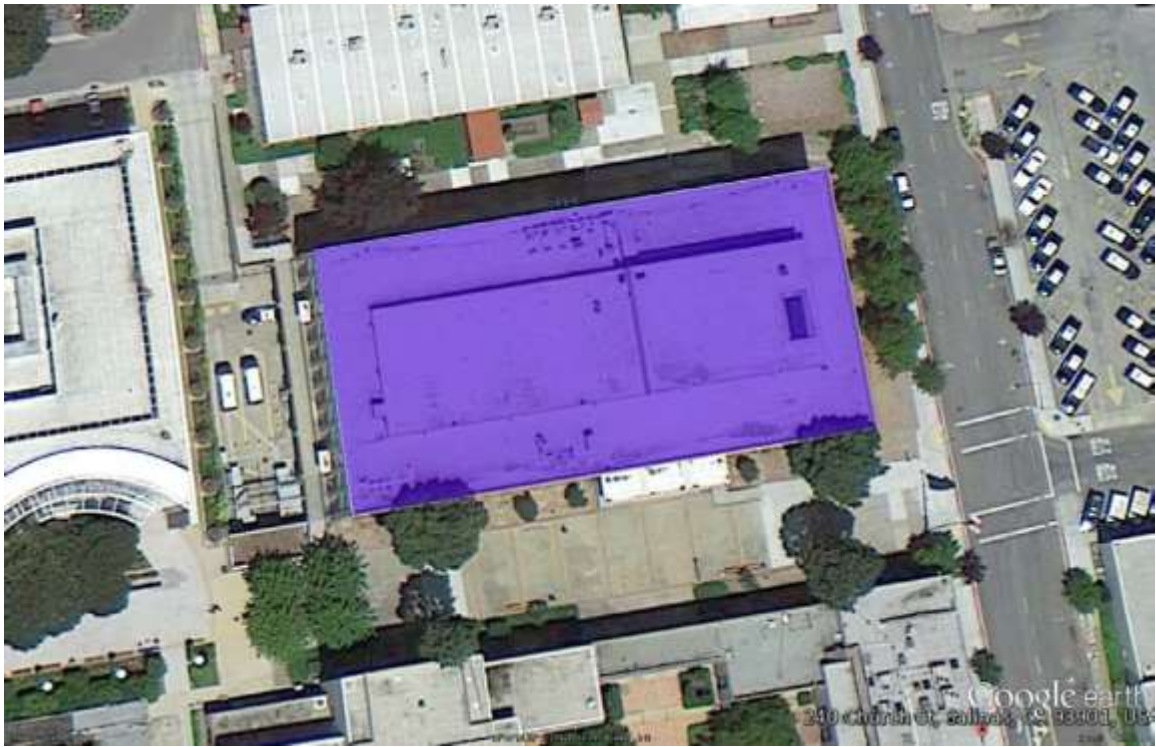
**240 Church Street, Salinas, CA**

**(Monterey Courthouse)**

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240 Church Street, Salinas, CA

Subject Aerial Photograph





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## IMPROVEMENTS DESCRIPTION

|                |   |
|----------------|---|
| Property Name: | 240 Church Street, Salinas, CA  |
| Property Type: | Monterey County Courthouse  |
| Zoning:        | Public/Semipublic (PS) - City of Salinas  |
| Overview:      | <p>Courthouse building located at 240 Church Street, Salinas, Monterey County, California 93901. The property is currently occupied and used as the Monterey County Courthouse.</p> <p>This free-standing building totals approximately 98,208 square feet. It is a three story concrete building plus a basement. It is served by two public elevators and two private elevators. The interior is built out with very good quality finishes and includes typical court rooms, public seating areas, defendant and plaintiff areas, deliberation rooms, and judge's chambers. It includes 11 courtrooms and eight bathrooms, with three courtrooms on each floor.</p> |

## BUILDING SUMMARY

|                             |  |
|-----------------------------|--|
| Building Class:             | The subject property is predominantly improved with a Class A commercial building. |
| Construction:               | Concrete construction  |
| Quality / Condition:        | The building is of very good quality and is in good condition.                     |
| Year Built Range:           | Built in 1960's with major remodel in 2011.  |
| Actual Age / Effective Age: | 2 years / 1 year   |
| Areas, Ratios & Numbers:    | The building totals approximately 98,208 gross square feet.                        |

## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** Good quality building that is rectangular in shape. Its design and functionality can be reconfigured to cater to a Class A office. There are some unique build-out areas due to the large courtrooms and judge's chambers. If alternative uses were considered these areas may serve as office bullpen areas.

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Deferred Maintenance: The building is in very good condition. No apparent deferred maintenance was noted.

Parking: Parking is provided via public spaces to the rear of the facility adjacent to the administrative facility. This is considered a limitation to alternative uses.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Front Exterior



Intake Area



Intake Entry



Courtyard (near old court facility showing the vacant East and West Wings)



East Side of Courthouse



Exterior View of Courthouse



Interior – typical Courtroom



Interior - Courtroom



Exterior – Rear

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**168 West Alisal, Salinas, CA**

**(Monterey Administrative Office)**



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168 West Alisal Street, Salinas, CA

Subject Aerial Photograph



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## IMPROVEMENTS DESCRIPTION

|                |  |
|----------------|--|
| Property Name: | 168 West Alisal Street, Salinas, CA  |
| Property Type: | Three-story office building  |
| Zoning:        | Public/Semipublic (PS) - City of Salinas   |
| Overview:      | Three-story office building located at 168 West Alisal Street, Salinas, Monterey County, California 93901. |

This free-standing building totals 134,478 square feet. It is the Monterey County Administrative and County Recorder building. The building is a modern style steel frame construction with a slate tile exterior. The build-out is of very good quality, and overall the building is of very good quality and condition. The finish includes drop T-bar acoustic ceilings with fluorescent lighting, and carpeted floors in the administrative offices. The lobby is finished with tile and vinyl flooring. There are security cameras, sprinklers, and two public and one private elevator that serve the building.

## BUILDING SUMMARY

|                             |  |
|-----------------------------|--|
| Building Class:             | The subject property is predominantly improved with a Class A office building. |
| Construction:               | Steel frame construction with a slate tile exterior.                           |
| Quality / Condition:        | The building is of very good quality and condition.                            |
| Year Built Range:           | 2007   |
| Actual Age / Effective Age: | 6 years / 2 years  |
| Areas, Ratios & Numbers:    | The approximate total gross area is 134,478 square feet.                       |

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## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The building is a modern style steel frame construction with a slate tile exterior on three sides. The building is generally rectangular in shape, with the southeast corner of the building ornamentally concave shaped, with full glass pane windows.

The interior build-out is of good quality. There are security cameras, sprinklers, and two public and one private elevator that serve the building. Its design and functionality would cater to a Class A office use.

**Deferred Maintenance:** The building is in very good condition. No apparent deferred maintenance noted.

**Parking:** Parking is available in an open lot surrounding the building. Approximately 74 parking spaces are available at the rear of the building, 38 spaces are available at the front of the building, with approximately 11 handicap parking spaces available. As such, parking appears to be adequate.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Front Exterior



Exterior – East Side



Exterior - Front



Interior – Lobby Overview



Interior – Common Area



Interior – Law Library



Additional Common Area



Lobby Elevator Area



Interior – Office Area



Interior – Office Area





Exterior – Rear Parking Area



Exterior – Rear Parking Area



Exterior - Rear



Exterior – South Parking Area



Exterior – West Side

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**1200 Aguajito Road, Monterey, CA**  
(Monterey City Courthouse)

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1200 Aguajito Road, Monterey, CA

Subject Aerial Photograph



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## IMPROVEMENTS DESCRIPTION

|                |   |
|----------------|---|
| Property Name: | 1200 Aguajito Road, Monterey, CA  |
| Property Type: | Monterey County Courthouse and County Clerk Office  |
| Zoning:        | D-1-15-D1 / City of Monterey. This is a residential zone allowing for 15,000 square foot lots.  |
| Overview:      | <p>Commercial building located at 1200 Aguajito Road, Monterey, Monterey County, California 93940.</p> <p>This is the Monterey County Courthouse building. It is three stories, plus a basement, which connects to a one-story building leading to a two-story Health Services building on the southern portion of the lot.</p> <p>The courthouse is concrete aggregate tilt-up construction. The interior is finished with heavy wood wainscot walls, suspended acoustical ceiling tiles and drop T-bar ceilings, and carpet and vinyl flooring.</p> <p>The first floor houses the County Clerk office and two courtrooms. The building is accessed on the main level through a security check point at the entryway. The first floor has a traditional office build-out, and two bathrooms. The second floor houses the Monterey County Law Library and Superior Court offices. It is built out with two courtrooms, several offices and two bathrooms. The third floor houses the Family Court Services and one courtroom and two bathrooms. The basement is configured with a snack area with vending machines and a sink. It houses the Sheriff's Investigation Office, and the Probation Department. It has a typical office build out.</p> <p>The adjacent Health Services building has a traditional office build out with drop T-bar ceilings and carpet and vinyl flooring. There is also a break out kitchen area.</p> |

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## BUILDING SUMMARY

|                             |  |
|-----------------------------|--|
| Building Class:             | The subject property is predominantly improved with a Class B commercial office buildings. |
| Construction:               | Concrete aggregate tilt up construction  |
| Quality / Condition:        | The building is of good quality and good condition.  |
| Year Built Range:           | 1969 to 1970   |
| Actual Age / Effective Age: | 43 years / 25 years  |
| Areas, Ratios & Numbers:    | The approximate gross area is 88,420 square feet   |

## OVERALL PROPERTY ANALYSIS

**Design & Functional Utility:** The buildings are rectangular in shape. The design and functionality would cater to a Class B office building.

There are some unique build-out areas due to the large courtrooms and judge's chambers. If alternative uses were considered these areas may serve as office bullpen areas.

**Deferred Maintenance:** Typical for age of improvements

**Parking:** There are marked parking areas on the east, west and south sides of the building, with an adequate number of parking spaces.

Americans With Disabilities Act

Please reference the Limiting Conditions and Assumptions section of this report.

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Subject Photographs



Main Entry



Health Services Exterior





Exterior- Entry to Monterey County Health Services Department



Common Area Stairway



Basement - Snack Area



Administrative Offices



Typical Office Build-Out



Courtroom Entry Areas



Courtroom Hallway Area



Additional Office Build-Out

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## U.S. CORRECTIONAL FACILITY INDUSTRY MARKET OVERVIEW

Two of the subject facilities are detention facilities. The market orientation of these facilities is unique as special use, or single use properties. This is a unique highest and best that is often attributable to public facilities. An overview is presented to provide a basis for this analysis.

### OVERVIEW

The U.S. Correctional Facility Industry includes privately operated minimum to maximum incarceration facilities, as well as all facilities support services, operated in the U.S. It does not include any public correctional facilities or programs. The primary services associated with the industry include the operation of the jails and prisons, parole/probation services (including, but not limited to, rehabilitation, education, addiction, employment training, recreational and work programs), and ancillary support services include private janitorial/maintenance, mail and laundry service, security and trash disposal. The majority of private prisons are found in the southern and western U.S. Some states do not have any private facilities and transport prisoners across state lines due to overcrowding in the public facilities and some states have laws in place prohibiting the use of private facilities.

Throughout the 1980s and 1990s, the industry benefitted from the rapid acceptance of governments outsourcing services to private enterprise. However, there are many who work to keep correction facilities in the public sector due to the conflict between inmate welfare and for-profit operations and the ethical dilemma of profiting from crime.

### SEGMENTATION OF SERVICES

1. Probation Services (53.4%) - Including, but not limited to, community supervision, counseling, addiction treatment, etc.
2. Prison Operation (18.3%) - State or federal facilities housing inmates serving 1+ year terms; range from minimum security unfenced work- and program-oriented facilities to maximum security highly secured prisons; most offer release, halfway house, educational, and recreational programs.
3. Parole Services (10.1%) - Monitoring and rehabilitating adults who are conditionally released into the community.
4. Jail Operation (8.9%) - Local facilities that house people for sentences of less than one year or before/after court appearances; range from providing only basic services to full-service (i.e., work release, boot camps, substance abuse, etc.).
5. Other (9.3%) - Care for inmates who are older, impacted by mental health or serious/chronic health problems, or are extremely high-risk.

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## DEMAND & SUPPLY

According to the Bureau of Justice, the private population increased from 4.5% in 2000 to 5.7% in 2011. The primary demand drivers in the corrections facility industry are crime and incarceration rates, government investment, level of outsourcing, and the yield on a 10-year treasury note. Although subject to a low level of capital intensity, this heavily regulated industry is difficult for new players to enter due to significant barriers to entry and mid-level competition. It is currently in a growth phase, has medium revenue volatility and is experiencing high levels of technological change.

The number of enterprises is projected to increase 1.1% per year to reach 26,311 in 2017. Industry revenues are increasing and were estimated at nearly \$33 billion between 2007 and 2012; this is forecast to grow by 1.4% per year to just over \$35 billion in 2017. Fueling this growth is a stable market and an increasing incarceration rate, projected to grow by less than pre-recession levels at 0.5% per year through 2017. Increased federal and state government funding for private correctional facilities and related services is also providing a boost to the industry. Due to recessionary budget constraints, governments have been unable to expand or update their own outdated facilities and are more often outsourcing to private facilities, which are more efficient due to their up-to-date designs and technology resulting in a lower daily cost per inmate. As a result of both funding and overcrowding issues, government is also resorting to more non-incarceration sentencing options, such as offender monitoring, that are also often outsourced to industry participants. Governmental appropriations are expected to increase, but at a lower 1.5% annual rate than pre-recession due to continued budget constraints and competition from other areas, including health and education. Interest rates impact the ability of industry participants to invest further in their facilities, thus their expected rise in 2013 will have a negative impact on growth.

The following is a breakdown of the regional location of correctional facilities in the U.S.:

1. Southeast (27.9%)
2. Mid-Atlantic (18.1%)
3. Southwest (13.7%)
4. West (13.6%)

Operators include a few large national companies and many small, mostly local, firms. They compete with each other through availability of beds, price, quality of facilities and services, range of services, level of experience, and overall reputation. Licensing by government agencies and accreditation by independent associations demonstrates these qualifications. All private operators face competition by government-operated facilities as well.

| KEY STATISTICS - Correctional Facility Industry |               |                            |                |             |            |             |                             |
|---|---------------|----------------------------|----------------|-------------|------------|-------------|-----------------------------|
| Year  | Revenue (\$m) | Industry Value Added (\$m) | Establishments | Enterprises | Employment | Wages (\$m) | Incarceration Rate (People) |
| 2003  | 17,325.3      | 9,384.2                    | 26,641         | 25,065      | 180,707    | 7,677.7     | 482                         |
| 2004  | 18,916.4      | 9,767.1                    | 27,917         | 26,361      | 170,609    | 7,724.1     | 486                         |
| 2005  | 21,854.1      | 10,207.2                   | 27,992         | 26,482      | 171,686    | 7,715.8     | 491                         |
| 2006  | 25,091.4      | 11,645.3                   | 29,573         | 27,138      | 190,095    | 9,286.7     | 501                         |
| 2007  | 28,697.2      | 13,814.8                   | 28,721         | 25,860      | 213,403    | 10,371.1    | 506                         |
| 2008  | 31,499.8      | 18,669.2                   | 29,703         | 25,988      | 275,017    | 13,645.0    | 504                         |
| 2009  | 31,483.7      | 16,230.2                   | 28,673         | 25,637      | 248,180    | 11,460.4    | 502                         |
| 2010  | 31,804.9      | 16,436.3                   | 26,456         | 23,620      | 219,541    | 11,252.1    | 500                         |
| 2011  | 32,307.0      | 16,525.1                   | 27,512         | 24,361      | 229,108    | 11,409.8    | 503                         |
| 2012  | 32,738.4      | 17,173.7                   | 28,220         | 24,921      | 235,162    | 11,954.7    | 509                         |
| 2013  | 32,738.4      | 17,371.6                   | 28,515         | 25,059      | 239,902    | 12,117.0    | 510                         |
| 2014  | 33,089.1      | 17,573.3                   | 28,729         | 25,200      | 244,284    | 12,226.2    | 512                         |
| 2015  | 33,849.4      | 18,424.2                   | 29,364         | 25,649      | 251,574    | 12,916.9    | 514                         |
| 2016  | 34,177.3      | 18,589.4                   | 29,472         | 25,767      | 265,375    | 12,990.8    | 517                         |
| 2017  | 35,075.7      | 19,788.9                   | 30,210         | 26,311      | 275,524    | 14,003.9    | 521                         |

Source: IBIS World

## REGULATION

The corrections industry is heavily regulated by numerous federal and state agencies, which creates a significant barrier to the entry of new industry participants. In addition, the independent American Correctional Association (ACA) sets standards, policies, and a process of accreditation of facilities or programs and training of employees. For the most part, consistent compliance, trained and/or licensed employees, and accreditation are necessary in order for a private corrections facility to bid on government contracts. Typically, government contracts include reporting requirements, supervision, onsite monitoring, and audits by representatives of the contracting agency.

## KEY SUCCESS FACTORS

1. Ability to respond to requests for government proposals
2. Maintaining facilities in good condition
3. Providing appropriate facilities with adequate technology
4. Attract local support/patronage
5. Compliance with governmental regulations

## INDUSTRY CHALLENGES

1. Not a low enough cost per inmate resulting in some states choosing to operate a public facility;
2. Challenges by various reform groups who protest the conflict between prisoner welfare and for-profit prisons;

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3. Heavy reliance on labor and high turnover due to stress and danger associated with most positions;
  4. Aging inmates putting pressure on profit margins;
  5. Expected worsening of overcrowding.

#### KEY PLAYERS

1. **American Correctional Association (ACA)** – The international trade organization serving all disciplines in the industry. They provide professional development and certification, standards and accreditation, consulting, research and publications, conferences, and technological advances. ([www.aca.org](http://www.aca.org))
2. **Corrections Corporation of America (CCA)** – Founded the private corrections industry in 1983. They specialize “in the design, construction, expansion and management of prisons, jails and detention facilities, as well as inmate transportation services through its subsidiary company, TransCor America” and partners with the Federal Bureau of Prisons, the U.S. Marshals Service, Immigration and Customs Enforcement, 16 states, 12+ municipalities, Puerto Rico and the U.S. Virgin Islands. As of 2012, CCA was the fifth largest corrections manager (behind only the federal government and three states) and the largest private manager capturing a 5.5% share of the market. They manage 60+ facilities (44 company-owned) with a total bed capacity of 90,000+ and 80,000 inmates under their supervision; their estimated revenue in 2012 was almost \$1.8 billion. ([www.cca.com](http://www.cca.com))
3. **The GEO Group, Inc.** – A real estate investment trust operating since 1984, which specializes in “the design, development, financing, and operation of correctional, detention, and community reentry facilities worldwide.” They operate 96 facilities with 72,000 beds in the U.S., U.K., Australia and South Africa, and capture an estimated 3.5% market share. Their estimated revenue in 2012 was over \$1.1 billion. ([www.geogroup.com](http://www.geogroup.com))

Primary Source: *IBISWorld Industry Report 56121: Correctional Facilities in the US* (by Anna Son, October 2012)

Additional Sources: American Correctional Association ([ACA.org](http://ACA.org))  
Corrections Corporation of America ([cca.com](http://cca.com))  
The GEO Group, Inc. ([GEOGroup.com](http://GEOGroup.com))



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## HIGHEST AND BEST USE

Highest and best use may be defined as:

the reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest fair market rent.

1. **Legally Permissible:** What uses are permitted by zoning and other legal restrictions?
2. **Physically Possible:** To what use is the site physically adaptable?
3. **Financially Feasible:** Which possible and permissible use will produce any net return to the owner of the site?
4. **Maximally Productive.** Among the feasible uses, which use will produce the highest net return, (i.e., the highest present worth)?

### Highest and Best Use - As Vacant

A portion of the subject includes six properties (168 West Alisal Street, 240 Church Street, 1422, 1410, 1420 and 1270 Natividad Road) located within the jurisdiction of the City of Salinas with a zoning designation of Public/Semipublic (PS). The purpose of the Public/Semipublic (PS) district regulations is to:

1. Allow consideration of a large public or semipublic use separately from regulations for an underlying base zoning district that may or may not be appropriate in combination with the public or semipublic use;
2. Allow consideration of establishment or expansion of a large public or semipublic use at rezoning hearings rather than at conditional use permit hearings only, and to give public notice of the extent of a site approved for a large public or semipublic use by delineating it on the zoning map;
3. Promote vital and safe public or semipublic areas through the incorporation of crime prevention through environmental design (CPTED) features in development; and
4. Allow the planning commission and city council to consider the most appropriate use of a site following discontinuance of a large public or semipublic use without the encumbrance of a base zoning district that may or may not provide appropriate regulations for reuse of the site.

The buildings range from fair to very good quality and condition, and all have good access. All utilities are available and therefore are considered physically possible. The financially feasible uses are primarily limited by the legally permissible uses in the PS zoning as discussed above. and as dictated by the existing uses. The use on 168 West Alisal Street is a County

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Administration building, 240 Church Street is a Courthouse, 1422 Natividad Road is Juvenile Administration building, 1410 Natividad Road is the Monterey County Jail, 1420 Natividad Road is the Juvenile Jail and 1270 Natividad Road is the County Health Services building. Other uses would only include other government facilities of a public or semipublic nature. Therefore, the highest and best use of the site, as vacant, is for continued use as government facilities of a public or semipublic nature. The underlying zone and physical uses of the buildings, by default, only allow for public use facilities, however, consideration is given in this analysis regarding the configuration and alternative uses of the buildings – as defined by Fair Market Rent.

The seventh property (1200 Aguajito Road, Monterey) is located within the City of Monterey jurisdiction. It has a zoning designation of R-1-15-D1. The city designates this use as a residential land use, specifically as a detached single-family residential use with a minimum of 15,000 square feet lot area and a “D1 design overlay requiring an architectural review process”.

1200 Aguajito Road is currently improved with the County Clerk office, Courthouse, Monterey County Law Library, Superior Court offices, Family Court Services, Sheriff’s Investigation Office, the Probation Department and The Health Services building. These uses are a legal, but non-conforming use.

According to the Monterey City planner, if the buildings were voluntarily demolished, they could not be re-built for the existing use. If they were involuntarily (by an act outside the control of the user or owner) demolished or damaged, they could be re-built for their current use and be allowed to continue such use until its natural end of its useful life. As such, based on its legally permissible use, the highest and best use of the site as vacant is development of single family homes per the requirements of the R-1-15-D1 zoning designation. It is beyond the scope of this appraisal to determine the number, style and type of single family development.

### Highest and Best Use as Improved

Legally possible uses of the subject site were previously discussed, in the As Vacant analysis. For the highest and best use as improved, the analysis shifts from a survey of potential uses to an evaluation of the existing improvements. We are not experts in the interpretation of complex zoning ordinances, but the subject properties appear to be within their legally allowed uses as public and semipublic use buildings for the six properties located in the City of Salinas jurisdiction. The one property located in the City of Monterey jurisdiction is a legal but non-conforming use. The special uses accommodate both private and public uses in the City of Salinas related to ancillary community uses.

The physical attributes of each building and the improvements have been previously discussed. The buildings range from fair to very good quality construction. Legal, physical, location and marketability factors support the existing uses of each building for their current use.

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## ALTERNATIVE USES AND MARKET FEASIBILITY

In addition to legal and physical considerations, analysis of the subject property "as improved" requires the treatment of two important issues: 1) consideration of alternative uses for the property; and 2) the marketability of the most probable use. In the following analysis, alternative uses are treated first, followed by marketability.

The five possible alternative treatments of the properties are demolition, expansion, renovation, conversion, and continued use "as-is". In analyzing an improved property, the five options above are evaluated considering physical, legal, financially feasible, and marketability criteria. Each of the options is discussed briefly.

**Demolition** – The existing uses of the subject properties serve a public benefit in the various uses of the buildings, including courthouses, prisons, health services facility, and the supporting administration buildings. The newer buildings, 168 W. Alisal (built 2007), 1270 Natividad (built 2011), 240 Church Street (built 1970, remodeled 2011) are in good condition and would not warrant demolition. The older buildings, 1422 Natividad (built 1970) and 1200 Aguajito (built 1970), are well maintained and would not warrant demolition. The two prisons (1410 and 1420 Natividad) were built in 1970 and the existing improvements have been moderately repaired over the years, but are nearing the end of their economic life. However, it would not be economically feasible to demolish and rebuild the prison facilities at this time, as they continue to serve their intended public purpose. Overall, based on the existing uses in the various buildings and given the economic conditions, the existing uses are not required to be demolished.

**Expansion** – As indicated earlier, the various buildings serve a public benefit in the various uses of the buildings. It was apparent from the inspections and the availability of a number of parking spaces, the existing buildings are sufficient in size to meet the demands for their particular use. As such, no benefit is perceived by expanding any of the buildings.

**Renovation** - The subject buildings were constructed from 1970 through 2011. The newer buildings, 168 W. Alisal (built 2007), 1270 Natividad (built 2011), 240 Church Street (built 1970, remodeled 2011) are in good condition and would not warrant renovation. The older buildings, 1422 Natividad (built 1970) and 1200 Aguajito (built 1970), are well maintained and would not warrant renovation. Moderate upgrades in these buildings are warranted, but are related to normal deferred maintenance. The two prison buildings (1410 and 1420 Natividad) were built in 1970 and the existing improvements have been moderately repaired over the years. On-going renovation to meet tenant/user demand is expected to keep with market acceptance and standards.

**Conversion** – The subject properties are very specialized in use. Each property's use was analyzed and alternative uses were considered. The existing uses meet the economic and

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physical conditions for the market and conversion is not required or warranted. Additionally, this is consistent with the Public/Semipublic (PS) zoning designations of the city of Salinas.

The various public community uses are considered to be necessary to meet the socio-economic needs of the city and to provide the services demanded of cities for the good of the public. These uses are a “public benefit” and provide “public value”. Conversion is not required; however it is reasonable to conclude that alternative uses for all the buildings (with the exception of the two detention facilities) are general office space. These are the predominate uses and is market acceptable. The two detention facilities have no alternative use due to their specialized building configuration and lay-out.

Overall, all of the subject buildings have a Highest and Best Use as their current use. This meets the physical, legal and financially feasible uses for the properties. This is normally defined based on the public use and public benefit. This also falls under a unique Highest and Best Use category known as Single Use and Special Use.

#### SINGLE USE

It is sometimes the case where a building is unique or highly specialized. For example, in certain communities the market may not support a property such as an industrial facility, but it may be unique. Therefore this single use is a special case of the highest and best use where its unique or the special purpose may not be consistent with the surrounding area. This is predominately the case for the two detention facilities. These are single uses that may not necessarily conform to the surrounding area, however they serve a function and purpose specific for public benefit in the Salinas area. These facilities reflect an exception to the Highest and Best Use based on their use, purpose and benefit to the public. These facilities are analyzed based on their Use, because there is no other reasonable alternative use for detention facilities.

#### SPECIAL USE

The highest and best use of a special use property is likely the continuation of its current use so long as it remains viable. For example, the highest and best use of a plant currently used for heavy manufacturing is probably continuing use for heavy manufacturing, and the highest and best use of the grain elevator is probably continued use as a grain elevator. In both cases, as long as there is sufficient market demand special uses are allowed. This is most representative of the remaining subject buildings which are used for County Administration, Health Administration and Courthouses. These are special uses within the area that I have a continued economic demand. These facilities also reflect an exception to the Highest and Best Use due to their unique function (allowing for limited alternative uses) which is different than Single Use which has no alternative use.

## FAIR MARKET RENT ANALYSIS

This report analyzed and estimated fair market rents for the seven subject properties. The properties are:

| County of Monterey Rent Survey             |                 |                   |
|--|-----------------|-------------------|
| Address                                    | Description     | Total Square Feet |
| 168 West Alisal Street<br>Salinas CA 93901 | Administration  | 134,478           |
| 240 Church Street<br>Salinas, CA 93901     | Courthouse      | 98,208            |
| 1422 Natividad Road<br>Salinas, CA 93906   | Juvenile Admin  | 17,581            |
| 1410 Natividad Road<br>Salinas, CA 93906   | Monterey Jail   | 273,800           |
| 1200 Aguajito Road,<br>Monterey, CA 93940  | Courthouse      | 88,420            |
| 1420 Natividad Road<br>Salinas, CA 93906   | Juvenile Jail   | 44,602            |
| 1270 Natividad Road<br>Salinas CA 93906    | Health Services | 43,776            |
| <b>Total</b>                               |                 | 700,865           |

### SUBJECT RENTAL ANALYSIS -- OVERVIEW

The subject properties are owned by the County of Monterey. The intended use of this analysis is to provide the County an estimate of fair market rental value for seven commercial and special purpose properties for internal due diligence. There are no existing leases on the properties. In this analysis, I provide an estimate of fair market rent for the properties based on their highest and best use analysis. This was identified as their current existing use.

This survey contains comparable leases, concessions and asking rents for properties that are comparable to the subject and that are located in proximity to the subject properties, in order to identify fair market rent for the subject. This is typical for special use properties where the underlying interest is government ownership.

The data search included three types of data; 1) General Office in the Central California area; 2) Government Only Facilities; and 3) Detention Facilities. As noted early, the detention facilities are Single Use. This is unique to the highest and best use. The remaining uses are primarily Special Use because of their Public Benefit. Therefore, comparable data was researched that

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reflected this variety of parameters. Some discussion of each comparable search is noted as follows:

### **General Office**

While the buildings in Salinas and the Monterey are considered special use due to their public benefit, with the exception of the detention facilities, all of the facilities could be used for general office. This was considered in the selection of the comparable data that was focused primarily in the central California area to support and demonstrate the rent for alternative uses while at the same time reflecting the public benefit.

### **Government Only Facilities**

An additional search was completed for leases primarily to government entities. Government users often have specific location and quality of construction requirements for the leasing of their particular space. These very unique demands often are reflected in the lease rates when the specific tenant is for public users/government. These were also analyzed and researched and are included in this report.

### **Detention Facilities**

The subject has two users which are exclusive to detention facilities. Almost universally detention facilities have been publicly maintained and publicly managed. There has been a shift in the last 10 years where the management and maintenance of public detention facilities has been outsourced. This was discussed in the Prison Overview. The search for prison leases, unique to the real estate, does not exist. A national search was conducted and with the exception of one asking lease in Barstow, California, no leases of prisons are available. However, there is good market information on the “business” of prisons which is broken down to costs per inmate per day. This was used to extract the allocation of a fair market rent to the subject detention facilities.

### **LEASE STRUCTURES**

In addition, I examined special lease provisions that differ from lease provisions for comparable enterprises. I also considered common area maintenance fees and lease terms associated with duration and the frequency and nature of rent adjustments.

Generally, there are three lease structures used in real estate. The three lease structures are Gross Lease (also known as Full Service on the West Coast), Modified Gross Lease (also known as Industrial Gross) and Net Lease (also known as Triple Net – NNN).

The terms gross lease, modified gross lease and net lease do not always mean the same thing to different people or in different markets. In general the following distinctions can be made;

1. Gross Lease – Tenant pays rent and landlord pays expenses. In this case the lease is “fully serviced” by the landlord.
2. Modified Gross Lease – tenant and landlord share expenses. This type of lease requires substantial clarification of terms and conditions regarding *who pays what*.
3. Net Lease – landlord passes on all expenses to tenant. In this case, the landlord receives a net amount (rent only). This is why this is also known as a NNN and in some cases Absolute Net.

To analyze income and expenses based on market observation, one must understand how these terms are used in the market. Furthermore, one must account for the same expenses in the analysis of the income generated by a certain type of lease. For example, there may be Lease A which is a gross lease at \$30.00 per square foot and Lease B which is a triple net lease at \$22.00 per square foot. Because the expenses are paid by the landlord in Lease A but not in Lease B, the landlord receives the same rent in either scenario. This has been considered in the reconciliation of the final rent.

### Gross Lease Overview

Under a gross lease, the landlord pays all operating expenses. Leases may contain provisions to pass through any increase in certain expenses, over a specified base amount and customarily on

| Expense Basis             |          |        |
|---------------------------|----------|--------|
| Category                  | Landlord | Tenant |
| Property Insurance        | X        |        |
| Property Taxes            | X        |        |
| Management/Administrative | X        |        |
| Repairs and Maintenance   | X        |        |
| Utilities:                |          |        |
| Water/Sewer               | X        |        |
| Refuse                    | X        |        |
| Gas                       | X        |        |
| Electric                  | X        |        |
| Reserve For Replacement   | X        |        |

a per square foot basis. The gross commercial lease is used most often in multi-tenant and single tenant office buildings, industrial and some retail properties. The landlord collects fixed rents and pays the expenses out of them. As noted, Gross leases are also known as Full Service leases. As costs increase over time, many gross and full service leases will contain escalation clauses that increase rents over time to offset tax increases and higher insurance and maintenance costs. Generally, most government agencies negotiate a gross lease structure for their leases. This table illustrates the general structure.

## Modified Gross Lease Overview

Typically, Modified Gross means the Owner or Landlord is responsible for the major expense

| Expense Basis             |          |        |
|---------------------------|----------|--------|
| Category                  | Landlord | Tenant |
| Property Insurance        | X        |        |
| Property Taxes            | X        |        |
| Management/Administrative | X        |        |
| Repairs and Maintenance   | X        | X      |
| Utilities:                |          |        |
| Water/Sewer               |          | X      |
| Refuse                    |          | X      |
| Gas                       |          | X      |
| Electric                  |          | X      |
| Reserve For Replacement   | X        |        |

items, but the tenant is responsible for their directly related expenses. Basically, the Tenant is going to directly pay for expenses directly attributable to his unit. The Owner is going to pay for all common area and exterior expenses, together with management, real estate taxes, insurance, etc. However, as the name implies, these are negotiable. This table illustrates the general structure of a Modified Gross Lease:

## Net Lease Overview

A net lease is a type of lease in which there is a provision for the tenant to pay, in addition to rent, certain costs

associated with the operation of the property such as taxes, insurance, repairs, utilities and maintenance. There are three principal types of net leases with the difference being the degree to which the tenant is responsible for operating costs. The three principal types are: net lease (N), double net (NN) and triple net (NNN). Generally, in a Net lease, the tenant typically pays for utilities, janitorial services and either property taxes or insurance, while the landlord pays for maintenance, repairs and the property taxes or insurance not covered by the tenant. In a NN lease, the tenant pays for utilities, janitorial services, property taxes and insurance while the landlord is responsible for maintenance and repairs. In a NNN lease, the leasee assumes all the operating expenses, including common area maintenance as well as both fixed and variable expense, while the landlord is responsible for structural repairs. A fourth variation is known as a

| Expense Basis             |          |        |
|---------------------------|----------|--------|
| Category                  | Landlord | Tenant |
| Property Insurance        |          | X      |
| Property Taxes            |          | X      |
| Management/Administrative |          | X      |
| Repairs and Maintenance   |          | X      |
| Utilities:                |          |        |
| Water/Sewer               |          | X      |
| Refuse                    |          | X      |
| Gas                       |          | X      |
| Electric                  |          | X      |
| Reserve For Replacement   | X        |        |



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triple net “bondable” lease where the tenant guarantees uninterrupted rental payments, even in the unlikely event of a casualty or condemnation. The benefits of owning net lease assets is that there is a good stable return and the fact that it is less management intensive. The previous page illustrates the general structure of a NNN Lease.

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## RENT COMPARABLES

In terms of comparability with respect to geography, the lease comparables selected included various classes of office buildings, industrial and warehouse buildings in the geographically comparable cities and towns in proximity to the subject properties. The comparable rental properties include gross lease, modified gross and triple net lease structures. However, standard GSA leases are based on gross or full service lease structures. The lease rates are presented on a monthly rent per square feet basis.

In the following section I present a discussion of leases. This is a presentation of comparable rent data for office space of various quality and condition for different class buildings. This discussion is followed by a presentation of additional calculations and processes used to develop fair market rents for the prison facilities. In the final discussion I present my key findings and conclusions.

### FACTORS CONSIDERED IN THE FAIR MARKET RENT ANALYSIS

**Special Use** – one of the primary drivers for selecting comparable leases is government agency leases, which tend to lease for special uses similar to the subject properties.

**Location** – is also an important consideration in selecting comparable leases, with special emphasis placed on proximity to the subject properties and those that offer similar socio-economic characteristics similar to the subject properties. Specific Location was also considered which allows for consideration of access, proximity to freeways, and proximity to support services.

**Parking** – the ability to provide or have access to parking is significant because it provides the tenants and their client’s convenience in conducting their business transactions.

**Expense Structure** – also important is a comparison of the individual comparables and expense structure. This considers common area maintenance fees, parking fees, annual maintenance fees, and general expense structures.

I surveyed 15 existing current leases and seven vacant for lease properties. Of the 15 existing current leases, 12 are GSA leases. The properties are located in nearby and comparable Salinas, San Jose, Santa Cruz, Campbell, Santa Clara, Gilroy, Monterey and Morgan Hill.

On the following page is a summary table of all the rent comparables utilized for the various property types included in this analysis, except for the two prison facilities, which will be discussed later. The summary table is followed by detail pages for each of the rent comparables.

## RENT COMPARABLE SUMMARY

| RENT COMPARABLES                         |                |                |         |                |                |
|--|----------------|----------------|---------|----------------|----------------|
| Address                                  | Lease Start    | Lease End      | SF      | Base \$/SF/Mo. | Expense Terms  |
| 55 S. Market Strteet<br>San Jose, CA     | 3/1/1998       | 5/31/2014      | 116,207 | \$2.19         | Gross          |
| 100 East Alvin Drive<br>Salinas, CA      | 11/1/2005      | 10/31/2020     | 79,700  | \$3.54         | Gross          |
| 1887 Monterey Road<br>San Jose, CA       | 12/31/1997     | 12/31/2013     | 60,501  | \$2.22         | Gross          |
| 150 Almaden Blvd.<br>San Jose, CA        | 11/1/2012      | 10/31/2022     | 24,120  | \$2.83         | Gross          |
| 2500 Fontaine Road<br>San Jose, CA       | 12/8/2005      | 12/7/2020      | 19,400  | \$3.85         | Gross          |
| 928 East Blanco Road<br>Salinas, CA      | 11/7/2006      | 11/6/2021      | 19,025  | \$2.79         | Gross          |
| 2801 Mission Street<br>Santa Cruz, CA    | 7/1/2011       | 6/30/2022      | 61,630  | \$2.30         | Gross          |
| 1919 South Bascom Avenue<br>Campbell, CA | 9/22/2006      | 9/21/2016      | 42,446  | \$3.28         | Gross          |
| 2801 Mission Street<br>Santa Cruz, CA    | 11/4/2006      | 11/3/2021      | 16,718  | \$3.14         | Gross          |
| 55 S. Market Street<br>San Jose, CA      | 4/14/2011      | 4/13/2021      | 14,105  | \$2.55         | Gross          |
| 6140 Cottle Road<br>Santa Clara, CA      | 3/1/2011       | 2/28/2026      | 9,668   | \$1.52         | Gross          |
| 150 Almaden Blvd.<br>San Jose, CA        | 1/25/2012      | 1/24/2027      | 16,428  | \$3.90         | Gross          |
| 9015 Murray Avenue<br>Gilroy, CA         | 1/1/2013       | 1/1/2023       | 34,000  | \$1.08         | Gross          |
| 1880 N. Main Street<br>Salinas, CA       | Active Listing | Active Listing | 6,717   | \$1.25         | Triple Net     |
| 3001 Orchard Parkway<br>San Jose, CA     | Active Listing | Active Listing | 97,840  | \$1.55         | Triple Net     |
| 2801 Scott Blvd<br>Santa Clara, CA       | Active Listing | Active Listing | 47,136  | \$1.55         | Triple Net     |
| 1080 E. Brokaw Road<br>San Jose, CA      | Active Listing | Active Listing | 63,802  | \$1.29         | Triple Net     |
| 18715 Madrone Parkway<br>Morgan Hill, CA | Active Listing | Active Listing | 40,000  | \$0.95         | Triple Net     |
| 950 Blanco Road, East<br>Salinas, CA     | Active Listing | Active Listing | 51,624  | \$1.55         | Triple Net     |
| 2511 Garden Road, Bldg A<br>Monterey, CA | Active Listing | Active Listing | 20,464  | \$2.00         | Modified Gross |
| 118 West Gabilan Street<br>Salinas, CA   | 12/1/2010      | 1/31/2016      | 5,781   | \$1.12         | Modified Gross |
| 3055 Cleveland Avenue<br>Santa Rosa, CA  | 4/1/2009       | 3/31/2019      | 36,550  | \$2.00         | Modified Gross |

# RENT COMPARABLES LOCATION MAPS





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**55 S. Market Street, San Jose, CA:** This is a good quality and good condition steel frame and glass exterior office building. The building has underground parking. The major tenant is the Internal Revenue Service. The property is located in the San Jose Central Business District.

This lease comparable has a lease commencement date of March 1, 1998 and termination date of May 31, 2014. The gross lease area is 116,207 square feet and the monthly lease rate is \$2.19 per square foot, on a gross lease basis.



**100 East Alvin Drive, Salinas, CA:** This is a lease in Heald College. It has a campus setting with one and two-story frame and stucco buildings, and a tile roof. It is of average quality and condition. The offices are a garden style structure. There is good on-site parking.

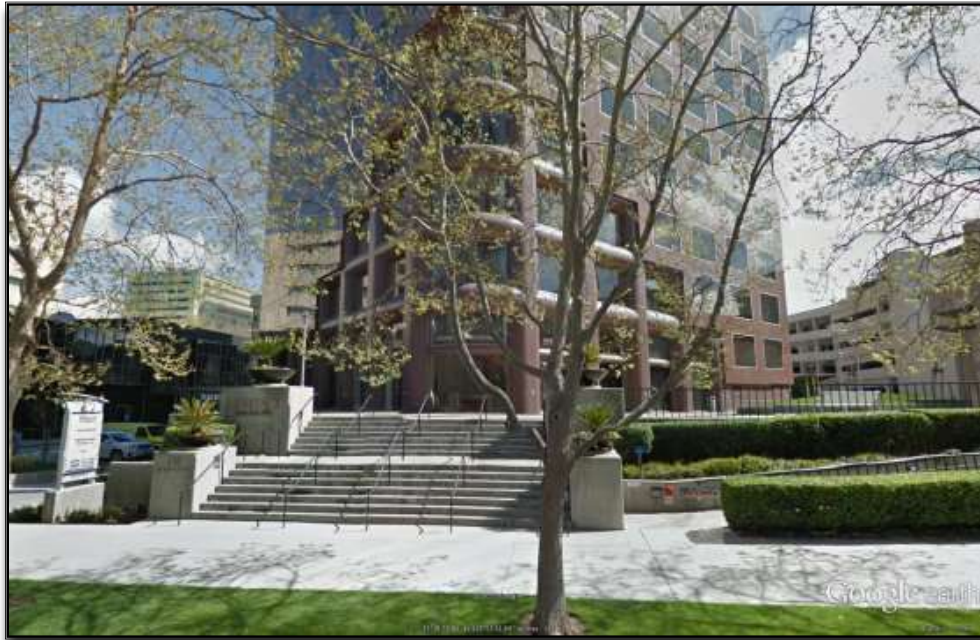
This lease commenced on November 1, 2005 and ends on October 31, 2020. The gross area for this lease is 79,700 square feet and the monthly lease rate is \$3.54 per square foot on a gross lease basis.



**1887 Monterey Road, San Jose, CA:** This is a two-story concrete tilt-up building of average quality and condition. It has adequate on-site parking and limited exposure, but good access. It is occupied by the U.S. Department of Homeland Security, Gold's Gym and US Healthcare. The location is a combination of low-end retail, heavy industrial and recycling yards.

The lease commenced on December 31, 1997 and has a termination date of December 31, 2013. The gross area for this lease is 60,501 square feet and the monthly lease rate is \$2.22 per square foot on a gross lease basis.





**150 Almaden Boulevard, San Jose, CA:** This building is in the project known as City View Plaza. It is a 15-story office building constructed of a steel structure with a slate and glass exterior. It offers underground parking. It is adjacent to the Superior Court Family Division building. It is located in the center of the San Jose Central Business District.

The lease commenced on November 1, 2012 and has a termination date of October 31, 2022. The gross area for this lease is 24,120 square feet and the monthly lease rate is \$2.83 per square foot on a gross lease basis.



**2500 Fontaine Road, San Jose, CA:** This is a good quality and good condition one-story freestanding office building with good exposure from Interstate 101 and average access. It is a wood frame building with stucco exterior. There is adequate on-site parking.

The lease commenced on December 8, 2005 and has a termination date of December 7, 2020. The gross area for this lease is 19,400 square feet and the monthly lease rate is \$3.85 per square foot on a gross lease basis.



**928 East Blanco Road, Salinas, CA:** This is a Class-A office building of aggregate concrete construction. It is of good quality and is in good condition. There is adequate on-site parking.

The lease commenced on November 7, 2006 and has a termination date of November 6, 2021. The gross area for this lease is 19,025 square feet and the monthly lease rate is \$2.79 per square foot on a gross lease basis.



**2801 Mission Street, Santa Cruz, CA:** Per Mr. William Ow of Ow Properties (Leasing Agent), this space is occupied by USGS Marine Division. The property is located in University Business Park on the west side of Santa Cruz. It is a one-story, 385,000 square foot industrial, office and warehouse building with easy access to Hwy 1 and 17. It is configured as office, manufacturing and warehousing space with multiple loading docks and ramp access. Currently, approximately 220,000 square feet of high quality finished office space, warehouse, research and design and manufacturing space in a shell condition to finished space is available for lease starting at \$0.75/SF to \$1.50 per square foot per month.

The gross area for this lease is 61,630 square feet and the monthly lease rate is \$2.30 per square foot on a gross lease basis. The lease commenced on July 1, 2011 and has a termination date of June 30, 2022.



**1919 South Bascom Avenue, Campbell, CA:** Located in office plaza known as Pruneyard Plaza is this six-story steel structure office building with glass front and concrete aggregate accents, built in 1999. It has a total of 120,000 square feet and it is of good quality and condition. It has good freeway exposure from Highway 17, but difficult access. The parking ratio is 3.5/1000 with four dedicated parking garages. The building has a common conference center and a fitness center, on-site hotel, restaurant, retail, professional services and entertainment.

The gross area for this lease is 42,446 square feet and the monthly lease rate is \$3.28 per square foot on a gross lease basis. The lease commenced on September 22, 2006 and has a termination date of September 21, 2016.



**2801 Mission Street, Santa Cruz, CA:** This property is located in the University Business Park in the Westside of Santa Cruz. It is a one-story, 385,000 square foot industrial, office and warehouse building with easy access to Hwy 1 and 17. It is configured as office, manufacturing and warehousing space with multiple loading docks and ramp access. Currently, approximately 220,000 square feet of high quality finished office space, warehouse, research and design and manufacturing space in a shell condition to finished space is available for lease starting at \$0.75 per square foot to \$1.50 per square foot per month.

The gross area for this lease is 16,718 square feet and the monthly lease rate is \$3.14 per square foot on a gross lease basis. The lease commenced on November 4, 2006 and has a termination date of November 3, 2021.



**55 South Market Street, San Jose, CA:** This is a good quality and good condition steel frame and glass exterior office building. The building has underground parking. The major tenant is the Internal Revenue Service. It is located in the San Jose Central Business District.

The gross area for this lease is 14,105 square feet and the monthly lease rate is \$2.55 per square feet on a gross lease basis. The lease commenced on April 14, 2011 and has a termination date of April 13, 2021.



**6140 Cottle Road, Santa Clara, CA:** This is a two-story freestanding building with frame construction and stucco exterior with a tile mansard roof. It is of good quality and condition. There is adequate on-site parking and it is located in a suburban setting.

The gross area for this lease is 9,668 square feet and the monthly lease rate is \$1.52 per square foot on a gross lease basis. The lease commenced on March 1, 2011 and has a termination date of February 28, 2026.





**150 Almaden Blvd, San Jose, CA:** This building is in the project known as City View Plaza. It is a 15-story office building constructed of a steel structure with a slate and glass exterior and offers underground parking. It is adjacent to the Superior Court Family Division building. It is located in the center of the San Jose Central Business District.

The gross area for this lease is 16,428 square feet and the monthly lease rate is \$3.90 per square foot on a gross lease basis. The lease commenced on January 25, 2012 and has a termination date of January 24, 2027.



**9015 Murray Avenue, Gilroy, CA:** This two-story tilt-up building is of average quality and average condition. It is steel frame construction with stucco exterior, built in 2002. The building is serviced by an elevator. It is configured as office space with a total of 54,432 square feet. This is a recent 10-year term gross lease for 34,000 square feet to Community Solutions at a rate of \$1.08 per square foot per month. Additionally, an existing tenant, Diversified Insurance, recently added 3,000 square feet to their existing lease at \$0.85 per square foot. The property is located at the edge of town, in an agricultural area similar to the subject.

The gross area for this lease is 34,000 square feet and the monthly lease rate is \$1.08 per square feet on a gross lease basis. The lease commenced on January 1, 2013 and has a termination date of January 1, 2023.



**1880 N. Main Street, Salinas, CA:** This is a well maintained three story brick and glass office building in North Salinas with a 4/1000 parking ratio and good exposure. It is offered for lease with a NNN rent structure, with estimated NNN fees of \$0.58/SF.

This is an active listing for a gross lease area of 6,717 square feet. The monthly asking lease rate is \$1.25 per square foot on a triple net basis.



**3001 Orchard Parkway, San Jose, CA:** This is a two story concrete and glass research & development building, configured as office space and labs. The first floor contains 68,778 square feet and the second floor has 29,062 square feet.

This is an active listing for a gross lease area of 97,840 square feet. The monthly asking lease rate is \$1.55 per square foot on a triple net basis.



**2801 Scott Blvd, Santa Clara, CA:** This is located in a multi-building campus known as Central Campus. The listing is in a single story office building of good quality and condition, built in 1992 and available for lease on a NNN lease structure. It has a parking ratio of 3.33/1000.

This is an active listing for a gross lease area of 47,136 square feet. The monthly asking lease rate is \$1.55 per square foot on a triple net basis. NNN expenses are \$0.25 plus 3.75% of the gross monthly rent.



**1080 E. Brokaw Road, San Jose, CA:** This is a good quality and good condition building, with steel frame construction and brick and stucco exterior. It is a two-story garden style research & development/office building configured as an office with conference and trade rooms in a total of 130,000 square feet. Access and exposure is adequate and it is located in suburban San Jose.

This is an active listing for a gross lease area of 63,802 square feet. The monthly asking lease rate is \$1.29 per square foot on a triple net basis.



**18715 Madrone Parkway, Morgan Hill, CA:** This is a two-story concrete and glass tilt up research & development office building, built in 2001 and of good condition and good quality. It is configured as office space and labs. Available space can be combined with 52,476 square feet of available space in the adjacent 120,000 square foot building.

This is an active listing for a gross lease area of 40,000 square feet. The monthly asking lease rate is \$0.95 per square foot on a triple net basis.



**950 Blanco Road, East, Salinas, CA:** The Cornerstone office building is a two-story stone and stucco building of good quality and condition built in 2001. It contains a total of 51,624 square feet. It has a flexible floor plan for a variety of office configurations. The 1st floor was previously occupied by an upscale fast-food restaurant.

This is an active listing for a gross lease area of 51,624 square feet. The monthly asking lease rate is \$1.55 per square foot on a triple net basis.





**2511 Garden Road, Bldg. A, Monterey, CA:** The Garden Place office building is an average quality and condition two story frame, stucco, and wood building built in 1985. It contains a total of 50,710 square feet. A total of 20,464 square feet is available for sublease in two suites. The tenant is responsible for PG&E expenses and janitorial costs. The building has views to the north and it is located near the Monterey airport.

This is an active listing for a gross lease area of 20,464 square feet. The monthly asking lease rate is \$2.00 per square foot on a modified gross basis.



**118 West Gabilan Street, Salinas, CA:** This is a lease between Courthouse Square (Landlord) and Administrative Office of the Courts (Tenant). This is a gross lease, where Landlord pays taxes, insurance, common area maintenance. The tenant pays all utilities and has one 1-year option to extend with a 1.0% rent increase.

The gross area for this lease is 5,781 square feet and the monthly lease rate is \$1.12 per square foot on a gross lease basis. The lease commenced on December 1, 2010 and has a termination date of January 31, 2016.



**3055 Cleveland Avenue, Santa Rosa, CA:** This is a lease between Vimark, Inc. (Landlord) and Administrative Office of the Courts (Tenant). The lease included 3-months free rent and there are annual escalations based on a set schedule. The landlord pays custodial services, water, sewer, refuse collection, property insurance and real estate taxes. There are two 5-year renewal options, and the tenant has first right of refusal to extend beyond the original or extended lease term.

The gross area for this lease is 36,550 square feet and the monthly lease rate is \$2.00 per square foot on a gross lease basis. The lease commenced on April 1, 2009 and has a termination date of March 31, 2019.

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## COMPARATIVE ANALYSIS

For the analysis of fair market rents for the subject properties, I analyzed a total of twenty-two rent comparables located in proximity to the subject properties or in comparable locations.

The rent comparables varied by quality, condition, location, lease structures, and included 15 existing leases and seven active properties listed for lease. I have classified the subject and rent comparables into Class A, B, C, and Jail. Class A represents the highest quality and condition as recognized in the market. Class B is good quality and condition and Class C is average quality and condition. The detention centers are analyzed separately.

| Building Class Designation       |       |
|----------------------------------|-------|
| Location                         | Class |
| 1270 Natividad Road, Salinas, CA | A     |
| 1420 Natividad Road, Salinas, CA | Jail  |
| 1422 Natividad Road, Salinas, CA | C     |
| 1410 Natividad Road, Salinas, CA | Jail  |
| 240 Church Street, Salinas, CA   | A     |
| 168 West Aisal Street, Salinas,  | A     |
| 1200 Aguajito Road, Monterey, CA | B     |

I have included a summary of all 22 rent comparables on the next page.

| RENT COMPARABLES                         |                |                |         |                |                |
|--|----------------|----------------|---------|----------------|----------------|
| Address                                  | Lease Start    | Lease End      | SF      | Base \$/SF/Mo. | Expense Terms  |
| 55 S. Market Strteet<br>San Jose, CA     | 3/1/1998       | 5/31/2014      | 116,207 | \$2.19         | Gross          |
| 100 East Alvin Drive<br>Salinas, CA      | 11/1/2005      | 10/31/2020     | 79,700  | \$3.54         | Gross          |
| 1887 Monterey Road<br>San Jose, CA       | 12/31/1997     | 12/31/2013     | 60,501  | \$2.22         | Gross          |
| 150 Almaden Blvd.<br>San Jose, CA        | 11/1/2012      | 10/31/2022     | 24,120  | \$2.83         | Gross          |
| 2500 Fontaine Road<br>San Jose, CA       | 12/8/2005      | 12/7/2020      | 19,400  | \$3.85         | Gross          |
| 928 East Blanco Road<br>Salinas, CA      | 11/7/2006      | 11/6/2021      | 19,025  | \$2.79         | Gross          |
| 2801 Mission Street<br>Santa Cruz, CA    | 7/1/2011       | 6/30/2022      | 61,630  | \$2.30         | Gross          |
| 1919 South Bascom Avenue<br>Campbell, CA | 9/22/2006      | 9/21/2016      | 42,446  | \$3.28         | Gross          |
| 2801 Mission Street<br>Santa Cruz, CA    | 11/4/2006      | 11/3/2021      | 16,718  | \$3.14         | Gross          |
| 55 S. Market Street<br>San Jose, CA      | 4/14/2011      | 4/13/2021      | 14,105  | \$2.55         | Gross          |
| 6140 Cottle Road<br>Santa Clara, CA      | 3/1/2011       | 2/28/2026      | 9,668   | \$1.52         | Gross          |
| 150 Almaden Blvd.<br>San Jose, CA        | 1/25/2012      | 1/24/2027      | 16,428  | \$3.90         | Gross          |
| 9015 Murray Avenue<br>Gilroy, CA         | 1/1/2013       | 1/1/2023       | 34,000  | \$1.08         | Gross          |
| 1880 N. Main Street<br>Salinas, CA       | Active Listing | Active Listing | 6,717   | \$1.25         | Triple Net     |
| 3001 Orchard Parkway<br>San Jose, CA     | Active Listing | Active Listing | 97,840  | \$1.55         | Triple Net     |
| 2801 Scott Blvd<br>Santa Clara, CA       | Active Listing | Active Listing | 47,136  | \$1.55         | Triple Net     |
| 1080 E. Brokaw Road<br>San Jose, CA      | Active Listing | Active Listing | 63,802  | \$1.29         | Triple Net     |
| 18715 Madrone Parkway<br>Morgan Hill, CA | Active Listing | Active Listing | 40,000  | \$0.95         | Triple Net     |
| 950 Blanco Road, East<br>Salinas, CA     | Active Listing | Active Listing | 51,624  | \$1.55         | Triple Net     |
| 2511 Garden Road, Bldg A<br>Monterey, CA | Active Listing | Active Listing | 20,464  | \$2.00         | Modified Gross |
| 118 West Gabilan Street<br>Salinas, CA   | 12/1/2010      | 1/31/2016      | 5,781   | \$1.12         | Modified Gross |
| 3055 Cleveland Avenue<br>Santa Rosa, CA  | 4/1/2009       | 3/31/2019      | 36,550  | \$2.00         | Modified Gross |

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## FAIR MARKET RENTS – COMPARATIVE ANALYSIS – CLASS A

To establish a fair market rent for the subject properties, I evaluated the rent comparables and established the Class of the comparable property as Class A, Class B or Class C, based on the quality of construction, the finish grade and quality, and the amenities offered in the property. I then compared those rent comparables to the subject properties based on the class level established for each of the subject properties (i.e. Class A, B or C).

Eight of the 22 rent comparables were classified as Class A properties and used to compare to the subject Class A properties. Of the eight Class A rent comparables, one is an active listing of A for-lease rent comparable, and seven are actual leased spaces. A summary of final reconciled rents are shown as follows. Details of the comparables and analysis follows:

| FAIR MARKET RENTS                   |       |                              |                   |                 |                   |                    |
|-------------------------------------|-------|------------------------------|-------------------|-----------------|-------------------|--------------------|
| Location                            | Class | Identification / Description | Lease \$/SF Month | Lease Structure | Total Square Feet | Total Monthly Rent |
| 1270 Natividad Road, Salinas, CA    | A     | Health Services              | \$2.10            | Gross           | 43,776            | \$91,930           |
| 240 Church Street, Salinas, CA      | A     | Courthouse                   | \$2.25            | Gross           | 98,208            | \$220,968          |
| 168 West Alisal Street, Salinas, CA | A     | Administration               | \$1.90            | Gross           | 134,478           | \$255,508          |

The detail of the rent comparables follows on the next page;

| CLASS A - RENT SUMMARY                   |                |                |         |                |                |   |
|--|----------------|----------------|---------|----------------|----------------|---|
| Address                                  | Lease Start    | Lease End      | SF      | Base \$/SF/Mo. | Expense Terms  | Comments  |
| 55 S. Market Street<br>San Jose, CA      | 3/1/1998       | 5/31/2014      | 116,207 | \$2.19         | Gross          | This is a good quality and good condition steel frame, with glass exterior office building. There is underground parking. The major tenant is the IRS. It is located in San Jose Central  |
| 150 Almaden Blvd.<br>San Jose, CA        | 11/1/2012      | 10/31/2022     | 24,120  | \$2.83         | Gross          | This building is in the project known as City View Plaza. It is a 15-story office building constructed of a steel structure with a slate and glass exterior and offers underground parking. It is adjacent to the Superior Court Family Division building. It is located in the center of the San Jose Central Business District.   |
| 928 East Blanco Road<br>Salinas, CA      | 11/7/2006      | 11/6/2021      | 19,025  | \$2.79         | Gross          | This is an office building of Aggregate concrete construction. It is of good quality and in good condition. There is adequate on-site parking   |
| 1919 South Bascom Avenue<br>Campbell, CA | 9/22/2006      | 9/21/2016      | 42,446  | \$3.28         | Gross          | Located in office plaza known as Pruneyard Plaza, is this six-story steel structure with glass front and concrete aggregate accents office building, built in 1999. It has a total of 120,000 SF and it is of good quality and condition. Good freeway exposure from Highway 17, but difficult access. 3.5/1000 parking ratio with four dedicated parking garages. Common conference center and fitness center. On-site hotel, restaurant, retail, professional services and entertainment. |
| 55 S. Market Street<br>San Jose, CA      | 4/14/2011      | 4/13/2021      | 14,105  | \$2.55         | Gross          | This is a good quality and good condition steel frame, with glass exterior office building. There is underground parking. The major tenant is the IRS. It is located in San Jose Central Business District.   |
| 150 Almaden Blvd.<br>San Jose, CA        | 1/25/2012      | 1/24/2027      | 16,428  | \$3.90         | Gross          | This building is in the project known as City View Plaza. It is a 15-story office building constructed of a steel structure with a slate and glass exterior and offers underground parking. It is adjacent to the Superior Court Family Division building. It is located in the center of the San Jose Central Business District.   |
| 950 Blanco Road, East<br>Salinas, CA     | Active Listing | Active Listing | 51,624  | \$1.55         | Triple Net     | The Cornerstone office building is a stone and stucco good quality and condition, two-story building built in 2001 and contains a total of 51,624 SF. It has a flexible floor plan for a variety of office configurations. 1st floor was previously occupied by an upscale fast-food restaurant.  |
| 3055 Cleveland Avenue<br>Santa Rosa, CA  | 4/1/2009       | 3/31/2019      | 36,550  | \$2.00         | Modified Gross | This is a lease between Vimark, Inc. (Landlord) and Administrative Office of the Courts (Tenant). The lease included 3-months free rent and there are annual escalations based on a set schedule. Landlord pays custodial services, water, sewer, refuse collection, property insurance and real estate taxes. There are two 5-year renewal options, plus tenant has first right of refusal to extend beyond the original or extended lease term.   |

#### CLASS A RENT RECONCILIATION

Of the eight rent comparables, eight were used to compare to 1270 Natividad, 240 Church and 168 West Alisal. Adjustments were based between gross and triple net leases, as well as location, quality and size. These are the most relevant market characteristics for the subject building.

A summary of the adjustments is as follows:

| CLASS A RENT COMPARISON                  |                |                |         |                |                |                  |           |                   |           |               |  |
|--|----------------|----------------|---------|----------------|----------------|------------------|-----------|-------------------|-----------|---------------|--|
| Address                                  | Lease Start    | Lease End      | SF      | Base \$/SF/Mo. | Expense Terms  | Lease Adjustment | Location  | Quality/Condition | Size      | Adjusted Rent |  |
| 55 S. Market Street<br>San Jose, CA      | 3/1/1998       | 5/31/2014      | 116,207 | \$2.19         | Gross          | \$ 0.50          | \$ (0.50) | \$ -              | \$ -      | \$2.19        |  |
| 150 Almaden Blvd.<br>San Jose, CA        | 11/1/2012      | 10/31/2022     | 24,120  | \$2.83         | Gross          | \$ -             | \$ (0.50) | \$ -              | \$ (0.35) | \$1.98        |  |
| 928 East Blanco Road<br>Salinas, CA      | 11/7/2006      | 11/6/2021      | 19,025  | \$2.79         | Gross          | \$ -             | \$ -      | \$ -              | \$ (0.50) | \$2.29        |  |
| 1919 South Bascom Avenue<br>Campbell, CA | 9/22/2006      | 9/21/2016      | 42,446  | \$3.28         | Gross          | \$ (1.00)        | \$ (0.50) | \$ -              | \$ -      | \$2.28        |  |
| 55 S. Market Street<br>San Jose, CA      | 4/14/2011      | 4/13/2021      | 14,105  | \$2.55         | Gross          | \$ 0.50          | \$ (0.50) | \$ -              | \$ (0.35) | \$2.20        |  |
| 150 Almaden Blvd.<br>San Jose, CA        | 1/25/2012      | 1/24/2027      | 16,428  | \$3.90         | Gross          | \$ (1.00)        | \$ (0.50) | \$ -              | \$ (0.35) | \$2.05        |  |
| 950 Blanco Road, East<br>Salinas, CA     | Active Listing | Active Listing | 51,624  | \$1.55         | Triple Net     | \$ 0.60          | \$ -      | \$ -              | \$ -      | \$2.15        |  |
| 3055 Cleveland Avenue<br>Santa Rosa, CA  | 4/1/2009       | 3/31/2019      | 36,550  | \$2.00         | Modified Gross | \$ 0.30          | \$ -      | \$ -              | \$ -      | \$2.30        |  |

The reconciled rent for buildings ranged from \$1.90 to \$2.25 per square foot per month on a gross expense basis. This is well supported by the range of adjusted rents which was from \$1.98 to \$2.30 per square foot. 1270 Natividad was reconciled at \$2.10 per square foot based on its slightly smaller size and newer condition and quality. 240 Church was reconciled at \$2.25 per square foot based on its larger size, but is compensated by its highly improved space and quality which function as a courthouse. This was discussed in the Highest and Best Use as an exception as a Special Use. 168 West Alisal was reconciled at \$1.90 per square foot, which is the largest of the facilities and would support a rent at the lower end of the range.

#### FAIR MARKET RENTS – COMPARATIVE ANALYSIS – CLASS B AND CLASS C

As indicated earlier, to establish a fair market rent for the subject properties, I evaluated the rent comparables and established the Class of the comparable property as either Class A, Class B or Class C, based on the quality of construction, the finish grade and quality, and the amenities offered in the property. I then compared those rent comparables to the subject properties based on the class level established for each of the subject properties (i.e. Class A, B or C).

Fourteen of the 22 rent comparables were classified as Class B or Class C properties and used to compare to the subject Class B and C properties. Of the 14 Class B or Class C rent comparables,



seven are active listings of for lease rent comparables and seven are actual leased spaces. The details of the rent comparables follows on the next page.

I then completed an adjustment comparison for the relevant comparable data to the appropriate Class in which the subject building is represented. Discussion of the comparison is summarized.

The following table summarizes the estimated fair market rents for the subject Class B and Class C properties;

| FAIR MARKET RENTS                |       |                              |                   |                 |                   |                    |
|----------------------------------|-------|------------------------------|-------------------|-----------------|-------------------|--------------------|
| Location                         | Class | Identification / Description | Lease \$/SF Month | Lease Structure | Total Square Feet | Total Monthly Rent |
| 1200 Aguajito Road, Monterey, CA | B     | Courthouse                   | \$2.25            | Gross           | 88,420            | \$198,945          |

| FAIR MARKET RENTS                |       |                              |                   |                 |                   |              |
|----------------------------------|-------|------------------------------|-------------------|-----------------|-------------------|--------------|
| Location                         | Class | Identification / Description | Lease \$/SF Month | Lease Structure | Total Square Feet | Monthly Rent |
| 1422 Natividad Road, Salinas, CA | C     | Juvenile Administration      | \$1.30            | Gross           | 17,581            | \$22,855     |

**CLASS B AND C - RENT SUMMARY**

| Address                                   | Lease Start    | Lease End      | SF     | Base \$/SF/Mo. | Expense Terms  | Comments  |
|---|----------------|----------------|--------|----------------|----------------|---|
| 100 East Alvin Drive<br>Salinas, CA       | 11/1/2005      | 10/31/2020     | 79,700 | \$3.54         | Gross          | This is Heald College. It has a campus setting with one and two-story frame and stucco buildings. It is of average quality and condition. The offices are garden style structure. It has a tile roof and good on-site parking.  |
| 1887 Monterey Road<br>San Jose, CA        | 12/31/1997     | 12/31/2013     | 60,501 | \$2.22         | Gross          | This is a two-story concrete tilt-up building of average quality and condition. It has adequate on-site parking and limited exposure, but good access. It is occupied by US Department of Homeland Security, Gold's Gym and US Healthcare. The location is a combination of low-end retail, heavy industrial and recycling yards.   |
| 2500 Fontaine Road<br>San Jose, CA        | 12/8/2005      | 12/7/2020      | 19,400 | \$3.85         | Gross          | This is a good quality and good condition one-story freestanding office building with good exposure from Interstate 101 and average access. It is a wood frame building with stucco exterior. There is adequate on-site parking.  |
| 2801 Mission Street<br>Santa Cruz, CA     | 7/1/2011       | 6/30/2022      | 61,630 | \$2.30         | Gross          | This is the former Wrigley Building, a two-story, 385,000 SF industrial, office and warehouse building with easy access to Hwy 1 and 17. It is configured as 240,000 SF of office, manufacturing and warehousing space with multiple loading docks and ramp access. Per Mr. William Ow of Ow Properties (Leasing Agent), this space is occupied by USGS Marine Division.  |
| 2801 Mission Street<br>Santa Cruz, CA     | 11/4/2006      | 11/3/2021      | 16,718 | \$3.14         | Gross          | This is located in the University Business Park, a one-story, 385,000 SF industrial, office and warehouse building with easy access to Hwy 1 and 17. It is configured as 240,000 SF of office, manufacturing and warehousing space with multiple loading docks and ramp access.   |
| 6140 Cottle Road<br>Santa Clara, CA       | 3/1/2011       | 2/28/2026      | 9,668  | \$1.52         | Gross          | This is a two-story freestanding building with frame construction, and stucco exterior with a tile mansard roof. It is of good quality and condition. There is adequate on-site parking and located in a suburban setting.  |
| 9015 Murray Avenue<br>Gilroy, CA          | Active Listing | Active Listing | 10,600 | \$1.08         | Gross          | Good quality and condition steel frame construction with stucco exterior two-story, elevator tilt-up building, built in 2002. It is configured as office space with a total of 54,432 SF. This is a recent lease to Community Solutions. The existing tenant, Diversified Insurance recently added 3,000 square feet to their existing lease at \$0.85 per square feet. The property is located at the edge of town, in an agricultural area. |
| 1880 N. Main Street<br>Salinas, CA        | Active Listing | Active Listing | 6,717  | \$1.25         | Triple Net     | Well maintained three story brick and glass office building in North Salinas with a 4/1000 parking ratio and good exposure. Offered for lease with a NNN rent structure and estimated NNN fees of \$0.58/SF   |
| 3001 Orchard Parkway<br>San Jose, CA      | Active Listing | Active Listing | 97,840 | \$1.55         | Triple Net     | Two story concrete and glass research & development building, configured as office space and labs. First floor contains 68,778 SF and second floor is 29,062 SF.  |
| 2801 Scott Blvd<br>Santa Clara, CA        | Active Listing | Active Listing | 47,136 | \$1.55         | Triple Net     | This is located in a multi-building campus known as Central Campus. The listing is in a single story office building of good quality and condition, built in 1992 and available for lease on a NNN lease structure. NNN expenses are \$0.25 plus 3.75% of the gross monthly rent. Parking ratio of 3.33/1000 SF.  |
| 1080 E. Brokaw Road<br>San Jose, CA       | Active Listing | Active Listing | 63,802 | \$1.29         | Triple Net     | Good quality and condition with steel frame construction and brick and stucco exterior. Two-story garden style research & development/office building configured as office, conference and trade rooms in a total of 130,000 SF. Access and exposure is adequate and it is located in suburban San Jose.  |
| 18715 Madrone Parkway<br>Morgan Hill, CA  | Active Listing | Active Listing | 40,000 | \$0.95         | Triple Net     | Two story concrete and glass tilt up research & development/office building, built in 2001 in good condition and of good quality. It is configured as office space and labs. Available space can be combined with 52,476 SF available space in the adjacent 120,000 SF building.  |
| 2511 Garden Road, Bldg. A<br>Monterey, CA | Active Listing | Active Listing | 20,464 | \$2.00         | Modified Gross | Garden Place office building is an average quality and condition two story frame, stucco, and wood building built in 1985. It contains a total of 50,710 SF. A total of 20,464 SF is available for sublease in two suites. Tenant is responsible for PG&E expenses and janitorial costs. Building has views to the north and it is located near the Monterey airport.   |
| 118 West Gabilan Street<br>Salinas, CA    | 12/1/2010      | 1/31/2016      | 5,781  | \$1.12         | Gross          | This is a lease between Courthouse Square (Landlord) and Administrative Office of the Courts (Tenant). This is a gross lease, where Landlord pays taxes, insurance, common area maintenance. Tenant pays all utilities. Tenant has one 1-year option to extend with a 1.0% rent increase.   |

## CLASS B RENT RECONCILIATION

Of the 14 rent comparables nine were used to compare to 1200 Aguajito. Adjustments were based between gross and triple net leases, as well as location, quality and size. These are the most relevant market characteristics for the subject building.

A summary of the adjustments is as follows:

| CLASS B RENT COMPARISON                   |                |            |        |                |                |                  |          |                   |           |               |
|---|----------------|------------|--------|----------------|----------------|------------------|----------|-------------------|-----------|---------------|
| Address                                   | Lease Start    | Lease End  | SF     | Base \$/SF/Mo. | Expense Terms  | Lease Adjustment | Location | Quality/Condition | Size      | Adjusted Rent |
| 100 East Alvin Drive<br>Salinas, CA       | 11/1/2005      | 10/31/2020 | 79,700 | \$3.54         | Gross          | \$ (1.00)        | \$ -     | \$ -              | \$ -      | \$2.54        |
| 1887 Monterey Road<br>San Jose, CA        | 12/31/1997     | 12/31/2013 | 60,501 | \$2.22         | Gross          | \$ -             | \$ -     | \$ -              | \$ -      | \$2.22        |
| 2500 Fontaine Road<br>San Jose, CA        | 12/8/2005      | 12/7/2020  | 19,400 | \$3.85         | Gross          | \$ (1.00)        | \$ -     | \$ -              | \$ (0.50) | \$2.35        |
| 2801 Mission Street<br>Santa Cruz, CA     | 7/1/2011       | 6/30/2022  | 61,630 | \$2.30         | Gross          | \$ -             | \$ -     | \$ 0.20           | \$ -      | \$2.50        |
| 2801 Mission Street<br>Santa Cruz, CA     | 11/4/2006      | 11/3/2021  | 16,718 | \$3.14         | Gross          | \$ (0.75)        | \$ -     | \$ 0.20           | \$ (0.50) | \$2.09        |
| 9015 Murray Avenue<br>Gilroy, CA          | Active Listing |            | 10,600 | \$1.08         | Gross          | \$ -             | \$ 1.00  | \$ -              | \$ (0.50) | \$1.58        |
| 3001 Orchard Parkway<br>San Jose, CA      | Active Listing |            | 97,840 | \$1.55         | Triple Net     | \$ 0.60          | \$ -     | \$ -              | \$ -      | \$2.15        |
| 2801 Scott Blvd<br>Santa Clara, CA        | Active Listing |            | 47,136 | \$1.55         | Triple Net     | \$ 0.60          | \$ -     | \$ -              | \$ -      | \$2.15        |
| 2511 Garden Road, Bldg. A<br>Monterey, CA | Active Listing |            | 20,464 | \$2.00         | Modified Gross | \$ 0.30          | \$ -     | \$ -              | \$ (0.30) | \$2.00        |

The reconciled rent for 1200 Aguajito was \$2.25 per square foot per month on a gross expense basis. This is well supported by the range of adjusted rents which was from \$1.58 to \$2.54 per square foot. There was a very consistent range of adjusted rents from \$2.00 to \$2.35 per square foot. This rate at the higher end reflects the courthouse improved space and higher quality. This was discussed in the Highest and Best Use as an exception as a Special Use.

## CLASS C RENT RECONCILIATION

Of the 14 rent comparables, five were used to compare to 1422 Natividad Road. Adjustments were based between gross and triple net leases, as well as location, quality and size. These are the most relevant market characteristics for the subject building.

A summary of the adjustments is as follows:

| CLASS C RENT COMPARISON                  |                |           |        |                |                |                  |          |                   |         |               |
|--|----------------|-----------|--------|----------------|----------------|------------------|----------|-------------------|---------|---------------|
| Address                                  | Lease Start    | Lease End | SF     | Base \$/SF/Mo. | Expense Terms  | Lease Adjustment | Location | Quality/Condition | Size    | Adjusted Rent |
| 6140 Cottle Road<br>Santa Clara, CA      | 3/1/2011       | 2/28/2026 | 9,668  | \$1.52         | Gross          | \$ -             | \$ 0.50  | \$ (0.50)         | \$ -    | \$1.52        |
| 1880 N. Main Street<br>Salinas, CA       | Active Listing |           | 6,717  | \$1.25         | Triple Net     | \$ 0.60          | \$ -     | \$ (0.30)         | \$ -    | \$1.55        |
| 1080 E. Brokaw Road<br>San Jose, CA      | Active Listing |           | 63,802 | \$1.29         | Triple Net     | \$ 0.60          | \$ -     | \$ (0.50)         | \$ 0.20 | \$1.59        |
| 18715 Madrone Parkway<br>Morgan Hill, CA | Active Listing |           | 40,000 | \$0.95         | Triple Net     | \$ 0.60          | \$ -     | \$ (0.50)         | \$ 0.20 | \$1.25        |
| 118 West Gabilan Street<br>Salinas, CA   | 12/1/2010      | 1/31/2016 | 5,781  | \$1.12         | Modified Gross | \$ 0.30          | \$ -     | \$ -              | \$ -    | \$1.42        |

The reconciled rent for 1422 Natividad was \$1.30 per square foot per month on a gross expense basis. This is well supported by the range of adjusted rents which was from \$1.25 to \$1.59 per square foot. There was a very consistent range of adjusted rents from \$1.25 to \$1.52 per square foot. The rent reconciliation was based on the subject's narrow use as office (due to the proximity of the Juvenile Jail) and average condition and quality.

## FAIR MARKET RENTS – DETENTION FACILITIES

An extensive search was completed for market rent comparables for detention and correctional facilities throughout the United States. After a complete search it was determined that because correctional facilities are largely public facilities and municipally owned and managed, the reality of finding private rent comparables for correctional facilities was extremely limited, or simply did not exist.

I have also had discussions with Corrections Corporations of America (CCA). In these discussions, CCA disclosed that overall costs per inmate per day are available for a variety of institutions that they service throughout the nation. This information is also available for approximately 40 facilities which are summarized later. However, CCA does not have an exact breakdown of expenses and costs specific to rent. This is also consistent because firms like CCA who manage and operate the day-to-day functions of a correctional facility use the public owned building and land on which the operations take place. Again, there is no specific allocation, or rent structure, for a correctional facility.

An additional reference due to the privatization of prisons is the bond lease, or COP's used for the transfer of responsibilities between a municipality and a private management group. A brief summary of Lease Bonds and COP's follows:

| DETENTION CENTER LEASE PAYMENTS - FOR USE AND OCCUPANCY |  |                  |                |        |              |                     |              |   |
|---|--|------------------|----------------|--------|--------------|---------------------|--------------|---|
| Location  | Facility Name  | Interest Payment | Lease in Years | # Beds | Rent Per Bed | Annual Rent Per Bed | Rent Per Bed | Comments  |
| Texas   | Mark W. Michael Unit, Hays County, Wise County, Johnson County, Liberty County, City of Lockhart, City of Henderson, Angelina County, Rusk County, and Harris County | \$6,779,508      | 7              | 8,532  | \$795        | \$114               | \$0.31       | Rehabilitation of existing detention facilities.  |
| Arizona   | ASPC Lewis Adult Prison Complex: Morey Unit #1, Stiner Unit #2, Barchey Unit #4, Rast Unit #5, Bachman Unit #6; Southwest Regional Juvenile                          | \$127,995,548    | 20             | 5,631  | \$22,731     | \$1,137             | \$3.11       | This is a sale/leasback of existing facility'   |
| California  | California State Prison Susanville   | \$40,250,368     | 25             | 2,224  | \$18,098     | \$724               | \$1.98       | New construction  |
| California  | Kern Valley State Prison   | \$127,463,173    | 17             | 5,013  | \$25,427     | \$1,496             | \$4.10       | Refund of previous bond which financed the acquisition and construction of Kern Valley State Prison   |
| California  | California State Prison- Monterey County (Salinas Valley State Prison)   | \$19,910,633     | 21             | 3,888  | \$5,121      | \$244               | \$0.67       | Expansion and rehabilitation of existing facilities; refund of previous bond for initial construction |
| Oklahoma  | Mcloud Facility?   | \$3,389,656      | 10             | 1,136  | \$2,984      | \$298               | \$0.82       | Mabel Bassett Correctiona Facility in Mcloud, OK project  |

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## BOND LEASES

Typically, the government enters into a lease purchase agreement with a non-profit corporation or authority that will build the project. The non-profit corporation or authority, called the lessor, will issue tax-exempt lease revenue bonds. The project or facility that is built or acquired with the bonds is leased to a municipality (in the case of prisons it is often a correctional agency), called the lessee, under a lease agreement. The lease payments by the lessee (i.e., correctional agency) to the lessor (i.e., the non-profit corporation) form the basis of the security of the repayment of the bonds. Funds for the lease payments made by the correctional agency come from state or local government appropriations. When both the interest and the principal on the bonds are fully repaid, the government obtains title to the facility. The terms of the debt are tied to the useful life of the project under this arrangement.

## CERTIFICATES OF PARTICIPATION

In the case of private prisons, lease revenue bonds often take on a specific form, called certificates of participation or COP's, though these are not exclusively used for prisons. With COP's, the bond issuance is structured so that investors buy certificates that entitle them to receive a share or participation in the lease payments for the prison. The lease payments by the lessee or renter (i.e., the correctional agency) are passed through the lessor or the landlord (i.e., the non-profit corporation/building authority) to the certificate holder, including the tax advantages. The lessor or landlord usually assigns the lease and lease payments to a trustee, who in turn distributes the lease payments to the certificate holders.

These leases were researched and analyzed with a summary shown below.

This summary is provided as a reference to indicate the allocation of use attributable to the interest payment of these various bond leases. It should be noted that the principal amount has been excluded because of the sale-leaseback provisions. The principal amount would reflect an actual purchase or pay down of the facility. The equivalent aspect of the interest payment is to reflect the use and occupancy which is defined as a lease. The interest payment is equated to reflect this

| Price of Prisons |                    |
|------------------|--------------------|
| Location         | Daily Rent Per Bed |
| Alabama          | \$47.36            |
| Arizona          | \$67.95            |
| Arkansas         | \$66.82            |
| California       | \$129.92           |
| Colorado         | \$83.22            |
| Connecticut      | \$137.70           |
| Delaware         | \$90.32            |
| Florida          | \$56.31            |
| Georgia          | \$57.64            |
| Idaho            | \$53.55            |
| Illinois         | \$107.49           |
| Indiana          | \$40.61            |
| Iowa             | \$90.20            |
| Kansas           | \$49.88            |
| Kentucky         | \$40.00            |
| Louisiana        | \$47.91            |
| Maine            | \$127.13           |
| Maryland         | \$105.16           |
| Michigan         | \$77.03            |
| Minnesota        | \$113.33           |
| Missouri         | \$61.23            |
| Montana          | \$82.81            |
| Nebraska         | \$98.49            |
| Nevada           | \$56.59            |
| New Hampshire    | \$93.37            |
| New Jersey       | \$150.32           |
| New York         | \$164.60           |
| North Carolina   | \$82.10            |
| North Dakota     | \$107.60           |
| Ohio             | \$70.72            |
| Oklahoma         | \$50.59            |
| Pennsylvania     | \$116.00           |
| Rhode Island     | \$134.56           |
| Texas            | \$58.60            |
| Utah             | \$80.41            |
| Vermont          | \$135.62           |
| Virginia         | \$68.85            |
| Washington       | \$128.48           |
| West Virginia    | \$72.60            |
| Wisconsin        | \$104.09           |
| <b>Average</b>   | <b>\$87.68</b>     |

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portion. Again this is provided as a reference for an additional analysis using total cost per inmate per day and appropriate allocations of rent from industry standards. As seen from this analysis, the rent per bed per day ranges from \$.31 to \$4.10. It should also be noted that the lower end rent per day per bed is associated with expansion or rehabilitation of existing correctional facilities. Those rents per day per bed for new construction or sale-leaseback show a generally consistent range from a \$1.98 to \$4.10 with the midpoint near \$3.00. This information will be used later as a test for the following analysis.

#### COST PER INMATE (BED) PER DAY ANALYSIS

The most consistent and reliable data for correctional facilities is the uniform reference to cost per inmate per day. This is used industry wide and throughout the market. Research was completed on this and is summarized as follows. This summary indicates costs per bed which include payroll, food, security, medical care, and a variety of other services associated with the care of inmates. A summary of these costs is as follows:

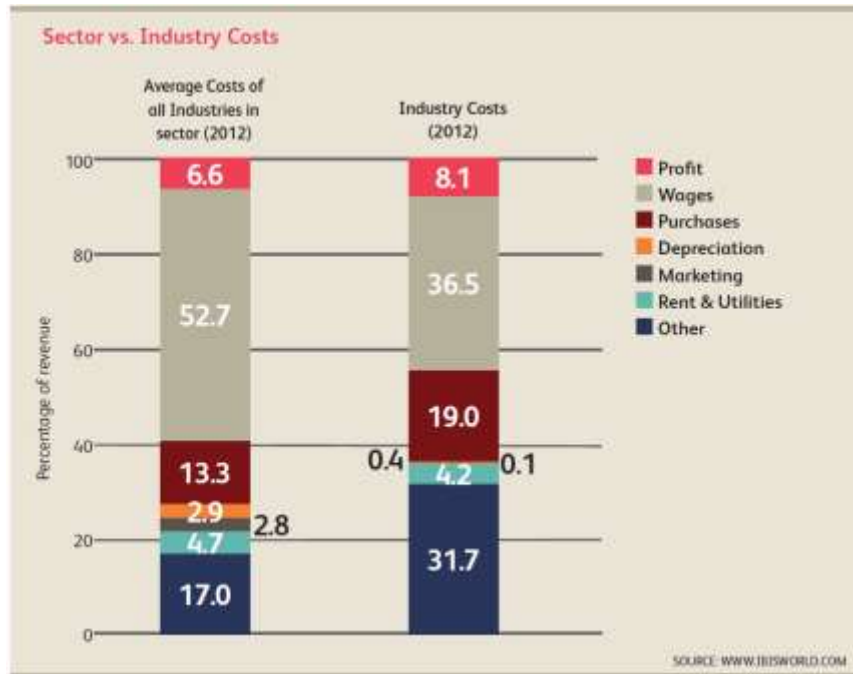
- Wages that mainly reflect general business volumes have increased as a share of revenue in the past five years as facilities hire more specialists due to increased demand for industry services. During the next five-year period, wages' share of revenue is projected to rise as industry operators will have to hire more personnel to accommodate growing needs of facility inmates, especially among older and ailing inmates who require more special services. The average annual wage is forecast to remain at about \$50,800 over the next five years.
- Purchases include anything that is required on a daily basis to keep the facility running, including food, beverages, medications, furniture and other goods. These costs make up about 19.0% of industry revenue, and their share of revenue does not fluctuate greatly from year to year.
- Other costs make up about 31.7% of industry revenue and include administrative expenses, professional fees and security systems outsourcing. These expenses vary as a share of total revenue, and they largely depend on the degree of outsourcing of services to third-party service providers. Other costs also relate to office and other overhead costs, including auto operating and maintenance, stationery and other similar items. Operators of correctional facilities also face insurance expenses associated with various types of coverage. In general, participants obtain liability insurance for all of their operations and maintain insurance to cover property and casualty risks, workers' compensation and directors' and officers' liability. In most states, the failure to maintain insurance coverage will result in termination of government agency contracts. Operators also incur higher expenses, such as repairs and maintenance, real estate taxes and insurance on the facilities they own than on the facilities they only manage.

As reported, the allocation for rent for prisons as compared to other industry sources is 4.2%. This is a reasonable figure to reference for purposes of this analysis.

The average for the 40 states is \$87.68. California has an average about \$129.92. I had discussions with Cmdr. Barrera with the Monterey Jail and indications were that this facility has a daily cost of \$121.70. This average rate per day per bed is generally consistent for that shown in California. This actual use cost is supported by our survey with California having one of the highest jail costs per bed per day. There is also a correlation with this cost, as noted reflecting the Rent in Use versus a Rent in Exchange. The Rent in Use would reflect the actual operation/use of the facility which is at \$121.70 per day per bed. The use of this rate reflects the Highest and Best Use for a Single Use facility.

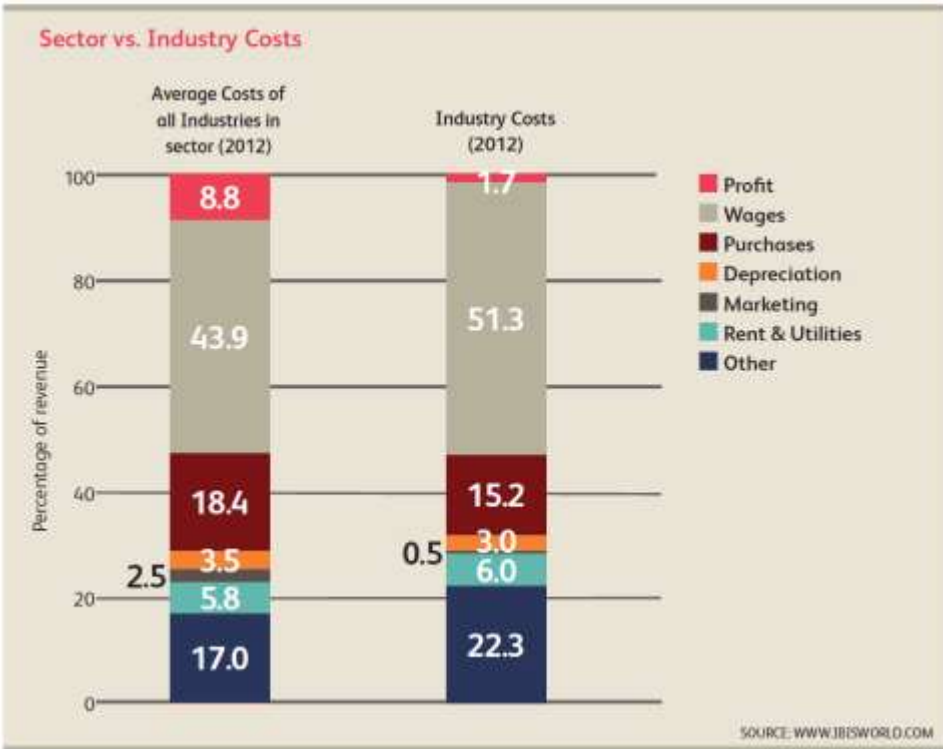
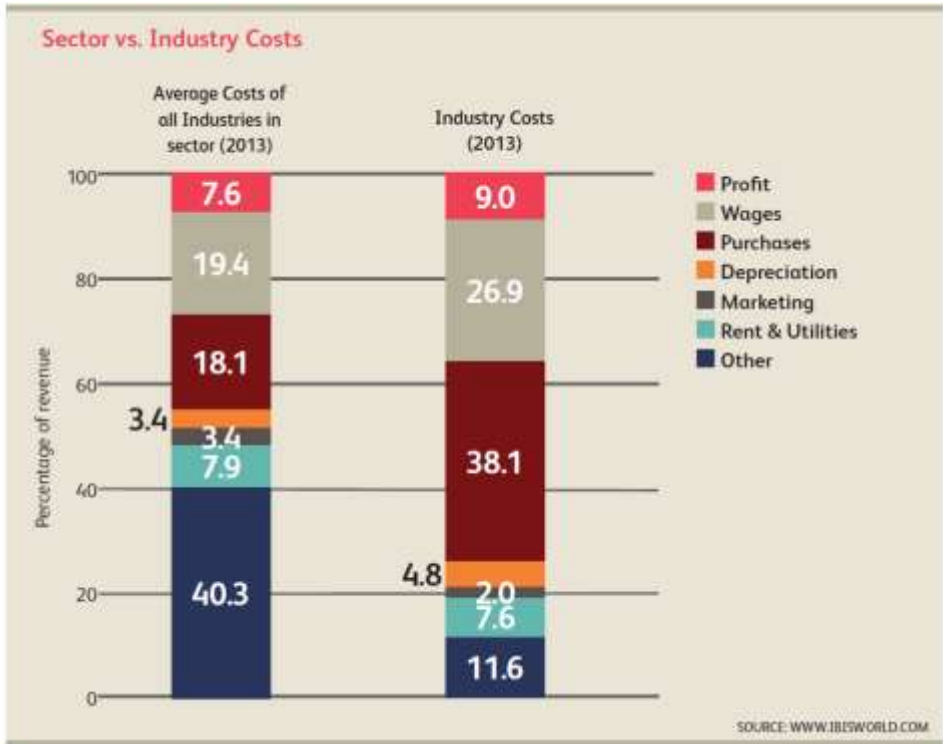
Additional information was also gathered for the Juvenile Jail which has 114 beds with a daily cost of \$283.27 per bed. The Juvenile Jail has a significantly higher cost per day per bed which is attributable to increased staffing, nutrition and counseling. For example state law requires that there be one officer per every 10 minors during the day and one officer for every 30 minors at night.

An estimate of the daily cost per bed for the Juvenile Jail is unique for its Single Use (Per Highest and Best Use). As noted, this is an exception based on its use and is used in the analysis as Fair Rent.



Determining the actual rent for the facilities at baseline is also required. As noted earlier in the U.S. prison overview, there are sources within the private industry that provide for allocations between the areas of expenses. As shown earlier, the allocation to rent is 4.0% which is similar to other industries. Additional reference was made to the hotel industry (Rent/Utilities 7.6%) and Group Homes (Rent/Utilities 6.0%). It is reasonable to show a range of 4% to 5% as an allocation of rent (excluding utilities) as a portion of the total revenue.





The estimate of Daily Rent per Bed is shown as follows using the actual costs for the adult jail and the juvenile jail.

| CORRECTIONAL FACILITY RENT ANALYSIS |             |            |                 |                   |                    |                     |                    |
|-------------------------------------|-------------|------------|-----------------|-------------------|--------------------|---------------------|--------------------|
| 1410 Nativiad - Monterey Jail       |             |            |                 |                   |                    |                     |                    |
| Number of Beds                      | Per Per Bed | Total Days | Rent Allocation | Total Annual Rent | Annual Rent Per SF | Monthly Rent Per SF | Daily Rent Per Bed |
| 825                                 | \$ 121.70   | 365        | 4.00%           | \$ 1,465,877      | \$ 5.35            | \$ 0.45             | \$ 4.87            |
|                                     |             |            | 5.00%           | \$ 1,832,346      | \$ 6.69            | \$ 0.56             | \$ 6.09            |
| 1420 Nativiad - Juvenile Jail       |             |            |                 |                   |                    |                     |                    |
| 114                                 | \$ 283.27   | 365        | 4.00%           | \$ 471,475        | \$ 10.57           | \$ 0.88             | \$ 11.33           |
|                                     |             |            | 5.00%           | \$ 589,343        | \$ 13.21           | \$ 1.10             | \$ 14.16           |

As shown earlier, with the Bond Lease and COP's references, these can be reviewed as a test of reasonableness. The consistent inferred rent per bed per day was from \$1.98 to \$4.10. As seen from the estimated rents for the subject detention facilities – the rent per bed per day ranged from \$4.87 to \$6.09. I recognize that this is at the higher end, but it does reflect the actual use. Using the same figures but referencing the subject's square footage to find a rent per square foot, the rent is \$5.35 to \$6.69 per year, or \$0.45 to \$0.56 per month. A reconciled rent of \$0.50 per square foot per month is used for the final rent reconciliation for the adult jail.

The Juvenile Jail rent per bed per day ranged from \$11.33 to \$14.16. This is much higher than traditional adult jails, but does reflect the unique (Single Use) costs for the juvenile population. Using the same figures but referencing the subject's square footage to find a rent per square foot, the rent is \$10.57 to \$13.21 per year, or \$0.88 to \$1.10 per month. A reconciled rent of \$1.00 per square foot per month is used for the final rent reconciliation for the juvenile jail.

## FINAL RECONCILIATION

I analyzed the various items and elements in the market that affect fair market rents. Sufficient data were assembled and analyzed for the purpose of judging the typical lessee's reaction in the marketplace.

The comparison approach was the only methodology used to estimate the fair market rent for the subject property. This subject properties are leased to government agencies that operate the facilities for a public benefit (i.e. courts, jails, health department, sheriff department, and supporting administration buildings). The comparable data presented earlier was sufficient in quality and quantity to estimate the subject's fair market rent.

Based on my investigation and analysis, subject to the assumptions and limiting conditions set forth within the body of this report, it was my opinion as of April 4, 2013 that the subject property had the following fair market rental rates:

### FAIR MARKET RENTAL RATES BY CATEGORY AND LEASE TYPE

| FAIR MARKET RENTS                   |       |                                 |                      |                    |                      |                       |
|-------------------------------------|-------|---------------------------------|----------------------|--------------------|----------------------|-----------------------|
| Location                            | Class | Identification /<br>Description | Lease \$/SF<br>Month | Lease<br>Structure | Total Square<br>Feet | Total Monthly<br>Rent |
| 1270 Natividad Road, Salinas, CA    | A     | Health Services                 | \$2.10               | Gross              | 43,776               | \$91,930              |
| 1420 Natividad Road, Salinas, CA    | Jail  | Juvenile Jail                   | \$1.00               | Gross              | 44,602               | \$44,602              |
| 1422 Natividad Road, Salinas, CA    | C     | Juvenile<br>Administration      | \$1.30               | Gross              | 17,581               | \$22,855              |
| 1410 Natividad Road, Salinas, CA    | Jail  | Monterey Jail                   | \$0.50               | Gross              | 273,800              | \$136,900             |
| 240 Church Street, Salinas, CA      | A     | Courthouse                      | \$2.25               | Gross              | 98,208               | \$220,968             |
| 168 West Alisal Street, Salinas, CA | A     | Administration                  | \$1.90               | Gross              | 134,478              | \$255,508             |
| 1200 Aguajito Road, Monterey, CA    | B     | Courthouse                      | \$2.25               | Gross              | 88,420               | \$198,945             |
| <b>Total Monthly Rent</b>           |       |                                 |                      |                    |                      | <b>\$971,708</b>      |
| <b>Total Annual Rent</b>            |       |                                 |                      |                    |                      | <b>\$11,660,497</b>   |

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## CERTIFICATION STATEMENT

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and is my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective future interest in the property that is the subject of this report, and have no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report, or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined rent or direction in rent that favors the cause of the client, the amount of the rental estimate, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
8. No one provided significant real property appraisal assistance to the person(s) signing this certification.
9. I certify sufficient competence to appraise this property through education and experience, in addition to the internal resources of the appraisal firm.
10. The appraiser has not performed any prior services regarding the subject within the previous three years of the appraisal date.
11. Lance W. Doré has made an inspection of the subject property.
12. The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

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13. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
  14. As of the date of this report, Lance W. Doré, MAI, FRICS, has completed the continuing education program of the Appraisal Institute.
  15. The date of fair market rent is April 4, 2013. The date of this report is April 16, 2013.



Lance W. Doré, MAI, FRICS  
President / CEO  
California-AG002464  
lwdore@thedoregroup.com

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ADDENDA



## LANCE W. DORÉ, MAI, FRICS

### *Curriculum Vitae*

Lance W. Doré is the President and CEO of The Doré Group. In this role, he directs all valuation assignments involving a wide variety of conventional and complex real properties, serves as litigation support to both public and private clients, provides expert advisory services (including forensic analyses and market and feasibility studies), and manages the overall operations of The Doré Group.

Mr. Doré has been a real estate appraiser since 1983, initially working for Bank of America as a staff appraiser then as a senior appraiser with a fee appraisal firm in Del Mar, California. In 1988, he formed L.W. Doré, Real Estate Consultants and grew the firm through the addition of two partners forming Doré & Curry, Inc. (1990) and Doré, Curry, & Marschall, Inc. (1997). In 1999, Doré, Curry, & Marschall, Inc. became the San Diego office for Integra Realty Resources with Mr. Doré serving as Managing Director. In the fall of 2005, Mr. Doré joined Cushman & Wakefield as the National Practice Leader of the Government Affairs and Energy division. In 2007, he pursued an opportunity to serve as the President of European Emerging Markets and Vice President of Client Services for PGP, Inc./Colliers International. Mr. Doré's unique depth of experience, coupled with his high personal standards of service, led him to found The Doré Group in late 2010.

### **Experience**

Mr. Doré's work experience spans a wide variety of property types with special expertise in the valuation of energy facilities, conservation land, open space corridors and ranches. In addition, he has also appraised planned-unit developments, residential income properties, senior housing, shopping centers, office, industrial, mixed-use properties, and a multitude of special purpose properties, including, but not limited to, auto service and wrecking centers, equestrian facilities, restaurants, hospitals, recreational camps, and golf courses. He regularly serves as an expert advisor conducting appraisal reviews, forensic studies, and marketability and feasibility analyses. In addition, Mr. Doré is uniquely qualified and experienced in litigation testimony, consultation and advisory services for all real estate related issues. His geographical valuation expertise is focused in the western United States and extends to Tokyo (Japan), Central America, Mexico, Cyprus, and Moscow (Russia).

### *Licenses/Certifications/Affiliations*

Certified General Real Estate Appraiser – **State of California** (OREA No. AG002464)  
California Licensed Real Estate Broker & Realtor member - **San Diego Board of Realtors**  
Credentialed Mediator – **National Conflict Resolution Center, San Diego**  
Member of the Appraisal Institute (MAI No. 8471)  
Fellow of the Royal Institute of Charter Surveyors  
Member of the International Right of Way Association (IR/WA), **San Diego Chapter**

### *Instructor Positions*

National Instructor (*Real Estate Valuation Principles & Practice*) - **Appraisal Institute**  
Adjunct Professor - **Russian Federation Finance Academy**

### *Leadership/Committees*

Past President – **Appraisal Institute**, San Diego Chapter  
Past member of *International Relations Committee* – **Appraisal Institute**  
Past member of *Ethics & Standards Committee* – **Appraisal Institute**



### *Speaking Engagements*

**Appraisal Institute (National Seminar Series, Los Angeles, CA)** - Land Valuation & Environmental Issues  
**The Trust for Public Land (San Diego, CA)** - Natural Communities Conservation Plan  
**Pan Pacific Conference (Auckland, New Zealand)** – Valuation of Submerged Lands  
**Government of Cyprus (Nicosia, Cyprus)** – Valuation of Golf Courses and Marinas  
**The Russian Federation (Moscow, Russia)** - Valuation of Land and Appraisal Principles  
**The Russian Federation (Goa, India)** - Valuation of Oil and Gas and Power Plants  
**Royal Institute of Charter Surveyors (Montego Bay, Jamaica)** – Government & Regulatory Risk  
**Graziadio School of Business & Management, Pepperdine (Los Angeles, CA)**–2008 US & California Forecast  
**Appraisal Institute (San Diego, CA)** – Unique Valuations in Real Estate  
**Appraisal Institute (San Diego, CA)** – International Financial Reporting Standards (IFRS)  
**California Redevelopment Agency (Workshop Series, CA)** – Real Estate Valuation for AB1X 26 and AB1484

### **Publications**

**Appraisal Journal** (October 2001) – “The Valuation of Submerged Land”  
**Energy Pulse** (March 2006) – “The Highest and Best Use of Power Plants”  
**Union of Pan America Valuers** (November 2010) – “Impact of Public to Private Partnerships in BRICS”  
**Wall Street Journal** (August 2001) – “Power Plant Owners Fight to Lower Taxes”  
**The Secrets of Real Estate – Revealed** (2011)

### **Representative Client List**

#### *Public Entities*

|   |                                     |
|---|-------------------------------------|
| United States State Department of the State | United States Forest Service        |
| United States Department of Navy            | United States Department of Justice |
| Government of Cyprus                        | Russian Federation                  |
| State of California – Judicial Courts       | County of San Diego                 |
| County of Riverside                         | City of Orange                      |
| City of Riverside                           | City of San Diego                   |
| City of Monterey                            |                                     |

#### *Legal Clients*

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|-------------------------------------|------------------------|
| Morrison & Foerster                 | Sheppard, Mullin       |
| Richter & Hampton                   | Best, Best and Krieger |
| Luce, Forward, Hamilton and Scripps | Cooley, LLP            |
| Ropes & Gray                        | Faeger & Benson        |
| McKenna, Long & Aldridge            | Gordon & Rees          |
| Latham & Watkins                    |                        |

*Mr. Doré’s representative financial clients include numerous national, regional and local lenders and private corporations.*



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## DEFINITIONS

**Fair Market Rent** is defined as: (Rent in Exchange)

The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of appraisal.

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, included permitted uses, use restrictions, expense obligations, term, concession, renewal and purchase options, and tenant improvements.

**Fair Rent** is defined as: (Rent in Use)

Consideration given to the uses and purposes that may be served by the Property and benefits therefrom which will accrue to the user and the general public.

A **Fee Simple** estate is defined as:

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.

A **Leased Fee** interest is defined as:

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

**Marketing Time** is defined as:

An opinion of the amount of time it might take to sell, or lease a real or personal property interest at the concluded market value or lease rate during the period immediately after the effective date of the appraisal.

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

Advisory Opinion 7 of the Appraisal Standards Board of The Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.

**Exposure Time** is defined as:

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

**Gross Building Area (GBA):** Total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls of the above-grade area. This includes mezzanines and basements if and when typically included in the region.

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## LIMITING CONDITIONS AND ASSUMPTIONS

Acceptance of and/or use of this report constitutes acceptance of the following limiting conditions and assumptions; these can only be modified by written documents executed by both parties.

This report was completed per the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) and those additional requirements expected of a member of the Appraisal Institute. The development process used was a complete analysis and documented in the summary appraisal report.

I was not provided with a Phase I Environmental Assessment Report or any other reports addressing potentially hazardous materials on or near the subject property. My physical inspection of the property did not reveal any apparent contamination by hazardous chemicals. Also, the subject is not listed as a hazardous site per the Hazardous Waste and Substances Sites List compiled by the California Environmental Protection Agency. Note that I have no expertise in evaluating toxic or hazardous site conditions and are unable to make substantiated remarks in this field of study. Therefore, no warranty is made as to the condition of the property relative to hazardous chemicals or toxic wastes. The client is urged to retain an expert in this field if the existence of such materials is suspected. This analysis was based on the assumption that no hazardous chemical contamination of any kind exists at the subject land.

I was not provided engineering studies or detailed plans for alternative development. I was also not provided with site development costs for existing improvements. My projections for cost estimates are assumed reliable for existing improvements. I was provided with site development costs for proposed improvements which were considered as reliable estimates.

The title was presumed to be good and merchantable. The property was appraised as if free and clear of any encumbrances, unless otherwise stated in this report.

I did not review a Biological Survey detailing possible biological species. Without a recent biological survey of the property, it could not be determined which species are actually on or frequent the parcels. Still, the vegetation cover on the subject land is typical for the area, and may provide habitat for many indigenous animal species found throughout the area.

No opinion is expressed with regard to potential seismic impact and it was assumed that the subject's potential risks are similar to those shared by most property in the subject area and generally within Northern California. I make no warranty as to the seismic stability of the subject lands. The assumption was made that any future development of the property, if any, would occur in accordance with all appropriate regulations and ordinances regarding grading, fill, and applicable building codes.

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## GENERAL CONDITIONS AND ASSUMPTIONS

The Report has been made subject to the following assumptions and limiting conditions:

This appraisal is to be used only for the purpose stated herein. While distribution of this appraisal in its entirety is at the discretion of the client, individual sections shall not be distributed; this report is intended to be used in whole and not in part.

No part of this appraisal, its rental estimates or the identity of the firm or the appraiser(s) may be communicated to the public through advertising, public relations, media sales, or other media.

All files, work papers and documents developed in connection with this assignment are the property of THE DORÉ GROUP. Information, estimates and opinions are verified where possible, but cannot be guaranteed. Plans provided are intended to assist the client in visualizing the property; no other use of these plans is intended or permitted.

No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.

The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor THE DORÉ GROUP shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits, and factual matters. Any authorized user of the Report is obligated to bring to the attention of THE DORÉ GROUP any inaccuracies or errors that it believes are contained in the Report.

The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of THE DORÉ GROUP is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering, or SEC material without THE DORÉ GROUP's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by THE DORÉ GROUP in writing to use or rely thereon, hereby agrees to indemnify and hold THE DORÉ GROUP, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).

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Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Appraisal.

The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the opinion contained in the Report is based.

The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. THE DORÉ GROUP assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.

The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. THE DORÉ GROUP recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.

The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and THE DORÉ GROUP make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.

Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the rental opinions. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the rents of the Property. The Appraiser is not qualified to detect such substances. THE DORÉ GROUP recommends that an environmental expert be employed to determine the impact of these matters on the opinion of rental rates.

If the Report is submitted to a lender or investor with the prior approval of THE DORÉ GROUP, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.

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In the event of a claim against THE DORÉ GROUP or its affiliates or their respective officers or employees or the Appraiser in connection with or in any way relating to this Report or this engagement, the maximum damages recoverable shall be the amount of the monies actually collected by THE DORÉ GROUP or its affiliates for this Report and under no circumstances shall any claim for consequential damages be made.

If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and THE DORÉ GROUP, its employees and the Appraiser have no liability to such recipients. THE DORÉ GROUP disclaims any and all liability to any party other than the party that retained THE DORÉ GROUP to prepare the Report.

Any estimate of insurable value, if included within the agreed upon scope of work and presented within this report, is based upon figures derived from a national cost estimating service and is developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from my estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, I strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage for replacing any structure. This analysis should not be relied upon to determine insurance coverage. Furthermore, I make no warranties regarding the accuracy of this estimate.

The appraiser may not divulge the material (evaluation) contents of the report, analytical findings, or conclusions, or give a copy of the report to anyone other than the client, legal authorities via subpoena, or the Appraisal Institute.

No environmental or impact studies, special market study or feasibility analysis were requested or made unless otherwise specified in an agreement for services or in the report.

By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein. The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.

No hidden or unapparent conditions of the property, subsoil or structure, which would make the property more or less valuable, were discovered by the appraiser(s) or made known to the appraiser(s). No responsibility is assumed for such conditions or engineering necessary to discover them. Unless otherwise stated, this appraisal assumes there is no existence of hazardous materials or conditions, in any form, on or near the subject property.

Unless otherwise state in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, was not called to the attention of the appraiser nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test for such substances. The presence of such hazardous substances may affect the rental rates of the property. The rental

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rate opinions developed herein is predicated on the assumption that no such hazardous substances exist on or in the property or in such proximity thereto, which would cause a loss in rents. No responsibility is assumed for any such hazardous substances, nor for any expertise or knowledge required to discover them.

Unless stated herein, the property is assumed to be outside of areas where flood hazard insurance is mandatory. Maps used by public and private agencies to determine these areas are limited with respect to accuracy. Due diligence has been exercised in interpreting these maps, but no responsibility is assumed for misinterpretation.

Good title, free of liens, encumbrances and special assessments is assumed. No responsibility is assumed for matters of a legal nature.

Necessary licenses, permits, consents, legislative or administrative authority from any local, state or Federal government or private entity are assumed to be in place or reasonably obtainable.

It is assumed there are no zoning violations, encroachments, easements or other restrictions which would affect the subject property, unless otherwise stated.

The appraiser(s) are not required to give testimony in Court in connection with this appraisal. If the appraiser is subpoenaed pursuant to a court order, the client agrees to pay the appraiser(s) THE DORÉ GROUP's regular per diem rate plus expenses.

Appraisals are based on the data available at the time the assignment is completed. Amendments/modifications to appraisals based on new information made available after the appraisal was completed will be made, as soon as reasonably possible, for an additional fee.

Americans with Disabilities Act (ADA) of 1990 A civil rights act passed by Congress guaranteeing individuals with disabilities equal opportunity in public accommodations, employment, transportation, government services, and telecommunications. Statutory deadlines become effective on various dates between 1990 and 1997. THE DORÉ GROUP has not made a determination regarding the subject's ADA compliance or non-compliance. Non-compliance could have a negative impact on rental rates; however this has not been considered or analyzed in this appraisal.