FABBRO, MOORE & ASSOCIATES, INC.

REAL ESTATE APPRAISERS · ANALYSTS · CONSULTANTS

February 12, 2021

Mr. William L. McClure
Jorgenson, Siegel, McClure & Flegel, LLP
1100 Alma Street, Suite 210
Menlo Park, California 94025

Re: Community Amenities Appraisal Report Review
1350 Adams Court/1305 O'Brien Drive Site
Assessor's Parcel Number 055-472-030
Menlo Park, California 94025

Mr. McClure:

In accordance with your request, we have completed a review of the community benefits appraisal report prepared by Newmark Knight Frank for the property located at 1350 Adams Court and 1305 O'Brien Drive in Menlo Park. The subject property has assessor's parcel number 055-472-030 in San Mateo County.

This review report complies with the Uniform Standards of Professional Appraisal Practice and with the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice. In addition, the review report complies with client requirements for the assignment, including consideration of the City of Menlo Park's appraisal instructions to determine the value of community amenities under bonus level zoning.

The Uniform Standards of Professional Appraisal Practice require the reviewer to include a statement describing the purpose, intended use, and intended users of the appraisal review. Under the terms of the assignment we have been asked to complete a compliance review in which we will render opinions regarding whether the appraisal report by Newmark Knight Frank complied with the Uniform Standards of Professional Appraisal Practice and with the City of Menlo Park's appraisal instructions to determine the value of community amenities under bonus level zoning. As part of that process, we have been asked to render an opinion regarding whether the appraisal report provided sufficient support for any value conclusions expressed within the report.

In addition, the client requested that the reviewers provide a supported opinion of value if the reviewers determined that Newmark Knight Frank's appraisal report did not have sufficient support for the value conclusion(s) and/or if the reviewers disagreed with the value conclusion(s) of the Newmark Knight Frank (NKF) appraisal report.

Completing and reporting the results of the review process are the purposes of this review report. The intended use of this review report is to assist the City of Menlo Park in evaluating the community amenities associated with the proposed development of the subject property. The City of Menlo Park and the contracting client, Jorgenson, Siegel, McClure & Flegel, are the sole intended users of this report.

Under Standard 3 of the Uniform Standards of Professional Appraisal Practice, a review appraiser is required to identify the date of the work under review and the effective date of the opinions or conclusions in the work under review. NKF's appraisal report of the subject property had a report date of October 30, 2020. The effective date of the NKF appraisal report was September 18, 2020.

The client also provided us with a two-page letter written by NKF on January 13, 2021, in which NKF responded to comments provided by Jorgenson, Siegel, McClure & Flegel, LLP to the prospective developer about NKF's appraisal report. In our view, that letter effectively serves as a supplemental addendum to the appraisal report. In their January 13, 2021 letter NKF provided some additional information but did not make any changes to the value conclusions of their original appraisal report.

For any review report that includes a value opinion, the Uniform Standards of Appraisal Practice require a reviewer to state the effective date of the reviewer's value opinion(s) and the date of the review report. The effective date of this review report is February 12, 2021. The date of the review report (i.e., the date that the report was substantially completed) is February 12, 2021.

Of course, some time has passed between the effective date of NKF's appraisal, their response letter, and the date of this review report. Information that would not reasonably have been available to NKF as of the date of their response letter will not be considered as part of the compliance review of their appraisal report.

The subject property sits at the confluence of O'Brien Drive, Adams Drive, and Adams Court, within a well-established corridor of industrial, research & development, and life sciences uses within the Bayfront Area of the incorporated City of Menlo Park. The subject property abuts the site of Facebook Willow Village. Facebook has plans to develop that 59-acre site with a mixed use project that would include 1,735 residential units, 1.75 million square feet of office space, retail space, and a 193-room hotel. As the client is well aware, numerous other new developments have been recently completed, are currently underway, or are proposed for the Bayfront Area.

The subject property consists of the original Lots 3 and 4 of the Menlo Business Park tract. The subdivision map for the tract was drawn by Wilsey & Ham in March of 1984 and that map was recorded in county records on April 9, 1984 in Book 111 of Maps at Pages 50-52. In December of 1986, Wilsey & Ham submitted a revised map in which the lot line dividing the original Lots 3 and 4 was eliminated, forming what was then labeled as Parcel A on a parcel map drawn by Wilsey & Ham in December of 1986 and recorded in county records on February 27, 1987 in Volume 58 of Parcel Maps at Page 74. That map indicated that the lot size of the subject parcel amounted to ± 11.20 acres.

According to the submitted building plans for the proposed development of a new building at 1350 Adams Court, a recent survey of the subject property showed the land area to be 487,916 square feet (11.201 acres). The appraisal by NKF indicated that the lot size of the subject property is 488,308 square feet (11.210 acres). The difference is immaterial in the context of the appraisal report and this review. For purposes of this review report, we will presume that the figure shown on the building plans and the development application (487,916 square feet) is correct.

We obtained information regarding the physical characteristics of the subject property mainly from a physical exterior inspection, public records, City of Menlo Park staff reports, LSA's initial study of the proposed project, and the building plans submitted for the proposed development. We are aware that the client is thoroughly familiar with the subject property and the proposed development. Therefore, we will not provide a detailed description of the development proposal in this report. However, the Uniform Standards of Professional Appraisal Practice do require us to include some description of the property and the existing and proposed improvements.

The subject property currently is improved with a building that was used for many years as a distribution warehouse. (At that time, the property went by the street address of 1315 O'Brien Drive.) A substantial portion of the land area, however, is unimproved with any structures or site improvements.

A few years ago, the original warehouse building was reduced in size to its current floor area of 188,104 square feet and the building was completely renovated and converted to a research and development/life sciences facility. Upon completion, the street address changed to 1305 O'Brien Drive. The property was leased in July of 2015 by the property owner, Menlo Park Portfolio II, LLC, to Pacific Biosciences of California, Inc. for an 11-year term that commenced in April of 2016, according to documents filed with the U.S. Securities and Exchange Commission (SEC) and the file records of Fabbro, Moore & Associates, Inc. The lessee also obtained one five-year renewal option in that lease agreement. The subject property serves as the current corporate headquarters for Pacific Biosciences, which is a publicly traded company with a market capitalization of roughly $9½ billion as of the morning of the date that this report was completed.

The owners of the subject property have proposed retaining the existing R&D building occupied by Pacific Biosciences on a 295,876-square foot southerly portion of the site and developing the 192,040-square foot remaining land area at the north side of the site with a new, five-story R&D/life sciences building. The new building would contain 260,400 square feet of gross floor area. The development would also include a new, multi-level parking structure, which under Menlo Park planning code guidelines does not count as gross floor area. The new building at the northern portion of the subject site would have a street address of 1350 Adams Court.

In total, if the project were completed as planned the new development would have 448,504 square feet of gross floor area. The floor area ratio would therefore amount to 91.92% of the 487,916-square foot land area. The new building would have a maximum height of 92.07 feet. The average building height for the entire project would be 51.13 feet.

The existing development has 373 on-site automobile parking spaces, or a ratio of 1.98 spaces per 1,000 square feet of floor area for the 188,104-square foot building occupied by Pacific Biosciences. The proposed development would eliminate 118 of the existing automobile parking spaces but would result in the construction of 711 new auto parking spaces. The proposed development would thus have a total of 966 on-site auto parking spaces, or a ratio of 2.15 spaces per 1,000 square feet of floor area. The project would also have 58 bicycle parking spaces.

The Uniform Standards of Professional Appraisal Practice require the reviewer to report the ownership interest in the property that is the subject of the work under review. As noted, at present at least part of the subject property is leased to Pacific Biosciences of California, Inc., including the entirety of the existing building at 1305 O'Brien Drive. The building is the tenant's corporate headquarters. Information regarding the existence of the lease is readily available from numerous sources, including documents filed with the SEC. Therefore, the property owners hold a leased fee interest in the subject property, while the lessee has a leasehold interest in the property. However, in their appraisal report NKF stated that they valued a fee simple interest in the land, which would be an interest unencumbered by any leases.

Given the purpose of the appraisal, in our view NKF made the correct decision in valuing a fee simple interest in the land. NKF should have stated that valuing the fee simple interest was a hypothetical condition of their appraisal report. Nevertheless, in our view the nature of the assignment requires that an appraiser presume that the property is unencumbered by leases, in order to value a fee simple interest in the land under the base and bonus level scenarios. In this review report, we will use the hypothetical presumption that no leases encumber the subject property.

Under the Menlo Park General Plan, the 511-acre Bayfront Area has six land use designations. The subject property lies within the Life Sciences land use area. The general plan states that the Life Sciences designation "provides for new life sciences and R&D uses, along with high-tech office and supportive sales and personal services. The designation also accommodates existing light-industrial uses and new light-industrial uses that are not in conflict with existing or planned commercial or residential uses in the vicinity. The maximum base FAR shall be 55 percent and the maximum bonus FAR with community amenities shall be 125 percent. Maximum FAR for retail and service uses shall be 10 percent."

The City has zoned the subject property LS-B (Life Sciences District). General categories of allowed uses in that zoning district include research & development; light industrial; offices of 20,000 square feet or less; retail sales excluding beer, wine, or liquor sales; eating establishments excluding beer, wine, or liquor sales; personal services; and a few others. Conditionally allowed uses, which require a use permit, include but are not limited to offices with more than 20,000 square feet of floor area; retail sales including beer, wine, or liquor sales; eating establishments including beer, wine, or liquor sales; and a few others.

The maximum allowed base gross floor area ratio in the LS-B zone is 55% of the lot size plus up to 10% for commercial uses. (In the context of the code, commercial appears to imply retail sales, eating establishments, personal services, or similar uses.) For the subject site, with 487,916 square feet of land area, the allowed gross floor area under base level zoning would be 268,354 to 317,146 square feet. At the latter figure, 48,792 square feet would need to be devoted to commercial use. Maximum building height under base level zoning is 35 feet. For a life sciences project, that figure would equate to a likely maximum height of two stories.

Under municipal code sections 16.44.060 and 16.44.070, bonus level development is allowed in the LS-B zone under certain conditions. Among those conditions, the applicant must provide community amenities, as defined in the code.

The LS-B zoning code establishes an allowed bonus level gross floor area ratio of up to 125% of the lot size plus up to 10% of the lot size for commercial uses. For the subject property, the allowed floor area under the bonus guidelines thus would increase to a range of 609,895 to 658,687 square feet. At the latter figure, 48,792 square feet of the total would need to be commercial space. The allowed building height under bonus parameters rises to 110 feet, and an additional 10 feet of height is allowed for properties, such as the subject, that are within a special flood hazard zone. Thus, for the subject property, the maximum allowed building height equals 120 feet. The average height is limited to 67.5 feet.

Section 16.44.070 of the municipal code states that "Bonus level development allows a project to develop at a greater level of intensity with an increased floor area ratio and/or increased height. There is a reasonable relationship between the increased intensity of development and the increased effects on the surrounding community. The required community amenities are intended to address identified community needs that result from the effect of the increased development intensity on the surrounding community. To be eligible for bonus level development, an applicant shall provide one (1) or more community amenities. Construction of the amenity is preferable to the payment of a fee."

Section 16.44.070 (3) of the code states that "The value of the community amenities to be provided shall equal fifty percent (50%) of the fair market value of the additional gross floor area of the bonus level development. The value shall be calculated as follows: The applicant shall provide, at their expense, an appraisal performed within ninety (90) days of the application date by a licensed appraisal firm that sets a fair market value in cash of the gross floor area of the bonus level of development ('bonus value'). The form and content of the appraisal must be approved by the community development director. The appraisal shall determine the total bonus value without consideration of the community amenities requirement established under this section. Fifty percent (50%) of the total bonus value is the value of the community amenity to be provided."

The City of Menlo Park has issued appraisal instructions for the valuation of community amenities for bonus level development. The instructions vary to some degree based on the zoning of the property to be appraised.

For properties in the Life Sciences zone, in brief the instructions for estimating market value at the base level allowed under the zoning code state that the appraiser must (1) identity the property to be appraised; (2) obtain from the City the base level development permitted; (3) state the base level development allowed on a gross floor area basis; (4) estimate the market value of the property assuming it is fully entitled to allow for the base level of development to "immediately proceed"; (5) use only the Sales Comparison Approach in the valuation analysis; (6) analyze sales with a similar intended use as that of the appraised property; and (7) state the conclusion on a price per gross square foot of allowed floor area basis. The reader may refer to the actual document, which is readily available at the City's web site, for a full list of the appraisal instructions.

For properties in the Life Sciences zone, the instructions for estimating market value based on the bonus level allowed are largely the same as for the base level. For the bonus level valuation analysis, the appraiser must obtain from the City the bonus level of development permitted. Regardless of that figure, however, under sections B.4 and B.10 of the appraisal instructions the appraiser must presume that the appraised property is fully entitled for the proposed project, which of course may have differences from the permitted bonus level ratios provided by the City. The value of the property at the bonus level therefore should be based on the actual proposed project parameters rather than the bonus level parameters provided by the City. The value of the community amenity, if any, is then calculated by subtracting the market value conclusion at the base level zoning from the market value conclusion at the bonus level zoning and multiplying the result by 50%.

Of note, the appraisal instructions state that "The appraiser shall not consider the community amenities requirement established under Menlo Park Municipal Code Section 16.43.070 or Section 16.44.070 in determining the Market Value of the Subject Property at the Bonus Level of development." That instruction is contrary to what would be the normal methodology for appraising a potential development site but it is a requirement for the appraisal assignment.

The appraisal instructions define gross floor area in the LS-B zone as "the sum of all horizontal areas of all habitable floors including basements and mechanical areas within the surrounding exterior walls of a building covered by a roof measured to the outside surfaces of exterior walls or portions thereof on the Subject Property, excluding parking structures." That definition is reasonably similar to the Menlo Park Municipal Code's definition (Section 16.04.325) for properties that are outside of the R-1 and R-2 zones.

Many zoning codes for cities in the Bay Area have definitions of floor area or gross floor area. Some of the definitions differ from the one set forth in the appraisal instructions. In this review report, in analyzing any sales contained in NKF's appraisal or any other sales we will consistently apply to the best of our ability the City of Menlo Park's definition of gross floor area as stated in the appraisal instructions, including the analyses of sales located outside of the City of Menlo Park.

As noted in the appraisal instructions, for both the base and bonus valuation scenarios, an appraiser must presume that the subject property is fully entitled. Fully entitled is defined in the appraisal instructions to mean that a property has all of the approvals necessary to immediately proceed with either the base level project, the bonus level project, or the actual proposed development.

In point of fact, however, the subject property has no entitlements in place for either the base level scenario or the actual proposed building that would be constructed at 1350 Adams Court. The project applicant has been seeking entitlements for the project for more than three years, based on documents that we have reviewed. The proposed project of course would not be allowed under base level planning guidelines and would require use of the bonus level parameters.

Given the characteristics of the subject property and the specific requirements for the assignment, it is a challenging assignment to appraise the property under the base level and bonus level parameters. In particular, there have been relatively few recent sales of development sites intended for life sciences use.

The appraisal report by NKF indicates that substantial effort and thought went into the valuation analysis. The appraiser valued the subject property for both scenarios by the Sales Comparison Approach, which was a requirement of the assignment under the appraisal instructions. In both scenarios, the appraiser used a price per square foot of allowed or planned floor area metric in analyzing the sales, which is sound methodology and consistent with the requirements set forth in the appraisal instructions.

NKF's appraisal report complies with most aspects of the Uniform Standards of Professional Appraisal Practice (USPAP) and the appraisal instructions for the assignment. However, there are some shortfalls and areas of non-compliance. As a result, in our view the value conclusions for the base and bonus level scenarios are not adequately supported. In our opinion, an objective review of available market data would indicate that the value conclusions for both scenarios are understated. As a result, based on the available market data we believe that NKF's conclusion for the value of the community amenity also is understated. The reasoning behind our conclusions will be discussed in more detail subsequently in this appraisal review report.

The checklist tables on pages 12-14 of this report summarize specific items reviewed for compliance, adequacy, and credibility in the appraisal. Any areas of the appraisal report that in our opinion were inadequate are discussed on the pages following the tables.

This review report is subject to the assumptions and limiting conditions that are summarized on pages 74-79 of this report, including all standard assumptions and limiting conditions as well as the identified extraordinary assumptions and hypothetical conditions. The cited extraordinary assumptions are necessary to produce credible opinions and conclusions. The cited hypothetical conditions are clearly required for legal purposes, for purposes of reasonable analysis, and/or for purposes of comparison, and are required primarily in order to comply with the City of Menlo Park's appraisal instructions applicable to appraisals for community amenities in the subject property's zoning district.

Thank you for this opportunity to provide review services. If you wish to discuss this report further, please call.

Respectfully submitted,

FABBRO, MOORE & ASSOCIATES, INC.

Charles S. Moore, MAI
BREA Appraiser #AG009176

Frank J. Fabbro
BREA Appraiser #AG002322

1305 O'Brien Drive/1350 Adams Court, Menlo Park, CA				
Assessor's Parcel Number 055-472-030				
Effective Date of Value for the Appraisal Report under Review:		September 18, 2020		
Date of the Appraisal Report under Review:		October 20, 2020		
Date of the Review Report:		February 12, 2021		
APPRAISAL REVIEW CHECKLIST				
(Note: comments on any perceived inadequacies follow the checklist)				
SPECIFIC REGULATORY ISSUES		ADEQUATE	INADEQUATE	N/A
1	Date of Transmittal Identified	X		
2	Date Report Prepared Explicitly Stated	X		
3	Effective Date(s) of Value Explicitly Stated	X		
4	Client Identified	*		
5	Legal Description Included			X
6	Property Interest Identified	**		
7	Value Identified Correctly	X		
9	Value Defined Correctly/Adequately	***		
10	Appraiser Signature Included	X		
11	As-Is Value Conclusion Included			X
12	Prospective Value Limitations Described			X
13	Hypothetical Value Limitations Described		X	
14	Non-Realty Value Components Identified and Valued			X
15	Purpose of Appraisal Described	X		
16	Intended Use/User of the Report Described	*		
17	Scope of Work Described	X		
18	Standard Assumptions and Limiting Conditions	X		
19	Extraordinary Assumptions Described	X		
20	Hypothetical Conditions Described		X	
21	Exposure Time Cited, if Applicable	X		
22	Subject Property Sales and Listing History Adequately Reported	X		
23	Subject Property Agreements of Sale/Options Reported	X		
24	USPAP Certification Included and Adequate	X		
25	USPAP Reporting Option Identified and Appropriate	X		
	** The report contains some contradictory information regarding the client and user; see the subsequent comments*			
	*** The property interest is incorrectly identified, but the interest appraised is supportable; see the comments*			
	**** The market value definition technically is incorrect under the assignment instructions, but that is immaterial; see the subsequent comments*			

	REGIONAL, LOCAL, AND TREND INFORMATION	ADEQUATE	INADEQUATE	N/A
26	Regional and City Data Adequate	X		
27	Neighborhood Description	X		
28	Regional/Local Market Trends Adequately Described	X		
29	Supply and Demand Adequately Addressed	X		
	SITE DESCRIPTION	ADEQUATE	INADEQUATE	N/A
30	Size, Shape and Location Accurately Described	X		
31	Ingress and Egress Issues Addressed	X		
32	Easements and Rights-of-Way Addressed	X		
33	Topography Accurately Described	X		
34	Views Accurately Described	X		
35	Utilities Accurately Described	X		
36	Zoning, General Plan, and/or Land Use Issues Adequately Described		X	
37	Relationship to Surrounding Land Uses Described	X		
38	Nuisances Identified and Described	X		
39	Adequate Flood, Seismic, and Geologic Hazard Data	X		
40	Soils and Drainage Conditions Addressed	X		
41	Environmental Hazard Issues Identified	X		
42	Environmental Hazard Issues Addressed	X		
43	External (Economic) Obsolescence Addressed	X		
	IMPROVEMENTS DESCRIPTION	ADEQUATE	INADEQUATE	N/A
44	Adequate Physical Description	X		
45	Age of Improvements Identified			X
46	Adequate Description of Condition			X
47	Design and Appeal Adequately Described			X
48	Functional Utility Described			X
49	Equipment and Fixtures and Described			X
50	Tangible Non-realty Value Segregated			X
51	Adequate Building Sketches or Floor Plans			X
	HIGHEST AND BEST USE ANALYSIS	ADEQUATE	INADEQUATE	N/A
52	Current Use Described			X
53	Highest and Best Use As If Vacant Identified	X		
54	Highest and Best Use As Improved Identified			X
55	Supply and Demand Factors Adequately Considered	X		
56	Physically Possible Uses Described	X		
57	Legally Permitted Uses Described	X		
58	Financially Feasible Uses Described	X		
59	Maximally Productive Use Described	X		
60	Adequate Argument in Support of Highest and Best Use	X		

	SALES COMPARISON APPROACH TO VALUE	ADEQUATE	INADEQUATE	N/A
61	Appropriate Methodology Used	X		
62	Appropriate Metric(s) Applied	X		
63	Adequate Selection of Sales Based on Subject Highest and Best Use		X	
64	Adequate Descriptions of Sales	X		
65	Adequate Sales Analyses		X	
66	Adjustments Made for Terms of Sales, Discounts, Unusual Factors	X		
67	If Land Value, Adjustments Made for Entitlements/Approvals		X	
68	Overall Use of Reasonable Adjustments		X	
	COST APPROACH TO VALUE	ADEQUATE	INADEQUATE	N/A
69	Adequate Site Valuation Methodology			X
70	Adequate Selection of Land Sales Based on Highest and Best Use			X
71	Adequate Description and Analysis of Land Sales			X
72	Unit Costs Identified and Sourced			X
73	Unit Costs Properly Applied			X
74	Physical Depreciation Identified and Quantified			X
75	Functional Depreciation Identified and Quantified			X
76	External Obsolescence Identified and Quantified			X
77	Method of Site Valuation Adequately Described			X
78	Contribution to Value from Site Improvements: Reasonable			X
	INCOME CAPITALIZATION APPROACH TO VALUE	ADEQUATE	INADEQUATE	N/A
79	Subject Rental History Described			X
80	Existing Leases Described and Analyzed			X
81	Market Trends Adequately Supported			X
82	Rent Comparables: Current and Comparable			X
83	Rent Comparables: Adequate Description			X
84	Rent Comparables: Adequate Analysis and/or Adjustments			X
85	Rent Comparables: Significant Elements of Comparison			X
86	Projected Income and Expenses Described and Analyzed Adequately			X
87	Vacancy and Collection Losses Described			X
88	Adequate Support for Overall Rate(s) and/or Discount Rate(s)			X
	RECONCILIATION AND VALUE CONCLUSION(S)	ADEQUATE	INADEQUATE	N/A
89	Adequate Cost Approach to Value			X
90	Adequate Sales Comparison Approach to Value		X	
91	Adequate Income Approach to Value			X
92	Adequate DCF Analysis			X
93	Adequate Justification for Omitting Any Approach to Value	X		
94	Adequate Basis for/Argument for Concluded Value(s)		X	
95	Detail Adequate for Assignment Complexity	X		
96	Value Conclusion Consistent with Cited Definition of Value	X		
97	Relevant Discount(s) Applied to Value Conclusion(s)			X
98	Qualifications of Appraiser Adequate	X		

Item #4--Client Identification

Among other things, Standards Rule 2-2 (a) of the Uniform Standards of Professional Appraisal Practice (USPAP) requires the appraiser to state the identity of the client and to state the identity of the intended users of the appraisal. The appraisal of the subject property by Newmark Knight Frank (NKF) complies with those requirements but the report has contradictory information regarding the client and intended user(s).

To illustrate, on page 17 the report identifies the client as Monchamp Meldrum, LLP, which is a San Francisco-based law firm. That page also states that Monchamp Meldrum, LLP is the intended user of the report. However, the Intended Use and Intended User section of the NKF appraisal report (page 19) states that the client for the report is Tarlton Properties, Inc. and that the intended users are Tarlton Properties, Inc. and the City of Menlo Park.

The report is actually addressed to John Tarlton at Tarlton Properties. Thus, we consider it more likely that the information on page 19 is correct regarding the client and intended users for the report. However, we have no way of knowing for certain who the actual client and intended users were, since the report contradicts itself on that issue. Ultimately, the contradiction probably did have any effect on the value conclusion(s) and thus is not material to this review other than as a matter of compliance. Normally, this type of issue would be resolved by minor edits to the appraisal report.

Item #6--Identification of the Property Interest Appraised

The subject property is the headquarters site of Pacific Biosciences of California, Inc. (PACB), which is a publicly traded life sciences company. PACB occupies the existing building located at 1305 O'Brien Drive. That information is readily available to anyone with an internet connection. The building at 1305 O'Brien Drive would remain at the site under the development plan submitted by the project applicant, who intends to construct a new R&D building and a parking garage structure at the currently-vacant northerly portion of the site.

A lease encumbers the subject property, with PACB as the lessee. As noted in the transmittal letter to this report, that contract was executed in July of 2015. The lease commenced on or about April 15, 2016. The lease has an 11-year term and a five-year renewal option, according to documents filed with the U.S. Securities and Exchange Commission (SEC). As a result, the property owners hold a leased fee interest in the subject property.

On page 17 of the appraisal report, NKF stated that the interest appraised was "Fee Simple," which would be an ownership interest unencumbered by any leases. The report also identifies the ownership interest as fee simple in the table shown on page 54.

Given the purpose of the appraisal, in our view NKF made the correct decision in valuing a fee simple interest in the land. In our view, the nature of the assignment requires that an appraiser presume that the property is unencumbered by leases in order to value a fee simple interest in the land under the base and bonus level scenarios. In this review report, we will use the hypothetical presumption that no leases encumber the subject property.

The Uniform Standards of Professional Appraisal Practice require an appraiser to disclose any hypothetical conditions utilized in the appraisal. USPAP defines a hypothetical condition as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purposes of analysis."

The use of a hypothetical condition is allowed only when clearly required for legal purposes, for purposes of reasonable analysis, and/or for purposes of comparison and when use of the hypothetical condition results in a credible analysis. Menlo Park's appraisal instructions for community amenity appraisals do not explicitly state that the appraiser must value a fee simple interest in the land under base and bonus zoning scenarios, but that is the clear implication of the language of the instructions.

While we believe that NKF ultimately was correct in valuing a fee simple interest in the land, they should have noted the existence of the lease. Since the interest appraised differed from the actual ownership interest held, the assignment required the use of a hypothetical condition related to the interest appraised. It would probably be best if the City of Menlo Park were to amend its appraisal instructions to clearly state that the appraiser should value a fee simple interest in the land under base and bonus level zoning scenarios.

Item #9--Definition of Value

Under USPAP Standards Rule 2-1 (a) (vi), an appraiser must state the type and definition of value and cite the source of the definition. NKF's appraisal does provide a definition of market value (pages 19-20) and the report cites the source of that definition (12 CFR, Part 34, Subpart 34.42[g]).

The appraisal instructions, however, have a specific definition of market value that applies in the case of community amenity appraisals. That definition does not match the CFR (Code of Federal Regulations) definition cited in the appraisal report. (The noted CFR definition applies primarily in the case of appraisals done for federally-regulated lending purposes.)

The actual market value definition that should apply may be found on page 1 of the appraisal instructions. That page defines market value as "the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, [with] the buyer and seller each acting prudently [and] knowledgeably[,] and assuming the price is not affected by undue stimulus." The definition is fairly similar to but not identical to that of the definition cited in the appraisal report.

In our view, it is highly unlikely that the differences in the market value definitions would have any impact on the valuation analyses or conclusions. Therefore, the issue is immaterial to this review other than as a matter of compliance.

Items #13 and #20--Hypothetical Conditions

Hypothetical conditions were previously described in this review report. Appraisers are required to (1) state any hypothetical conditions used in an appraisal and (2) state that the use of the hypothetical condition(s) may have affected the assignment results.

The NKF appraisal report states (page 4) that no hypothetical conditions were used in the appraisal. In our view, that statement is false because multiple hypothetical conditions were in fact *required* by the appraisal instructions. The failure to make note of and then apply those required hypothetical conditions materially affected the value conclusions in the NKF appraisal, in our opinion.

Property Rights

We have already noted the hypothetical condition that should have been used for the issue of property rights. That particular condition may indeed affect the results of the assignment but its use in our view was required by the nature of the appraisal assignment. The appraisal instructions require the appraiser to value the land under base level and bonus level zoning scenarios. There is a lease encumbering at least part of the subject property but the nature of the assignment indicates that the appraiser should value the land without consideration of any effect resulting from the lease.

Entitlements/Approvals

Far more importantly, the appraisal instructions for both the base level valuation analysis and the bonus level valuation analysis explicitly state that the appraiser must presume that the subject property is "fully entitled." For the base level development scenario, that is instruction #5 and for the bonus level that is instruction #3.

The instructions then define "entitled" to mean that the subject property "has all of the approvals necessary to immediately proceed with construction." In effect, that would mean all approvals in place and building permits either issued or ready to pick up immediately. The instructions even explicitly state (#14 for the base level and #9 for the bonus level) that where a comparable sale is not fully entitled, the appraiser may make an upward adjustment.

In point of fact, however, the subject property has no entitlements in place for either the base level scenario or the actual proposed building that would be constructed at 1350 Adams Court. The project applicant has been seeking entitlements for the project for more than three years, based on documents that we have reviewed. The proposed project of course would not be allowed under base level planning guidelines and would require use of the bonus level parameters.

Because the subject property is not in fact entitled, hypothetical conditions were needed for both the base level and bonus level valuation scenarios. The NKK appraisal never addresses this fundamental issue. In fact, the terms "entitlement," "approvals," and/or similar terms never are even noted in the appraiser's discussion of the subject property.

Entitlement status is discussed for some, but not all, of the sale properties. However, when it comes to the actual analysis of the sales, the value effect of differing entitlement status is never mentioned. In fact, the adjustment grid in NKF's appraisal does not even have a line-item category for adjustments that might be made for entitlements or approval status.

In reality, six of the eight sales analyzed by NKF lacked entitlements at the time of sale. The January 13, 2021 response letter from NKF to John Tarlton states that seven of the analyzed sales *were* entitled. That statement is false and NKF should have known it was false at the time that it was made.

NKF's response letter indicated that sale #1 in their report is not entitled, which is correct. Some aspects related to that sale property are atypical and will be discussed subsequently.

Sales #2 and #5 in the NKF report did have entitlements. Neither property, however, is intended to life sciences development. Those sales will be discussed further later in this review report.

For sale #3, NKF's appraisal report (dated October 30, 2020) stated on page 56 that "the site was sold without entitlements in place." That statement is then directly contradicted by NKF's inaccurate January 13, 2021 response letter.

Regarding sale #4, on page 56 they wrote that "These sites were purchased for land value and…are expected to have a 1.0 FAR." In fact, no development application has been submitted for that site, more than 1½ years after the sale occurred. Therefore, the property sold unentitled, which is implied but not explicitly stated in the NKF appraisal report.

In the case of sale #6, page 57 of the NKF report indicated that "Premia Capital [the buyer] is going through the entitlement process to redevelop the property with a three story life science building that would total 139,200 square feet." The sale occurred well over a year prior to that statement and thus obviously was unentitled at that time for the buyer's intended use. A prior owner had obtained entitlements several years prior for a hotel project. However, the analyzed sale has a contract provision that expressly forbids Premia from building a hotel at the site, which actually is a matter of public record (deed restriction). The appraisal report is correct that the property was *not* entitled for a life sciences project but then NKF's response letter contradicted their own appraisal report.

Regarding sale #7, NKF stated on page 58 of their report that "The site sold without development entitlements." We have personal knowledge that the statement on page 58 is factually correct and that information also is easily verifiable from public sources. Again, the NKF appraisal report is correct but the NKF response letter is contradictory.

For sale #8, NKF's report states on page 58 that "The buyer purchased the property for redevelopment of a life science facility. The new owner of the property has future development plans for the location, although the details about the redevelopment have not been revealed at this time." In fact, the plans are well known and a matter of public record. However, the sale occurred in 2017 and as implied by NKF's statement on page 58, there were no entitlements in place at that time. In contrast, the response letter indirectly indicates that the property sold entitled, which is false.

Entitlement status is a matter of public record. The information is easily verifiable by public record documents and can be supplemented by interviews of knowledgeable parties. In any case, entitlement/approval status is not a matter of opinion but rather an objective, verifiable fact. In our view, the failure properly to analyze the entitlement status of the sales versus the assignment-required presumption for the subject property materially affected the value conclusions expressed in the appraisal report. Based on our review of market evidence, the effect ultimately contributed to the likely understating of the conclusions both for the base level and bonus level scenarios.

Bonus Level Appraisal Instruction #8

Menlo Park's appraisal instruction #8 for the bonus level scenario states that "The appraiser shall not consider the community amenities requirement established under Menlo Park Municipal Code Section 16.43.070 or Section 16.44.070 in determining the Market Value of the Subject Property at the Bonus Level of development." That instruction is contrary to what would be the normal methodology for appraising a potential development site but it is a requirement for the appraisal assignment.

In essence, the noted instruction constitutes the use of a hypothetical assumption that the bonus level value is unaffected by the community amenities requirement. The use of that condition is contrary to fact or logic as it would relate to what a buyer would pay for a property. Nevertheless, it is the City's prerogative to issue the instructions as they see fit.

Knowledgeable market participants can then take the City's instructions into account in making any buy or sell decisions.

The noted instruction affects or should have affected the assignment results and thus should have been cited as a hypothetical condition of the appraisal. Alternatively, the appraiser could have noted instruction #8 as a jurisdictional exception. USPAP defines a jurisdictional exception as "an assignment condition established by law or regulation, which precludes an appraiser from complying with a part of USPAP."

In brief, the instruction requires that the appraiser overlook any effect on bonus value resulting from the community amenities requirement. In effect, the community amenities requirement could be seen as similar to a development fee. Developers (and appraisers) commonly must consider differences in development fees and/or other regulatory requirements among various communities in land value analyses. Where significant differences exist, they may require adjustments to the sales used for comparison with the subject property.

NKF's appraisal valued the subject property at $34.9 million under the base level zoning parameters and at $58.3 million under the bonus level zoning parameters. As noted in the transmittal letter to this report, the value of the community amenity is considered to be equal to one-half of the differential in those values. On that basis, NKF therefore estimated the community amenity value at $11.7 million.

In normal practice, a developer required to pay a fee of $11.7 million would need to reduce the amount that could feasibly be paid for a site by a similar amount to offset that cost, ceteris paribus. If an appraiser is analyzing a sale in a different city, where the sale property is otherwise identical but a similar fee would *not* be imposed, and is comparing that sale property to the subject property, then an adjustment normally would be needed to account for the imposition of the additional fee. However, the appraisal instructions do not allow for any such adjustment in the valuation of community amenities. Therefore, no such adjustment could be made under the terms of the assignment.

Since an adjustment would normally be made in the cited example, the appraiser must clearly point out (by hypothetical condition or perhaps by jurisdictional exception) the reasoning behind the decision to overlook the effect of the community amenity calculation.

In effect, ultimately it is up to developers to compensate for the community amenity requirement at the time that they negotiate purchase prices for development sites in the subject's zoning district.

Similarly, let use suppose an appraiser is analyzing a sale in Menlo Park where the developer would need to pay the calculated community amenity fee (or provide equivalent benefits through some alternate method). Let us further suppose that the appraiser is appraising a property in Menlo Park and the assignment requires that the community fee be overlooked. In that circumstance, when comparing that sale property to the appraised property the appraiser would have to adjust the price for the comparable sale property upward in order to compensate for the fact that the appraisal instructions require the appraiser essentially to overlook the amount of the required community amenity in the bonus scenario valuation of the subject property.

Another way to consider this issue is by a simple thought experiment. Let us imagine that a developer intends to construct a 100,000-square foot R&D project. Let us also presume that the project is expected to have a value upon completion of $1,000 per square foot of gross floor area.

Let us further suppose that it would take two years to complete construction and then sell the property, and that the discount rate applicable during that period would be 15%, covering the effects of time, effort, risk, and profit in completing the project. The net present value effect on the future sale would then be equal to the quantity $[1/(1 + 0.15)^2]$, or 0.756144.

Additionally, let us presume that the costs of sale would be 4% of the sale price and that all direct and indirect costs of construction would be $500 per square foot.

Furthermore, let us suppose that in one case a developer would need to pay an additional $4.0 million development impact fee but in another case no such fee is charged but all other aspects of the project remain the same.

The table on the next page summarizes the amount per square foot of gross floor area that a developer could pay for the land in these highly simplified scenarios.

Case 1 (Fee Is Considered):		Case 2 (Fee Is Ignored):	
Achievable Future Price:	$100,000,000	Achievable Future Price:	$100,000,000
Less Sale Costs:	($4,000,000)	Less Sale Costs:	($4,000,000)
Net Future Price:	$96,000,000	Net Future Price:	$96,000,000
Adjust for Two Years at 15% Rate per Year (NPV = 0.756144):	$72,589,792	Adjust for Two Years at 15% Rate per Year (NPV = 0.756144):	$72,589,792
Less Development Cost:	($50,000,000)	Less Development Cost:	($50,000,000)
Less Impact Fee:	($4,000,000)	Less Impact Fee:	($0)
Residual to Land:	$18,589,792	Residual to Land:	$22,589,792
Residual Land Value/SF GFA	**$186**	**Residual Land Value/SF GFA**	**$226**

As should be readily apparent, the effect of the impact fee is to reduce the amount that a developer could pay for the land. In the noted hypothetical example, that effect is illustrated in the land value indicated in Case 1. As discussed, the appraisal instructions require that the appraiser overlook the effect on bonus level land value of the community amenity requirement specifically. That would result in a valuation more similar to that reflected in Case 2, based on the parameters of this particular hypothetical.

It is unclear from the appraisal report that NKF had thought through the valuation ramifications of bonus appraisal instruction #8. It is clear, however, that no adjustment was made for that factor in the case of sale #1 (1 Casey Court). That property is in Menlo Park, in the same zoning district as the subject site. Therefore, the instructions applicable for a community amenity appraisal for that property would be the same. However, in reality the buyer of the 1 Casey Court property would need to reduce the price paid for the property to offset the effect of the required community amenity contribution.

Since no adjustment was actually made for that factor in NKF's appraisal, it appears that NKF did not properly take appraisal instruction #8 into account. That would also explain the failure to cite the instruction as requiring a hypothetical condition or jurisdictional exception.

Item #36--Zoning and Land Use Issues

NKF's appraisal report has a Zoning and Legal Restrictions section on pages 46-48. That section does not mention general plan guidelines but does have a good description of allowed uses in the LS-B zoning district. However, the report has virtually no information related to the allowed development parameters or requirements, such as lot size/dimension standards, setbacks, coverage, floor area ratio, building height, open space, and parking.

Allowed development parameters are in essence the fundamental drivers of land values and therefore of the community amenity valuation analysis. The higher intensity of development allowed under the bonus level zoning would tend to have a significant positive impact on land value. The community amenity value is then defined by the City as one-half of the land value differential under base and bonus level zoning parameters.

We provided a brief overview of the general plan and zoning development parameters in the transmittal letter of this report. Moreover, we are aware that the client is thoroughly familiar with the general plan and the zoning code. We will not reiterate the parameters here.

In one way, the inadequate zoning discussion of the appraisal report results in a potential problem that greatly complicates any evaluation of NKF's base level valuation analysis. That is, the general plan and the zoning code both allow a floor area ratio of 55% of the land area under base level zoning for R&D/life sciences use. The general plan and the base level zoning also allow for up to a 10% floor area ratio for "commercial" uses. In the context of the zoning code, commercial appears to imply retail sales, eating establishments, personal services, and/or similar uses. However, that is not explicitly stated.

The subject property contains 487,916 square feet of land. The allowed floor area under base level zoning therefore is in the range of 268,354 to 317,146 square feet, or 55% to 65% of the land area. At the latter figure, exactly 48,792 square feet would need to be devoted to commercial use while the remainder could be life sciences/R&D. The existing building at the subject site contains 188,104 square feet. Therefore, under the base zoning only 80,250 square feet of additional R&D/life sciences space could be constructed.

Under the instructions for the appraisal, the appraiser is supposed to obtain from the City the base level of development permitted. The appraiser would then analyze the base level value using that information. The City provided us with the base level allowed development, which amounts to 268,353.8 square feet for life sciences/R&D use and 48,791.6 square feet for commercial use. Rounded to the nearest square foot, those figures match the totals that we previously cited in this report.

However, NKF's appraisal report never mentioned the 48,792 (rounded) square feet of commercial development potential. Therefore, it is unclear if they considered whether that potential floor area had any positive, negative, or nil effect on the land value of the subject property under base level zoning parameters. If they did consider the effect, they did favor the reader with any discussion of what the effect might be.

The base level appraisal instructions *require* the appraiser to evaluate the subject property presuming it were entitled for the base level of development. On that basis, the appraiser was required to presume that the subject property had entitlements in place for the base level of development potential as provided by the City, or 317,146 square feet (rounded), of which 48,792 square feet would need to be commercial space. The failure to discuss the base level (or bonus level) commercial development potential carries over into the Highest and Best Use section of the NKF appraisal report and then into the Sales Comparison Approach.

The Highest and Best Use section of the NKF appraisal is on pages 50 and 51 of the report. The section has minimal discussion of the development alternatives. Ultimately, NKF concluded that the highest and best use of the property as if it were vacant was "the development of a research and development or life science complex."

It is entirely possible that NKF did a thorough analysis of the value potential of the allowed 48,792 square feet of commercial (non-R&D) space. It is also possible that as a result of that analysis they concluded either that (1) it would be infeasible to construct that amount of commercial space, or any amount of commercial space (excluding life science/R&D space) and/or that (2) the land value contribution of the right to build the 48,792 square feet of commercial space was precisely zero or was negative.

If NKF did such an analysis and reached such conclusions, however, the report should have clearly stated that. It is not possible for a reader of the report to determine why the 48,792 square feet of allowed commercial floor area was completely ignored in the appraisal report.

One would not know this from reading NKF report's, but in fact the subject's zoning district has stricter parking requirements for commercial space than for R&D space. Therefore, the number of parking spaces needed per square foot of building area for commercial or personal service space (2.0 to 3.3 spaces per 1,000 SF under the code) typically would exceed the requirements for R&D space (1.5 to 2.5 spaces per 1,000 SF under the code). That factor would tend to drive up the cost per square foot of constructing the commercial space, all else being equal.

Moreover, the subject's district has very little evidenced effective demand for retail/restaurant space. Retail rental rates on the northeast side of Menlo Park trail very far below those of prevailing rental rates for R&D/life sciences space. Furthermore, the subject property fronts on three streets with fairly low traffic levels, which typically would be considered unfavorable locations for retail-oriented uses. In addition, current market conditions generally are extremely unfavorable for new retail development.

Given all of those factors, it would not be unreasonable for an appraiser to conclude that developing 48,792 square feet of new retail/restaurant/personal service space as part of a project that also would have R&D space would not be financially feasible and/or would not be maximally productive for the subject site. However, if that was NKF's reasoning for completely ignoring the commercial development potential in their appraisal report, they should have clearly stated that opinion.

Menlo Park has three current development proposals for R&D/life sciences projects in the subject's district. Only one includes ancillary commercial space. Even though developers could obtain the right to build such space at a 10% floor area ratio, two of the three do not intend to do so. The one application that does include commercial space indicates that the space is intended mainly to satisfy part of the community amenity requirement under the zoning code for bonus level development. The existing applications therefore would certainly imply that developers currently believe that there is no financial advantage to be gained from constructing commercial/non-R&D space in the subject's immediate area.

Whether the assignment instructions allow an appraiser to presume that the commercial space would *not* be built under base level zoning is unclear. If the contributory land value of the right to build that space would be zero or negative, perhaps it would be seen as justifiable to exclude the area from the value calculation. If the contributory value were negative, then of course ignoring any requirement to build out the space would have the effect of reducing the community amenity value that would otherwise apply. That of course would then favor the project applicant.

Given (1) the complete lack of information in the appraisal report regarding the commercial (non-R&D) development potential, (2) the failure to include any such development potential in the value analysis, and (3) the stated highest and best use conclusion, it appears to us that NKF probably concluded that the right to build the 48,792 square feet of commercial space would not contribute any positive land value to the property under the base level zoning scenario. Without any actual commercial space building plans or proposal to evaluate for the subject site, it is difficult to say with certainty from market evidence whether that conclusion would be correct. Still, such a conclusion appears supportable from the available market data.

Items #63, #65, #67, #68, #90, and #94--Sales Comparison Approach and Support for the Value Conclusions

As noted, in the Highest and Best Use section, NKF concluded that the highest and best use of the subject property was to develop an R&D/life science project. They did not favor us with any opinions on what the size of such a project might be, or whether it would be more similar in size to the base or bonus level scenarios. Based on their ultimate conclusions, however, the implication would be that the bonus level scenario would be the highest and best use in NKF's view.

On that basis, the appraisal should have focused on sales where the buyers intended to develop R&D/life sciences space. In fairness, development site sales occur infrequently for properties intended for life sciences use. Possibly as a result of that fact, the appraisal report actually has a minority of sales intended for life sciences use.

Of the eight analyzed sales, only three (sales #1, #6, and #8) actually are intended for life science development projects. The others either have no plans for new construction (sale #3, where the buyer intended to retain and renovate the existing building), have no submitted or stated development plans (sale #4), or are proposed or likely general office development sites (sales #2, #5, and #7). Moreover, most of the sale properties differ significantly from the subject in location. In our view, there were sufficient sales of sites intended for life sciences use in well-established R&D/industrial/life sciences districts to allow for a focus only on those sales and the exclusion of sales that have significantly different intended uses.

Sale #1 (1 Casey Court, Menlo Park)

This is a reported pending sale of a property located very near the subject site, in the same zoning district. The report indicates (page 54) that the sale is scheduled to close escrow between June of 2021 and October of 2022, which is a very wide range. The table on page 54 implies but does not state that the contract may have been executed in July of 2020.

The prospective buyer of sale #1 appears to be one of the owners of the subject property and most likely was the client for NKF's assignment. We have not confirmed the reported effective sale price of $12,145,000. For purposes of this analysis, we will use the extraordinary assumption that NKF's stated effective sale price, apparent contract date, and closing date range are accurate. If that assumption were incorrect, there could be an effect on the assignment results.

It is understandable that the appraiser used this pending sale, as it clearly provides a nearly ideal match in location and land use guidelines, and appears to represent a recent contract. However, there are some significant apparent errors in the analysis of the sale.

The factors related to the acquisition are unusual in many respects. The NKF appraisal reported an effective sale price of $12,145,000 for 73,020 square feet of land area. They also used an estimated floor area ratio for the unentitled property of 125%. On that basis, they analyzed the sale presuming that the effective sale price equaled $133 per square foot of potential area.

The actual facts are much more complicated than reported by NKF, who never reported what development was actually proposed for the site of sale #1. At minimum, those facts call into question the way that NKF analyzed the sale.

According to public record documents and city officials, the property at 1 Casey Court would be combined with the adjacent parcels at 1105-1165 O'Brien Drive into an assemblage. The assembled site would contain 179,538 square feet of land area. According to the development proposal and building plans, the lot at 1 Casey Court comprises 73,180 square feet of that total land area, or 40.76% of the total.

The combined properties would be developed with 131,284 square feet of building area. The current proposal would have 1.9 parking spaces per 1,000 square feet of floor area, with most of the parking spaces to be situated on the 1 Casey Court portion of the site. The overall proposed floor area ratio for the project would be 73.1%, not 125%. Moreover, precisely zero square feet of building area would be situated at 1 Casey Court.

If one were to use the actual planned floor area ratio for the assemblage of which the site of sale #1 would form a part, the effective sale price of $12,145,000 for 73,180 square feet of land at a 73.1% floor area ratio actually would equate to about $227 per square foot of prorated floor area. That figure is based on the site of sale #1 being a contributor to the entire site, which as noted has a 73.1% overall proposed FAR. The $227/SF figure of course far exceeds the $133 price per square foot of floor area used in NKF's analysis.

The original project design for the site at 1105-1165 O'Brien Drive was submitted well over two years ago. A prior development proposal called for the development of an R&D building and a parking structure on that site. At that time, the site of sale #1 was not slated to be a part of the development site. The current proposal includes the site of sale #1, and it eliminated the parking structure. The proposal now calls for entirely surface parking (249 spaces), of which 160 would be located on the site of sale #1.

One could argue that the developer is preserving the right to develop the site at 1 Casey Court at a later date and that the site would then have the potential on its own to support a new R&D/life sciences project with up to a 125% floor area ratio (or 135% including the allowed 10% commercial ratio). However, if such a proposal were submitted, the applicant would need to find a way to replace the 160 parking spaces that would be "lost" in order to make way for a new building at the site of sale #1. Moreover, additional parking potentially would need to be found, most likely off-site, during any period that would then be needed to build a new parking structure at 1105-1165 O'Brien in order to provide sufficient parking for the new 131,284-square foot building that the applicant intends to build on that portion of the assemblage.

Consider also what would happen if the new project currently proposed were leased shortly after completion, say for a 10-year term. Such a lease would then give the lessee control over the property for the duration of the lease. That fact could preclude any new development at 1 Casey Court until the lease expires. Then a long period of vacancy could be expected while a new parking garage were constructed to serve the building at 1105-1165 O'Brien in order to free up the site at 1 Casey Court for a new development.

This is a complex issue that should have been discussed in the appraisal. Instead, the actual development plans for the site of sale #1 were completely ignored.

In our view, the proper basis for analyzing the sale would have been one of the following.

- Analyze the sale property based on the proposed 73.1% floor area ratio for the assemblage, using the prorata effective price per square foot of floor area of $227. The appraiser would then make any negative adjustments necessary to account for the (possibly distant) future greater development potential of the site at 1 Casey Court.

- Analyze the property based on some future 125% achievable R&D/life science potential floor area ratio, with the understanding that the potential could not be reached easily or in the near-term if the proposed development for the assemblage were to occur. As such, on that basis it would likely be many years before the site of sale #1 could reasonably be developed separately, and any such plan would necessitate major changes to the 1105-1165 O'Brien Drive property.

- Analyze the sale based on its contributory value resulting from the ability to allow the prospective buyer to replace structured parking spaces for the proposed development with surface parking spaces. (In our view, the reported effective sale price is probably fairly similar to the savings that would result from not needing to build a parking structure.) It would be difficult to analogize the sale property to the subject property on that basis for the development scenarios under consideration for the subject.

- Analyze the property based on its future development potential, ignoring the fact that the prospective buyer of the property has submitted a development plan that includes the site of sale #1. In that case, the property would need to be analyzed as a completely unentitled site for which there hypothetically are no development plans in place. In theory, the base effective sale price per square foot of allowed R&D/life sciences space would match the $133 per square foot figure used by NKF, presuming that a 125% floor area ratio could be achieved. A substantial upward adjustment would be needed for entitlements. Additionally, a developer constructing such a project at 1 Casey Court would need to take into account the effect of the community amenities requirement applicable for bonus level zoning.

On page 54, the appraiser wrote that "A downward adjustment was applied for conditions of sale-assemblage as the comparable is adjacent to other land owned by the Grantee and the site is more valuable to them than it is to other potential buyers." No evidence supporting the actual need for an adjustment was provided. Moreover, it should be noted that the sale property is separated only by a narrow drainage channel from another site that is intended for a life sciences development project. That property is under different ownership than the property at 1 Casey Court. It is certainly possible that the developer of the other nearby property also would have been interested in the 1 Casey Court site. Alternatively, other life sciences/R&D developers may have been interested.

The appraisal does not even state whether or not the property was offered for sale on the open market. (We could find no evidence that it was.) It is difficult to prove that a buyer paid a premium if the property in question was not openly marketed.

The prospective buyer does not even intend to construct any building area on the site of sale #1, but presumably determined that the price that would be paid was more cost-effective than their earlier plan to build structured parking at the adjacent property to support their new development. There is no information to indicate that the property was openly marketed. In our view, market evidence is not supportive of the conditions of sale adjustment. In any case, no support for the adjustment was provided in the appraisal report.

Issues related to entitlements/approvals also affect the analysis of sale #1, and indeed almost all of the sales. As previously detailed, six of the eight analyzed sales lacked development entitlements/approvals. Meanwhile, the appraisal instructions require the appraiser to presume that the subject property is entitled for the base and bonus level scenarios.

All else being equal, an entitled development site will sell for a significant premium over an unentitled site, as long as the buyer actually wants to construct the approved project. The premium tends to vary with the size of the project, the perceived difficulty of the entitlement process, the anticipated time needed to obtain approvals, and the type of project. Entitlements often can add from 10% to 50% over the value of an unentitled site. Premiums tend to rise with the perceived difficulty of and time involved with obtaining the entitlements. With developers commonly applying 10% to 20% annual internal rates of return, it is easy to see how an entitlement process than takes one year or multiple years can affect value significantly. In addition to the time factor, there are major entitlement expenses associated with CEQA processing; soils and geotechnical studies; civil engineering; architectural work; city fees; legal fees; neighbor outreach; carrying costs for factors such as loan interest, equity partner payments, and real estate taxes; and other costs that are typically incurred during the approval process.

Since NKF acknowledged in their January 13, 2021 response letter than sale #1 lacked entitlements, an upward adjustment was warranted for entitlements. That adjustment may have been offset to some degree if NKF took into account the development application that includes the site of sale #1, as the prospective buyer may not close escrow until after approvals are obtained, which of course would reduce the amount of the needed adjustment.

If the sale were being analyzed outside of the context of the current development application, however, then a full adjustment for entitlements would be needed. In any case, entitlements were not even included as a potential adjustment category in the appraisal.

Sale #2 (3375 Scott Boulevard, Santa Clara)

This 252,034-square foot site sold with entitlements in place for the construction of a six-story, Type I-B building that will contain 237,107 square feet of office space. The project also will include a two-story, 13,643-square foot "amenity building," and a four-level parking structure. While the development application refers to the amenity space as a "building," the amenity space actually would consist of outdoor seating area, barbecue counters, fireplaces, and horseshoe courts. That space would not be enclosed and would not be floor area under Menlo Park guidelines. On that basis, the project would have 237,107 square feet of gross floor area. The development would have 888 parking spaces (750 structured and 138 surface), or 3.7 per 1,000 square feet of gross floor area (3.5 spaces/1000 SF if including the amenity space as building area).

Using the actual planned gross floor area, rather than the 252,034-square foot figure shown in the NKF report, the sale price amounted to $215 per square foot of planned floor area. As noted, the gross floor area figure excludes the planned amenity space (not enclosed area). If that space were included as floor area, the sale price would be $203 per square foot.

We have some issues with the analysis of this sale but in our view it most likely should not have been included at all. The property lies in an area with no established life sciences space demand. The intended use was to develop office space, not life sciences space.

Page 55 of the NKF report stated that "The location in Sunnyvale is generally superior to the subject evidenced by higher rent levels." That statement is dubious, unsupported, and in this case irrelevant since the sale property actually is in the City of Santa Clara.

The report cites a number of factors in support of a downward adjustment for intended use. The rationale essentially amounts to a view that R&D/life sciences buildings are more expensive per square foot to construct than office buildings.

What the NKF report does not mention, however, is that office buildings often have higher parking requirements than R&D buildings. For example, as noted the planned parking ratio for sale #2 is 3.7 spaces per 1,000 square feet of office area. Meanwhile, the development proposal for the subject, which we are required to presume is approved, calls for a parking ratio of 2.15 spaces per 1,000 square feet. The cost to provide the parking at the subject development would therefore be much lower per square foot of gross floor area than the cost to provide the parking at the site of sale #2. That variable is not even mentioned in the appraisal report, much less accounted for in any apparent way.

Sale #3 (305 North Mathilda Avenue, Sunnyvale)

This property is developed with a 33,911-square R&D building, which was constructed in 1974. The buyer purchased the property in January of 2020 with the intention of renovating the structure and then offering it for lease. The property is in fact currently offered for lease. There are no plans to redevelop the site with a new building, As such, it is not an appropriate sale for an analysis of the subject property under the valuation scenarios applicable for the assignment.

Sale #4 (190 Commercial Street, Sunnyvale)

The fourth sale property consists of three contiguous parcels that transferred to Applied Materials (AMAT) in June of 2019 for a total consideration of $16,500,500. NKF's appraisal reported the sale date as November of 2019, which is incorrect. They also reported a sale price of $16,500,000, which is a trivial error.

In combination, the parcels contain 107,068 square feet of land according to city records or 111,147 square feet according to county records. AMAT has two of their existing campus buildings (#84 and #85) within a block of the site of sale #4.

The NKF appraisal states that "These sites were purchased for land value and the eventual campus expansion for Applied Materials and are expected to have a 1.0 FAR." The report does not tell us what parties expect the property to have a 1.0 FAR. In any case, the sale occurred more than 1½ years ago and no development proposals have been submitted for the property. The sale did not include any entitlements, in contradiction to NKF's January 2021 response letter. As such, an upward adjustment was warranted for that factor.

Another critical factor that the NKF appraisal does not mention is that sale #4 lies within the Industrial land use area under the Sunnyvale general plan and is zoned M-S (Industrial and Service District). Both the general plan and the zoning code limit the allowed floor area ratio to a maximum of 35% for most uses, or 40% with a 500 basis point allowed increase for "green" buildings. The base allowed floor area ratio in the M-S zone rises to 50% for warehouses or 40% for hazardous materials storage facilities.

If NKF were using a hypothetical assumption that the site of sale #4 had a general plan amendment and a zoning change in place, allowing a floor area ratio of up to 100%, then they should have clearly stated that and cited the rationale for the use of that assumption. Alternatively, if NKF had evidence that such an amendment and zoning change were imminent, they should have stated that and provided the source of that information. Otherwise, the property should have been analyzed based on existing land use guidelines.

In our opinion, this sale should not have been included in the appraisal report. There is no evidence of any intention of developing a life sciences project (or any other type of project) on the site. No development applications have been submitted. The current general plan and zoning code would not allow the intensity of development that the appraiser presumed in the analysis.

Sale #5 (615 North Mathilda Avenue, Sunnyvale; now known as 625-655 North Mathilda)

This property sits within the 450-acre Peery Park area of Sunnyvale, where the development guidelines are laid out in the Peery Park Specific Plan adopted in 2016. The 330,664-square foot site sold for $85.001 million in October of 2019. The sale included entitlements to build two four-story office buildings separated by a five-story parking garage with ancillary amenity space. The plans were altered to some degree after the sale by the grantee, but for the most part the work done to obtain entitlements was used for the construction of the building. The new buildings are under construction and are on the market for lease.

The seller reported that the proposed building area amounted to 316,400 square feet. The City reported that the project would contain 330,353 square feet, including the office space and 13,988 square feet of amenity area. As with sale #2, the planned amenity space is not enclosed building area. In this case, the amenity space would mostly consist of patio, deck, and planter space at the garage structure. The proper gross floor area comparison basis would exclude that area, leaving 316,365 square feet of gross floor area. The sale price thus amounted to about $269 per square foot of gross floor area. The NKF report indicated a price of $257/SF, as they included the amenity space as gross floor area.

The development has 966 parking spaces (889 structured and 77 surface). The parking ratio is 3.1 spaces per 1,000 square feet of gross floor area.

The buildings were designed and are being marketed as office space. There never was a plan to develop the site with any life sciences buildings. As such, this is not a highly similar sale for comparison with the subject property. In our view, it would have been better if the appraiser had focused on sales of life sciences development sites.

On page 57 of their analysis, NKF stated that "No adjustment was applied for life science building costs as this parcel was to be developed with a life science building." The statement is incorrect. In any case, in contrast to the noted statement, NKF *did* actually adjust this sale downward by 20% for the difference in use. The report does not actually provide any support for the magnitude of the office vs. R&D/life sciences use adjustments. In any case, that variable could have been avoided simply by focusing on sales of life sciences development sites.

Sale #6 (1091 Industrial Road, San Carlos)

Sale #6 is one of several fairly recent transactions for proposed life sciences projects in the City of San Carlos, which is in the primary competitive market area for the subject property. The 69,602-square foot site at 1091 Industrial Road sold for $15 million. The sale closed escrow in June of 2019, but the contract was executed well before that date. As implied but not clearly stated in NKF's appraisal report, the property did not have entitlements for an R&D/life sciences project at the time of sale. The buyer did eventually obtain planning (but not building) approvals in 2020 for the development of a 138,710-square foot life sciences project. At that figure, the sale price amounted to $108 per square foot of planned floor area.

The development will comprise three floors, with a 66-foot peak building height. This property, unlike the subject, is not situated in a special flood hazard zone. As such, the development can accommodate a substantial underground parking garage and the proposal in fact includes two levels of below grade parking. The proposed parking ratio is about 3.0 spaces per 1,000 square feet.

A prior owner had gone through the process of rezoning the sale property to Planned Development to allow for the construction of a seven-story, 162-room Hilton Garden Inn hotel. That proposal never came to fruition. The buyer for the 2019 sale had to take the property through the planning process to change the zoning back to the previous designation (General Commercial/Industrial) and seek approvals for the planned life sciences project.

A substantial upward adjustment was warranted for this sale to account for the difference in entitlement status versus the presumed fully entitled status for the subject. However, no such adjustment was made and as previously noted there is not even an adjustment category in the NKF appraisal report for entitlements/approval status.

The NKF report states on page 57 that "An upward adjustment was applied for market conditions (time) due to increasing value trends in the local market. Recent listing and closed transaction data indicates an annualized rate of 3.0% is applicable." No actual support in terms of transaction data was cited in the report. There is no apparent reason why listing data would be used for support for the market conditions adjustment rate, as list prices are not necessarily evidence of actual achievable sales prices.

Many business sectors have been significantly adversely affected by the outbreak of the SARS-CoV-2 pandemic and the related recession. The R&D/life sciences market sector, on the other hand, is one of the few that has been relatively unscathed, and may have emerged even stronger in the current economy than it had been pre-pandemic. Given the available market data for that sector, a 3% annualized adjustment rate appears likely to be at least slightly low, with the differential being more significant for older sale transactions. Moreover, any such adjustments in our opinion should be made from the *contract* date of the sale to the effective date of the appraisal, rather than the *closing* date of the sale.

To cite an example of market trends over the past few years, we ran a data search for R&D/life sciences space leasing activity in what we consider to be the main competitive area for the subject property, which would include the cities of Menlo Park, Foster City, San Carlos, Redwood City, Palo Alto, and Mountain View. All of those cities have substantial amounts of R&D space, including life sciences space.

The table below summarizes average reported base R&D/life sciences rental rates in those cities by year over the past several years, along with the year-over-year change rates. The information in the table is limited to R&D/life sciences leases involving spaces of 30,000 square feet or more, with a lease term of three years or more, where the space leased on a triple net service basis.

Year	Avg. Base Rent/SF/Month	Year-over-Year Δ
2016	$4.37	+23.8%
2017	$4.65	+6.4%
2018	$5.06	+8.8%
2019	$5.21	+3.0%
2020	$5.43	+4.2%

Rental rate changes of course are not equivalent to land value changes. However, all else being equal the directional trend will be the same. Moreover, it must be noted that *land* prices tend to be much more volatile than *improved property* prices or rents. Thus, during periods of rental or improved property prices appreciation, land prices tend to accelerate at a faster pace than the overall property value trends. Of course, the flip side of this equation is that in periods when rental rates *fall*, land values typically decline at an even steeper rate.

NKF's report does not have any discussion of differences in municipal requirements, nor is there an adjustment line for that factor. Considerations in that category might include differences in development parameters under the zoning code, differences in fees, and/or other factors.

San Carlos and Menlo Park both have substantial development fees that apply to new construction. In both cities, for example, there are large impact fees for affordable housing and transportation or traffic impact factors. Overall, those differences are fairly minor and do not warrant a significant adjustment. Menlo Park does also have a community amenity requirement for any projects developed under bonus level zoning parameters in the LS-B zoning district, but as previously discussed the appraisal instructions require the appraiser not to take that factor into consideration in the bonus scenario land value analysis.

Sale #6's land use guidelines allow for a much higher floor area ratio (200%) than does Menlo Park's LS-B zone (55% to 125% for R&D/life sciences uses). That factor to a large degree is taken into account by analyzing the sales on a price per square foot of planned floor area basis. On the other hand, Menlo Park allows for much taller projects under bonus level zoning (110- to 120-foot maximum height) than would be permitted in sale #6's zoning district (50-foot maximum). In addition, sale #6 has a greater required parking ratio than does Menlo Park. The ultimate effect of the zoning parameters for sale #6 is that developing the property to the planned intensity will require excavating for a large underground garage. Since the property is not in a special flood hazard zone, such a project is permissible. However, the prorata cost of providing the parking will likely significantly exceed the cost of providing parking for the subject project due to (1) the higher ratio required and (2) the need for major excavation.

The differences in parking requirements and parking design are a comparative advantage for the subject property. Although it is possible that the higher parking ratio needed for sale #6 will produce some incremental achievable rent bonus, the market value of any added rent potential would be unlikely to exceed the cost of producing the extra parking spaces. That factor should have been considered in the analysis, which would have resulted in a positive adjustment when comparing sale #6 to the subject property under the base or bonus level scenarios.

Sale #7 (1180 Main Street, Redwood City)

This transaction involved a 57,111-square foot site that transferred in October of 2018 for $20,500,000. A prior owner had obtained approvals several years earlier to build a skilled nursing facility at the site, but never was able to secure financing to fund that project. The property sold unentitled in 2018. That fact is stated in the NKF appraisal report but then contradicted in NKF's response letter.

Post-sale, the new owner brought the property through the entitlement process and eventually obtained approvals to develop the site with a three-story, steel frame office building over a multi-level underground parking garage. The project, which will contain 109,375 square feet of gross floor area, is currently under construction and has been entirely pre-leased. The development will include 375 below grade automobile parking spaces, or 3.4 spaces per 1,000 square feet of floor area.

The sale price amounted to $187 per square foot of planned floor area. It should be noted that there are some pending sales in the same district (Stambaugh-Heller district of Redwood City) with much higher prices per square foot of planned floor area.

This property was zoned Mixed Use-Live/Work (MULW) at the time of sale. That zoning district has since been eliminated and the property is now zoned Mixed Use-Transitional (MUT). The entitlements were issued under the former zoning. In any case, neither the old MULW zone nor the new MUT zone allows R&D or life sciences uses. As a result, sale #7 probably should not have been included in the appraisal report. Having included the sale, at minimum NKF should have applied an appropriate adjustment for entitlements.

Sale #8 (201 Haskins Way, South San Francisco)

The final sale analyzed in the NKF appraisal report was the September 2017 transaction involving a former Prologis warehouse property at 201 Haskins Way in South San Francisco. The 280,962-square foot site sold for $33 million. NKF's appraisal report implies but does not explicitly state that the property sold without entitlements. The response letter indicates that the property did have entitlements at the time of sale, which is incorrect.

At the time of sale, the property was zoned Mixed Industrial by the City of South San Francisco. There was no development application on file at that time, and certainly no approvals for a new project. The Mixed Industrial zoning allows for only very low intensity development (maximum FAR of 40%). The buyer went through the process of re-zoning the property to Business Technology Park, which allows for up to a 50% base level floor area ratio or up to a 100% ratio with incentives.

After the zoning change, in 2019 the buyer obtained entitlements to develop the property with a new, five-story life sciences project plus a five-story parking structure. The new life sciences building will have a floor area of 280,765 square feet according to City of South San Francisco measurement standards, for a 99.9% floor area ratio. That figure excludes some area (such as mechanical equipment rooms and electrical rooms) that would in fact be counted as gross floor area under Menlo Park standards. Under Menlo Park's gross floor area standards, the building would contain 311,468 square feet of gross floor area, based on our review of the building plans. At that figure, the sale price would amount to $106 per square foot of planned floor area.

As noted, the property sold unentitled. The buyer had to change the zoning and bring the property through the entitlement process, which included an EIR that covered nearby parcels as well as the sale property and all other steps of the approval process. The NKF appraisal should have included a substantial positive adjustment for that factor.

South San Francisco has generally stricter parking requirements than would apply in Menlo Park's LS-B zone for R&D projects. The development proposal for the site of NKF's sale #8 calls for 903 parking spaces, or 2.9 spaces per 1,000 square feet of gross floor area (3.2 spaces/1000 SF using the City of South San Francisco's calculation of floor area). In comparison, the proposal for the subject would have just 2.15 parking spaces per 1,000 square feet. The relative added expense for sale #8 should have resulted in a positive adjustment, in our view.

Additional Sales Cited in the January 2021 Response Letter from NKF

In their January 2021 response letter written to John Tarlton, NKF mentioned three sales in San Carlos that they considered but ultimately excluded. In our view, two of the three noted sales should have been analyzed in more detail.

The first additional sale involved the property at 887 Industrial Road, which sold in 2017. NKF stated that they "did not use that sale as it lacked entitlements and was a three year old sale." The stated rationale does not withstand scrutiny. The original NKF report had eight sales; as we have discussed, six of those were unentitled. Moreover, the appraisal report already included a sale that occurred in 2017. We will discuss this sale in more detail subsequently.

The second additional sale noted by NKF in their response letter involved a property "located Old County Road and Commercial Street" [sic]. From that description, we presume that NKF is referring to part of the assemblage that Alexandria Real Estate Equites (ARE) is putting together for a large life sciences project in an area generally bound by Industrial Road, Commercial Street, Old County Road, and a creek. ARE has acquired most but not all of the parcels for that project.

NKF refers to an April 2020 sale for $98.13 million with a price of $120 per square foot of floor area. That information is significantly in error as it relates to the sale price per square foot of floor area. In fact, the sale to which NKF appears to refer had a price of $113.25 million, which included two contemporaneous transactions with prices of $98.13 million and $15.12 million, for a total of $113.25 million. (CoStar, a widely used commercial property database, indicates a combined price of $135.12 million, but that is incorrect based on our sources and the recorded deeds.) ARE noted the sale in their Q1-2020 earnings report, where they indicated that they paid $113.25 million. That earnings report also showed that ARE believed that the acquired property by itself has the potential for 700,000 square feet of floor area. (No entitlements are in place. The sale property is a part of the larger development site that ARE is putting together on the same block. At 700,000 square feet, the implied floor area ratio would be similar to the average of what ARE is proposing for the entire assemblage.)

Using ARE's own reported sale price figure and ARE's development potential estimate from the earnings report, which report is readily available to anyone by a simple internet search, the sale price would equate to $162 per square foot of estimated achievable floor area. The property sold without entitlements. ARE was working on approvals while the sale was in escrow but substantial planning work is still needed.

In our view, this was a highly relevant sale for the valuation of the subject property. We will provide additional comments later in this report.

The third additional sale noted by NKF involved several parcels fronting on Old County Road, Commercial Street, and Bransten Road that sold from three different sellers to an entity formed by The Sobrato Organization. As far as we can determine, there are no plans to develop that property with a life sciences use. As such, the sale is not considered to be particularly relevant to the analysis of the subject property.

Review Conclusion--NKF Appraisal

NKF's appraisal report complies with most aspects of the Uniform Standards of Professional Appraisal Practice (USPAP) and the appraisal instructions for the assignment. However, as noted there are some shortfalls and areas of non-compliance. As a result, in our view the value conclusions for the base and bonus level scenarios are not adequately supported. In our opinion, an objective review of available market data would indicate that the value conclusions for both scenarios are understated. As a result, based on the available market data we believe that NKF's conclusion for the value of the community amenity also is understated.

As discussed in this review report, one major failure in the NKF appraisal report was the omission of any analysis of the effect on value of entitlements. The appraisal instructions indicate that the appraiser must assume that the subject property is entitled for both the base level of allowed development and the bonus level associated with the development application. As we have noted, six of the eight sales analyzed by NKF lacked entitlements.

Even if we were to presume that every adjustment as presented in the NKF report were supported and exactly correct, then the value conclusions would be understated if we were to make the obvious necessary change to apply appropriate adjustments for entitlement status to sales #1, #3, #4, #6, #7, and #8.

As the report was presented, the adjusted value range per square foot of floor area for the sales was $98.48 to $198.76 per square foot, which is a very wide adjusted range. The standard deviation was about $36/SF, which is a very high number relative to the indicated value and would tend to indicate weak support for the conclusions.

The simple (not size-weighted) median and average adjusted values were $133.45 and $138.11 per square foot of gross floor area, respectively. (The NKF report indicates the simple average was $137.57/SF, but that figure is incorrect, at least based on the indicated adjusted value line shown on page 59 of the report.) Anyway, if appropriate adjustments had been made to six of the sales for entitlements, then the median and average indicated values both would have significantly increased. Consequently, the $130 per square foot conclusion in the report necessarily would have had to rise as well.

Market Value Opinion of the Reviewers

The client requested that the reviewers provide a supported opinion of value if the reviewers determined that Newmark Knight Frank's appraisal report did not have sufficient support for the value conclusion(s) and/or if the reviewers disagreed with the value conclusion(s) of the Newmark Knight Frank (NKF) appraisal report. In our opinion, the NKF appraisal does not provide sufficient support for the value conclusions. Furthermore, we disagree with the conclusions. Therefore, we will provide a summary indicating the support for our value opinions for the subject property under base zoning parameters, bonus zoning parameters, and the value of the community amenity as calculated under the applicable appraisal instructions.

Only three of the eight sales included in the NKF report are intended for life sciences development (sales #1, #6, and #8). We will analyze those sales as well as some other sales of proposed life sciences development sites that are located in the subject's main competitive area. We will include four additional sales, one of which is in the subject's district and three of which are in San Carlos. One of the additional sales occurred in November of 2020. As such, that information was not readily available to NKF when they completed their appraisal report in October of 2020. The information was available when NKF issued their response letter in January of 2021 but was not mentioned in that letter.

The tables on the next three pages summarize the seven proposed life sciences development site sales that we think are relevant for an analysis of the subject property. The sales certainly are not ideal but we believe them to be the best available given the land use designation, zoning, and intended use of the subject parcel. More information related to the analysis process will be provided following the tables.

Summary of Life Sciences Development Site Sales Data (Table 1 of 3)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#R1 1 Casey Court, Menlo Park	Pending $12,145,000 (effective price, per NKF)	Tarlton Properties Grek Trust, et al.	73,180 SF	LS-B Life Sciences	The buyer intends to combine the property with the site at 1105-1165 O'Brien Drive and develop a 131,284-square foot life sciences project on 179,538 sq. ft. of land, for a 73.1% floor area ratio. The property at 1 Casey Court would be developed with surface parking and would retain future development potential for up to a 125% FAR for life sciences/R&D use under certain conditions.	**$133 - $227 (see text)**
#R2 1075 O'Brien Drive, Menlo Park	4-17 $4,800,000	CCS Management, LLC Roberts Trust, et al.	30,464 SF	LS-B Life Sciences	This property will be part of a 98,696-square foot assemblage. The applicant intends to build a life sciences project at a 121.6% FAR, and the development would also include commercial space at a 10.0% FAR, for a total FAR of 131.6%. The commercial space is intended to satisfy part of the community amenity requirement. On that basis, the proper basis of comparison is with the 121.6% proposed life sciences FAR. The property at 1075 O'Brien Drive sold unentitled.	**$130**
Subject 1350 Adams/ 1305 O'Brien, Menlo Park	N/A N/A	N/A N/A	487,916 SF	LS-B Life Sciences	The analysis presumes the property is fully entitled for both the base level development scenario (55% allowed FAR for R&D/life sciences use and 10% FAR for commercial use) and the bonus level development scenario (proposed life sciences project with a 91.92% FAR).	**N/A**

Summary of Life Sciences Development Site Sales Data (Table 2 of 3)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#R3 1091 Industrial Road, San Carlos	6-19 $15,000,000	1091 Industrial Owner, LLC Green Valley Enterprises, et al.	69,602 SF	PD; changed to GCI by buyer General Commercial/ Industrial	The property was unentitled at the time of sale. Post-sale, the buyer has changed the zoning and obtained approvals to build a 138,710-square foot life sciences project, for a 199.3% FAR.	**$108**
#R4 887 Industrial Road, San Carlos	6-17 $85,000,000	ARE-San Francisco No. 63, LLC WHPV Tanklage SPE, LLC	345,137 SF	GCI; changed by buyer to Planned Dev. General Commercial/ Industrial	The prior owner had obtained approvals in 2016 to develop the site with a Class A office project. Most of that background work was usable by the grantee, who changed the proposal to a life sciences project. That project has subsequently been approved. The development will have a floor area of 528,208 square feet according to the City of San Carlos, but the gross floor area will be 553,890 square feet under Menlo Park's definition, for a 160.5% ratio.	**$153**
#R5 1075 Commercial Street, San Carlos	4-20 $113,250,000	San Carlos Partners, LLC Kelly-Moore Paint Company, Inc., et al.	541,973 SF	Heavy Industrial Planned Industrial (large majority)	This property is located on a block where ARE is proposing a very large life sciences development. They have acquired most but not all of the parcels needed for the scale of development. The buyer estimated that the site of sale #R-5 has a floor area potential of 700,000 square feet, or a 129.2% floor area ratio. Major work is still needed to obtain entitlements.	**$162**

Summary of Life Sciences Development Site Sales Data (Table 3 of 3)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#R6 775-777 Industrial Road, San Carlos	11-20 $37,250,000 (see intended use comments)	777 Industrial Owner, LLC 775 Industrial, LLC	123,928 SF	Heavy Industrial Planned Industrial	This property was developed with a new 44,000-square foot auto dealership in 2018. Although the building is less than three years old, the buyer has proposed developing the site with a new, 123,000-square foot life sciences facility, or slightly less than a 100% FAR. The property is unentitled for that use. The buyer intends to retain the shell of the existing dealership building and construct two floors above that. If we were to presume that the contributory value of the improvements equaled the $14 million construction cost, the effective price for the land would be $23.25 million, or about $189 per square foot of planned GFA.	**$189**
#R7 201 Haskins Way, South San Francisco	9-17 $33,000,000	ARE-San Francisco No. 65, LLC Prologis Targeted U.S. Logistics	280,962 SF	M-I; changed post-sale to BTP Mixed Industrial/ Coastal Commercial	After acquiring the property, the buyer succeeded in changing the zoning and obtaining entitlements for a new life sciences project. The proposed gross floor area was 280,765 square feet by City of SSF measurement standards but 311,468 SF under Menlo Park measurement standards.	**$106**

Summary Comments on the Analysis of the Life Sciences Development Site Sales

The assignment requires land value estimates for the subject property both on bonus level and base level planning guidelines. We will initially analyze the property based on the bonus level parameters. On that basis, under the instructions we must presume that the subject property is fully entitled for the proposed development project. Using that presumption, the 487,916-square foot site could be developed with 448,504 square feet of life sciences space in two buildings. One building could be a two-story structure with 188,104 square feet of gross floor area and the other could be a five-story, 260,400-square foot edifice. The project would have 966 automobile parking spaces, or 2.15 spaces per 1,000 square feet of gross floor area, and 58 bicycle parking spaces. The significant majority (71.7%) of the automobile parking spaces would be in a parking structure.

The proposed bonus level development would have a floor area ratio equal to 91.92% of the lot size. That is lower than the 125% maximum ratio permitted under the bonus level guidelines established by the general plan and the zoning code. The code also allows a 10% floor area ratio for commercial space, but none is proposed.

The proposed bonus level development exceeds the base level allowed R&D/life sciences ratio by 67%. That is, the proposed 91.92% life sciences FAR is 67% higher than the 55% base level allowed life sciences ratio. Put another way, the differential amounts to 3,692 basis points (36.92 percentage points).

Adjustments will be made to the sales to compensate for perceived differences between the bonus level scenario subject property and the sale properties. Every effort has been exercised to obtain current and proximate market data to ensure that the submitted sale comparisons are as similar as possible to the subject property in physical and economic attributes.

Each transaction is evaluated and adjusted (if appropriate) to reflect the differences between the subject and the sales. Adjustment categories include both economic and physical factors. Such factors include but are not necessarily limited to (1) any unusual conditions of sale that impact price; (2) financing and/or concessions that impact achievable sale proceeds; (3) property rights, including the effect of any leases encumbering the property at the time of sale; (4) market conditions; (5) entitlements and/or other approvals; (6) location; (7) lot shape, efficiency, topographic, and other functional utility factors; (8) scale and marketability factors; (9) the effect of land use and other regulatory guidelines and requirements; (10) the type of development considered to be supportable under the analyzed scenario; (11) availability of utilities; (12) the effects of any unusual needed site preparation and/or any required infrastructure and/or street work; (13) the effect of any known hazardous materials affecting the property; and (14) the effect of any existing improvements on the property, including any contributory value from improvements and the effect of any required demolition/clearing. Any of those variables can potentially have significant effects on the value of a development site.

Economic Factors

The proper order of adjustments begins with economic factors. After adjusting for economic factors to derive a new baseline level, additional adjustments are then made as needed for physical and code-related factors.

Conditions of Sale

This analysis includes seven sales. Some of the sales (#R1, #R2, and #R5) are parts of larger assemblages. However, there is no evidence to indicate that that factor had any significant impact on price. In the case of sales #R1 and #R2, neither property was openly marketed. That factor can adversely affect achievable price. On the other hand, both sold to owners of adjacent properties who had development plans that could potentially be enhanced by the acquisitions.

Sale #7 is quite unusual, in that the property was very recently developed (2018) with a Honda auto dealership but the property is now slated for redevelopment to accommodate a life sciences project. The buyer paid $37.25 million to purchase the property in 2020. The grantee intends to make use of the shell of the auto dealership building and re-use the solar panels, but the development would largely be new construction. The seller, who had acquired the assemblage for $7,695,000 in 2015, then demolished the old buildings on the site and spent about $14 million constructing the existing development. In the analysis, we deducted the full cost of construction to produce an indicated estimated land value contribution of $23.25 million for the 2020 sale. In reality, of course, some of the design features and build-out of an auto dealership building would not be usable for a life sciences building.

All of the sales represented arm's-length transactions. There is no evidence to indicate. Considering all factors, there is no evident need for any adjustments for conditions of sale.

Financing/Concessions

No concessions were reported for any of the sales. For sales #R2 through #R7, the sellers received cash. We are not aware of any financing terms associated with sale #R1, which is reportedly under contract for sale, but the NFK appraisal did not note any financing terms that would impact the analysis of that sale. No adjustments will be applied.

Property Rights Conveyed

As previously discussed in this report, the subject property is leased. For purposes of this assignment, however, we are valuing the land under the presumption that no leases encumber the property. Consequently, for both appraisal scenarios we are valuing a fee simple interest in the subject property. In the case of sale #1, the buyer reportedly will have to pay $3,000,000 to buy out the lessee's leasehold interest in the property. That factor is already accounted for because NKF added that amount into their calculated effective sale price for that property.

Some of the other sales had lease encumbrances in place when the sale occurred. In cases where the property is unentitled at the time of sale or otherwise not yet ready for development, that factor can provide some advantage due to the ability to generate rental income until a new project is ready to proceed. Any such potential rental income will be considered subsequently in this analysis. No adjustments will be made for property rights.

Market Conditions

As previously noted in this review report, the R&D/life sciences market is one of the few real estate sectors that has remained strong since the onset of a recession in February of 2020 and the outbreak of the SARS-CoV-2 pandemic. Some of the sales are rather dated, but are included in the analysis due to a shortage of more recent transactions for life sciences development sites. Sale #R1 is pending but the reported contract date appears to have been in July of 2020, or more than seven months ago. Sale #R6 closed very recently but the parties executed the contract in the spring of 2020. Upward adjustments will be made for market conditions for all of the sales. The rates vary depending on when the sale occurred, with the largest adjustments applicable for the three analyzed sales that occurred in 2017.

Entitlements/Approvals

The effect of entitlement/approval status on the value of a development site has already been covered in some detail in this report. An entitled site typically will sell for a significant premium over an unentitled site, as long as the buyer actually wants to construct the approved project. One of the principals of Fabbro, Moore & Associates has testified in Superior Court as an expert in the value contribution of entitlements on several occasions. Entitlements often add from 10% to 50% over the value of an unentitled site.

It must be noted that for many development sites the parties execute a sale contract while a property is unentitled, with the sale conditional at least in part on the buyer obtaining entitlements for a project. Sometimes but certainly not always, the contract will allow for an adjustment in the contract price depending on the intensity of development that is approved, with higher prices applicable with increasing approved intensity and vice versa.

In any case, at least planning approvals often are in place by the time that such sales actually close escrow. However, the cost and effort associated with obtaining the entitlements was borne by the buyer. Making the sale conditional on obtaining approvals of course reduces the buyer's risk and thus can affect the price the buyer is willing to pay. However, sales where the *buyers* at their own expense and effort carry the property through the entitlement process while the sale is in escrow obviously are not equivalent to a property that sells after the *sellers* have already completed the entitlement process at their expense. The scenario for the subject is equivalent to the latter case, with the property presumed to already have full entitlements in place as of the effective date of the appraisal.

In point of fact, the subject property has no development entitlements in place for either the base level scenario or the bonus level scenario. However, it is a presumption of this appraisal review report that the property is fully entitled for both.

Sale #R1 was completely unentitled at the time of the reported sale contract. The buyer had already submitted a development proposal for the adjacent site at 1105-1165 O'Brien Drive. That proposal was subsequently amended to include the site of sale #R1, which would be used as a surface parking lot in support of a new building at 1105-1165 O'Brien. No approvals have been granted yet.

As discussed in detail previously in this report, the proposed development for the assemblage would have a floor area ratio of 73.1%. In our view, the best ways to analyze sale #1 would be either of the following.

- The property could be analyzed as a contributory part of the assemblage, with a 73.1% floor area ratio but some future (probably distant) development potential on its own. On that basis, the implied effective sale price per square foot of prorata floor area would be $227. By the time the sale closes escrow, the property presumably would have entitlements in place for that project. The community amenity fee associated with this particular site on that basis would likely be considered nil, since there is no planned building area that would actually be situated at 1 Casey Court.

- The property could be analyzed as a separate entity, developable on its own in accordance with LS-B zoning guidelines and the Life Sciences land use designation under the general plan. The maximum floor area ratio for life sciences use would be in the 55% (base) to 125% (bonus) range. An additional 10% ratio would be allowed for commercial space. On that basis, the property would be completely unentitled. Any development proposal would start from scratch, with a long likely approval time. The sale price per square foot based on a 125% maximum life sciences floor area ratio would be $133. However, there is of course no guarantee that such a ratio would actually be achievable and approved. The community amenity requirement would of course apply for a new project for any bonus scenario floor area.

For this analysis, we will choose the latter alternative to analyze the sale. If it had been openly marketed, the property could have sold to any part interested in pursuing a new R&D/ life sciences development project. On that basis, the achievable R&D/life sciences floor area ratio could be as high as 125%. However, a large upward adjustment is needed for entitlements to account for the cost, time, effort, risk, and profit associated with bringing the property through the approval process for a new development, unrelated to the current proposal for the assemblage that includes 1105-1165 O'Brien Drive.

Sale #R2 also is a part of an assemblage. In that case, the buyer is combining the site of sale #R2 with adjacent parcels to support a new development that will have a 131.6% FAR, including 121.6% for R&D/life sciences use and 10.0% for commercial use. The application indicates that the commercial space is intended to satisfy part of the community amenity requirement, which implies a claim that the space is not financially feasible to construct. In any case, when the sale occurred no entitlements or approvals whatsoever were in place. Again, a large upward adjustment is needed under the instructions that apply for the appraisal, which presumes that the subject property is fully entitled with new construction ready to proceed.

Sales #R3 and #R7 also were completely unentitled at the time of sale. In fact, both properties required post-sale zoning changes to accommodate the proposed developments. Again, large upward adjustments are warranted.

In the case of sale #R4, the seller had obtained entitlements for an office project prior to the analyzed sale. To allow for their intended development of a life sciences project, the buyer had to re-zone the property, and also needed to make significant changes to the building plans. Still, the significant majority of the cost, time, and effort undertaken by the seller was usable by the new owner for their revised development application. A very minor positive adjustment will be made for entitlement/approval status.

Sale #R5 transferred without entitlements. However, the buyer already owned some nearby parcels and had started working on obtaining approvals for large life sciences project. The buyer also did substantial due diligence work while the sale was in escrow. That work was done at the buyer's expense but it did to some degree reduce risk by the time that the sale closed. Still, the property faced a significant remaining path to approvals when the analyzed sale closed in April of 2020. (Entitlements still have not been obtained.) A significant positive adjustment is warranted.

In the case of sale #R6, the parties executed the contract in the spring of 2020 and the sale closed in November. During the escrow period, the prospective buyers began work on the entitlement/approval process for a new life sciences project, which would in part use the shell of the existing auto dealership building located on the site. The property is not yet entitled but the buyers did reduce risk to some extent by the due diligence work they were able to complete while the sale was in escrow. Furthermore, some of the background work done for the approvals granted a few years ago for the construction of the auto dealership building at the site may have some value for the new development proposal. Still, a substantial upward adjustment is warranted for entitlements.

Physical and Code/Regulatory Factors

Location

The subject property lies in the Bayfront Area of Menlo Park. Substantial portions of the district, including the immediate subject area, are primarily developed with industrial, flex, R&D, and life sciences uses. The Bayfront Area also has major office developments, including the Facebook headquarters and numerous other office buildings, many of which also are occupied by Facebook. The Hotel Nia was completed a few years ago in the district. Several multi-family residential projects have been recently constructed and several large multi-family, mixed use, and hotel projects are currently proposed. Facebook's presence in the Bayfront Area of course provides a major demand driver for all types of real estate.

The subject's area has long had a well-established focus on life sciences uses. Prevailing R&D/life sciences rental rates in the subject's district are among the highest in Silicon Valley. The adoption of new planning guidelines for the Bayfront Area a few years ago generally allows for much more intensive uses than the former planning code, which has contributed to a surge in new construction.

Sales #R1 and #R2 sit within a very short distance of the subject property, in the Bayfront Area. No adjustment is warranted for location in either case.

Sales #R3, #R4, #R5, and #R6 all sit within the narrow industrial corridor situated between U.S. Highway 101 and Old County Road in San Carlos. Two of the properties abut U.S. Highway 101 and have freeway visibility. Historically, however, that factor has had negligible impact on achievable R&D space rents or prices in the local market.

The district is mainly developed with low-intensity industrial uses, typically comprising one or two floors above grade. In recent years, however, the area has been in transition, as several large office and R&D/life sciences projects have been completed or proposed. Those developments typically comprise three or more floors and are of much higher development intensity than the older industrial product. The district is considered to be a primary competitor for the Bayfront Area for life sciences uses. Rental rates tend to be fairly similar, all else being equal. No adjustments will be made for location.

Sale #R7 sits at the corner of Haskins Way and East Jamie Court in South San Francisco, one block removed from San Francisco Bay. For most types of uses, achievable rents and prices are much higher in Menlo Park than in South San Francisco. However, South San Francisco is the headquarters city of Genentech, and it has a large and well-established life sciences district east of Highway 101. For a life sciences use, the location of sale #R7 is considered to be reasonably similar to that of the subject. No adjustment applies.

Lot Shape/Topography/Easements/Functional Utility Factors

The subject property contains 487,916 square feet of land area. The property has mildly sloping topography. The site has a corner setting with frontage on three streets. The lot shape is reasonably efficient.

We have not reviewed a title report and therefore do not have any information on easements that might affect the property. We are presuming that no easements have any significant effect on property value.

We have not been provided with and have not reviewed any reports that would have information regarding soils or geotechnical issues that may impact the subject property. However, the subject site is located in an area where many properties lie on Bay Mud soils, which can result in increased construction costs.

All of the analyzed sales are nearly level to mildly sloping parcels. All have reasonably efficient lot configurations. All sit within areas where many or most properties sit on Bay Mud soils. No adjustments will be made for lot utility factors.

Scale and Marketability

All else being equal of course the acquisition cost for a larger site would be greater than for a smaller site. That factor can tend to reduce effective demand as the size of the property increases, which in turn can have a negative effect on price per square foot as the size of the sale property increases. However, that dynamic certainly does not hold in all cases. R&D/life sciences projects typically are large. As such, smaller sites can have reduced marketability for that use. As a result, such projects with some frequency involve an assemblage of smaller parcels into a larger development site.

The subject property contains 487,916 square feet of land, which is atypically large even for an R&D/life sciences site. The proposed development would contain 448,504 square feet, which again is atypically large.

The sales vary extremely widely in lot size and proposed gross floor area. The properties range in lot size is from 30,464 to 541,973 square feet, with an average of 209,293 square feet. Three of the sales are parts of larger proposed assemblages. When considering that factor, effectively the average size of the seven development sites would be 342,541 square feet.

If we were to use the prorata floor areas for sales #R1 and R2 and the proposed or expected floor areas for the other sales, the sales would have gross floor areas ranging from 37,044 to 700,000 square feet. The average would be 279,370 square feet. As noted, three of the sales are parts of proposed assemblages. When considering that factor, the average size of the seven planned projects would be 446,954 square feet, which is nearly identical to the proposed floor area for the subject.

Sales #R1, #R2, #R3, and #R6 are significantly smaller planned developments than the proposed floor area for the subject property. For those sales, negative adjustments will be made to account for their likely at least slightly wider marketability. Sales #R4, R5, and R7 all are the sites of large to extremely large proposed projects. No adjustments will be made for those sales.

Land Use/Planning/Regulatory Factors

Allowed development intensity tends to have a major impact on achievable price per square foot of land area. Naturally, higher allowed intensity will tend to influence achievable price per square foot of land area upward, ceteris paribus, assuming that a buyer actually intended to utilize the higher allowed floor area ratio and that market demand is sufficient to support such a project. In addition, the types of development allowed can significantly impact land values.

The subject property is zoned LS-B by the City of Menlo Park. In this part of the analysis, we are analyzing the property under bonus level zoning parameters, with a 91.92% floor area ratio for a project that would consist entirely of life sciences space. To a large degree, differences in planning code regulations are already accounted for by analyzing the sales based on their prices per square foot of approved, proposed, likely, or allowed gross floor area.

Still, there are other planning code and other regulatory factors that also can affect development site prices. One such factor relates to required parking ratios. As previously discussed in this report, the development proposal for the subject property calls for a parking ratio of 2.15 spaces per 1,000 square feet. To accommodate the project, a large parking structure would be needed. The proposed parking ratio is lower than typical by general competitive market area standards but within the range required by the Menlo Park planning code.

Development fees also can impact prices. Most cities in the Bay Area have substantial development fees that might apply for traffic impacts, affordable housing, parks, and/or any of a number of other factors. Where significant differences in fees exist, there can be a substantial impact on achievable development site prices.

Sales #R1 and #R2 are in the same zoning district as the subject and are affected by the same parking requirements. No adjustments for parking requirements will be made for those two sales.

However, in both cases development approvals under bonus level parameters would require the developer to pay for community amenities using the formula discussed previously in this report. The subject also has that requirement. However, the appraisal instructions applicable for this assignment require that we ignore the requirement in estimating the subject's land value under bonus level zoning parameters. To compensate for that factor, substantial upward adjustments are needed for both sales #R1 and #R2.

Sales #R3 through #R6 all are located in San Carlos. That city has large development fees that apply generally for office/R&D space and also has a large traffic impact fee. The combined costs per square foot of floor area are similar to Menlo Park's combined costs for affordable housing and for transportation impact. Both cities also have various other fees, which are comparatively minor. Overall, the levels are fairly similar. San Carlos does not have any fee or requirement similar to Menlo Park's community amenity requirement. Since we are required to ignore the community amenity requirement in the bonus scenario valuation for the subject, no adjustment will be made for fees.

On the other hand, San Carlos does often require higher automobile parking ratios than Menlo Park for R&D/life sciences use. For sale #R3 in particular, the project has a very high proposed floor area ratio (200%). Accommodating that ratio and meeting the parking requirement for the proposed project (3.0 spaces per 1,000 sq. ft., which is 39.5% higher than the proposed 2.15 spaces/1,000 SF parking ratio for the subject) will necessitate the use of a multi-level underground garage. That facility will require excavation, adding to development costs. Of course, providing the extra parking spaces also will drive up the construction cost per square foot. While the extra parking spaces might produce some incremental additional rent value, the capitalized advantage of any such extra rent would be unlikely to match the cost. The subject has a comparative advantage, which results in a significant positive adjustment.

Sale #R4 will have a parking ratio of 2.7 spaces per 1,000 square feet. Only about half of the spaces will need to be underground, which is a relative advantage compared to sale #R3. Still, a negative adjustment is warranted for the parking differential.

For sales #R5 and #R6, it is not precisely clear at this time what the requirements for parking ultimately will be. The preliminary discussions for sale #R5, which is a part of a larger assemblage, have indicated that the likely required parking ratio would be about 2.5 spaces per 1,000 square feet and that the parking would mostly be in above grade structures. No plans have been submitted for sale #R6 yet. A positive adjustment will be made for sale #R5 but no adjustment will be made for sale #R6.

Sale #R7 is located in South San Francisco. The property was re-zoned to allow for the new development. Under the new zoning code, the base allowed floor area ratio is 50% but up to a 100% ratio is achievable under bonus standards, which essentially require some public benefit. South San Francisco has significant applicable development fees for affordable housing, East of 101 traffic/infrastructure improvements, and parks. An additional traffic impact fee was imposed for sale #R7 as part of the requirements that allowed development at the bonus level allowed floor area ratio. Considering all factors, the fees would be fairly similar to those of the subject, using the required presumption that the community amenity calculation does not apply in the subject's valuation.

The development at the site of sale #R7 will have an above grade parking structure. The parking ratio will be 2.9 parking spaces per 1,000 square feet of floor area under the City of South San Francisco floor area definition, or 2.7 spaces per 1,000 square feet under the Menlo Park floor area definition. An upward adjustment will be applied.

Development Type

The proposal for the subject site calls for a life sciences project of moderately high intensity. All of the sales are intended for life sciences use. No adjustments apply for this category.

Availability of Utilities

To the best of our knowledge, all necessary utilities are available to the subject site and we are not aware of any moratoria or other factors that would preclude obtaining the necessary utility services for a new development at the property. The same is true for all of the analyzed sales. No adjustments apply.

Required Site Preparation/Infrastructure/Street Work

Section 16.44.130 of the Menlo Park Municipal Code requires that the first floor elevation of all new buildings in the subject's zoning district be 24 inches above the base flood elevation. We have not been provided with a topographic survey of the subject property or the base flood elevation. However, the property does lie within a special flood hazard area according to FEMA. As such, it is considered to be likely that construction of a new development at the subject property would require raising the elevation of the site by the addition of fill materials. That factor would result in a minor added development expense versus a property not situated in a special flood hazard zone.

Three of the analyzed sales (#R1, #R2, and #R6) also are in special flood hazard zones. The other analyzed sales are not located in identified special flood hazard zones and thus the subject has a comparative disadvantage versus those properties. Minor negative adjustments apply for that factor.

The subject property fronts on three existing, developed public streets. Still, some infrastructure/street improvements are likely to be needed for a new development at the site. Similarly, all of the sales are considered to be or were affected by the need for at least minor street/infrastructure improvements. Sale #R4 also needs the installation of a new traffic signal light at the corner of Industrial Road and Commercial Street. That factor is a minor disadvantage which alters the adjustment rate for site preparation/infrastructure.

Known Hazardous Materials

We have not been provided with any hazardous materials reports for the subject property. We are not aware of any significant hazardous materials that would require remediation. Most of the sales were similar in that regard. The site of sale #R5 was for many years a Kelly Moore paint facility and that property is known to be affected by some hazardous materials. However, we have not been provided with any remedial action plans or cleanup for that site. It is possible that only relatively minor costs and time would be needed for any required remediation and it is also possible that substantial costs and time would be required for that site. At this point, we do not have sufficient information to be able to support an adjustment for that issue. No adjustments will be applied for the analyzed sales.

Effect of Existing Improvements

The subject property currently is improved with a 188,104-square foot R&D building. However, in this analysis we are presuming that the subject property is fully entitled for a new development and we are valuing the land. The existing improvements will not be considered in the analysis.

Sale #R1 is developed with an industrial building. We have relied on the NKF appraisal report for information about that pending sale. According to their report, the buyer will pay the tenant $3,000,000 to buy out the leasehold interest. Their report included the cost of demolition in the effective sale price. No adjustment will be applied for the improvements.

Sale #R2 occurred in 2017. At that time, the property was developed with an industrial building, which contains 14,500 square feet according to City of Menlo Park records. The improvements had the ability to produce interim rental value while the buyer pursued entitlements for a new project. Of course, the existing building eventually would have to be demolished to accommodate the new construction. Still, the interim potential rental value most likely significantly exceeded the expected demolition and clearing cost. A negative adjustment will be made to account for that factor.

The site of sale #R3 formerly was improved with a two-story building with light industrial and office space. A prior owner had obtained approvals in 2015 to develop the site with a hotel, resulting in most of the tenants vacating the premises in the succeeding few quarters. The property re-sold in 2019 to a developer intending to build a life sciences project. The old building was demolished in 2020. A minor upward adjustment will be applied.

Sale #R4 includes six parcels, all of which were developed with concrete tilt-up industrial buildings. The sale included approvals for a new office development. The buyer altered the plan in order to build a life sciences project, and demolished the buildings shortly after the sale. Again, a small positive adjustment is warranted.

The site of sale #R5 currently is developed with several industrial buildings. Most had been owner occupied prior to sale and would not necessarily be easy to rent to new tenants during the expected entitlement period. Still, the property has some interim rental value. Considering all factors, no adjustment will be made.

Sale #R6 is an existing dealership building, which will be partly re-used for the proposed life sciences project on the site. The estimated contributory value of the improvements was already deducted in analyzing the sale.

Sale #R7 was developed with a small industrial building at the time of the analyzed sale. That building had minor interim rental value. The structure has since been demolished to make way for a new life sciences project. A minor upward adjustment will be applied.

Adjustment Grids--Bonus Level Development Scenario

The sales all exhibit some significant differences relative to the appraised property. Adjustments will be made to account for the estimated effects of the differences. The tables on the next two pages summarize the adjustment process versus the subject property for the bonus level development scenario. A subsequent analysis will address the adjustment process for the subject under the base level development scenario.

Bonus Scenario Adjustment Grid (First of Two)

	Sale #R1	Sale #R2	Sale #R3	Sale #R4
Address:	1 Casey	1075 O'Brien	1091 Industrial	887 Industrial
FAR by Menlo Park Definition:	125.0% (allowed R&D/LS ratio)	121.6% (R&D/LS component)	199.3%	160.5%
Price per Sq. Ft. of GFA:	**$133**	**$130**	**$108**	**$153**
Economic Adjustments				
Conditions of Sale:	$0	$0	$0	$0
Adjusted Base:	**$133**	**$130**	**$108**	**$153**
Financing/Concessions:	$0	$0	$0	$0
Adjusted Base:	**$133**	**$130**	**$108**	**$153**
Prop. Rights/Lease Status:	$0	$0	$0	$0
Adjusted Base:	**$133**	**$130**	**$108**	**$153**
Market Conditions:	$3	$23	$6	$28
Adjusted Base:	**$136**	**$153**	**$114**	**$181**
Entitlements/Approvals:	$28	$31	$23	$3
Adjusted Base:	**$167**	**$184**	**$137**	**$184**
Physical/Code Adjustments				
Location:	$0	$0	$0	$0
Shape/Topog./Funct. Utility:	$0	$0	$0	$0
Scale/Marketability:	($17)	($23)	($10)	$0
Land Use/Regulatory Issues:	$33	$33	$35	$15
Development/Const. Type:	$0	$0	$0	$0
Utility Availability:	$0	$0	$0	$0
Required Infrastr./Site Prep.:	$0	$0	($3)	($1)
Known Hazardous Materials:	$0	$0	$0	$0
Improvements:	$0	($15)	$2	$2
Adjusted Value per SF GFA:	**$183**	**$179**	**$161**	**$200**

Bonus Scenario Adjustment Grid (Second of Two)

	Sale #R5	Sale #R6	Sale #R7
Address:	1075 Commercial	775-777 Industrial	201 Haskins
FAR by Menlo Park Definition:	129.2%	99.3%	110.9%
Price per Sq. Ft. of GFA:	**$162**	**$189**	**$106**
Economic Adjustments			
Conditions of Sale:	$0	$0	$0
Adjusted Base:	**$162**	**$189**	**$106**
Financing/Concessions:	$0	$0	$0
Adjusted Base:	**$162**	**$189**	**$106**
Prop. Rights/Lease Status:	$0	$0	$0
Adjusted Base:	**$162**	**$189**	**$106**
Market Conditions:	$8	$4	$19
Adjusted Base:	**$170**	**$193**	**$125**
Entitlements/Approvals:	$19	$22	$25
Adjusted Base:	**$189**	**$215**	**$150**
Physical/Code Adjustments			
Location:	$0	$0	$0
Shape/Topog./Funct. Utility:	$0	$0	$0
Scale/Marketability:	$0	($15)	$0
Land Use/Regulatory Issues:	$9	$0	$10
Development/Const. Type:	$0	$0	$0
Utility Availability:	$0	$0	$0
Required Infrastr./Site Prep.:	($3)	$0	($3)
Known Hazardous Materials:	$0	$0	$0
Improvements:	$0	$0	$1
Adjusted Value per SF GFA:	**$195**	**$200**	**$158**

Sales Comparison Approach Conclusion (Bonus Level Scenario)

Under the appraisal guidelines, we must presume that the subject property has entitlements in place for the development of 448,504 square feet of life sciences space under the bonus level zoning scenario. For this part of the appraisal review, we analyzed seven sales of life sciences development sites. The analyzed sales produced sale prices or effective sale prices per square foot of proposed gross floor area varying from $106 to $189 per square foot. All of the analyzed transactions required adjustments to account for differences from the subject.

After making the adjustments, the indicated values range from $158 to $200 per square foot. The median adjusted value amounts to $183 per square foot. The average adjusted value equals $182 per square foot, with a standard deviation of $18 per square foot. Sales #R4 and #R5 are the most similar to the subject in scale, and those sales receive at least slightly more weight than the other four sales but all of the transactions were considered in arriving at a market value conclusion.

In estimating an indicated value for the subject property by the Sales Comparison Approach for the bonus level scenario, we have carefully analyzed the subject property's characteristics relative to the comparable data. We have considered the respective advantages and disadvantages of the comparables in relation to the subject property. Based on the Sales Comparison Approach, as of February 12, 2021, we estimate that the market value of the land under the bonus level scenario valuation guidelines amounts to **$182 per square foot of proposed gross floor area**. Applying that rate to the subject property's proposed gross floor area of 448,504 square feet under bonus level zoning produces a value indication of **$81,627,728, which will be rounded to $81,600,000.**

Analysis of the Sales--Base Zoning Scenario

The base level allowed development intensity in the subject's land use and zoning district amounts to a 55% floor area ratio for R&D/life sciences space plus 10% for commercial space. As previously discussed in this report, in the context of the planning code commercial space appears mainly to refer to retail, restaurant, personal service, or similar uses.

The applicable appraisal instructions indicate that an appraiser must obtain from the City of Menlo Park the base level of development permitted. We did that and the City indicated that the allowed base level of development is 268,353.8 square feet for life sciences/R&D use and 48,791.6 square feet for commercial use. Based on recent precedents, we consider it likely that the parking ratio required for the R&D component would be around 2 spaces per 1,000 square feet of gross floor area. The required parking for the commercial component would most likely be somewhere around 2.5 spaces per 1,000 square feet of floor area.

There is no development proposal for the subject property or for any other property in the Bayfront Area involving a project even remotely similar to the base level project guidelines. All of the current proposals for R&D/life sciences or office space in the district utilize bonus level parameters.

As we have previously discussed in this report, the NKF appraisal report completely ignored the allowed 48,792 (rounded) square feet of commercial space. As a result, one cannot determine by reading their report whether they considered whether that potential floor area had any positive, negative, or nil effect on the land value of the subject property under base level zoning parameters. (The effect on land value could be negative if the potential value of the commercial space upon completion would be less than the cost to produce it.)

The base level appraisal instructions *require* the appraiser to evaluate the subject property presuming it were entitled for the base level of development. However, we consider it unlikely that typical prospective developers would want to build the commercial component, If any such component were included, we consider it doubtful that it would be anywhere near the 48,792-square foot allowed size. Rental rates for such space on the northeast side of Menlo Park trail very far below those of prevailing rental rates for R&D/life sciences space. Moreover, current market conditions are extremely unfavorable for new retail development. Furthermore, the subject's location on two-lane, local streets would not generally be considered favorable for retail-oriented uses.

Of the three active life sciences development proposals in the subject's zoning district, only one includes a commercial component. In that case, the commercial space would comprise 9,869 square feet, which of course is only about one-fifth the size of the base level space that we are required to presume would be entitled for the subject site. Moreover, the developer who intends to build that commercial space is offering it mainly to satisfy part of the community amenity requirement.

It is difficult to analyze the value contribution of the hypothetical right to build 48,792 square feet of commercial (non-R&D/life sciences) space at the subject property. Because no actual building plans exist for such space, it is not possible reliably to estimate a development cost for that component part of a potential project. However, the available data would tend to suggest that the best case scenario for the land value contribution of the right to build the commercial space would be negligible and the worst case scenario would be significantly negative.

Whether the assignment instructions allow an appraiser to presume that the commercial space would *not* be built under base level zoning is unclear. If the contributory land value of the right to build that space would be zero or negative, we do not see anything in the instruction that would preclude excluding the area from the value calculation. If the contributory value were negative, then of course ignoring any requirement to build out the space would have the effect of reducing the community amenity value that would otherwise apply. That of course would then favor the project applicant.

For this analysis, we will omit the right to build the 48,792 square feet of commercial space from the base level scenario land value analysis. On that basis, the project could have a 55% floor area ratio devoted to R&D/life sciences space, or a floor area potential of 268,354 square feet (rounded). The floor area potential would thus be 40% lower than the actual planned floor area of 448,504 square feet. Put another way, the actual development proposal would have 67% more R&D/life sciences floor area than the figure allowed under base level zoning.

The assignment instructions require an appraiser to use the same sales in analyzing the subject property under bonus level and base level zoning. There is only a minor difference in the analysis of the sales for the base level scenario versus the bonus scenario. Either way, the project would be of large scale by local market standards.

One potentially significant factor in the two scenarios relates to on-site parking. The proposed project would have 966 on-site auto parking spaces, for a ratio of 2.15 spaces per 1,000 square feet of planned floor area. Of that total, the large majority (693 spaces, or about 72% of the total) would be within parking structures while the remainder would be surface. Of course, it is far more expensive per parking space to build structured parking relative to surface parking.

If the property were instead developed with 268,354 square feet of life sciences space, presumably the required parking would be significantly reduced. The required parking ratio for such space in the LS-B zone is in the range of 1.5 to 2.5 spaces per 1,000 square feet of gross floor area. If we were to presume that the required ratio would remain at 2.15 spaces per 1,000 square feet, as in the current application, then the number of auto parking spaces needed would be reduced to 577, or 389 less than in the current proposal. At that figure, it is likely that a lower ratio of the spaces would need to be in a parking structure. As a result, the development cost per square foot per square foot of floor area could be influenced slightly downward. Meanwhile, the effect on achievable rents of having a higher surface parking ratio would most likely be very minor.

To account for the effect of the parking factors, different adjustments apply in the land use/planning/regulatory factors category for the base level analysis than in the bonus level analysis. As a result, the value indication per square foot of floor area is influenced slightly upward for the subject property in the base level analysis.

In estimating an indicated value for the subject property by the Sales Comparison Approach for the base level scenario, we have carefully analyzed the subject property's characteristics relative to the comparable data. We have considered the respective advantages and disadvantages of the comparables in relation to the subject property. Based on the Sales Comparison Approach, as of February 12, 2021, we estimate that the market value of the land under the base level scenario valuation guidelines amounts to **$195 per square foot of allowed R&D/life sciences gross floor area**. Applying that rate to the subject property's base level allowed R&D/life sciences gross floor area of 268,354 square feet under bonus level zoning produces a value indication of **$52,329,030, which will be rounded to $52,300,000.**

Reconciliation and Value Conclusions

Reconciliation is the step in the valuation process in which an appraiser selects from alternative value indications to arrive at a final value estimate. For each approach it is necessary to consider the relative weight of each value indication, which involves a review of (1) the probable reliability of the data; (2) the applicability of the approach to the type of property being appraised; and (3) the relative applicability of the approach in light of the definition of value being sought.

Under the terms of this assignment we were asked to complete a compliance review of Newmark Knight Frank's community amenity appraisal of the subject property. As part of that process, we have been asked to render an opinion regarding whether the appraisal report provided sufficient support for any value conclusions expressed within the report. In addition, the client requested that the reviewers provide a supported opinion of value if the reviewers determined that Newmark Knight Frank's appraisal report did not have sufficient support for the value conclusion(s) and/or if the reviewers disagreed with the value conclusion(s) of the Newmark Knight Frank (NKF) appraisal report.

Our review concluded that the NKF appraisal lacked sufficient support for the stated value conclusions. Based on our review of the available market evidence, we concluded that NKF's value conclusions for the base level and bonus level scenarios were understated, and that as a result the community amenity value also was understated.

In accordance with the appraisal instructions, we used the Sales Comparison Approach to value the property under the bonus and base level development scenarios. The value of the community amenity, if any, is then calculated by subtracting the market value conclusion at the base level zoning from the market value conclusion at the bonus level zoning and multiplying the result by 50%.

Based on our research and analysis, we have concluded the following market values for the subject property as of February 12, 2021, under the terms of the assignment and the assumptions and limiting conditions of this report.

Appraisal Scenario	Appraised Value per Sq. Ft. of Gross Floor Area	Potential Life Sciences Gross Floor Area	Indicated Market Value (Rounded)
Bonus	$182	448,504 sq. ft.	$81,600,000
Base	$195	268,354 sq. ft.	$52,300,000

The estimated bonus level value market value exceeds the estimated base level market value by $29,300,000. In accordance with the appraisal instructions, the community amenity value is defined as one-half of the differential between the estimated bonus level market value and the estimated base level market value. On that basis, the value of the community amenity for the subject property amounts to **$14,650,000.**

Scope of Work

The Uniform Standards of Professional Appraisal Practice require appraisal review reports to state the scope of work used to develop the appraisal review. This section serves that function. Data sources used for collection and verification of information relating to the subject property and the researched sales include but are not limited to the following.

Visual observation of the subject property from the fronting streets

Menlo Park Community Development Department

Menlo Park Planning Division

Menlo Park Building Division

Menlo Park Public Works Department

Menlo Park Zoning Ordinance

Menlo Park General Plan

Menlo Park appraisal instructions to determine the value of community amenities under bonus level zoning

Menlo Park Geographic Information Services Division

Various Menlo Park staff reports for the proposed subject development

Building plans for the proposed subject development, with the most recent set of plans reviewed being dated January 7, 2019 and drawn by DES

Various CEQA documents, including ICF's December 2018 initial study report for the proposed subject development

San Mateo County Geographic Information Services Division

San Mateo County Assessor's Office

San Mateo County Tax Collector

Santa Clara County Geographic Information Services Division

Santa Clara County Assessor's Office

Santa Clara County Tax Collector

Planning divisions of Santa Clara, Sunnyvale, Menlo Park, Redwood City, San Carlos, South San Francisco, and various other government entities that had data relevant to the analysis of sales data that could be considered reasonably comparable to the subject property or that was otherwise researched in the course of the review assignment

Appraisal report for the subject property, prepared by Newmark Knight Frank, effective as of September 18, 2020

January 13, 2021 response letter written by Newmark Knight Frank to John Tarlton

File records of Fabbro, Moore & Associates, Inc.

Building plans, CEQA documents, survey and other mapping records, staff reports, SEC filings, public company earnings reports, planning commission records, city council records, recorded deeds, public announcements, and various other information sources used to compile and verify data related to various sale properties researched in the course of the assignment

Real estate agents, market participants, CoStar database records, and other sources used to obtain and/or verify sales information contained within the NKF appraisal report, this review report, or otherwise researched in the course of the assignment

The scope of this assignment encompasses the necessary research and analysis to satisfy its intended purpose. This report complies with the Uniform Standards of Professional Appraisal Practice (USPAP) and with the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice.

The review was completed in accordance with Standard 3 of USPAP and the review conclusions are expressed in the form of a review report in accordance with Standard 4 of USPAP. The report presents summarized discussions of the reasoning used in the review process to develop opinions regarding the appraisal report reviewed. This review report also includes the expression of value opinions. The value opinions were formed and reported in accordance with Standards 1 and 2 of USPAP except that USPAP does not require that the reviewers comply with Standards Rule 2-3 (certification statement) in a review report, as the certification standard for a review report is expressed in Standards Rule 4-3.

Highest and Best Use Comments

"Highest and Best Use" or "Optimum Use" of the property is the most fundamental premise upon which the estimation of market value is based. The Appraisal Institute's *Dictionary of Real Estate Appraisal* defines highest and best use as "the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability."

An appraisal report of a potential development site usually will include an analysis of the highest and best use of a property as if it were vacant and available for development. The highest and best use as if vacant normally is the use that produces the highest land value while being legally permissible, physically possible, and financially feasible.

Under the appraisal instructions applicable for the valuation of community amenities in Menlo Park, the appraiser is asked to opine on the land value of the subject property under only two development scenarios. As such, the appraisal instructions do not call for a normal highest and best use analysis, as the actual highest and best use may differ from either of the two scenarios.

In our view, if the subject property were vacant and available for development, the most productive use would not match either the base level scenario (presumed to be entitled for a 55% R&D/life sciences FAR and a 10% commercial FAR) or the planned development scenario (91.92% R&D/life sciences FAR). Assuming the subject site were vacant, the more supportable highest and best conclusion would be to develop an R&D/life sciences project of the maximum achievable intensity. In real life, of course, the subject property already is developed with 188,104 square feet of renovated life sciences space in a two-story building, which is encumbered by a lease. Largely as a result of that factor, the property most likely could not reasonably support a 125% floor area ratio while still complying with other aspects of the planning code.

The Uniform Standards of Appraisal Practice state that each appraisal review report must include a signed certification. In accordance with that requirement, the undersigned hereby certify that, to the best of our knowledge and belief and except as otherwise noted in this appraisal review report:

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. We have no present or prospective interest in the property that is the subject of this review and we have no personal interest with respect to the parties involved in this assignment.

4. We have no bias with respect to the property that is the subject of this assignment and have no bias with respect to the parties involved in this assignment.

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

6. Our compensation in this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.

7. The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics of the Appraisal Institute, and the Standards of Professional Appraisal Practice of the Appraisal Institute.

8. We have *not* inspected the subject property for this assignment except for observation of the property from the fronting streets.

9. In accordance with the Competency Provision in the USPAP, we certify that our education, experience and knowledge are sufficient to review an appraisal of the

type of property being valued. No one has provided significant professional assistance to the persons completing the review.

10. The Office of Real Estate Appraisers and the Appraisal Institute have continuing education requirements for licensed appraisers and for their members, respectively. Both Charles S. Moore, MAI, and Frank J. Fabbro have completed their continuing education requirements.

11. The current version of the USPAP requires the reviewers to disclose each service that was completed by the reviewers within the past three years and involved the subject property. Prior to this assignment, we had no assignments involving the subject property within the past three years.

Charles S. Moore, MAI, #AG009176

Frank J. Fabbro, #AG002322

The appraisal review report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the reviewer in the report:

Standard Limiting Conditions

1. The reviewers assume no responsibility for matters of a legal nature affecting the subject property or the title thereto, nor do the reviewers render any opinion as to the title, which is assumed to be good and marketable.

2. The reviewers have made no survey of the property. Secondary data relative to size and area were taken from sources considered reliable, but are not guaranteed as accurate. We advise interested parties to obtain the services of a surveyor and/or architect.

3. Unless otherwise noted, no soils studies or environmental tests were provided to the reviewers in the course of this assignment. The reviewers are not experts in determining the existence of environmental hazards. Sites can be affected by a wide range of hazardous materials. Toxic or hazardous materials may include items such as asbestos; petroleum-based products; paints and solvents; lead; cyanide; DDT; printing inks; acids; pesticides; ammonium compounds; PCBs and other chemical products present in metals; minerals; chemicals; hydrocarbons; and biological or radioactive materials in the soil, buildings or building components, in above ground or underground storage tanks, or elsewhere in the property. An expert in the field should be consulted if any interested party has questions on environmental factors. Unless otherwise noted, we have assumed that the subject property is not affected by any toxic materials, toxic soil conditions, or other adverse environmental conditions.

4. Unless otherwise noted, no mold, spores, or fungus tests were provided to the reviewers in the course of this assignment. The reviewers do not have the expertise necessary to determine the existence of potentially harmful molds, spores, or fungus. As used herein, the terms molds, spores, and fungus mean any molds, spores, and fungus that can cause or threaten harm to living organisms or can cause or threaten physical damage, deterioration, loss of use and/or loss of value or marketability to any tangible property whatsoever. This includes, but is not limited to, any types of

mold, spores, and/or fungus that are harmful or potentially harmful to health or welfare (such as Stachybotrys and others) or that are damaging or potentially damaging to tangible property (such as wet or dry rot, mildew, and others) or that can otherwise cause or threaten to cause damages of any kind whatsoever. An expert in the field should be consulted if any interested party has questions related to molds, spores, and/or fungus that may affect the appraised property. Unless otherwise noted, we have assumed that the property is not affected by any molds, spores, and/or fungus.

5. Unless otherwise noted, the reviewers have not been provided with a survey, topographic map, soils report, geologic report, engineering study, contractor's inspection, structural report, or pest inspection for the appraised property. The reviewers are not experts on soils, geologic, engineering, or construction issues except as to how known information about such issues might affect valuation, marketability, or other economic aspects of real estate. The reviewers assume that there are no hidden or inapparent conditions of the property, subsoil, or structures which would render the property more or less valuable. The reviewers assume no responsibility for such conditions, or for investigation, engineering, or testing that might be required to discover such factors. We advise interested parties to procure the services of a soils engineer, structural engineer, contractor, property inspector, and/or other experts if they want to obtain information regarding the soil characteristics, geology, and stability of the site as well as information regarding the structural integrity and condition of the improvements.

6. This review report should not be considered a report on the physical items that are a part of the subject property. Although the review report may contain some information about the physical items at the subject property, it should be clearly understood that this information is only to be used as a general guide for property description purposes and not as a complete or detailed physical report/inspection.

7. Except as otherwise noted, it is assumed that there are no encroachments, building violations, code violations, or zoning violations affecting the subject property. An examination of applicable zoning and land use regulations was performed for this assignment, but a comprehensive examination of all laws and ordinances affecting the subject property was not performed.

8. Except as otherwise noted, information, estimates, and opinions furnished to the reviewers, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for the accuracy of such items furnished the reviewers can be assumed by the reviewers.

9. Appraisal review reports are technical documents addressed to the specific needs of clients. Casual readers should understand that this report does not contain all of the information we have concerning the subject property or the real estate market.

10. The Bylaws and Regulations of the professional appraisal organizations with which the reviewers are affiliated govern disclosure of the contents of the review report. Duly authorized representatives of said organizations have the right to review the report.

11. The reviewers are not required, by reason of this report, to give testimony, appear in court, or appear as required by a subpoena with regard to the subject property, unless sufficient notice is given to allow adequate preparation and additional fees are paid by the client at our regular rates for such appearances and the preparation necessitated thereby.

12. Neither all, nor any part of the content of the report, or copy thereof (including conclusions, the identity of the reviewers, professional designations, reference to any professional appraisal organizations, or the firm with which the reviewers are connected), shall be used for any purposes by anyone but the client specified in the report or professional appraisal organizations, without the previous written consent of the reviewers; nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, without the written consent and approval of the reviewers.

13. This report is protected by copyright, a form of protection grounded in the U.S. Constitution and granted by law for original works of authorship fixed in a tangible means of expression. This report cannot be reproduced without the express written consent of Fabbro, Moore & Associates, Inc. Neither the reviewers nor Fabbro, Moore & Associates, Inc. assume any liability for harm caused by reliance

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15. The effective date applicable for this assignment is expressed within this report. The reviewers take no responsibility for any events, conditions, economic factors, physical factors, or other circumstances occurring after the effective date that would affect the opinions expressed in this report.

Extraordinary Assumptions

The Uniform Standards of Professional Appraisal Practice (USPAP) require an appraiser to state any extraordinary assumptions used in an appraisal. USPAP defines an extraordinary assumption as "an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions." This appraisal review report includes the extraordinary assumptions described below.

1. We were not provided with and have not reviewed a current title report for the subject property. Because we have not reviewed a current title report, we may not have complete information regarding easements, encroachments, and/or other encumbrances of record. We have presumed that there are no inapparent easements, encroachments, and/or other encumbrances that would have a significant effect on value or marketability. If that presumption were incorrect, there could be an effect on the assignment results.

2. Sale #1 in the reviewed appraisal report by Newmark Knight Frank is a reported pending sale of a property located at 1 Casey Court in Menlo Park. The appraisal report stated (page 54) that the sale is scheduled to close escrow between June of 2021 and October of 2022. The table on page 54 implies but does not state that the contract may have been executed in July of 2020. The prospective buyer of sale #1 appears to be one of the owners of the subject property and most likely was the client for Newmark Knight Frank's assignment. We have not confirmed the reported effective sale price of $12,145,000. For purposes of this analysis, we will use the extraordinary assumption that Newmark Knight Frank's stated effective sale price, apparent contract date, and closing date range are accurate. If that assumption were incorrect, there could be an effect on the assignment results.

Hypothetical Conditions

The Uniform Standards of Professional Appraisal Practice require an appraiser to disclose any hypothetical conditions utilized in the appraisal. USPAP defines a hypothetical condition as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purposes of analysis." This report uses the following hypothetical conditions.

1. A part of this assignment involves estimating the value of community amenities for bonus level development for the subject property. As part of the appraisal instructions, an appraiser is required to presume that all development entitlements have been obtained for the base level development at the floor area ratio defined in the planning code, as described within this review report. In reality, no entitlements for a new project are currently are in place. The aforementioned hypothetical condition affects the assignment results.

2. As part of the appraisal instructions, an appraiser is required to presume that all development entitlements have been obtained for the bonus level development proposed for the subject property. In reality, no development entitlements currently are in place. The aforementioned hypothetical condition affects the assignment results.

3. The appraisal instructions for this assignment state that "The appraiser shall not consider the community amenities requirement established under Menlo Park Municipal Code Section 16.45.070 in determining the Market Value of the Subject Property at the Bonus Level of development." That instruction is contrary to what would be the normal methodology for appraising a potential development site but it is a requirement for the assignment. In essence, the noted instruction constitutes the use of a hypothetical assumption that the bonus level value is unaffected by the community amenities requirement. The use of that condition affects or should affect the assignment results.

4. The Uniform Standards of Professional Appraisal Practice require the reviewer to report the ownership interest in the property that is the subject of the work under review. At least part of the subject property is leased to Pacific Biosciences of California, Inc., who has their headquarters at the building at 1305 O'Brien Drive. Therefore, the property owners hold a leased fee interest in the subject property, while the lessee has a leasehold interest in the property. However, in their appraisal report Newmark Knight Frank stated that they valued a fee simple interest in the land, which would be an interest unencumbered by any leases.

   In our view the nature of the appraisal assignment requires that an appraiser presume that the subject property is unencumbered by leases, in order to value a fee simple interest in the land under the base and bonus level scenarios. In this review report, we used the hypothetical presumption that no leases encumber the subject property.

ADDENDA

QUALIFICATIONS OF CHARLES S. MOORE, MAI

Charles S. Moore, MAI, has been appraising real estate on a full time basis since 1986

Education

Mr. Moore graduated Cum Laude with a Bachelor of Science degree in Business Administration from San Francisco State University, San Francisco, California

Real Estate Education Courses

Real Estate Law
Real Estate Economics
Real Estate Finance
Standards of Professional Practice
Residential Valuation
Business Management and Contracts
Safety and Housing
Licensing and Mechanics Liens
Quantitative Analysis
Business Writing
Microcomputer Applications
Ethics and Professional Conduct
Agency Relationships and Duties
Capitalization and Cash Flow
Narrative Report Writing
Demonstration Report Writing
Advanced Applications
Fair Housing Laws
H.U.D./F.H.A. Appraisal Practices
Federal Environmental Legislation
Non-residential Report Writing
Retail and Industrial Markets
Standards of Professional Practice

Real Estate Practice
Real Estate Appraisal
Property Management
Real Estate Appraisal Principles
Anatomy of Residential Property
Financial Statements
Equal Opportunity Employment
The Secondary Mortgage Market
Business Statistics
Multi-residential Update
Desktop Publishing
Consumer Protection
Statistics, Capitalization,
and Partial Interests
Advanced Capitalization
Standards of Professional Practice
Cost Approach - Calculator Method
Title 24: California Energy Code
State & Local Environmental
Environmental Disclosure
Hotel/Motel Valuation
Fundamentals of Investment Analysis
Office and Industrial Trends

Purpose of Assignments

Purchase	Refinance	Casualty Loss
Litigation	Dissolution	Proposed Construction
Feasibility Study	Foreclosure	Estate
Relocation	Rental survey	Portfolio

Representative List of Properties Appraised

Offices

101 California Street
1,194,314 SF 48-story office tower

Gateway I and II
601-651 Gateway Boulevard, S.S.F.
Two office towers totaling 485,789 SF

Quadrus Office Project
2400-2494 Sand Hill Road, Menlo Park
Seven office buildings totaling 177,236 SF

Robert F. Peckham Federal Building
280 South First Street, San Jose
Federal building totaling 240,572 SF

Warehouse/Industrial/R&D

1070 San Mateo Avenue, S.S.F.
571,274 SF warehouse facility

1000 Commodore Drive, San Bruno
223,201 SF National Archives

Redwood Junction
2682-2694 Middlefield Road, RWC
215,200 SF multi-tenant light industrial

Scott Creek Business Park
44870 Kato Road, Fremont
Proposed 301,800 SF R&D facility

Apartments

Elena Gardens
1902 Lakewood Drive, San Jose
168-unit apartment complex

Belmont Square
2200 Lake Road, Belmont
36-unit apartment complex

Oakwood Apartments
515-595 John Muir Drive, San Francisco
721-unit apartment complex

Retail/Wholesale/Office

Gift Center & Jewelry Mart
888 Brannan Street, San Francisco
447,732 SF wholesale mart

West Gate Center
1933 Davis Street, San Leandro
573,563 SF power center

Design Pavilion
200 Kansas Street, San Francisco
78,659 SF wholesale design and furniture showrooms

Other Properties

41-77 Van Ness Avenue, San Francisco
Proposed 52-unit residential mixed-use condominium project

Crescent Villa Care Home
147 Crescent Avenue, Sunnyvale
40-bed assisted living facility

Children's World Learning Center
2875 Mitchell Drive, Walnut Creek
Childcare facility licensed for 123 children

Lok-n-Stor
190 Otis Street, San Francisco
Proposed 1,354-unit self storage facility

Tuscan Inn at Fisherman's Wharf
425 North Point Street, San Francisco
221-room full service hotel

Company Information

Fabbro, Moore & Associates is a real estate appraisal and consulting firm. The firm and its predecessor companies have been active in the San Francisco Bay Area since 1956. Our firm has appraised virtually all property types, including residential, commercial, lodging, research & development, industrial, and special use properties.

Education

Mr. Fabbro graduated Magna Cum Laude with a Bachelor of Arts degree in History from Santa Clara University, Santa Clara, California. He was elected to membership in Phi Beta Kappa, and now is a member of the Pi Chapter of California.

Mr. Fabbro has taken more than 50 real estate education courses or seminars, covering an extensive variety of topics. The subjects covered in those courses and seminars include but are not limited to real estate valuation principles, appraisal procedures, real estate finance, market analysis, development feasibility, highest and best use analysis, capitalization theory and techniques, advanced capitalization theory and techniques, case studies in real estate valuation, report writing and valuation analysis, condemnation appraising, analyzing distressed real estate, construction evaluation, subdivision valuation, and standards of professional practice.

The Office of Real Estate Appraisers establishes continuing education policies for licensed and certified appraisers in the State of California. Mr. Fabbro has completed the continuing education requirement for his current certification term.

Professional Affiliations

Mr. Fabbro has been awarded the Certified-General Appraiser designation by the State of California (Certificate #AG002322). Certified-General is the highest level of certification available from the state.

Court Testimony

Mr. Fabbro has testified as an expert in real estate in San Francisco, San Mateo, Santa Clara, Alameda, Napa, and Solano counties. He has also testified in federal courts. He has provided litigation valuation analyses in over 200 cases, involving a wide array of property types and cases. Areas of expert testimony have included issues related to real estate valuation, standard of care for real estate appraisers, regulatory issues related to real estate appraisal, development feasibility, achievable development profits, value of development entitlements, and other issues related to real estate market economics. Clients have included public agencies, insurance companies, corporations, partnerships, and individuals. On several occasions, Mr. Fabbro has been appointed by the court or opposing sides to act as the sole real estate valuation expert or as a neutral party in real estate valuation disputes.

Property Types Appraised

Single-family residences	Residential condominiums
Subdivisions	Planned unit developments
Apartment buildings	Vacant land
Submerged land	Agricultural properties
Hotels	Motels
Marinas	Self-storage facilities
Warehouses	Industrial buildings
Auto repair facilities	Gas stations
Industrial condominiums	Research & development facilities
Office condominiums	Office buildings
Shopping centers	Commercial retail properties
Restaurants	Night clubs
Auto dealerships	Mortuaries
Medical buildings	Assisted living facilities
Senior housing	Properties affected by hazardous materials

Assignment Purposes

Purchase	Lending
Eminent domain	Litigation
Arbitration	Dissolution
Assessment appeal	Gift tax
Diminution in value	Detrimental conditions
Estate	Partial interest valuation
Foreclosure	Relocation
Leasehold interest	Rental survey
Land use planning	Feasibility study
Proposed construction	Subdivision analysis
Blockage discounts	Valuation of easements and rights-of-way

Geographic Area of Expertise

Our primary area of expertise is in the nine-county San Francisco Bay Area. The following table lists the California counties in which we have provided appraisals.

San Francisco	San Mateo
Santa Clara	Alameda
Contra Costa	Marin
Solano	Napa
Sonoma	Santa Cruz
Monterey	San Joaquin
Sacramento	Stanislaus
Yolo	Tuolumne
Merced	Fresno
Kern	Los Angeles
Orange	Riverside

Clients (Partial List)

AltaPacific Bank
Bank of America
Bank of Marin
Bank of the West
California Bank & Trust
First Bank
First Republic Bank
Heartland Capital
HSBC Private Bank
JP Morgan Chase
Luther Burbank Savings
Northern Trust Bank
US Bank

Avidbank
Bank of East Asia
Bank of Montreal
Boston Private Financial Holdings
Comerica Bank
First National Bank
Fremont Bank
Heritage Bank
Industrial and Commercial Bank of China
Liberty Bank
New Resource Bank
Union Bank
Wells Fargo Bank

Beneficial Standard Life Insurance Co.
Fireman's Fund Insurance
Lawyers Title Insurance Corp.

Farmers Insurance
Kemper Insurance
Ticor Title Insurance Company

City of Belmont
City of Daly City
City of Half Moon Bay
City of Oakland
City of Redwood City
City of San Carlos
City and County of San Francisco
Mid-Peninsula Regional Open Space District
California Department of Transportation
Federal Deposit Insurance Corp. (FDIC)
U.S. Dept. of Housing and Urban Dev. (HUD)
Small Business Administration (SBA)

City of Brisbane
City of Foster City
City of Millbrae
City of Pacifica
City of San Bruno
City of South San Francisco
County of San Mateo
Skyline County Water District
SamTrans
General Services Administration (GSA)
Resolution Trust Corp. (RTC)
Veterans Administration (VA)

Applied Materials
General Motors
Lockheed Martin
Nestle USA
Safeway
Doubletree Hotels
Seton Medical Center

E.I. DuPont Co.
Hewlett-Packard
Motorola
Procter & Gamble
Marriott Corp.
Dignity Health
ESOP Investment Bankers

Bancroft & McAlister
Bryant, Clohan, Ott & Baruh
Cooley, LLP
Flicker, Kerin, Kruger & Bissada
Hammer & Jacobs
Miller Starr Regalia
Morrison Foerster
Ropers Majeski Kohn Bentley
Sidley Austin
Tobin & Tobin

Berra, Stross & Wallacker
Chapman, Popik & White
Fenwick & West
Gordon & Rees
Howard Rome Martin & Ridley
Morgan Tidalgo Sukhodrev & Azzolino
Quinn, Emanuel, Urquhart & Sullivan
Shartsis Friese
Thoits Law
Wilson, Sonsini, Goodrich & Rosati

Representative List of Properties Appraised

Offices/R&D

333 Market Street, San Francisco
Eminent domain case involving a leasehold interest in a 33-story, 692,000-square foot high-rise office building

United States Geological Survey Campus
345 Middlefield Road, Menlo Park
381,284-square foot campus of the U.S.G.S.

United Defense Campus
1205 & 1450 Coleman Ave., Santa Clara and San Jose
295,750 SF campus of a major defense contractor

New San Francisco Federal Building
Innovative, energy-efficient, 605,000-sq. ft., 18-story office building designed by Morphosis

Ronald V. Dellums Federal Building
1301 Clay Street, Oakland
903,363-sq. ft. federal building and courthouse

Industrial

Federal Supply Warehouse
1070 San Mateo Avenue, South San Francisco
571,913-square foot warehouse

National Archives and Records Admin. Center
1000 Commodore Avenue, San Bruno
227,839-square foot data center and warehouse

Retail

Sequoia Station, Redwood City
170,000-square foot community shopping center

125 Geary Street, San Francisco
Re-use plan for an unreinforced masonry building in Union Square

400 Jefferson Street, San Francisco
Leasehold interest in a new restaurant project at Fisherman's Wharf

Apartments/Residential

One Embarcadero South, San Francisco
Development appraisal for a 14-story, 233-unit multi-family residential building

City Heights at Pellier Park
169 West Saint James Street, San Jose
Appraisal of the first proposed high-rise condominium project in downtown San Jose

Green City Lofts
1007 Forty-first St., Oakland and
4050 Adeline Street, Emeryville
Proposed 62-unit loft condominium project

North Fair Oaks Apartments
523 Oakside Avenue, Redwood City
60-unit low- to moderate-income apartment project with condominium conversion potential

Marina Gardens, San Mateo
Conversion of a 180-unit stock cooperative project to condominiums

Land/Other

Abbott Labs Site, Redwood City
Evaluation of various license and easement rights affecting a proposed 541,077-square foot R&D project to be developed on a 31.57-acre site located adjacent to the Port of Redwood City

James R. Browning U.S. Court of Appeals Building
95 Seventh Street, San Francisco
457,000-square foot historic federal courthouse

Federal Courthouse, San Jose
Consultation with the federal government on site selection, land use, condemnation, and valuation issues related to a potential new federal courthouse

500 Ocean Street, Santa Cruz
80-room hotel