FABBRO, MOORE & ASSOCIATES, INC.

REAL ESTATE APPRAISERS · ANALYSTS · CONSULTANTS

September 17, 2021

Ms. Nira F. Doherty
Burke, Williams & Sorensen, LLP
181 Third Street, Suite 200
San Rafael, California 94901

Re: Community Amenities Appraisal Report Review
Proposed Willow Village Development
Menlo Park, California 94025

Ms. Doherty:

In accordance with your request, we have completed a review of the community benefits appraisal report prepared by Valbridge Property Advisors for the proposed Willow Village development site located along Willow Road, Hamilton Avenue, and Hamilton Court in Menlo Park. The subject property includes 18 assessor's parcels, which have assessor's parcel numbers 055-440-010, -020, -030, -040, -050, -090, -110, -130, -190, -210, -230, -260, -300, -310, -320, -330, -340, and -350 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 Valbridge Property Advisors 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 any component part of Valbridge Property Advisors' 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 Valbridge Property Advisors (VPA) 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, Burke, Williams & Sorensen, LLP, are the sole intended users of this report.

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. We have not been provided with any information regarding any leases that might encumber the subject property. The VPA appraisal report did not mention any leases and that report stated that the appraisers valued a fee simple interest in the subject property. Regardless of the lease status, in our view the nature of the assignment would require 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 presumption that no leases encumber the subject property. Because we do not have any evidence to indicate whether or not any leases are in place, the presumption that no leases encumber the property is an extraordinary assumption of this review 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. VPA's appraisal report of the subject property had a report date of February 19, 2021. The effective date of the VPA appraisal report (i.e., the date of value) was September 24, 2020.

The transmittal letter of VPA's appraisal report stated that "This is a retrospective valuation since the date of value precedes the current time and we have only used data that were relevant as of the date of value." The report left unanswered the question as to *why* the authors produced a retrospective appraisal report. We are mystified regarding that choice, as the decision to produce a retrospective appraisal report with a valuation date about five months (148 days) prior to the date of the report automatically disqualified the appraisal from complying with the City of Menlo Park's appraisal instructions for the assignment.

The City of Menlo Park's appraisal instructions for determining the value of community amenities under bonus level zoning, which are the applicable instructions for the appraisal assignment, state that "The appraisal report shall include a '**Date of Value'** that is no more than 90 days from the date of the submission of the report to the City of Menlo Park." VPA clearly was aware of the appraisal instructions, having referenced them numerous times in their report. They also cited the City of Menlo Park as an intended user of their report (see the second page of the transmittal letter and numbered page 1 of the appraisal report). Therefore, VPA must have known that submitting a report in February of 2021 with a September 2020 date of value would fail to comply with the assignment requirements.

VPA noted in their report (see page 4) that they had reviewed a January 8, 2021 planning submittal regarding the Willow Village project. Excerpts from the January 2021 planning documents are copied into the VPA appraisal report document. That planning submittal of course occurred after the stated effective date of the VPA appraisal. Therefore, it was inaccurate for VPA to write that they "only used data that were relevant as of the date of value."

Page 4 of the appraisal report stated that VPA reviewed planning submittals from February of 2019, June of 2019, May of 2020, and January of 2021. They did not mention the various other planning submittals over the years, including the February 2021 submittal that was the most recent at the time that the appraisal report was completed. Having read the appraisal report and having reviewed the available development plans and other publicly available planning documents, it is unclear to us which set of planning documents and development plans VPA was relying upon (if any) in analyzing the community amenity value of the subject property.

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

The subject property consists of 18 contiguous parcels that currently have frontage on Willow Road, Hamilton Avenue, and Hamilton Court, within a well-established corridor of industrial, research & development, and life sciences uses in the Bayfront Area of the incorporated City of Menlo Park. As the client is well aware, numerous other new developments have been recently completed, are currently underway, or are proposed for the Bayfront Area.

We obtained information regarding the physical characteristics of the subject property mainly from a physical exterior inspection, public records, City of Menlo Park staff, and the development plans. 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 includes the entirety of the original Menlo Industrial Center tract. The subdivision map for the tract was drawn by Edwin H. Smith in June of 1979 and that map was recorded in county records on October 1, 1979 in Book 99 of Maps at Pages 81-83. According to the most recent (May 26, 2021) submitted development plans for the proposed Willow Village project, the appraised property contains 2,585,538.50 square feet (59.36 acres) of gross land area.

The current property owner acquired the entire site from Prologis in 2015. The property currently is developed with a mix of industrial, office, R&D, and health center space having a combined total building area of 1,003,910 square feet in 20 structures. The buildings now all appear to be occupied and/or controlled by Facebook, with the buildings being known as numbers MPK 40 through MPK 59.

The property owners plan to demolish the Hamilton Avenue and Hamilton Court street improvements that currently traverse the site, the existing utility services running through the interior of the site, and all of the existing buildings. The proposed development calls for the construction of substantial new infrastructure, including new internal public and private streets serving the project site, alterations to Willow Road and Adams Court, the construction of new utility lines, and various other improvements.

After dedications of public rights-of-way, the subject property would have 2,340,079.79 square feet (53.721 acres) of net land area, according to the May 2021 plans. Of that total, 753,766.89 square feet of land (17.304 acres, or 32.2% of the net total) would have the R-MU-B zoning designation and the remaining 1,586,312.90 square feet (36.417 acres, or 67.8% of the net total) would have the O-B zoning designation.

The current proposal calls for the development of a hotel with some ancillary retail space; office buildings with associated amenity space and a minor amount of ground floor retail space; retail buildings; mixed use buildings with retail space and rental apartment units; apartment buildings; a residential amenity building; and parking structures. According to the development proposal, the project would have 1,695,975.5 square feet of residential gross floor area with 1,730 residential units; a hotel containing 151,603 square feet of gross floor area; 141,354 gross square feet of retail space; and 1,506,643 square feet of office space. Most of the retail space would be located within mixed use buildings comprised mainly of residential space.

The total proposed gross floor area under the current development plan amounts to 3,495,575.5 square feet. According to city staff, however, the entitlements would allow for the office component to be as large as 1,600,000 square feet and the retail component to be as large as 200,000 square feet, which could increase the total gross floor area to 3,647,578.5 square feet. Building heights would range from one to seven stories. Within the R-MU-B portion of the site, the current plans indicate a maximum proposed building height of 84.15 feet and an average height of 61.49 feet. Within the O-B portion, the plans indicate a 117.32-foot maximum building height and a 65.94-foot average height.

The proposed development would include 403,837 square feet (9.89 acres) of publicly-accessible open space, including a new, 154,883-square foot (3.56-acre) public park. Total open space for the project, including both proposed private and public open space, would amount to 976,421 square feet (22.42 acres).

The development would include both structured and surface parking, with the large majority of on-site parking spaces being in structures. The plans indicate that the project would have a total of 6,184 on-site parking spaces. The proposed parking ratio amounts to 1.8 spaces per

1,000 square feet of gross floor area overall. Consistent with the planning code, the parking ratio would be much higher for the office and retail components than for the residential or hotel components.

Under the Menlo Park General Plan, the 511-acre Bayfront Area has six land use designations. Part of the subject property lies within the Office land use area and the remainder is in the Mixed-Use Residential land use area.

The general plan indicates that the Office land use area is intended mainly for office, R&D, education/training, retail sales/personal service, corporate housing, and hotel uses. Corporate housing density is limited to 30 units per acre. The maximum base allowed floor area ratio for most uses is 45%, with an additional potential 10% floor area ratio for non-office allowed uses. The maximum bonus level allowed floor area ratio (FAR) for most uses is 100% with the provision that community amenities must be provided to achieve that ratio. An additional 25% bonus level FAR is allowed for non-office uses.

The general plan states that the Mixed Use Residential "designation provides for higher density housing to meet the needs of all income levels. It also allows mixed use developments with integrated or stand-alone supportive sales and service uses, and uses that are consistent with the Office Designation." The maximum base residential density cannot exceed 30 units per acre. The maximum bonus level density rises to 100 units per acre, with the provision of community amenities. The maximum base FAR for residential uses is 90%. The maximum bonus level FAR is 225% with community amenities. Non-residential uses have a maximum base FAR of 15 percent while the bonus allowed FAR is 25 percent.

The City has zoned the subject property O-B (Office District) and R-MU-B (Residential Mixed Use District). Allowed development intensity ranges are consistent with the corresponding land use designations under the general plan.

In the OS-B zone, allowed building height is 35 feet for most uses at the base level, but rises to 110 feet for hotels. Allowed height at the bonus level increases to 110 feet for most uses but with a 67.5-foot average, with the allowed hotel height remaining at 110 feet. An additional 10-foot height bonus is allowed for properties, such as the subject, located within special flood hazard zones.

The R-MU-B code states that multiple dwellings are a required component of any new development. The maximum allowed base gross floor area ratio in the R-MU-B zone is 60% to 90% of the lot size for residential square footage. In addition, the code allows non-residential space at a base level gross floor area ratio equal to 15% of the lot size. The maximum allowed base level residential density amounts to 20 to 30 units per acre of land. The code states that allowed residential gross floor area shall increase at an even gradient with increases in density. Thus, for example, a project could *not* have a density of 20 units per acre but a residential gross floor area ratio of 90%.

Under municipal code sections 16.45.060 and 16.45.070, bonus level development is allowed in the R-MU-B zone under certain conditions. Among those conditions, the applicant must construct on-site below market rate dwelling units in accordance with municipal code section 16.96. Under that section, for residential development projects of twenty or more units the developer shall provide not less than 15% of the units at below market rates affordable to low-income households, or an equivalent alternative.

The R-MU-B zoning code establishes an allowed bonus level residential gross floor area ratio of more than 90% to as high as 225% of the lot size. The allowed bonus level density ranges from more than 30 units per acre to as high as 100 units per acre. As under the base scenario, the allowed gross floor area increases proportionally with any increase in proposed development density.

Maximum allowed building height under the base level zoning in the R-MU-B zone is just 35 to 40 feet. Under the bonus guidelines, however, allowed building height increases to 70 feet, with a 52.5-foot average, with a further 10-foot increase allowed for properties in a special flood hazard zone.

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 Office 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 Office 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 section B.4 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 (1) subtracting the market value conclusion at the base level zoning from the market value conclusion at the bonus level zoning and (2) multiplying the result by 50%.

In the R-MU-B zone, the appraisal requirements are very similar to those applicable in the Office zone. Again, the community amenity value is 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 particular 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 instructions indicate that the appropriate metric to be used in analyzing market value is the value per square foot of allowed or planned gross floor area. The appraisal instructions define gross floor area in both the Office and Residential Mixed Use zones 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 VPA'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 development. 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.

As noted, VPA valued the subject property as of September 24, 2020. Their appraisal report concluded a community amenity value of $101,645,000 based on one development proposal or $85,682,500 based on a "refined" proposal in which the amount of gross floor area of office space in the project would be reduced from 1,600,000 square feet to 1,470,000 square feet.

The current (May 2021) proposal calls for 1,506,643 square feet of gross floor area of office space, and thus is more similar to but not identical to the "refined" proposal in the VPA appraisal report. Presuming that VPA's value conclusion per square foot of floor area would have been the same for 1,506,643 gross square feet of floor area as it was for 1,470,000 square feet, we can reasonably infer that if every other part of their appraisal analysis remained unchanged, their community amenity conclusion would have been approximately $90 million for the project with 1,506,643 square feet of office space but all other floor area figures being unchanged from those used in the VPA appraisal report.

The appraisers valued the subject property for both the base level and bonus level development scenarios by the Sales Comparison Approach, which was a requirement of the assignment under the appraisal instructions. In valuing the base and bonus land values associated with the office and retail components of the development the appraisers used a price per square foot of allowed or planned floor area metric in analyzing the sales. Use of the price per square foot of allowed or planned floor area was sound methodology and consistent with the requirements set forth in the appraisal instructions.

In contrast, in valuing the base and bonus land values for the proposed residential component, the appraisers used a price per planned residential unit metric and reported the indicated values on that basis. That methodology contradicted the appraisal instructions, which require an appraiser to analyze the sales on a price per square foot of gross floor area

(GFA) basis and to state the conclusions on "a GFA Per Square Foot Unit Value Basis." The instructions do allow for an appraiser to do "additional analysis" of the sales on a price per dwelling unit basis but that does not change the requirement also to analyze the sales based on price per square foot of GFA and to report the conclusions on a value per square foot of GFA basis.

Residential development sites can be valued using either a price per square foot of land area, price per square foot of floor area, or price per unit technique, or any combination thereof. Ultimately, the metric used in analyzing the sales is not a critical factor as long as the analysis is properly done. However, based on our review of the VPA appraisal it appears that their analysis did not sufficiently account for the impact of gross floor area differentials on achievable development site prices.

Valuing the subject property for the base and bonus level scenarios is a complex assignment and VPA appears to have put considerable effort into their research, analysis, and report presentation. VPA's appraisal report complied with most aspects of the Uniform Standards of Professional Appraisal Practice (USPAP) and the appraisal instructions for the assignment. However, the report had some shortfalls and areas of non-compliance. Moreover, the VPA appraisal has some errors in their reporting of allowed base level development gross floor area and in their reporting of the proposed floor area. The errors in square footage reporting alone resulted in VPA understating the community amenity value by more than $10 million. Moreover, in our view the value conclusions for the base and bonus level scenarios were not adequately supported, particularly for the residential component.

In our opinion, some of the apparent errors and shortcomings in the VPA appraisal influenced their ultimate community amenity value conclusion inaccurately upward while others influenced their ultimate conclusion inaccurately downward. When considering all factors, an objective review of available market data would indicate that the community amenity value conclusion was understated at the time of the appraisal report. The reasoning behind our conclusions will be discussed in more detail subsequently in this appraisal review report.

The checklist tables on pages 14-17 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 following the tables.

This review report is subject to the assumptions and limiting conditions that are summarized on pages 148-154 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.

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 the community amenity value conclusion expressed in this review report is July 30, 2021. The date of the review report (i.e., the date that the report was substantially completed) is September 17, 2021.

We have concluded that VPA's appraisal lacks adequate support and we disagree with their conclusions. The appraisal requirements indicate that any appraisal submitted to the City of Menlo Park for community amenity valuation purposes must have a date of value (effective date) within 90 days of the submittal. As of July 30, 2021, subject to the assumptions and limiting conditions of this review assignment, our estimate of the value of the community amenity is **$133,300,000.**

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

Review of an Appraisal Prepared by Valbridge Property Advisors				
Community Amenities Appraisal Report				
Willow Village				
Assessor's Parcels 055-440-010, -020, -030, -040, -050, -090, -110, -130, -190, -210, -230, -260, -300, -310, -320, -330, -340, and -350				
Effective Date of Value for the Appraisal Report under Review:		September 24, 2020		
Date of the Appraisal Report under Review:		February 19, 2021		
Date of the Review Report:		September 17, 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 of Report Explicitly Stated	X		
3	Effective Date(s) of Value Explicitly Stated	X		
4	Client Identified	X		
5	Legal Description Included			X
6	Property Interest Identified	X		
7	Value Identified Correctly	X		
9	Value Defined Correctly/Adequately	X		
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	X		
17	Scope of Work Described	X		
18	Standard Assumptions and Limiting Conditions Adequate	X		
19	Extraordinary Assumptions Adequately Described		X	
20	Hypothetical Conditions Adequately Described		X	
21	Exposure Time Cited, if Applicable			X
22	Subject Property Sales and Listing History Adequately Described	X		
23	Subject Property Agreements of Sale/Options Adequately Described		*	
24	USPAP Certification Included and Adequate		**	
25	USPAP Reporting Option Identified and Appropriate	X		
26	Compliance with City of Menlo Park Appraisal Instructions		X	

** USPAP requires an appraiser to analyze all agreements of sale, options, and listings of the subject property current as of the effective date of value, if such information is available. The appraisal report does not discuss any agreements of sale, options, or listings of the subject property. It is highly possible that no such agreements of sale, options, or listings were in effect on the effective date but the appraisal report is silent on that issue. The omission most likely has no impact on the analysis or the credibility of the report.*

*** If an appraiser has performed any services related to the subject property in the three-year period preceding the agreement to perform the current assignment, the appraiser must **specify** what those services were. Both of the certifications included in the appraisal report indicate that services were performed within the prior three years, but neither certification specifies what those services were. The omission of that information most likely has no effect on the assignment results.*

		ADEQUATE	INADEQUATE	N/A
27	Regional and City Data Adequate	X		
28	Neighborhood Description	X		
29	Regional/Local Market Trends Adequately Described	X		
30	Supply and Demand Adequately Addressed		X	
	SITE DESCRIPTION	ADEQUATE	INADEQUATE	N/A
31	Size, Shape and Location Accurately Described	X		
32	Ingress and Egress Issues Addressed	X		
33	Easements and Rights-of-Way Addressed	X		
34	Topography Accurately Described	X		
35	Views Accurately Described	X		
36	Utilities Accurately Described	X		
37	Existing/Planned Infrastructure Adequately Described		*	
38	Zoning, General Plan, and/or Land Use Issues Adequately Described	X		
39	Relationship to Surrounding Land Uses Described	X		
40	Nuisances Identified and Described	X		
41	Adequate Flood, Seismic, and Geologic Hazard Data	X		
42	Soils and Drainage Conditions Addressed	X		
43	Environmental Hazard Issues Identified	X		
44	Environmental Hazard Issues Adequately Addressed	X		
45	External (Economic) Obsolescence Addressed	X		

* The description of the site is good in most respects. However, the vague and incomplete information provided regarding infrastructure costs hinders a reader's ability to ascertain exactly how those costs might differ from those of other large development project sites. As a result, it is difficult or impossible to determine the adequacy of any analysis by the appraiser of relative infrastructure costs for the subject versus the analyzed sales. See the text for more information.

	IMPROVEMENTS DESCRIPTION	ADEQUATE	INADEQUATE	N/A
46	Adequate Physical Description	X		
47	Age of Improvements Identified			X
48	Adequate Description of Condition			X
49	Design and Appeal Adequately Described			X
50	Functional Utility Described			X
51	Equipment and Fixtures and Described			X
52	Tangible Non-realty Value Segregated			X
53	Adequate Building Sketches or Floor Plans			X
54	If Proposed, Adequate Description of Proposed Improvements		X	

Note on item #54: the report provides very little information regarding the proposed buildings to be constructed. Furthermore, some of the reported figures for allowed and proposed floor areas of components do not match the relevant planning submittals. See the text for more information.

	HIGHEST AND BEST USE ANALYSIS	ADEQUATE	INADEQUATE	N/A
55	Current Use Described			X
56	Highest and Best Use As If Vacant Identified	X		
57	Highest and Best Use As Improved Identified			X
58	Supply and Demand Factors Adequately Considered	X		
59	Physically Possible Uses Described	X		
60	Legally Permitted Uses Described	X		
61	Financially Feasible Uses Described	X		
62	Maximally Productive Use Described		X	
63	Adequate Argument in Support of Highest and Best Use		X	

	SALES COMPARISON APPROACH TO VALUE	ADEQUATE	INADEQUATE	N/A
64	Appropriate Methodology Used	X		
65	Appropriate Metric(s) Applied		X	
66	Adequate Selection of Sales Based on Subject Highest and Best Use		X	
67	Adequate Descriptions of Sales		X	
68	Adequate Sales Analyses		X	
69	Adjustments Made for Terms of Sales, Discounts, Unusual Factors	‡		
70	If Land Value, Adjustments Made for Entitlements/Approvals	‡		
71	Overall Use of Reasonable Adjustments		‡	

‡ *The appraisal report states that adjustments were made in analyzing the sales but does not actually provide those adjustments. USPAP does not require an appraiser to make adjustments in analyzing sales. The City of Menlo Park's appraisal instructions indicate that "After reasonable adjustment for differences between the comparable sales and the Subject Property, the appraiser shall include sufficient analysis and explanation of any adjustments made to the comparable sales such that the reader can follow the logic in arriving at the appraiser's conclusion regarding the GFA Per Square Foot Unit Value of the Subject Property." Whether the appraisal report meets that objective while omitting the actual adjustments is arguable but possible. As to whether all of the conclusions are reasonable and adequately supported, that is another matter. The reader should refer to the text for more information.*

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

Item #19--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." The appraisal report by Valbridge Property Advisors (VPA) included three extraordinary assumptions, which are described in various places in the report.

In the first extraordinary assumption, VPA stated that "We have presumed the Base Level and proposed Bonus Level densities are correct as stated in this report." This was an unnecessary and inappropriate assumption under the terms of the assignment. The appraisal instructions from the City of Menlo Park specifically state that the appraiser must obtain from the City the base level of development permitted on the subject property and the bonus level of development permitted. Although that is a requirement of the assignment, VPA apparently did not obtain the base and bonus level figures from the City, in violation of the appraisal instruction.

Instead, the report stated in several places that VPA obtained the allowed base and bonus level development intensity information from the project applicant. As it happens, VPA's cited base and bonus level figures appear to have been incorrect in some respects, as will be discussed subsequently. We must note that the figures have changed slightly over time as plans for the project have been refined. However, there are no planning documents on record that would correspond to some of the base and bonus level floor areas cited by VPA in their appraisal report, including the planning documents that VPA specifically reported that they had reviewed.

In their second extraordinary assumption VPA wrote that "Per the project applicant, Pacific Innovation Partners, we are informed that the number of hotel units permitted at the Base Level and proposed at the Bonus Level would be the same. We assume this is true. As a result, we have not included the value component for the hotel in the analysis since there would be no value difference, and thus no additional Value of the Amenity."

The second extraordinary assumption also was unnecessary. It is factually correct that there is no bonus level planned hotel gross floor area in the project as currently planned or as it was planned at the time of the VPA appraisal report.

The third extraordinary assumption stated that "The purpose of the appraisal is to determine the site value at the Base Level and at the Bonus Levels, as proposed. As such, we have assumed the proposed uses represent the highest and best use, which is the foundation upon which market value rests."

The third extraordinary assumption is illogical and was not needed. There is no requirement that an appraiser presume that the base level or bonus level scenarios represent the highest and best use of the property. In point of fact, both scenarios cannot simultaneously represent the highest and best use of the property. Moreover, the actual highest and best use might differ considerably from either scenario.

Under the terms of the assignment, the appraiser must value the subject property under the base and bonus level scenarios *regardless* of whether either actually represents the highest and best use of the appraised property. Highest and best use factors could and should still be discussed in a community amenities appraisal report. In this particular case, VPA did *not* do any such analysis and stated on page 4 of their report that they merely "valued the subject based on the assumption that the entitled uses represent the highest and best uses."

Need for an Extraordinary Assumption Related to Hazardous Materials

Page 19 of the VPA report included a very brief summary of reported environmental contamination from various volatile organic compounds affecting the subject property. In that section, VPA wrote that "A developer of the subject site will likely be required to address clean up as part of a new development and this is considered in our analysis. Future monitoring and vapor barriers would also likely be needed. It is anticipated that no deed restrictions would be in place upon remediation that would preclude any of the proposed uses, though we understand a current deed restriction would prevent residential use on the site. Overall, we understand that any needed remediation would not be significant, relative to the total project costs, and we believe this is a valid assumption based on our discussions with the developer."

According to VPA's report, therefore, a current deed restriction prevents any residential use of the subject property. We have no information to indicate whether or not that statement is true. If the statement is true then obviously developing the subject property as planned would require that any such deed restriction be removed. Since VPA provided no evidence to indicate that the deed restriction has been removed, they should have included an extraordinary assumption to indicate that they were presuming that any deed restriction preventing residential use of the subject property has been removed or would be removed prior to the commencement of any new development at the subject property.

Item #20--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."

VPA cited one hypothetical condition in their report, which was the presumption that the subject property is fully entitled for both the maximum allowed base level of development and for the actual proposed bonus level of development. The appraisal instructions specifically require the appraiser to presume that the property is entitled for both scenarios. Since any such presumption is contrary to fact, VPA correctly cited the presumption of entitlements as a hypothetical condition of the assignment.

Bonus Level Appraisal Instructions #8 (Office-Bonus District) and #10 (R-MU-B District)

VPA omitted another appraisal instruction that should have resulted in the citation of either a hypothetical condition or a jurisdictional exception under the Uniform Standards of Professional Appraisal Practice. For properties that are zoned either Life Science-Bonus (LS-B) or Office-Bonus (O-B), 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." For properties in the R-MU-B district, bonus scenario instruction #10 is identical.

The noted 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 instruction constitutes the use of a hypothetical assumption that the bonus level value is unaffected by the community amenities requirement.

We spent a considerable amount of time researching the noted appraisal instruction prior to completing any assignments involving the valuation of community amenities in Menlo Park. As part of that research, we spoke with individuals who actually were involved in drafting the language of the appraisal instructions. One issue that we discussed was the intent of bonus level instructions #8 and #10 for the LS-B, O-B, and R-MU-B zones.

The implication of the noted bonus scenario instruction is that the effect of the community amenity requirement is ignored when analyzing the subject property. That instruction neither states nor implies that the instruction would somehow be ignored when analyzing what effect the community amenity requirement might have had on the prices of any analyzed sales in Menlo Park, nor does it indicate that similar requirements in other cities might be ignored when analyzing those sales versus the appraised property.

Ultimately, the effect of the instruction is to influence upward the value conclusion for the subject property under the bonus level scenario, and thus would tend to *increase* any calculated community amenity value. That is the clear intention of the instruction.

We should also note that the City's instruction to presume that the subject property is entitled for the base level development scenario, when in fact no work whatsoever has been done toward obtaining entitlements for a project on base level zoning parameters at the subject site, results in the base level appraised value being artificially influenced significantly upward. That fact ultimately *reduces* the appraised value of the community amenity.

Whether the two noted factors would be offsetting or more favorable to one party or another ultimately depends on specific circumstances.

The City of course has the right to set the community amenity valuation instructions as it wishes. Market participants can then take those instructions into account when making purchase and sale decisions. We already know from interviews that we have conducted that Bayfront Area property developers are well aware of the community amenity valuation guidelines and that those guidelines impact property values.

Item #23--Subject Property History

USPAP Standards Rule 2-5 states that "When the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business: (a) analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal; and (b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal."

VPA's appraisal report did comply with the requirement to report any sales of the subject property within the prior three-year period. (There were none.) However, the report failed to state whether there were any agreements of sale, options, or listings of the property current as of the effective date of the appraisal.

It is possible that one could take the report's silence on the issue to mean that there were no such sale agreements, options, or listings. We would tend to think that was in fact the case and are not aware of any information to the contrary.

However, it is better for an appraiser affirmatively to state one way or the other whether or not there are any such agreements, options, or listings. It is not possible for a reader of VPA's Willow Village appraisal report to determine from the document itself whether or not the subject property was affected by any sale agreements or options or whether the property was listed for sale. This is a minor compliance issue that has no apparent significant effect on the appraisal analysis or the credibility of the report.

Item #24--Certifications of the Appraisers

USPAP Standards Rule 2-3 requires each appraisal report to include a signed certification with certain required elements that must be addressed in the signed certification. For the most part, the VPA appraisal report complies with SR 2-3. However, there is one minor technical non-compliance issue in each appraiser's signed certification.

Among the requirements of SR 2-3, appraisers must specify whether they have performed any services, as an appraiser or in any other capacity, regarding the subject property within the three-year period immediately preceding the agreement to perform the assignment. Both signers of the report indicated that they had performed services involving the subject property within the prior three years. However, neither author *specified* what those services were. As such, the statements are not fully compliant with USPAP. In our view, this is an immaterial, technical standards violation that has no apparent impact on the valuation analysis.

Item #26--Compliance with City of Menlo Park Appraisal Instructions

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. We are aware that the intended users of this report already are thoroughly familiar with the appraisal instructions.

The February 19, 2021 appraisal report by Valbridge Property Advisors for the Willow Village site failed to comply with some of the appraisal instructions. Some issues of non-compliance had apparent material effects on the value conclusion(s) expressed in the appraisal report. For some other non-compliant aspects, it is not possible to determine what effect (if any) the non-compliance had on the value conclusion(s).

Rental Project versus For-sale Project

The City of Menlo Park's community amenity appraisal requirements for properties in the R-MU-B zoning district state that the appraiser must indicate whether the development proposed for the appraised property will consist of rental product or for-sale product, or some combination thereof. The implication is that the analysis of sales ideally would focus on sales intended to provide the same product type.

We could find no place in the VPA appraisal report where they identified whether the residential component of the Willow Village project would consist of rental product or for-sale product. For the record, our sources report that the residential units at Willow Village all are intended to be rental product.

Whether or not VPA's failure to note the product type had any specific impact on the analysis is difficult to say. Their residential development site sales included sites intended both for rental units and for-sale units but there is no discussion of that factor in their report.

Date of Value

The City of Menlo Park's appraisal instructions to determine the value of community amenities under bonus level zoning, which are the applicable instructions for the appraisal assignment, state that "The appraisal report shall include a '**Date of Value'** that is no more than 90 days from the date of the submission of the report to the City of Menlo Park."

VPA's appraisal report of the subject property had a report date of February 19, 2021. The effective date of the VPA appraisal report (i.e., the date of value) was September 24, 2020. The transmittal letter of the report stated that "This is a retrospective valuation since the date of value precedes the current time and we have only used data that were relevant as of the date of value."

The report left unanswered the question as to *why* the authors produced a retrospective appraisal report. We are mystified regarding that choice, as the decision to produce a retrospective appraisal report with a valuation date about five months (148 days) prior to the date of the report automatically disqualified the appraisal from complying with the appraisal instructions for the assignment.

VPA clearly was aware of the appraisal instructions, having referenced them numerous times in their report. They also cited the City of Menlo Park as an intended user of their report (see the second page of the transmittal letter and numbered page 1 of the appraisal report). Therefore, VPA must have known that submitting a report in February of 2021 with a September 2020 date of value would fail to comply with the assignment requirements.

VPA noted in their report (see page 4) that they had reviewed a January 8, 2021 planning submittal regarding the Willow Village project. Excerpts from the January 2021 planning documents are copied into the VPA appraisal report document. That planning submittal of course occurred after the stated effective date of the VPA appraisal. Therefore, it was inaccurate for VPA to write that they "only used data that were relevant as of the date of value."

Page 4 of the appraisal report stated that VPA reviewed planning submittals from February of 2019, June of 2019, May of 2020, and January of 2021. They did not mention the various other planning submittals over the years, including the February 2021 submittal that was the most recent at the time that the appraisal report was completed. Having read the appraisal report and having reviewed the available development plans and other publicly available planning documents, it is unclear to us which set of planning documents and development plans VPA was relying upon (if any) in analyzing the community amenity value of the subject property.

From the information available, it is not possible for us to determine whether or not VPA's community amenity value conclusion would have been different if they had used a current valuation date instead of a retrospective date. Furthermore, we cannot know whether they would have analyzed any additional sales or considered any more up-to-date market information. However, it clearly was a violation of the appraisal instructions to use a retrospective valuation date that was more than 90 days from the completion of the report and therefore more than 90 days prior to any possibility of submitting the report to the City of Menlo Park.

We should note that in fact two proposed development site sales within the Bayfront Area of Menlo Park did close escrow *after* the retrospective date of value of VPA's Willow Village appraisal but *before* VPA had actually completed their appraisal report. We do not see any reasonable rationale for why those sales were excluded from an appraisal of the Willow Village property, which also is located in the Bayfront Area.

Of note, there are other pending sales of development sites in the Bayfront Area. However, we would not necessarily expect VPA or any other appraisers in the ordinary course of their investigations to be able to obtain the details on those transactions prior to closing. (Even if such information could be ascertained, confidentiality agreements might preclude producing the information prior to closing.)

Of course, some time has passed between the effective date of VPA's appraisal, the date that their report was actually produced, and the date of this review report. Information that would not reasonably have been available to VPA as of the date of their appraisal report will not be considered as part of our compliance review of their appraisal report. However, we are not required to overlook data that would have reasonably been available to VPA at the time of their report, including any information that could have been obtained between the date of value (September 24, 2020) and the report date (February 19, 2021).

As part of this assignment, the reviewers may need to produce value opinions. Any such opinions expressed in this report will be considered to have a date of value concurrent with the date of the report.

Bonus Level Appraisal Instructions #8 (Office-Bonus District) and #10 (R-MU-B District)

As previously discussed, the City of Menlo Park's appraisal instructions require an appraiser to overlook the community amenities requirement applicable to a subject property when valuing that property based on bonus level zoning parameters. This issue is never mentioned in the VPA appraisal report of the Willow Village property. There is no indication that the appraisers considered the significance of the noted instruction in analyzing sales data and no mention of any adjustments made for that factor in their analyses of the component values of the Willow Village property.

It is reasonably possible that the noted factor may have affected the bonus level value conclusions and therefore the community amenity value conclusion as expressed in VPA's appraisal of the Willow Village property. However, since the appraisal report does not actually report any adjustments made in analyzing sales data, it is not possible to say with certainty what effect this variable (or any other) had on VPA's value conclusions for the component parts of Willow Village or on the ultimate community amenity value conclusion.

Achievable Base and Bonus Level Development Intensities

The appraisal instructions indicate that the "City of Menlo Park shall determine the 'Base Level' of development permitted on the Subject Property in accordance with the City's zoning and provide that information to the appraiser." The instructions also state that "The City of Menlo Park determines the 'Bonus Level' of development permitted on the Subject Property in accordance with the City's zoning and provides that information to the appraiser."

The client for VPA's appraisal assignment was Peninsula Innovation Partners, LLC. Since the City of Menlo Park was not the client, the City would not necessarily be aware that the property was being appraised. Therefore, it was incumbent on the appraiser to obtain from the City the required information regarding the allowed base level and bonus level of development for the subject property.

From reading the VPA appraisal report, it appears to us that VPA did *not* in fact obtain the required development intensity information from the City. VPA noted in their report that the project applicant provided them with the base level and bonus level allowed development figures. Unfortunately, the information as reported by VPA does not match the correct base and bonus level figures.

We attempted to reverse engineer the figures in the VPA report to determine what set of development plans they might have been using for the base and bonus level scenarios. However, we could not reproduce their figures from any set of planning documents available publicly, including submittals from February 2018, February 2019, April 2019, June 2019, October 2019, May 2020, October 2020, January 2021, February 2021, and May 2021.

In point of fact, VPA does not report that they reviewed *any* development plans in the course of their appraisal assignment. Page 4 of their appraisal report stated that "The subject was legally identified via the Willow Village planning submittal dated February 8, 2019 (revised June 6, 2019, May 19, 2020, and January 8, 2021), and per discussions with the applicant, Peninsula Innovation Partners, address, Assessor Parcel Numbers (APNs), and public records." VPA's legally identifying the property appears to have consisted mainly of noting the parcel numbers comprising the Willow Village site (even then, the parcels are not all accurately listed in the transmittal letter, the executive summary, or the "Real Estate Identification" section on page 1 of the appraisal report).

The most recent development plan submittal for the proposed Willow Village project occurred in May of 2021, with the plans that we reviewed being dated May 26, 2021. Of course, those plans would not have been available to VPA, who completed their appraisal report in February of 2021. Nevertheless, for illustration the tables on the next page summarize the land area, base scenario allowed floor area, and bonus scenario allowed floor area for the Willow Village property based on the May 2021 submittal.

This information was obtained from the City of Menlo Park. The City's reported bonus scenario development potential matches the submitted plans from May of 2021 within one-one hundredth (0.01) of a square foot.

The City reported slightly different land areas for the base and bonus scenarios. That gap results from differences in projected required right-of-way dedications between the two scenarios, such that the bonus level scenario has slightly lower projected land area net of the right-of-way dedication area relative to the base level scenario.

We should note that the proposed development would include 151,603 square feet of hotel space. The allowed hotel floor area ratio is the same under base and bonus level zoning. There is no potential bonus area achievable for a hotel at the subject property and therefore no community amenity value to be calculated from that component. Therefore, we have omitted any allowed hotel space from the base and bonus level figures shown in the tables.

Base Scenario Development Intensity

Zoning	Land Area	Allowed Residential Development	Allowed Office Development	Allowed Non-office Commercial Dev.
R-MU-B	759,924.8 SF	683,932.3 SF; 523 units	113,988.7 SF; could be office or non-office; office would be limited to 20,000 SF unless a use permit is obtained	
O-B	1,599,273.0 SF	N/A	719,672.85 SF	159,927.3 SF

Under base level zoning parameters, based on the data provided by the City, the allowed residential intensity would be 683,932.3 square feet of gross floor area, with 523 dwelling units. The R-MU-B zoned component would allow 113,988.7 square feet of commercial/ non-residential space at base level zoning parameters. That space could have any allowed non-residential use, including office, retail, restaurant, banks, personal service, recreation, education, or some combination thereof. Although the statutorily allowed office component is limited to 20,000 square feet, larger offices are conditionally allowed.

Bonus Scenario Maximum Development Intensity

Zoning	Land Area	Allowed Residential Development	Allowed Office Development	Allowed Non-office Commercial Dev.
R-MU-B	753,766.9 SF	1,695,975.5 SF; 1,730 units	188,441.73 SF; office would be limited to 20,000 SF unless a use permit is obtained	
O-B	1,586,312.9 SF	N/A	1,586,312.90 SF	396,578.3 SF

For the bonus scenario, the allowed residential intensity would be 1,695,975.5 square feet of gross floor area, with 1,730 units. Those totals are exactly what the prospective developer has proposed in the May 2021 development plan submittal.

The total allowed amount of office space could be up to 1,774,784.63 square feet, presuming a use permit could be obtained for the allowed non-residential component on the portion of the site with the R-MU-B zoning. The proposed development would include 151,603 square feet of hotel space, which results in a corresponding reduction in the amount of achievable office space. Current plans call for the construction of 1,506,643 square feet of gross floor area of office space but the entitlements would allow up to 1,600,000 square feet of office space according to city staff.

The maximum amount of allowed bonus level retail space ranges from 396,578.3 square feet (including only the O-B zoning area) to as high as 585,020.0 square feet (if we were also to include the entire allowed non-residential gross floor area from the R-MU-B component). The current development plans call for the construction of 141,354 square feet of retail space. The plans do say that the project could include "up to" 200,000 square feet of retail space but the differential area is not shown on the plans. According to city officials, the entitlements will allow up to 200,000 square feet of retail space.

The proposed development would include 151,603 square feet of hotel space. As noted, there is no bonus proposed hotel floor area.

Whether the current proposal includes any bonus retail floor area is debatable. To us, however, it appears that the project does *not* call for any proposed bonus retail floor area. The current plans show only 141,354 square feet of retail area and the entitlements would allow up to 200,000 square feet. The allowed base level amount is in the range of 159,927 to 273,916 square feet. This issue will be discussed further subsequently.

Notes on Land Area and Appraisal Instructions

The appraisal instructions state that the "Subject Property at the Bonus Level must be identical to the Subject Property at the Base Level. The Subject Property must remain identical." As noted, the land areas in the base and bonus level scenarios applicable for this assignment slightly vary due to different estimates of the portions of the sites needed for right-of-way purposes. As such, the property is slightly different in the base and bonus level scenarios. That is a necessary adjustment under the terms of the assignment. The gross land area is unchanged between base and bonus scenarios.

The effect of the lot size differences for the two scenarios is to influence the base level valuation slightly upward due to the slightly higher achievable floor area when less land area is needed for rights-of-way. That difference reduces the community amenity value versus what it would be if the net land area estimate for the base scenario matched that of the bonus scenario.

Base and Bonus Level Floor Areas Reported by Valbridge Property Advisors

The VPA appraisal used the following base level and bonus level development parameters in calculating the value of the community amenity. VPA did not report an achievable floor area for a hotel component but they did state that there was no achievable bonus floor area for a hotel.

VPA Appraisal Report Base Scenario Development Intensity

Zoning	Land Area per VPA	Allowed Residential Devel. per VPA	Allowed Office Development per VPA	Allowed Non-office Commercial Dev. per VPA
R-MU-B	18.61 acres (810,651.6 SF)	729,586 SF in 558 units	Not reported	
O-B	36.30 acres (1,581,228.0 SF)	N/A	855,790 SF including R-MU-B contribution	162,424 SF

VPA Appraisal Report Bonus Scenario Development Intensity

Zoning	Land Area per VPA	**Proposed** Res. Devel. per VPA	**Proposed** Office Development per VPA	**Proposed** Non-office Commercial Dev. per VPA
R-MU-B	18.61 acres (810,651.6 SF)	1,556,100 SF in 1,729 units*	Not reported	
O-B	36.30 acres (1,581,228.0 SF)	N/A	1,600,000 SF including R-MU-B contribution **	200,000 SF

* In some places, the VPA report indicates that the proposed residential component would have 1,735 units but most of the document shows 1,729 units.

** In their transmittal letter, VPA reported that a "refined" office scenario had been proposed with 1,470,000 square feet of gross floor area, and they included an alternative value calculation on that basis.

As previously discussed, it appears that VPA did not get the base and bonus level development figures from the City of Menlo Park, in contrast to the assignment requirements. Having reviewed all of the numerous publicly available planning submittals over time, it also appears to us that they did not review the development plans. Some of their reported floor area figures do not match any of the plans or submittals that we were able to find.

Although we attempted to reverse engineer the VPA figures to determine what planning submittal they might have relied upon, we could not re-create their figures. Their report was completed in February of 2021 using a September 2020 valuation date. It can be argued as to which planning documents were the relevant ones upon which to rely at the time of valuation. However, the most recent planning documents referenced by VPA were for a January of 2021 submittal and in fact they excerpted some pages of that submittal into their appraisal report.

In our view, the most relevant planning documents at the time of the VPA appraisal report would have been the January 2021 version. That is the document set which VPA excerpted in their appraisal report. There was also a February 2021 submittal but VPA never mentioned those documents in their report and it is possible that they simply were not yet readily available when VPA completed their report in February of 2021.

Lot Size Component Areas from the January 2021 Plans

The January 2021 plans indicated that the R-MU-B-zoned portion of the site would comprise 753,429 square feet of land (17.296 acres) and the portion of the site with the O-B zoning would contain 1,587,614 square feet of land (36.447 acres). Those figures were net of public right-of-way dedications. Both figures differed from what VPA used in their analysis.

Residential Floor Area (1/21 Plans versus VPA Appraisal Report)

Based on the zoning code, given the reported amount of mixed use land area indicated in the 1/21 plans, the allowed base level residential area would have been 678,086 square feet of gross floor area. The allowed number of units would have been 519.

The VPA report shows the base allowed residential gross floor area at 729,586 gross square feet, with a base potential of 558 units. As far as we can determine, the VPA base level figures were significantly overstated, with an extra 51,500 square feet and 39 units. In the end, the effect of that error would have been to understate the community amenity value estimate, all else being equal.

By calculation from the reported mixed use land area, the allowed bonus level residential floor area in January of 2021 would have been 1,695,215 gross square feet. The allowed number of units would have been 1,730.

The January 2021 development plans showed a total of 1,729 planned units. The plans indicated that the developer proposed to build 1,695,214 gross square feet of residential floor area, which was essentially equal to the maximum allowed amount of residential gross floor area for the R-MU-B portion of the site as depicted in the 1/21 plans.

The VPA appraisal used a total planned bonus residential floor area of 1,556,100 gross square feet. They reported a total planned count of 1,729 dwelling units (reported as 1,735 units in part of the document but 1,729 in most of the report).

For the bonus scenario, VPA underreported the amount of proposed floor area. The end result effect of that error would have been to influence the community amenity value indication downward, which is the same directional error that affected their base level scenario estimate of floor area. The following table summarizes the error factors.

Source	Max. Base Level Residential Floor Area (Gross Sq. Ft.)	Planned Residential Floor Area (Gross Sq. Ft.)
VPA Appraisal	729,586	1,556,100
1/21 Building Plans	678,086	1,695,214
Appraisal Report vs. 1/21 Plans	**+51,500**	**(139,114)**

Using the data from the January 2021 development plan submittal, the difference between the planned residential area and the base zoning parameter maximum allowed residential area amounted to 1,017,128 gross square feet (i.e., 1,695,214 of planned square feet of gross floor area minus the base allowed level of 678,086 square feet). That differential should have served as the basis for the residential component community amenity valuation in VPA's appraisal report because the appraisal report indicated that the most recent planning submittal that VPA reviewed was the January 2021 submittal.

The actual amount of bonus residential area that VPA used in their appraisal analysis was just 826,514 gross square feet (i.e., 1,556,100 square feet reported by the appraisers as planned gross floor area minus their erroneously reported base allowed level of 729,586 square feet of gross floor area). The community amenity valuation in VPA's appraisal report was based on that differential.

The error amounts to 190,614 square feet. From a valuation standpoint, the error was in favor of the project applicant, since it understated the amount of achievable bonus floor area. Understating the proposed amount of bonus floor area of course would influence the community amenity value conclusion downward, assuming a proper analysis of the effect. The residential component valuation will be discussed in more detail subsequently. There are other significant issues impacting that part of the VPA appraisal report.

Office Floor Area (1/21 Plans versus VPA Appraisal Report)

As previously noted, the January 2021 development plans indicated land areas of 753,429 square feet and 1,587,614 square feet for the components having mixed use and office zonings, respectively. The allowed base level non-residential floor area ratio is 15% in the R-MU-B zone. The allowed base level office floor area ratio is 45% in the O-B zone.

Using the component land areas from the 1/21 plans, the potential base zoning scenario maximum achievable office gross floor area would be 827,441 square feet. That figure presumes that a use permit could be obtained for the R-MU-B component to allow for all of the non-residential space in that part of the site to be office space.

The VPA report shows that the base level of allowed office development would be 855,790 square feet. That figure is incorrect based on the noted lot size figures. The reported base level allowed office floor area is overstated by 28,349 square feet. That error would tend to result in undervaluing the community amenity, all else being equal.

The 1/21 plans show a total achievable office space floor area of 1,775,971 square feet under bonus level zoning (i.e., the bonus code allows up to a 25% non-residential floor area ratio for the R-MU-B component and up to 100% for the O-B component). The 1/21 plans actually call for 1,600,000 square feet of gross office floor area. For this component, the VPA report correctly showed the planned square footage.

The following table summarizes the error factor related to the office component square footage calculation.

Source	Est. Base Level Maximum Office Floor Area (Gross Sq. Ft.)	Planned Office Floor Area (Gross Sq. Ft.)
VPA Appraisal	855,790	1,600,000
1/21 Building Plans	827,441	1,600,000
Appraisal Report vs. 1/21 Plans	**+28,349**	**Nil**

For the office component of the Willow Village project, the January 2021 plans indicate a total proposed area of 1,600,000 square feet, or 772,559 square feet of additional space versus the base scenario achievable floor area. That differential should have served as the basis for the community amenity valuation in VPA's appraisal report.

The amount of bonus residential area that VPA used in their appraisal analysis was 744,210 gross square feet (i.e., 1,600,000 planned square feet minus VPA's reported maximum base level figure of 855,790 square feet). The community amenity valuation in VPA's report is based on that differential.

For the office component, the error amounts to 28,349 square feet. Again, the error was in favor of the project applicant, since it understated the amount of achievable bonus floor area. The office component valuation will be discussed in more detail subsequently. There are other issues impacting that part of the VPA appraisal report.

Retail Floor Area (Plans versus VPA Appraisal Report)

The retail or non-office commercial component floor area calculations are in some ways more complicated than the residential and office components. The amount of allowed commercial floor area in the R-MU-B zone is 15% of the lot area under base zoning parameters or 25% of the lot area under bonus zoning parameters. The non-residential space in the R-MU-B zone could potentially be devoted to office, retail, or any of a variety of other commercial uses.

For properties in the O-B zoning district, the base allowed floor area ratio for commercial space is 10%, excluding the 45% allowed base office floor area ratio. The 10% additional floor area ratio cannot be used for offices. For the bonus scenario, the allowed bonus non-office ratio increases from 10% to 25% of the lot size.

On that basis, using the January 2021 plan submittal's estimates of the component lot sizes, the allowed amount of base retail space could reasonably be interpreted as 15% of the 753,429-square foot R-MU-B portion of the of the site and 10% of the 1,587,615-square foot O-B portion of the property. The total allowed base retail space therefore could have been potentially as high as 271,775.8 square feet in total, based on the January 2021 plan submittal's land area breakdowns.

The base allowed retail space also could be interpreted to apply only to the O-B zoning area. That would yield 158,761.4 square feet of base level allowed retail space based on the 1/21 planning submittal lot size estimates.

Since any office space in excess of 20,000 square feet in the R-MU-B zone requires a use permit, and no such use permit has yet been granted, we would incline toward using the higher figure (271,775.8 SF) as the base amount of allowed retail space.

The VPA appraisal report, however, state that the base level allowed amount of retail space would be 162,424 square feet. That figure cannot be derived from the development plans that we reviewed (not from the 1/21 plans, 5/21 plans, or any other set).

The January 2021 development plans did not have specificity regarding the planned amount of retail space but indicated that the project would have "up to" 200,000 square feet of retail area. The May 2021 plans show only 141,354 square feet of planned retail space but also indicate that the project could have "up to" 200,000 square feet of retail space.

The VPA appraisal report used 200,000 square feet for the amount of planned retail space. On that basis, they calculated a community amenity value for the retail component based on an estimated bonus amount of retail space equal to 37,576 square feet (i.e., 200,000 SF less their reported maximum base level figure of 162,424 square feet).

In our view, the amount of proposed bonus level retail space is zero at present. The current plans show only 141,354 square feet of retail area. The entitlements would allow up to 200,000 square feet. The allowed base level amount of retail space ranges from 159,927 to 273,916 square feet.

The January 2021 plans indicated a base level achievable range of 158,761 to 271,776 square feet, which was very similar to the figures derived from the May 2021 planning submittal. It could also reasonably be interpreted that there was no planned bonus scenario retail space at the time of the January 2021 building plans. As such, for this component the VPA appraisal report most likely overstated the community amenity value, in our opinion. Since there was no readily apparent bonus retail space, no analysis of that component is or was needed.

The retail valuation component of the VPA appraisal report has major flaws in terms of data selection and analysis, based on our review. However, any flaws ultimately are immaterial because in our view the proper community amenity value associated with the retail component should be zero.

Summary of Allowed Base Level Development Intensity and Proposed Development Intensity from the January 2021 and May 2021 Planning Submittals

The following table summarizes the estimated gross floor area potential for the subject property as calculated from both the January 2021 planning submittal and the May 2021 planning submittal. The former submittal would be the most relevant from the context of our compliance review of the VPA community amenity appraisal for the Willow Village project site. The latter submittal is the most relevant from the standpoint of a current valuation of the community amenity. Ultimately, any community amenity value would be based on the land value differential between projects having potential for (1) the actual planned amount of gross floor area and (2) the maximum base level of development allowed under the planning code. If there is no floor area differential, then by definition there is no community amenity value to be calculated.

Source:	1/21 Plans	5/21 Plans
Planned Residential Gross Floor Area (GFA):	1,695,214 SF	1,695,975.5 SF
Less Base Allowed Residential GFA:	678,086 SF	683,932.3 SF
= Planned Residential GFA over Base Level:	**1,017,128 SF**	**1,012,043.2 SF**
Planned Office GFA:	1,600,000 SF	Up to 1,600,000 SF
Less Base Maximum Allowed Office GFA:	827,441 SF	833,661.55 SF
= Planned Office GFA over Base Level:	**772,559 SF**	**766,338.45 SF**
Planned Retail GFA:	Unspecified; "up to" 200,000 SF	Up to 200,000 SF
Less Base Allowed Retail GFA:	158,761 to 271,776 SF	159,927 to 273,916 SF
= Planned Retail GFA over Base Level:	**Effectively nil**	**Nil**

Item #30--Supply and Demand/Market Analysis

The appraisal report included a fairly detailed overview of some aspects of the local market for office, retail, and residential space. However, there was no real discussion of supply factors and how the potential addition of either the base or bonus level scenario space would impact the local market supply. Furthermore, there was no real attempt to discuss whether or not the market could absorb the amount of proposed space, and if so at what rates.

Office Sector

To some degree, perhaps it was unnecessary thoroughly to discuss office absorption potential dynamics in the report, since the subject property would be developed by an entity owned or controlled by Facebook and Facebook is the obvious intended user for the office component of the proposed development. Nevertheless, the demand for such a project still is a factor potentially affecting land value and therefore one might reasonably have expected a more substantial analysis of supply and demand factors.

We should also note that most of the statistical data discussed in the report is from Q2-2020. That information of course was long out-of-date by the time that the appraisal report was completed in February of 2021.

In their "Office Market Analysis Conclusion" section on pages 52 and 53, VPA concluded that "Office construction costs [per square foot of floor area] tend to increase when a parking garage is needed, as opposed to a situation when only surface parking is required. Increased construction costs translate into lower land values (all else being equal), and this is reflected in the base and proposed bonus level scenarios in this appraisal since, at the projected base level density, an office could likely be surface parked."

We completely agree with VPA's comment regarding the effect on land value of the need to provide structured parking. That is, a project needing structured parking (or a higher parking ratio) would result in higher construction costs, all else being equal. That factor certainly should be considered in a land value analysis.

However, we are highly skeptical about VPA's claim that an office project at the subject property at the base level allowed intensity could be completely surface parked. In short, the math simply does not work given the municipal code requirements and restrictions.

Indeed, Facebook has developed other sites in Menlo Park with office space at around the current base level allowed office intensity ratio (45% FAR) and those projects do *not* have only surface parking, relying instead mainly on structured parking. (Of note, those relatively low intensity developments occurred before the adoption of the current general plan, zoning code, and the bonus level allowed floor area ratios.)

One factor that VPA appears to overlook is that base level O-B zoning allows a 45% office floor area ratio plus a 10% floor area ratio for other types of commercial space. Those alternate use components also would need on-site parking. The total base allowed floor area ratio in the O-B zone is 55%, not 45%, and the base scenario presumes that the property would be developed at the 55% ratio. We must also note that any retail component would have a higher parking requirement per square foot of floor area relative to office space under the municipal code.

Furthermore, allowed building height in the O-B zone is only 35 feet under base zoning. Given current design practices for office space and retail space in the subject's market area, building height probably would be limited to just two stories at a 35-foot height limit. In contrast, the actual proposed office buildings for Willow Village would have heights up to 117 feet, with an overall average height of 65.94 feet for buildings in the O-B portion of the site. Most of the office buildings would be four to five stories in height. Of course, those heights require the bonus level zoning parameters. Obviously shorter buildings with fewer floors result in less surface area available for parking spaces.

In addition, the code requires that developments in the O-B zone have at least 30% of the land area devoted to open space. (As the client is well aware, surface parking does not qualify as open space.) Additionally, the code requires front, side, and rear setbacks.

The ancillary uses, parking ratio requirements, setback requirements, building height limitation, and the open space requirement would argue against a base level project having only surface parking or a majority of surface parking. Neither math nor logic nor precedent can support VPA's contention that a maximum intensity base level project for the O-B zoned component could be entirely parked with surface parking spaces and still comply with the code.

Infrastructure Effect

Another important factor to consider is that the required infrastructure costs to develop the subject site are likely to be very high. Those costs would be needed to demolish and clear improvements, bring in imported fill to raise the site elevation, grade the property, construct new public and private streets serving the project, demolish old utility lines and construct new lines, and complete various other required infrastructure improvements at and near the site. Those costs could be spread out among much more square footage on the bonus level development scenario, which in turn would tend to significantly reduce the infrastructure costs per square foot of floor area. In comparison, the much less intensive allowed floor area potential under base level zoning would tend to result in much higher infrastructure costs per square foot of floor area. Review item #37 will have some additional discussion of this topic. The relative effects of infrastructure costs on the base and bonus scenarios were never analyzed in the VPA appraisal report as far as we can determine from their presentation.

Retail Sector

In our view, the report has a particularly weak discussion of local retail market dynamics. Ultimately, however, the retail market analysis is immaterial in the context of this review and therefore we will not further discuss that section of the appraisal report. Because there is effectively no bonus level retail space proposed in the Willow Village project, there is no community amenity value associated with that component part.

Residential Sector

The VPA appraisal stated on page 14 that "Menlo Park is primarily a bedroom community," but that statement is belied by actual data as the City has nearly three jobs per household and nearly two jobs per employed resident. Pre-pandemic employment in Menlo Park at Facebook alone exceeded one job per Menlo Park household. The City has a well-known imbalance between jobs and housing and residential units tend to be in high demand. Nevertheless, neither Menlo Park nor any other city is immune from the effect of supply and demand dynamics.

The VPA report provided a good summary of apartment market conditions from Q2-2020. Of course, that information was rather stale when the appraisal was completed in early-2021.

One shortcoming of the appraisal report is a very weak analysis of supply and demand dynamics impacting the condominium/townhouse market. At the base level, the May 2021 planning submittal indicates that the subject site could be developed with 523 residential units. The actual proposal calls for 1,730 units under bonus zoning parameters. Either figure would be a very large influx of new units for the Menlo Park market.

On page 59 of their report, VPA provided a table summarizing average sale price trends by month for the period from October 2019 through September 2020 for condominiums and townhouses and Menlo Park. The information was presented in what we consider to be a misleading manner due mainly to a lack of contextual information.

For example, what the report did not state is that the number of sales by month for the one-year period ranged from just 3 to 13, with an average of 6.75. No reasonable person would expect to deduce market demand for 523 to 1,730 new units from a competitive market study of fewer than seven re-sales per month.

In addition, the monthly price trends were shown with no context whatsoever. For example, the table showed the average sale prices of the few units that happened to transfer in each month in Menlo Park but failed to note the average size of those units in each period (or that the large majority are on the west side of town). For example, in April of 2020, when the reported average sale price was shown as declining by 25.44% month-over-month, the average unit size of the reported sales was 1,119 square feet. In the comparison month with a higher average price, the average unit size had been 1,711 square feet.

Ultimately, VPA concluded that there was sufficient market demand for the proposed residential units at the subject property. On balance, we think the evidence would be supportive that demand would be adequate for a rental project of the scale proposed for Willow Village, particularly when considering the scale of planned new office development at the Willow Village site as well as other proposed office and life sciences developments in the primary competitive area. The proposed units at Willow Village would be rental units. As such, the appraisal's shortcomings in terms of condominium/townhouse market trend analysis in particular probably do not have any significant impact on the ultimate conclusion.

Item #36--Existing and Planned Infrastructure

In general, the appraisers provided a good, reasonably detailed description of the subject site and the infrastructure work that would be needed to develop the property as planned. That section of the report is adversely affected, however, by vague and incomplete information that was provided regarding the costs that would be needed for infrastructure and site preparation work.

On page 30 of their report, VPA wrote that "We were provided with horizontal site costs for the proposed project. The total cost is approximately $451,732,000, or ±$175 per square foot of land. The two largest costs are for a $70,441,000 tunnel linking Willow Village to other proximate Facebook sites and a ±$27,701,000 Belle Haven sub-station circuit. Site utility costs are $41,353,000 and demolition costs are $35,543,000. There also is a built-in $70,000,000 cost escalation to account for the long project development timeline and potential for construction costs increases."

VPA did not state whether the cost figure was an estimate or a bid. Furthermore, their report did not define the term "horizontal site costs" and did not list all of the costs that add to the reported $451.732 million total. The specifically enumerated costs actually amounted to $245,038,000, which left $206,694,000 of the total reported costs unaccounted for in VPA's report. The shortage of information makes it impossible for a reader to judge exactly what costs are included in the reported horizontal cost total, whether the estimate is reasonable given the proposed scope of work, and how those costs might compare to other very large development sites in the general competitive market area.

To us, on the surface the reported total cost seems atypically high, but we do not have any basis to know exactly what costs are included in the reported total. For perspective, VPA's land value conclusion for the subject property on the base level development scenario was $419,695,000 (excluding the hotel land component). That figure is significantly less than the reported horizontal cost total. It would be unusual for infrastructure and site preparation costs for a development site in Menlo Park to exceed the land value of the property.

The reported $70.441 million cost for the tunnel that would link Willow Village to Facebook's Hacker Way campus is of course a user-specific cost. That is, a speculative developer unconnected with Facebook would not be likely to construct a similar tunnel project.

On page 30, VPA ultimately concluded that "Overall, based on our review and experience with other project site costs, the horizontal costs for Willow Village are significant, albeit typical for urban environment site costs (excluding the tunnel, substation circuit, and cost escalator)." VPA did not provide the entirety of the cost estimate/bid or an accounting of exactly what was included in the total but they indicated that they had reviewed the figures and found them to be typical except for the noted exclusions. At present, we have no information to the contrary. It is an extraordinary assumption of this review report that VPA's finding was accurate that the noted costs were typical except for the specifically noted exclusions. If that presumption were incorrect, there could be an effect on the assignment results.

Item #54--Description of the Proposed Buildings

The appraisal report provides very little information regarding the buildings that would be developed at the subject property. To be fair, full building plans were not available when VPA completed their report and still are not available. Therefore, general descriptions of the project can suffice.

The main problem with the description of the project relates to the proposed floor area figure provided in the VPA report for the residential component. As previously detailed in our review report, VPA understated the amount of proposed residential gross floor area. In addition, they overstated the allowed base scenario residential floor area. Achievable gross floor area of course is an absolutely critical element of the valuation analysis.

VPA's base level office gross floor area figure also was incorrect based on the development plans available at the time of the report. That error was much smaller in scale but was not trivial.

Items #62 and #63--Highest and Best Use Analysis

Page 61 of the report is the highest and best use section of the appraisal. The appraisers did not actually complete any analysis of the highest and best use of the Willow Village property. Instead they stated that they "assumed" that the base level scenario and the proposed development under bonus zoning guidelines both represented the highest and best use.

The appraisal instructions require the appraiser to analyze the property using (1) the base level zoning parameters provided by the City of Menlo Park and (2) the actual proposed development parameters. In this case, the actual proposed development intensity is much higher than would be allowed under the base level zoning. Therefore, from a valuation standpoint it is likely that the lack of any real highest and best use analysis ultimately is immaterial.

The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. In essence, normally the highest and best use is that which produces the highest value and/or highest return while being legally permissible, physically possible, and financially feasible.

In our opinion, the appraisers at least should have attempted to analyze the highest and best use of the subject property. Since they concluded a much higher value for the property based on bonus level zoning parameters, it is clear that they concluded at least that the proposed development results in a higher land value than the base scenario by a considerable margin. In our view, the evidence is supportive of that conclusion.

Items #65, #66, #67, #68, #71, #93, and #97--Sales Comparison Approach and Support for the Value Conclusions

VPA's appraisal report broke down the valuation analysis of the subject property into three parts, namely an office component, a retail component, and a residential component. They analyzed different sets of sales for each of those three component parts.

VPA Retail Component Valuation

The sales selected for the retail component part of the Sales Comparison Approach are extremely weak market value indicators for the subject property, in our opinion. However, as previously discussed in this report we think that the evidence tends to indicate that there is no proposed bonus level or retail development at the Willow Village site. On that basis, there is no community amenity value to be calculated for that segment of the development. Consequently, we will not discuss further in this report the base and bonus level retail land value conclusions in the VPA appraisal report.

VPA Office Component Valuation

At the outset of their base level zoning land value analysis, VPA wrote on page 63 of their report that "the bonus level will require a parking garage(s), while the base level would not likely require a garage." We have already covered this issue at some length in our review. VPA's contention cannot be supported by actual data and does not work mathematically given the development parameters of the zoning code.

We should also note that that VPA mischaracterized the methodology for computing the allowed amount of office space on base level zoning parameters (see page 63 of their report). We have covered the development potential in detail previously in this review report.

The appraisal instructions require an appraiser to use the exact same sales data in analyzing a subject property under both base level and bonus level zoning parameters. VPA adhered to that requirement. They analyzed eleven sales in valuing the office component of the Willow Village proposed development site.

We have some issues with the selection of sales but the appraisers properly appear to have made an effort to focus mainly on sales of large to very large office and R&D development sites in the general competitive area. Some of the sales are intended for life sciences use rather than office use but the use of such sales is understandable given that many of the largest proposed office or R&D development sites in the competitive area in recent years are slated for life sciences projects.

Development sites similar to the proposed office component at Willow Village occur very infrequently. Although there are a few recent and current office or R&D development proposals as large or larger than the subject in the main competitive area, only one such site sold recently. Some of the noted projects are being developed by Alphabet/Google, and in those cases the applicant typically has owned the parcels involved in the project for many years.

In our opinion, some of the sales analyzed by VPA are relevant to the analyses of the subject's base and bonus scenario office development potentials while others have little to no apparent relevance and should have been excluded. We will provide a brief summary of the sales and some commentary related to the sale properties and VPA's analyses of the various sales.

Sale #1 (684-870 West Maude Avenue, Sunnyvale)

This sale involved four contiguous properties, which have an address range of 684-870 West Maude Avenue and 470-474 Potrero Avenue in the Peery Park tract of Sunnyvale. The factual information provided by VPA for this sale is mostly correct and where there are discrepancies those are considered to be immaterial.

The seller brought the property through the entitlement process prior to the analyzed sale for $165.5 million. The plans involve retaining an existing 58,188-square foot industrial building on Potrero Avenue, which the buyer intends to convert to office space. The approved plan for the remainder of the site calls for the construction of 498,545 square feet of new office space in development phases. Including the retained floor area, the project would have 556,733 square feet of gross floor area. The sale price therefore amounted to $297 per square foot of gross floor area.

The site contains 626,262 square feet of land, according to survey. The overall floor area ratio would thus be 89% but it would be 100% on the portion developed with new buildings. Achieving that intensity in sale #1's zoning district requires the inclusion of substantial community benefits, which is a fact the VPA did not mention. (The base level allowed floor area ratio in sale #1's district is only 35%, with higher ratios achievable for projects that provide community benefits.)

According to the plans, the new buildings will be four stories in height (75 feet) and will be of Type II-B construction. The project will have an overall parking ratio of 3.12 spaces per 1,000 square feet of gross floor area. The large majority of the spaces will be structured parking, which will be partly below grade and mostly above grade.

When it comes to the analysis of this sale and all of the other office development site sales, VPA's report claimed that they made adjustments to the sale prices per square foot of GFA. However, they did not actually provide any quantitative adjustments in their report. Instead, they assigned *qualitative* overall ratings to each sale relative to (1) the appraised property under base level zoning parameters and (2) the appraised property under bonus level zoning parameters. (A qualitative rating in this context is simply a binary choice between "better than" or "worse than.")

For base level zoning, the so-called adjustment grid is on page 92 of the report. For bonus level zoning, the supposed adjustment grid is on page 95.

For sale #1, which sold at a price of $297 per square foot of GFA, VPA concluded that the relative value of the subject property under base level zoning parameters would be "lower than" $297 per square foot of GFA. VPA does not favor us with any indication regarding *how much* lower than that figure would be appropriate. In fact, they did not really provide any explanation regarding why the subject's value per square foot would be lower than that of sale #1.

For the bonus development scenario, VPA again simply concluded that the relative value of the subject property would be "lower than" $297 per square foot of GFA. Again, there was no indication of how much lower the conclusion should be.

Sale #2 (821-887 Industrial Road, San Carlos)

The second sale analyzed for comparison with the office component of the subject property involved the property at 887 Industrial Road in San Carlos. This sale closed escrow in June of 2017 and thus was rather dated at the time of VPA's appraisal report. Nevertheless, sales of large office or R&D development sites do not occur with frequency in San Mateo County and this is one of the larger proposed development site sales to have occurred in south San Mateo County over the past several years.

VPA described sale #2 as a proposed office development site, but that is not correct as it relates to the analyzed sale. The prior owner had obtained approvals in 2016 to develop the site with a Class A office project. Most but not all of that background work was usable by the grantee, who changed the proposal to a life sciences project rather than an office development. The life sciences project was subsequently 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.

The property sold for $85 million. VPA reported the sale price to be $161 per square foot of GFA (we are rounding their figures to the nearest $1). Based on our calculations of the GFA by applying the Menlo Park measurement standard to the approved building plans, the sale price amounted to $153 per square foot of GFA.

Using a proposed life sciences development site for comparison with an office development site is less than ideal. Still, it is probably unavoidable to include some life sciences sales in the analysis, because much of the very large scale recent development approved or proposed in the subject's primary competitive area has involved life sciences projects.

It must be noted, however, that development costs for life sciences buildings typically significantly exceed those of office buildings, all else being equal. Life sciences buildings have substantial laboratory build-out, which is more expensive to construct than office improvements. Meanwhile, in south San Mateo County the achievable rental rates for life sciences space generally are not commensurately higher with the higher construction costs.

Therefore, life sciences/R&D development sites historically have typically had lower prices per square foot of GFA than office development sites in the subject's main competitive market area. The gap has narrowed due to extremely strong market condition for life sciences space coupled with weaker office market conditions post-pandemic. However, the analyzed sale occurred in 2017 when the gap between life sciences and office land was wider than at present. This factor is never discussed in the VPA appraisal report but should have been an important element when analyzing the site of sale #2.

We will note that there have been more recent sales of proposed life sciences development sites in San Carlos that VPA could have used in their analysis, as well as an extremely large proposed life sciences development site in Redwood City. We will provide some information about other development site sales later in this report.

As noted, VPA's analysis tables on pages 92 and 95 showed qualitative ratings for the sale properties versus the appraised property. On that basis, for sale #2 VPA concluded that the subject's office component land was worth more than $161 per square foot of GFA for either the base or bonus development scenarios.

Sale #3 (265-285 Sobrante Way, Sunnyvale)

The third office development site comparison sale consists of a property that fronts on Sobrante Way, Pastoria Drive, and Central Expressway in the Peery Park area of Sunnyvale. The VPA appraisal showed the street address as 285 Sobrante Way but the development application uses an address of 265 Sobrante. The 152,753-square foot site sold in 2019 with entitlements to develop a new 121,715-square foot, four-story, Type I-A office project over an underground parking garage. The proposed floor area ratio of 80% far exceeds the 35% allowed base level, which necessitated the provision of community benefits. That factor was not mentioned in the VPA appraisal report. The approved plans called for a parking ratio of

3.3 spaces per 1,000 square feet of GFA with valet service, or 2.9 spaces per 1,000 square feet without valet service.

A widely-used commercial property database showed the sale price to be $30 million. The recorded transfer tax indicated a price of $28.05 million and VPA used that figure in their report. However, we will note that the property was assessed at more than $30 million after the sale, which would imply that the effective price was higher than $28.05 million. It is possible that there may have been consideration paid outside of escrow that resulted in an effective price higher than the level indicated by the transfer tax.

We have not independently verified the sale price. If we were to presume that VPA's sale price figure is correct, the indication would be about $230 per square foot of planned GFA. Using the reported $30 million figure from the noted commercial database, which is more consistent with the eventual assessed value, the indication would be $246 per square foot.

This property obviously differs considerably from the subject both in location and in the scale of potential office development. Nevertheless, it is a site that sold with entitlements for a fairly large office project.

In their analysis tables of the sales on pages 92 and 95, VPA concluded that the subject's office component land was worth more than the $230 per square foot of GFA reported price for sale #3. That conclusion held under both the base and bonus level scenarios.

Sale #4 (1180-1190 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. The subject property has a major comparative advantage, as the appraisal instructions require us to presume that the Willow Village site has entitlements both for the proposed project and the maximum base level development intensity. The majority of office component sales analyzed by VPA were unentitled.

Post-sale, the new owner brought the property at 1180-1190 Main Street 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 VPA appraisal states that the property would be offered for lease after completion, but the pre-leasing had occurred well before VPA completed their appraisal report.) 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. The sale is fairly dated, as it closed escrow in October of 2018 and had been negotiated a considerable period of time prior to the eventual closing. Indeed, VPA's report stated that "Escrow was reported to be lengthy and complicated for this sale, taking 450 days to draw to a close."

The parties to sale #4 reached the agreement a long time prior to the valuation date. In that regard, it should be noted that there are several pending development site sales in the same district (Stambaugh-Heller district of Redwood City) with far higher prices per square foot of planned floor area. Those pending sales were not mentioned in the VPA appraisal report. It is certainly possible that they were not aware of the pending sales. Nevertheless, the appraisers are supposed to take into account changing market conditions in their analysis.

A significant factor affecting the site of sale #4 is that Redwood Creek traverses the parcel. That factor reduces usable land area, negatively affects the available development envelope, and influences construction costs upward. In addition, the developer had to agree to set aside a sizable portion of the site for a public park. Those factors were not mentioned in the VPA appraisal report. We suppose it is possible that they were aware of those issues and simply stayed silent on them, but if so there is no way for a reader of the report to know that.

The tables on pages 92 and 95 indicate that VPA judged the value of the subject property to be higher than sale #4's reported price of $188 per square foot of GFA. That conclusion applied both to the base and bonus level scenarios. As with the other sales, there is no way for us to deduce from the report as written how much different would be the subject's relative values for either scenario.

Sale #5 (3050 Democracy Way, Santa Clara) [sic]

VPA reported a June 1, 2017 sale for $264 million of a property involving nine parcels of land in Santa Clara. (The property has several addresses, none of which actually is 3050 Democracy Way; the property's frontage on that street actually is on the odd-numbered side.) In point of fact, there was no property sale on that date of any of the nine parcels in question, as far as we can determine. We could find no evidence of any recorded deeds transferring the parcels on or near the reported sale date, which certainly implies that there was no such sale.

There does appear to have been an *entity sale* at around the reported time of the alleged property sale, in which an interest in the business entity that owned the real estate transferred to a new buyer. That is not the same thing as a transfer of real estate. Without knowing the specifics of the entities involved in the sale, both of which were based in China, including the interest transferred, entity debt levels, entity assets, and entity liabilities, it would be difficult to analyze this transaction as an indication of real estate value.

VPA reports that the proposed use of the property is a mixed use development (not an office project) with a floor area of 3,650,000 square feet. That information is partly true (the proposal is for a mixed use project) and partly false (the size would not be 3.65 million square feet). In any case, VPA did not provide a reasonable depiction of the development plans for the site.

The property at one time was owned by Yahoo!, which had obtained approvals to develop 3.06 million square feet of office and R&D space on the property. That is the only application that has been approved that we are aware of, and the approvals have long since expired.

The current applicant proposed a massive project that would include 3,500,000 square feet of office space, 400,000 square feet of hotel space, and 6,100,000 square feet of residential space (6,000 units). The project would consist of high-rises ranging from 275 to 300 feet in height. That application was submitted a few years ago and as far as we can determine no progress whatsoever has been made since 2019.

In the end, in our view this is simply not a relevant sale for the analysis of the subject property. It is not clear that there was a property sale to analyze here or what price might have been associated with the property value. If VPA still wanted to analyze the property, it certainly cannot be analyzed based on a floor area of 3.65 million square feet, which corresponds neither to the once-approved project size or the most recent (apparently inactive) proposal. Furthermore, the current proposal is based on 275-foot to 300-foot tall buildings, which is vastly different from the proposal for the subject property and even farther removed from the base level planning guidelines for the subject.

Sale #6 (3000-3050 Marina Boulevard, Brisbane)

This property sold for $20,500,000 in January of 2019. The parties had executed the contract in 2017. VPA reported the planned gross floor area as 438,104 square feet, indicating a sale price of $47 per square foot of planned GFA. According to city officials and the building plans, the actual planned floor area is 422,522 square feet, which would indicate that the price was $49 per square foot of GFA.

VPA incorrectly reported some of the details regarding the transaction. A prior owner had entered into a ten-year development agreement with the City of Brisbane in 2012, with an amendment being executed in 2017. Under that agreement, the property had the potential to be developed with up to 438,104 square feet of office space and/or life sciences space.

After entering into the purchase agreement, the current owner sought to change the building plans and eventually obtained entitlements for a new project in early-2019. The sale closed escrow nearly concurrent with the attainment of approvals but of course the buyer incurred costs as well as expending time and effort to bring the proposal through the approval process. The current plans call for a trio of six- to seven-story R&D/life sciences buildings and two five-story parking structures. The parking ratio would be about 3.2 spaces per 1,000 square feet of floor area.

This property is located on a closed landfill site, which is a factor affecting development costs but is not noted by VPA in their report. Furthermore, Brisbane is a market with far lower prevailing office rental rates and property prices than Menlo Park. In our view, this sale is not a strong comparison property for an analysis of the Willow Village site. As with their other life sciences sales, VPA makes no mention of the prevalent differences in achievable prices for sites with that intended use versus office space.

In their tables on pages 92 and 95, VPA opined that the indicated values for the subject property on either the base or bonus scenario would be "higher than" the price per square foot of GFA from sale #6.

Sale #7 (960 Industrial Road, San Carlos)

This sale is a May 2017 transaction involving two adjacent parcels that comprise a portion of the proposed Alexandria Center for Life Sciences project site in San Carlos. The development site in total contains 25.34 gross acres of land, of which the site of sale #7 comprises roughly 42% of the total. The property sold for about $65 million.

VPA reported the planned floor area for this property at 500,000 gross square feet. That is in fact what the buyer estimated was achievable at the time that they purchased the property.

At the time of sale, the property was unentitled for any development. The site has a Heavy Industrial zoning. While the zoning code nominally allows floor area ratios as high as 200%, the maximum allowed ratio for lots of more than an acre falls to 100%. VPA reported the lot size of the sale property at 465,395 square feet (10.68 acres). At that figure, with the planning guidelines in place at the time of sale the maximum GFA would have been 465,395 square feet. On that basis, the price per square foot of GFA would have been $140 instead of VPA's reported figure of $130.

The buyer has submitted development plans for the larger assemblage of which sale #7 is a part. The project would have three phases and would involve the construction of six life sciences buildings, one amenity building for the life sciences tenants, and two parking garages. The total proposed floor area would be 1,522,508 square feet on 1,103,810 square feet of land, for a 138% FAR. However, no approvals have been obtained and the proposal would need planning code amendments to achieve the proposed scale. It is quite possible that the ultimate approved scope of development will be lower than the current proposal.

VPA's analysis of the sale stated (p. 79) that "There are no present entitlements but the City is supportive of office uses." The statement is essentially irrelevant because the buyer is a REIT that focuses on life sciences projects and never had any intention of developing the site with anything but life sciences buildings.

This sale closed escrow in May of 2017 and was negotiated well before the closing. As such, the transaction was quite dated. We can certainly understand the rationale for including this sale, as it is of very large scale by local market standards. However, there were more recent available sales of life sciences development sites in the local market including one of much larger proposed scale.

VPA never mentioned that this property is intended for R&D/life sciences use. Again, we must note that prices for R&D/life sciences development sites in the subject's main competitive area historically have tended to be lower than those of office development sites, all else being equal. The differential was greater in when this sale was negotiated and when it closed than it would likely be today.

Sale #8 (1050-1060 Innovation Way, Sunnyvale)

The City of Sunnyvale sold this property to Google. In general, in appraising private sector properties we believe it is best to avoid using public agency sales unless there are inadequate available private sector sales. Moreover, the sale was impacted by some highly unusual conditions that are not discussed by VPA in their report but almost certainly impacted the sale price.

The purchase agreement is a matter of public record. The parties executed the agreement in 2017 and the sale eventually closed escrow in March of 2018 for $21 million. There were no entitlements in place at the time of sale and no development proposals.

At the time of sale, Sunnyvale had zoned the property MP-I (Moffett Park Industrial District). The zoning could potentially be changed but the code in place allows for a base floor area ratio of just 35% of the lot size. The code does allow for an increase in the FAR to 50% or even 60%, but transferrable development rights (TDRs) are needed for any increase over 35%.

The background for this sale indicates that the City decided to market the property based on the existing zoning, with no TDRs available, such that the FAR would be limited to 35%. The City hired a national real estate firm who advised the City that it was in its best interest to sell the property with the then-current zoning and FAR limitation in place. The adviser opined that the achievable price would be higher on a 35% FAR basis under MP-I zoning than if higher intensity use were allowed. Although we believe that was extraordinarily poor advice, the property was in fact marketed on that basis according to the available records. The City, which had hired consultants to evaluate higher intensity alternatives, halted that work after having received the noted advice from the national real estate firm.

When VPA analyzed the sale, they assumed a 50% achievable FAR. Using that ratio, they reported a sale price of $193 per square foot of achievable GFA. However, at a 35% FAR, which was the basis upon which the property was actually marketed and sold, the sale price amounted to $275 per square foot of floor area.

In our view, if VPA believed this actually to be a comparable sale, then the proper basis of comparison would have been $275 per square foot of GFA, or about 42% more than the price per square foot that they applied. Of course, there was no actual development plan at the time of sale.

VPA correctly noted that the property was affected by some adverse easement issues. How those issues impacted the analysis was left unstated and of course there are no quantitative adjustments made in the report.

In the end, VPA concluded that sale #8 would indicate a value higher than $193 per square foot for the subject property under base level zoning. They also concluded that the sale indicated more than $193 per square foot for the subject under bonus level parameters. In our view, this sale should not have been included due in part to the unusual circumstances that we previously described.

Sale #9 (300-310 Constitution Drive, Menlo Park)

This is the extremely dated sale in which Facebook acquired the former TE Connectivity site along Bayfront Expressway, Constitution Drive, and Chilco Street for a reported price of $101,700,000. The sale closed escrow in September of 2014. However, the agreement actually appears to date back to the aftermath of the 2007-2009 "great recession," around late-2010. Facebook's preliminary application to develop the property was submitted around February of 2011, to the best of our recollection. Under the planning guidelines in place for the property at that time, the maximum achievable floor area ratio was 45%, excluding hotel space. The property did ultimately receive approvals for a project with a 45% office FAR and some hotel space (for a total FAR of about 52%).

A substantial portion of the property was leased back to the seller. A relatively small part of the site remains leased out and undeveloped to this day.

Of note, despite the relatively low FAR compared to the allowed ratios under current bonus level Bayfront zoning, the development of the site required structured parking. The site is now of course well known as the location of some architecturally innovative buildings that are core components of Facebook's Menlo Park campus.

The parties negotiated the price for this property more than ten years ago, at a time when achievable land prices on the east side of Menlo Park were vastly lower than they have been in recent years. When the sale occurred, Menlo Park did not have high intensity allowed bonus level development. Improved market conditions and higher allowed development intensity have combined to result in dramatic increases in development site prices on the east side of Menlo Park in recent years. For context, when Facebook initially leased the former Sun Microsystems campus in 2011, the base rental rate was $1.00 per square foot of rentable building area per month. Prevailing rental rates in the area now are roughly sextuple that figure.

The tables on pages 92 and 95 indicate that VPA concluded that the market value of the subject property would be "higher than" the price paid for the site of sale #9. Those conclusions would be obvious to any reasonable person having even a casual knowledge of the recent history of the subject's market area. Unfortunately, the conclusions do not really shed any significant light on what the actual value of the subject property might be at base level and bonus level zoning parameters. There is no supportable rationale that we can see for the inclusion of this sale, given the qualitative adjustment basis used by VPA.

Sale #10 (915-1050 Commercial Street/1063 Old County Road, San Carlos)

As with sale #7, this transaction involved a component part of the Alexandria Center for Life Sciences project site in San Carlos. In this case, the property includes several parcels acquired for a total of $113,250,000, according to the buyer. The site contains 541,973 square feet of land area, part of which is contained within a creek channel.

Unlike their summaries of the other office development sites, in this case VPA did not provide information regarding the allowed or proposed floor area for sale #10. They did report a sale price of $152.52 per square foot of GFA, which would imply an allowed or proposed GFA of 742,526 square feet. In fact, the zoning allows only a 100% maximum floor area ratio at present, would result in the price per square foot of GFA being about $209 rather than $153.

When Alexandria purchased the property, they estimated the floor area potential at 700,000 square feet. That figure has been reported in a quarterly earnings report and in SEC filings. The number has never been amended by Alexandria. In our view, the buyer's estimate of the floor area potential as expressed at the time of sale (and never subsequently changed) would be the best figure for the GFA expectation when the sale occurred. On that basis, the price per square foot of GFA would be $162 rather than $153.

This property sold with no entitlements in place whatsoever but Alexandria has been working on obtaining approvals for a considerable period of time. The sale closed escrow in April of 2020 but the parties negotiated the terms much earlier.

For this sale, VPA did mention that the intended use is life sciences. However, they provided no comments indicating any differential between achievable prices for life sciences development sites versus office development sites.

On page 92, VPA concluded that the value for the base scenario subject property would be "higher than" the price per square foot of GFA for sale #10. On page 95, they concluded the same for the bonus scenario subject property.

Sale #11 (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, according to our sources. VPA reported the price as $85.723 million. The difference is insignificant in the context of this appraisal.

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 project.

The VPA report showed a planned floor area of 385,000 square feet, resulting in a price per square foot of GFA equal to $226. Both figures are incorrect, based on the building plans, information provided by the seller, and various public record documents.

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. The building plans are consistent with those figures. The amenity space is not enclosed building area. The amenity space mostly consists 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. Therefore, using the $85.001 million figure, the sale price amounted to about $269 per square foot of gross floor area. That figure is 19% higher than what VPA reported as a price per GFA square foot.

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.

VPA's analysis of this sale versus the base level scenario subject property resulted in a conclusion that the indicated value for the subject would be higher than the price per square foot of GFA for sale #11. Since the actual price was about $269/SF, the value would be higher than that figure rather than the $226/SF figure cited in the appraisal report.

VPA's analysis of this sale versus the bonus level scenario subject property also resulted in a conclusion that the indicated value for the subject would be higher than the price per square foot of GFA for sale #11. Again, since the actual price was about $269/SF, the value would be higher than that figure rather than the $226/SF figure cited in the appraisal.

VPA Analysis of the Office Component Sales Data

On pages 88-91 of their report, VPA summarized adjustments that they reportedly made in analyzing the office development site sales versus the subject property. The document clearly indicated that mathematical/quantitative adjustments were made to the sales. However, VPA did not actually provide any such adjustments in the report itself. Therefore, it is not possible for us to determine what specific numeric adjustments actually were applied. As a result, we cannot determine whether the adjustments were reasonable or not.

One item of note is that VPA wrote on page 90 that seven of the eleven office sale properties were unentitled at the time of sale. Since the appraisal instructions require us to presume that the subject property is fully entitled for both the maximum achievable base level development intensity and the actual proposed development, the subject has a comparative advantage. VPA did not state in this section of the report what that differential factor might be, but in their residential development site sales analysis, they wrote (page 151) that entitlements can add premiums of 20% to 80% over unentitled sites.

We agree with VPA that entitlements add major value, as long as the prospective developer actually intends to build the entitled project. We will note, however, that the contributory value can be affected not only by entitlement status but also by the relative land values. That is, some of the costs associated with entitlements are variable costs for which percentage adjustments apply (for example, the period of time needed to obtain approvals coupled with a developer's desired or required rate of return over time) while others tend to have more of a fixed cost basis unrelated to the underlying land value per square foot (for example, architectural fees, engineering fees, CEQA processing, and similar). Thus, the adjustment rate needed can be considerably higher on a percentage basis for a property with a low sale price per square foot of GFA than would be the case with a property with a relatively high sale price square foot of GFA, ceteris paribus.

We would also note that while sale #2 had entitlements at the time of sale, those approvals were for an office project. The applicant had to make some changes to the design and building plans to accommodate their proposed development, which is intended for life sciences use.

VPA's Office Component Base and Bonus Level Conclusions

VPA analyzed 11 sales. Although they did not provide us with the quantitative adjustments applies to those sales they did provide tables summarizing their overall opinions of the relative values of the sales versus the subject for the base and bonus scenarios. For both scenarios, they concluded that the subject would have a higher value per square foot of GFA than ten (10) of the sales and a lower value per square foot of GFA than one (1) sale. The table on the next page summarizes the results.

Summary of VPA Qualitative Adjustments

Sale #	Price/SF GFA	Base Scenario Subject Relative Value	Bonus Scenario Subject Relative Value
1	$297	Lower than $297	Lower than $297
2	$161 ($153 by our calculations)	Higher than $161 or $153	Higher than $161 or $153
3	$230 (possibly $246)	Higher than $230 or $246	Higher than $230 or $246
4	$188 ($187 by our calculations)	Higher than $187 or $188	Higher than $187 or $188
5	$85 (based on incorrect GFA)	Higher than $85	Higher than $85
6	$47 ($49 based on plans)	Higher than $47 or $49	Higher than $47 or $49
7	$130	Higher than $130	Higher than $130
8	$193 ($275 based on actual data)	Higher than $193 or $275	Higher than $193 or $275
9	$76	Higher than $76	Higher than $76
10	$153 ($162 based on buyer's est. of GFA)	Higher than $153 or $162	Higher than $153 or $162
11	$226 ($269 based on plans & approvals)	Higher than $269	Higher than $269

VPA indicated that they weighed sales #1, #3, #8, #10, and #11 the most heavily. (We have previously noted that we do not think that sale #8 should have been included in the report at all.) With or without their commentary regarding weighting of the sales, one could reasonably infer from their analysis than their opinion of the appropriate conclusion for the office component of the subject property on either base or bonus level zoning parameters would be lower than $297 per square foot of GFA, because the sale at that figure is the only one rated superior to the subject property.

We can also reasonably infer that VPA concluded that the appropriate conclusion for the office component under base and bonus level zoning would be higher than $230 per square foot of GFA. Ten sales had prices per square foot of GFA at that rate or lower, according to VPA, and the subject was rated better than all ten of those sales. Consequently, based on their analysis the values for the base and bonus scenarios must be higher than $230 per square foot.

In point of fact, based on the actual building plans submitted and approved for the site of sale #11, as well as what the seller reported to us was the planned floor area, the price per square foot of GFA for that sale was $269 per square foot. Since VPA concluded that the subject was better than that property under both base and bonus scenarios, it would be logical that VPA would have concluded the subject's minimum value to be greater than $269 per square foot of GFA if they had analyzed that sale with the correct building area information.

Ultimately, VPA concluded a base scenario value for the subject of $275 per square foot of achievable office GFA. They applied that figure to 855,790 square feet of floor area, resulting in a conclusion of **$235,342,250.**

As we have explained previously in this report, VPA was incorrect in their calculation of base level achievable office area when using the component lot areas that were applicable at the time that VPA prepared their report. If we applied the lot size figures that were available at that time, then the base allowed office area would have been 827,441 square feet. If we were to apply the appraisal report's $275 per square foot of GFA conclusion to 827,441 square feet, then VPA's base level scenario office land component value would have declined to **$227,546,275.**

We can find no basis to support VPA's reported office area estimate of 855,790 square feet. Their cited rationale for that figure mischaracterized the planning code.

As far as we can determine from their report, there is no reason to expect the value per square foot of GFA conclusion would have differed based on 827,441 square feet of floor area. Therefore, in our view VPA's report overstated the base scenario office land value by a total of **$7,795,975.** As a result, they understated the community amenity value.

For the bonus scenario, VPA's analysis of sales was largely the same as in the base scenario, but they concluded a 9.1% lower value per square foot of GFA. They cited two reasons for concluding that the value per square foot under the bonus scenario should be lower than the value applied to the base scenario. Those differences are summarized on page 94 of the report. In brief, the cited reasons are as follows.

(1) The bonus level project size is much larger in scale than that of the base level, with a "more pronounced" time factor risk related to a potential for increased construction costs over a phased construction period. VPA wrote that they changed the mathematical adjustments applied to analyzed sales in order to account for that factor. Of course, they did not provide us with those adjustments so we have no way of knowing exactly how this factor impacted the analysis.

(2) VPA contended that the bonus level project will need a parking garage, which would increase construction costs versus the base level project, which could have surface parking only. They again noted some consequent changes in adjustments but did not favor us with the actual math showing the changes.

We find the rationale cited by VPA to be incomplete and mostly unconvincing. Regarding the second stated reason, we have already covered the reasons why we think VPA's contention related to parking design does not withstand scrutiny. Simply put, it is not mathematically possible under the zoning code requirements to construct a conforming base level project that would have only surface parking.

As for the first stated reason, it is certainly true that the larger project would tend to have a longer construction period, all else being equal. That factor could have some relative negative impact on the achievable price per square foot of GFA for the subject under the bonus scenario versus the base scenario.

However, one might also argue that the larger project could achieve some economies of scale versus that of a smaller project. To cite an example, as Facebook has developed the buildings on the former TE Connectivity site, their reported construction costs per square foot of floor area have been lower than typical costs per square foot for the generally much smaller office developments built in a similar time frame in the main competitive market area (including Menlo Park, Palo Alto, and Redwood City).

More importantly, VPA failed to discuss the effects of the very substantial infrastructure and site preparation costs that would be needed to develop the subject property. The property owner plans to demolish the Hamilton Avenue and Hamilton Court street improvements that currently traverse the site, the existing utility services running through the interior of the site, and all of the existing buildings. The proposed development calls for the construction of substantial new infrastructure, including new internal public and private streets serving the project site, alterations to Willow Road and Adams Court, the construction of new utility lines, and various other improvements.

There is of course no base level proposed development for the subject property. Nevertheless, if such a project were proposed it is likely that the substantial majority of the planned infrastructure and site preparation costs still would be needed. The scope of work could be somewhat reduced with fewer buildings and smaller footprints but most of the costs would still be needed (unless the existing street pattern were retained, which does not seem likely).

One advantage to a relatively large project is that the infrastructure and site costs can be spread out among greater proposed floor area, resulting in a lesser impact per square foot of GFA. Let us consider demolition costs, for example. VPA's own report stated that the estimated demolition costs amount to $35,543,000. The current allowed base level project size according to the City of Menlo Park amounts to 1,683,512 square feet of GFA (see page 28 of this report for an accompanying table), excluding any hotel space. At that figure, the cited demolition costs would amount to $21 per square foot of GFA.

In normal circumstances, the achievable price for the land would be influenced downward by an amount matching the cost of demolition. That is, compared to a vacant site where no demolition work would be needed, the achievable land price would be $21/SF of GFA lower to account for the required demolition cost. (That of course does not account for other infrastructure and site preparation costs.)

Meanwhile, excluding the hotel the current proposed bonus level of development amounts to 3,495,975.5 square feet of GFA (see page 37 of this report for a summary of the proposed floor areas by component parts). Based on that figure, the demolition costs would slightly over $10 per square foot of GFA, or roughly half the rate applicable at the base level.

On that basis, a developer under the bonus scenario could pay about $11 more per square foot of GFA for the site, all else being equal, relative to the base scenario. That differential would simply result from the differential effect of the demolition costs.

The same principle would apply to *other* infrastructure and site preparation costs, which of course involve far more substantial work than simply demolition. Therefore, the larger project would have an advantage that VPA appeared to overlook, as this factor was never even mentioned anywhere in the appraisal report.

Based on their analysis of the 11 noted sales, for the bonus level office component VPA concluded a value of $250 per square foot of GFA. They applied that figure to 1,600,000 square feet of planned office space, consistent with the total space shown on the plans from January of 2021. On that basis, they concluded that the value of the office land component under the bonus scenario amounted to **$400,000,000.**

In the transmittal letter of their report and on page 168 of the report, they also reported the value for a "refined" scenario based on 1,470,000 square feet of office space. On that basis, VPA stated that the value conclusion would remain at $250 per square foot of GFA, resulting in an office component value for the "refined" scenario of **$367,500,000.**

Review Conclusion--VPA Office Component Appraisal

VPA's office component analysis benefits from some good research and analysis. On the other hand, some of the analyzed sales should not have been included because they add little or nothing to an understanding of the market value of the subject's office component. For example, VPA's "sale" #5 does not actually represent a real estate sale, the information is not readily verifiable, and the most recent development proposal involved high-rise buildings that bear no resemblance to the base or bonus level scenarios for the subject. Sale #6 lies in an area of vastly lower prevailing land values. Sale #9 is based on an agreement from more than a decade ago. Of note, those three properties all had reported prices per square foot of GFA far below those of the other analyzed sales.

In our view, there were more recent sales that would have provided better value indications than some of the sales included in the VPA report. We will provide information on some of those additional sales subsequently. Overall, however, in our view VPA report had adequate market data from which to derive their value conclusions and they provided reasonably accurate information regarding most of the office property sales.

With the information currently available to us, in our view VPA's office component value conclusions were generally within a reasonable range. We do not, however, agree with their rationale for concluding that the market value per square foot of GFA would be lower for the subject property at the bonus level of proposed development than at the base level. VPA's stated reasons for that conclusion are not supportable. Furthermore, the report failed to discuss the relative impacts of infrastructure and site preparation costs on the two scenarios. To some degree, that failure is linked to VPA's incomplete provision of "horizontal" development cost data, which we have previously discussed in this report. Unfortunately, we do not have access to the developer's cost data or any cost estimates for the base scenario and therefore have no way to determine the forecasted infrastructure/preparation costs with reliability at this time.

In the next section of this report, we will discuss the residential component appraisal of the VPA report. That discussion is on pages 66-85 of this report. In our view, the residential component valuation has much greater flaws than the office component valuation.

Following that section, we will discuss our own opinions of the market values of the office and residential components of the subject property under base level zoning parameters and bonus level zoning parameters to arrive at supported value conclusions for those component parts and the value of the community amenity. The current base level and bonus level GFA figures differ from those that would have been available to VPA at the time of their appraisal report. In developing our opinions, we will use the latest available data regarding the achievable base zoning development scale and the currently planned development scale. The section dealing with our value opinions may be found on pages 86-141 of this report.

VPA Residential Component Valuation

On page 120 of their report, VPA wrote that the base level achievable development potential for the subject property would be 558 units, with 729,586 square feet of gross floor area. Based on the available development plans at the time of the appraisal report, both of those figures are overstated. As we have previously discussed in this report, with the information available at that time the potential would have been 519 units, with 678,086 square feet of gross floor area. Overstating the base scenario potential had the effect of reducing VPA's reported community amenity value for the subject property.

In their "Unit of Comparison" paragraph on page 120, VPA stated that "When entitlements are in place and the exact number of units is known, price per lot, or per proposed unit, becomes the most accurate unit of comparison." Whether or not that statement is accurate can be argued one way or the other. However, VPA's methodology contradicted the City of Menlo Park's appraisal instructions, which require an appraiser to analyze the sales on a price per square foot of gross floor area (GFA) basis and to state the conclusions on "a GFA Per Square Foot Unit Value Basis." The instructions do allow for an appraiser to do "additional analysis" of the sales on a price per dwelling unit basis but that does not change the requirement also to analyze the sales based on price per square foot of GFA and to report the conclusions on a value per square foot of GFA basis.

Residential development sites can be valued using either a price per square foot of land area, price per square foot of floor area, or price per unit technique, or any combination thereof. Ultimately, the metric used in analyzing the sales is not a critical factor as long as the analysis is properly done. However, based on our review of the VPA appraisal it appears that their analysis did not sufficiently account for the impact of gross floor area differentials on achievable development site prices.

VPA wrote on page 121 that "We included 12 sales in our analysis of both the base and bonus levels of density." That statement is incorrect. Their analysis included 11 sales. They cited the same sale twice in their analysis, labeling it as sales #1 and #7. They showed different prices per unit for the exact same sale based on two different potential development intensities. In their analysis, they then pretended that the property would have sold at the exact same price at both of those development intensities, which was an assumption unsupported by evidence or logic. That sale should not have included at all, much less twice, for reasons that will be explained subsequently.

The table on page 122 of the VPA appraisal summarized the sales used in analyzing the subject's residential component. The table showed the reported sale prices per unit for the various transactions. The table had no information whatsoever regarding the sale prices per square foot of gross floor area, nor was that information even provided anywhere in the report, much less analyzed.

At the time of VPA's appraisal, the base level allowed unit count for the subject property was 519 (VPA reported 558) and the bonus level allowed unit count was 1,729. Either scenario would represent an extraordinarily large development by San Mateo County standards. Moreover, the residentially zoned land also would have some commercial building area, which is allowed under the base and bonus zoning code parameters and in fact planned by the developer.

For either scenario, one would expect an analysis to focus on sales of large development sites. There are few recent sales of project sites with unit counts as high or higher than the subject's achievable base or bonus level scenarios, but still one would expect an appraisal to focus mainly on projects that are large by local market standards.

In contrast, half of the sales summarized on page 122 of VPA's appraisal have reported unit counts in the range of 12 to 38 units, with those six sales having an average of just 22 units. Quite simply, none of those sales actually provides a reasonable basis of comparison with the subject property, in our view. The other six sales have reported unit counts ranging from 128 to 716 units, which would be considered large to extremely large projects by local market standards.

In the following paragraphs we will provide summaries of the residential sales and some commentary related to the sale properties and VPA's analyses of the various residential sales.

Sales #1 and #7 (1283 Willow Road, Menlo Park)

As noted previously, this sale should not have been included at all in the analysis. The property sold from a non-profit organization to the City of Menlo Park. The City announced shortly after the sale that the Menlo Park Fire Protection District (MPFPD) would have the first priority in any decision related to the use of the property. The MPFPD viewed the property as a potential site for a new fire station facility. As such, this property was not purchased with the intention of constructing a residential project.

The prior owner had contemplated developing the site with a 100% affordable housing project. While that of course would be a residential use, it would not be a profit-motivated use. With 100% affordable housing, a new development would not be feasible without subsidies. Such subsidies cannot be taken into account in a market value appraisal. We must also note that the current general plan does not allow or encourage residential use for the sale property. (The land use designation for the property is Commercial Business Park.)

On page 124 of their report, VPA estimated the achievable residential density for the property at 12 units. No indication was given regarding the achievable floor area. VPA concluded that the $3,633,000 sale price equated to $302,750 per unit.

On page 136 of their report, VPA analyzed the exact same sale, but this time they wrote that the achievable density would be 27 units. They then used the sale price to state that the price amounted to $134,556 per unit. Without evidence or reason, they thus concluded that the property would sell for exactly the same price *regardless of whether it could be developed with 12 units or 27 units*. No reasonable person would believe that to be correct. Again, no information was provided regarding the achievable floor area.

We will also note the property was affected by some unusual physical constraints. We will not detail those in this report because ultimately in our view this sale is entirely irrelevant for any valuation of the subject property. Any attempt to derive value indications for the subject property from this sale (or sales, as presented in the VPA report) is a pointless endeavor.

Sale #2 (1675 Bay Road, East Palo Alto)

The property at 1675 Bay Road in East Palo Alto sold in November of 2019 for $42 million. The VPA report showed the land area as 269,201 square feet but the submitted development plan indicates an area of 264,182 square feet. The site has been vacant for more than 30 years after the County of San Mateo condemned the buildings on the property in the 1980s and ordered the buildings abated.

On page 127 of their report, VPA wrote that the broker with whom they confirmed the sale reported the property may have sold for just $38 million "without certain conditions that the broker could not disclose" and that certain details about the transaction "are reportedly confidential." Without further information regarding the alleged "conditions" of sale, it would be difficult to analyze this sale reliably. For that reason alone, it would have been better to exclude the transaction. There are also many other issues with the sale as it was analyzed by VPA that would require its exclusion.

In short, VPA's analysis of the sale was devoid of logic. The property is located in the Ravenswood/Four Corners TOD specific plan area, with a land use designation of Mixed-Use High Density. The planning code encourages very high intensity mixed use projects, including a 250% commercial floor area and 86 residential units per acre. The buyer has in fact proposed developing the site with a very large project, including 500,000 square feet of life sciences space, 36,289 square feet of retail space, and 188,000 square feet of residential space (180 units). The buildings would be seven to eight stories in height and would be of Type I construction.

Somehow, when VPA analyzed the sale they completely ignored the fact that the proposed development would consist mainly of commercial space, with the large majority being life sciences space. They then applied the sale price *as if it applied only to the residential component*, which they incorrectly showed as having 247 units. On that basis, they reported the sale price as $170,040 per residential unit.

In point of fact, the background documents indicate that the buyer projected that the residential component would be economically infeasible to construct given the City of East Palo Alto's affordable housing requirements. Without going into detail on that issue or the merits of the contention, suffice to say that the main impetus for purchasing the property was its commercial development potential. Analyzing this sale as if the entire price were attributable to the residential component clearly is incorrect.

The location of this property differs significantly from that of the subject. The proposed development would in the large majority consist of life sciences space. As a result, sale #2 was not an appropriate comparable for the analysis of the residential component of the subject property, either for the base development scenario or the bonus level scenario.

Sale #3 (1540 El Camino Real, Menlo Park)

VPA's analysis of this transaction suffered from the same fundamental flaw as their analysis of sale #2. This transaction involved the former site of Beltramo's wine and spirits store in Menlo Park. The seller carried the property through the entitlement process with the City of Menlo Park and then sold the entitled site for $23,000,000 in February of 2019.

The site contains 74,488 square feet of land area. The property is zoned SP/ECR/D by the City of Menlo Park. The approved development is consistent with the specific plan and zoning code parameters, which allow significantly higher use intensity for mixed use projects than for projects composed solely of commercial or residential space. The plans called for the construction of a mixed use project with 40,759 gross square feet of office space and 34,972 square feet of residential gross floor area, for a total GFA of 75,731 square feet. The project has 27 residential units, five of which are set aside as affordable housing.

The sale price amounted to $304 per square foot of GFA, which was never mentioned in the VPA report. Instead, VPA analyzed this transaction *as if the sale price was entirely attributable to the residential component.* In point of fact, the majority of GFA consists of office space and that component has significantly higher net rent potential per square foot than the residential component.

VPA stated that the sale price amounted to $851,852 per unit (i.e., $23 million divided by 27 residential units). Obviously, that figure is highly misleading, since it attributes precisely zero value to the office component. Given the facts associated with this sale, there is no meaningful conclusion that could be derived for the value of the residential component of the subject property.

Sale #4 (120 El Camino Real, Redwood City)

This property has sold twice in recent years, first in May of 2018 and then in November of 2020. The earlier sale had a price of $4.25 million, with the property being completely unentitled at that time. The new owner then carried the property through the approval process, eventually obtaining entitlements to develop the 19,194-square foot site with 12 townhouse units in 22,463 square feet of floor area (using Menlo Park's standards for calculating GFA). The property then sold with entitlements for $5.35 million.

VPA analyzed the earlier sale. The parties to the more recent sale executed the contract in March of 2020 and the sale closed escrow in November of that year. VPA completed their appraisal report in February of 2021. If they were going to analyze this property, obviously it would have been better to use the more recent sale, with entitlements.

The 2020 sale had a price of $238 per square foot of planned gross floor area. The earlier, unentitled sale had a price of $189 per square foot of GFA. The appraisal failed to report either figure.

VPA had the basic facts about the 2018 sale mostly correct. However the site is very small and it is being developed with a 12-unit project. Even at the base scenario intensity, the subject would have the potential for more than 500 units. As such, sale #4 does not provide any significant insight into the value of the residential component of the Willow Village property.

Sale #5 (Waters Park Drive, San Mateo)

The fifth sale involved a large site that had entitlements in place at the time of sale for the development of 190 for-sale residential units, including both townhouses and detached single-family homes. The sale occurred in June of 2020 at a price of $106 million. The property contains 484,638 square feet of land area. The development will consist of three- and four-story buildings of Type V construction.

The proposed floor area is 331,486 square feet (using Menlo Park's GFA definition). The VPA report indicated that the gross floor area would be 434,419 square feet. That figure includes structured parking area, which should not be counted as floor area under the gross floor area definition applicable for this report.

The sale price amounted to $320 per square foot of GFA (at 331,486 SF). The price per square foot of GFA was mentioned in the VPA report but the price per unit of $557,895 was reported. Of course, the average size of the proposed units would be much higher than the average size applicable for analysis of the subject residential units either on base or bonus level parameters.

This sale involved a low- to medium-density residential site that would consist of for-sale units. The subject would be a higher density, rental project under either the base or bonus scenarios. Still, sale #5 is one of the larger residential development site sales to have occurred in recent years in the general competitive market area. We think the inclusion of this sale in the report is could potentially be justified as long as the sale was analyzed properly.

As noted, the project will be of Type V construction. We consider it unlikely that a residential component developed at the subject property would consist of Type V product. Rather, the subject's residential buildings would more likely be mainly or completely of Type III construction. (It is possible that a minority portion of the subject property could be developed with Type V buildings under the base scenario.) All else being equal, it is typically less expensive per square foot to develop Type V buildings than Type III buildings. The VPA report did not mention that factor.

As with the office component analysis, VPA did not report any math/quantitative adjustments that they applied to the sales. Instead, they again showed qualitative adjustments. For the residential sales, the so-called adjustment grids are on pages 152 and 155 of the report. The former applies to the subject's base level development scenario and the latter applies to the bonus scenario.

For sale #5, VPA concluded that the subject's value for both the base and bonus level scenarios would be "less than" $557,895 per unit. Those were not difficult conclusions to draw from a low- to moderate-density for-sale project with vastly larger average unit sizes than could be achieved at the subject property. No value per square foot of GFA indications were provided for this sale or any of the residential sales.

Sale #6 (444 Old San Francisco Road, Sunnyvale)

This 18,368-square foot lot sold in October of 2019 for $3,518,000. The VPA report stated on page 135 that "The property sold contingent on entitlements." That statement was false. The property was marketed without entitlements. The buyer filed for a planning permit for a new development in February of 2020, which of course was after the sale. When we last checked in July of 2021, entitlements still had not been obtained.

The records indicate that the current owner has proposed to develop the site with a 19-unit, four-story residential project. In contrast, the VPA report shows the proposed project as having 15 units. They reported the sale price as $234,533 per unit but based on 19 units the price per unit would be $185,188. The gross floor area total is not available from planning documents that we have reviewed.

Whether the property can support 15 units or 19 units, it is of course a vastly smaller development site than the subject property. As with several of the other analyzed sales, this transaction does not provide any significant insight into the value of the residential component of the Willow Village property.

Sale #7 (1283 Willow Road)

This of course is the same transaction previously discussed, as it was also used as sale #1 in the residential component analysis. In our opinion this is not a valid sale for comparison purposes.

Sale #8 (2580 California Street, Mountain View)

On page 138, VPA stated that there was a recorded sale of a fee simple interest in this property at a price of $66,830,000 on July 19, 2019. We find no evidence that any such sale actually occurred and the data indicate that there was no such sale at that time or since. In fact, the party that VPA reported to be the grantor (seller) is still listed as the property owner in all public records that we reviewed as of July of 2021.

The property at 2580-2590 California Street/201 San Antonio Circle is intended for a mixed use development by Greystar. The project will consist of 632 apartments and 20,000 square feet of commercial space, with a total floor area ratio of about 185%. However, Greystar has not purchased the property. They had entered into a short-term lease agreement for the property in 2016, at which time they began to pursue entitlements. They eventually obtained approvals for their new project in 2018.

In June of 2019, Greystar (as MVSA Owner II, LLC) entered into a new ground lease agreement with the property owner. That ground lease has a very long term and Greystar also holds four successive ten-year renewal options.

Although VPA reported a sale of the noted property, that information was incorrect. Because there appears in fact to have been no sale of the property at 2580 California Street at or near the date cited by VPA, their analysis of this property is not a valid indication of the market value of the residential component of the subject property under either base or bonus zoning parameters.

Sale #9 (777 West Middlefield Road, Mountain View)

This property had previously sold unentitled for $145 million in 2015. At that time, the property was developed with a 208-unit apartment project known as Village Lake. The buyer intended to demolish the existing project and redevelop the site with 716 new rental units with a total gross floor area of 782,341 square feet. The project would have 144 units set aside as affordable, with those units to be situated on a separate parcel in their own building. The plans call for Type III construction, with four to five floors of apartment units over below grade parking garages. The development would have 878 parking spaces in total.

The applicant obtained development approvals on May 21, 2019. VPA reported that the property then re-sold with entitlements for a consideration of $191 million. (Note: page 140 of the report shows the sale date as December 1, 2019 while page 122 shows the sale as having occurred in February of 2020; a widely-used real estate database shows a transaction in February 20, 2020, so we would incline toward February of 2020 being the transfer date.) At the reported $191 million price, the sale would indicate $244 per square foot of planned floor area or $266,760 per planned residential unit.

In their tables on pages 152 and 155, VPA concluded that the base scenario value for the subject would be "similar to" $266,760 per unit and the bonus scenario value for the subject would be "less than" $266,760 per unit. No indications are provided for price per square foot of GFA.

Having reviewed the available documentary record, we can report that there was no deed transferring title to the property in 2019 or in 2020. There does appear to have been an entity sale at around the time of the reported transaction, involving a transfer of an ownership interest in the entity that owned the real estate.

In this case, VPA provided a reasonable explanation (page 141) of their research into the transaction details. They stated that that the property had been listed for sale and that "[s]everal third-party offers had been received." They also stated that one of the equity partners decided to acquire the entire ownership interest. They wrote that "the price was based on other third-party offers and was considered at market." We must infer that they mean that the price paid for the partial interest acquired was reflective of the corresponding interest relative to a 100% fee interest value in the real estate, since VPA never actually reported what percentage ownership interest in the entity actually transferred.

Still, VPA does seem to have adequately confirmed the sale and they contend that the price paid amounted to the equivalent of $191 million for a 100% interest in the real estate. For purposes of this report, we will presume that their information is accurate.

At 716 planned units, this is one of the largest residential development sites to have sold in recent years in the subject's general competitive area. Presuming that VPA's report of the transfer is accurate, this transaction was a good choice for inclusion in the appraisal report.

Sale #10 (525 East Evelyn Avenue, Mountain View)

The tenth residential sale involved a site at 525-569 East Evelyn Avenue, which backs to the Central Expressway in Mountain View. The sale represented a part of a larger planned assemblage (525-769 East Evelyn Avenue), the remainder of which appears not to have transferred yet even though the development is now under construction.

VPA reported a sale price of $32.65 million in October of 2019. The agreement appears to date from perhaps a couple of years prior to the close.

The sale property contains 158,789 square feet of land area according to survey and the submitted plans, but VPA reported the area as 167,706 square feet. The larger assemblage contains 256,597 gross square feet of land, according to the available planning file documents.

The development will be five stories high over below grade parking, with Type III-A construction over the garage. The project will include 471 units with a gross floor area of 552,059 square feet. The proposal includes 668 automobile parking spaces and 519 bicycle parking spaces.

No entitlements were in place when the parties entered into the sale agreement. Furthermore, at that time the property was not zoned for anywhere near the density of development later proposed, and it needed a zoning change and general plan amendment to accommodate the new project. The property was zoned for relatively low intensity use (R3-2.2) and it had a Medium Density Residential land use designation under the Mountain View General Plan at the time of the agreement. The general plan allowed a maximum density of just 13 to 25 units per acre, rather than the 80 units per acre that the buyer ultimately got approved for the site after the rezoning and general plan amendment.

While the buyer may well have anticipated being able to change the planning code, the seller had no such expectations when the price was agreed upon. As such, it could be construed as misleading to analyze this sale as if the purchase price reflected an achievable density of 80 units per sale at the time that the parties executed the contract.

VPA reported 300 units planned for the site of sale #10. That is not really accurate, as the property is part of a larger assemblage. The sale property comprises 61.9% of the whole in terms of gross land area. If one were to apply a prorated calculation to the 471 planned units, then about 292 units would be associated with the site of sale #10. At that figure, the sale price would indicate $111,815 per unit rather than the $108,833 per unit shown in VPA's report.

On a prorata basis, the price per square foot of planned floor area for sale #10 would amount to about $96, which would be about 61% lower than the indication from sale #9. Again, price per square foot of GFA is not addressed in the VPA report.

This property is intended for the construction of a large apartment project. Given the scarcity of sales of similarly large development sites, we can understand its inclusion in the appraisal report. However, in our view better sales were available, including sales in the Bayfront Area of Menlo Park. Moreover, given the circumstances related to the planning code, which had vastly lower allowed use intensity when this sale was actually negotiated, we do not think that the transaction should have received substantial weight in the final analysis.

In the analysis tables on page 152, VPA concluded that the indicated value for the subject under base zoning should be higher than the price per unit of sale #10. Conversely, in analyzing the subject's bonus value on page 155 they concluded that the value should be lower than the price per unit of sale #10. In our view, the available evidence supports the former opinion but strongly contradicts the latter opinion.

Sale #11 (633 O'Neill Avenue, Belmont)

This sale consists of a very small lot, which transferred in April of 2019 for $2,905,000. According to the VPA report (page 144), the parcel contains 13,809 square feet of land area. The parcel obviously differs vastly from the subject property, which contains more than 2.5 million gross square feet of land area and has more than 750,000 square feet of land with the R-MU-B zoning.

The site of sale #11 is a part of a larger assemblage, pieces of which were acquired at various times between 2017 and 2019. We could see no evident reason to single out for analysis this one individual sale from the assemblage.

The analyzed sale property had a price of about $210 per square foot of land area. However, the most recent part of the assemblage to have sold had a price of $319 per square foot of net land area (excluding a small portion of the site located within the street right-of-way). We are left to wonder why the more recent sale at $319 per square foot of land was not included in the analysis while a slightly older sale at $210 per square foot of land was analyzed. The two properties are extremely similar in land area.

In our view, this property does not provide a valid comparison for the subject. The assembled parts of the site all are small, transferred from different sellers, and typically are based on agreements executed several years ago. Moreover, there is a significant mismatch in market knowledge between the buyer and sellers.

Sale #12 (908 Bayswater Avenue, Burlingame)

VPA reported a March 2018 sale of this property at a price of $17,326,500. The site contains 53,012 square feet of land area, according to the planning documents. The property is partly zoned R-3 (about 9% of the land area), with the remainder zoned MMU (Myrtle Road Mixed Use). The site lies within the Burlingame downtown specific plan area, where its land use designation is Myrtle Road Mixed Use Area.

On page 147, VPA wrote that "It is believed that approvals were in place at the time of sale." That may be their belief but if so there belief was unfounded. The parties had entered into the contract in 2017. The buyer brought the property through the entitlement process and did not receive planning entitlements until well after the noted sale had close escrow. Permits for construction were issued in 2020 and demolition of the old buildings on the site occurred in March of 2020.

The plans for the property call for the construction of a four-story, Type III apartment building over two levels of underground parking. The project will have 130,160 square feet of GFA, with 128 units. The garage will contain another 91,626 square feet, with 183 parking spaces.

The 2018 sale price amounted to $133 per square foot of planned GFA. As noted, at the time of the sale the property was unentitled.

Unmentioned by VPA is that there was a recorded transaction involving this property in January of 2020. According to the available records, the ownership in the property transferred at that time for a consideration of $24,969,500. That figure amounted to $192 per square foot of floor area. At the time of the January 2020 transaction, planning entitlements were in place.

Using the 2018 sale price of $135,363 per planned unit, on page 152 VPA concluded that the base level value for the subject property would be higher than that figure. On page 155 they concluded that the bonus level value for the subject would be lower than that amount. The 2020 transfer had a reported price of $195,074 per unit. We do not know how that information might have altered VPA's conclusions, if at all. As noted, in the interim between the two reported transactions entitlements were obtained for a new development.

We also do not know for certain how VPA's opinions might have changed if they knew that the 2018 sale did not in fact include entitlements. However, they did state in their report that entitlements add 20% to 80% over the value of an unentitled site.

VPA's Residential Component Base and Bonus Level Conclusions

VPA analyzed 11 sales for the residential component land valuation. They listed 12 sales in their report because they used one sale twice. In contradiction of the appraisal instructions, VPA failed to provide any analysis of the sales using a price per square foot of gross floor area metric. They do not even appear to know the proposed floor areas for most of the sales. The one sale where they did report the data did not correctly adjust the plans to Menlo Park GFA measurement standards. Moreover, the residential component valuation suffers from poor data selection, with the majority of reported sales having zero or virtually zero relevance for the valuation of the subject property. Only a few of the sales have any real purpose being in the report.

We must also note that VPA failed to include some sales that we would consider to be far better indicators of value than the data they actually included. In our view, analyzing more relevant data would likely have resulted in higher value conclusions per square foot of GFA both for the base level and bonus level scenarios. We will discuss some additional sales later in this report.

Of particular relevance were two sales that had occurred in the Bayfront Area prior to VPA completing their appraisal of the Willow Village site. Those two sales involved the Menlo Uptown and Menlo Portal project sites, with the sales having closed escrow respectively in December of 2020 and January of 2021. Both properties have the R-MU-B zoning designation and are planned for new development under bonus scenario guidelines. In both cases, the developers must meet Menlo Park's community amenity requirements in order to achieve the intended development intensity. Neither site was fully entitled at the time of sale but approvals are considered reasonably likely for 2021.

VPA produced tables summarizing their overall opinions of the relative values of the sales versus the subject for the base and bonus scenarios. For both scenarios, they analyzed the sales on a price per unit basis.

In our view, VPA's residential sales #1, #2, #3, #4, #6, #7, #8, and #11 have little or no relevance for valuing the subject property. Moreover, at minimum in the cases of sales #2 and #4 the reported sale prices per unit are essentially fictional, as they fail to account for the fact that the significant majority of planned floor area consists of life sciences and office space for those sales properties. Therefore, we will not recap sales #1, #2, #3, #4, #6, #7, #8, and #11 in the table shown on the next page.

Summary of VPA Qualitative Adjustments

Sale #	Price per Unit	Base Scenario Subject Relative Value	Bonus Scenario Subject Relative Value
5	$557,895	Less than $557,895	Less than $557,895
9	$266,760	Similar to $266,760	Less than $266,760
10	$108,833 per VPA; $111,815 prorated based on land area	Higher than $108,833 or $111,815	Less than $108,833 or $111,815
12	$135,363	Higher than $135,363	Less than $135,363

For the base level scenario VPA indicated that they weighted sales #1 through #6 the most heavily. As shown in the table above, only one of those sales survives after eliminating data that we consider to have no particular relevance. On the base level scenario basis, VPA estimated (inaccurately) that the subject property would allow for 558 residential units. Four of their first six sales were reported to have unit potentials of 12, 27, 12, and 15 units. Those are not in any way comparable projects. Another sale that they reported as having potential for 247 units actually has a development proposal for 180 units; however, that project would consist mainly of life sciences space and thus clearly the sale price per residential unit cannot be used as an indicator of value. For sales #2 and #4 VPA bizarrely attributed zero value to the proposed commercial components.

That leaves only a sale with a reported price of $557,895 per unit as being among the most heavily weighted for the base scenario. Meanwhile, the only sale that VPA rated "similar" to the subject on base level parameters had a price per unit less than half of that figure.

From the sales having relevance, we can infer from VPA's sale data that their opinion of the subject property's residential component value under base zoning would be higher than $135,363 per unit, lower than $557,895 per unit, and similar to $266,760 per unit. They ultimately concluded a value of $245,000 per unit.

VPA then applied that value conclusion to 558 units. On that basis, they concluded that the value for the residential component under base zoning amounted to **$136,710,000.** However, based on the planning submittals actually in place at the time of VPA's appraisal report, the actual achievable residential density under base zoning was just 519 units, with 678,086 square feet of gross floor area. If VPA had applied their $245,000 per unit conclusion to 519 units, then their base scenario value conclusion would have been reduced by **$9,555,000**, to an indicated value of **$127,715,500.** In the end, the error in the unit count resulted in an understating of the community amenity value.

VPA incorrectly reported that the subject's base achievable residential floor area amounted to 729,586 square feet. At $136,710,000, their residential component value thus amounted to $187 per square foot.

Using the 1/21 planning submittal, the base level allowed residential floor area would be 678,086.1 square feet, with 519 units. If we assume that VPA's value conclusion per dwelling unit would have been unchanged by that information, then at $127,715,500 for 519 units ($245,000/unit) the residential base scenario component value would amount to $188 per square foot of GFA.

For the bonus scenario, VPA reported that the subject property had the potential for 1,729 units. They reported a proposed gross floor area of 1,556,100 square feet, which would equate to 900.0 square feet per unit. The actual planned unit count at the time of the VPA appraisal was indeed 1,729. However, the proposed amount of residential gross floor area was 1,695,214 square feet, or 980.5 square feet per unit.

Since VPA never discussed in their report the effect of gross floor area on achievable prices, there is no way to know for certain how their conclusion might have changed if they had the accurate gross floor area data. Logically, however, their value per unit conclusion should have been higher for a project with 1,695,214 square feet of floor area versus a project with the same unit count but 1,556,100 square feet of floor area.

On page 157, VPA reported that they relied most heavily on sales #7 through #12. We have already noted that we do not consider sales #7, #8, and #11 to be relevant indicators of value.

All four sales that are considered to at least have some potential relevance for the value of the subject's bonus scenario value were rated by VPA to be superior to the subject. Therefore, there is no "low" bracket figure to use to deduce the reliability of VPA's ultimate conclusion. It is only fair to say that based on the data they would conclude a value per unit lower than the $108,833 or $111,815 per unit price associated with sale #10.

As previously discussed, there have been two fairly recent sales in the Bayfront Area of properties with the R-MU-B zoning designation. Those two sales had prices of $137,910 and $155,487 per planned unit. Moreover, when the sale agreements were executed for those properties, no entitlements were in place. The properties still were not fully entitled when the sales closed escrow. Both of those properties have development proposals submitted under bonus level parameters, with densities of 100.0 to 104.6 units per acre. Both projects also include some commercial space. We must add that the buyers of those properties must pay for or otherwise provide major community benefits. In contrast, the appraisal instructions *require an appraiser to ignore that requirement* when valuing the subject property for the bonus scenario.

VPA reached a conclusion of $95,000 per unit for the subject property under bonus level zoning parameters. They applied that figure to 1,729 units, resulting in an indicated bonus scenario residential component value of **$164,255,000.**

On page 157 of their report, VPA erroneously stated that the planned residential floor area was 1,556,100 square feet and that their value conclusion amounted to $105.56 per square foot of GFA. Since the actual proposed residential GFA at that time was 1,695,214 square feet, their conclusion actually amounted to **$96.89** per square foot. In comparison, the aforementioned sales of two still-unentitled Bayfront Area properties had prices of about $128 and $159 per square foot of GFA (with the GFA including both residential and commercial space). As noted previously, in both cases the developers must still provide community benefits of substantial value; meanwhile, the subject property must be presumed in the appraisal *not* to have that requirement.

As with the office component analysis, VPA did not discuss any economies of scale that might be achieved for a larger project versus a smaller project. In addition, they again failed to discuss the potential impacts of relative infrastructure and site preparation costs per square foot of floor area (or per unit) that might impact the relative values in this case. We will not reiterate those issues here except to say that they clearly could have substantial impacts on the relative values, inclining in the favor of the bonus project.

Conversely, a lower density project could allow for more amenity space and/or other advantages versus a relatively high density project. That factor would tend to influence the achievable price per square foot of GFA upward under the base scenario versus the bonus scenario. That issue was at best tangentially noted in VPA's report.

Review Conclusion--VPA Residential Component Appraisal

In our opinion, the residential component valuation analysis by VPA suffers from a poor selection of sales data, inadequate analysis of the data, a large discrepancy between the appraisal's reported achievable and planned floor areas versus the actual levels based on the planning submittals, and non-compliance with the applicable appraisal instructions. As a result, the value conclusions for both the base and bonus levels lacked adequate support.

In our opinion, there were available sales that would have provided better value indications than most of the sales included in the VPA report. We will provide information on some of those additional sales subsequently.

Review Conclusion--Community Amenity Value

In their appraisal report, VPA valued the subject property as of September 24, 2020. Their appraisal report concluded a community amenity value of **$101,645,000** based on one development proposal or **$85,682,500** based on a "refined" proposal in which the amount of gross floor area of office space in the project would be reduced from 1,600,000 square feet to 1,470,000 square feet.

The current (May 2021) proposal calls for 1,506,643 square feet of gross floor area of office space, and thus is more similar to but not identical to the "refined" proposal in the VPA appraisal report. Presuming that VPA's value conclusion per square foot of floor area would have been the same for 1,506,643 gross square feet of floor area as it was for 1,470,000 square feet, we can reasonably infer that if every other part of their appraisal analysis remained unchanged, their community amenity conclusion would have been approximately

$90 million for the project with 1,506,643 square feet of office space but all other floor area figures being unchanged from those used in the VPA appraisal report. With the entitlements allowing for up to 1,600,000 square feet of office space, VPA's community amenity value conclusion would of course have remained at **$101.645 million.**

Based on the available evidence, we believe that the community amenity value was understated. Additional support for that view will be provided subsequently. In the section immediately below, we will show the magnitude of VPA's errors in reported gross floor areas on their community amenity value conclusion.

Summary of VPA Appraisal Error Effects from Incorrect Unit Count/Floor Area Reporting

VPA underreported the achievable base level office gross floor area for the subject property by 28,349 square feet. Using their base scenario conclusion of $275 per square foot of GFA, by implication the error in the reported base level office GFA resulted in **understating** the community amenity value by **$7,795,975 multiplied by 50%, or about $3.9 million.** The same differential applies regardless of whether or not we use VPA's "refined" scenario.

On the other hand, VPA reported a community amenity value associated with the planned retail component of the project of $5,542,500. In our view, no such retail community amenity value conclusion should have been provided because a reasonable interpretation of the data would indicate that no bonus retail space is planned. Therefore, the retail value analysis resulted in an **overstatement of about $5.5 million** of community amenity value.

Based on planning submittal documents cited by VPA in their own report, the appraisers misstated the base level allowed residential development gross floor area for the subject property and also misstated the planned amount of residential gross floor area. Both errors would have tended to decrease their community amenity value conclusion. The net error factor was quite substantial, at 190,614 square feet of GFA.

Because VPA did not report their residential component conclusions on a price per square foot of floor area basis, we cannot know with absolute certainty how the value estimates were affected. The report indicated that their conclusions per square foot of residential GFA amounted to $187.38 per square foot for the base scenario and $105.56 per square foot for the bonus scenario. If those same conclusions had held and the results had been applied to the correct base and bonus level gross floor areas, then by implication the value differential would have been $24,342,035, which would indicate that the VPA report residential component community amenity value was **understated by about $12.2 million.**

The net result of the noted error factors would be an understating of the community amenity value by approximately **$10.6 million.** Those errors simply result from apparent square footage reporting mistakes by VPA and not from any disagreements of opinion that we might have with VPA's analysis of market data.

Community Amenity Value Opinion of the Reviewers

The client requested that the reviewers provide a supported opinion of community amenity value if the reviewers determined that any component part of Valbridge Property Advisors' 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 Valbridge Property Advisors (VPA) appraisal report. In our opinion, the VPA appraisal does not provide sufficient support for the community amenity value conclusion. Furthermore, we disagree with the conclusion. Therefore, we will provide a summary indicating the support for our community value opinion for the subject property as calculated under the applicable appraisal instructions.

Office Component Valuation

The office component valuation section of the VPA appraisal report included 11 transactions. We have previously noted that we do not think that some of those reported transactions actually were suitable comparisons for the subject property's potential office component either on base or bonus scenario terms.

The tables on the next four pages summarize seven sales of proposed office and life sciences development sites 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 designations, zonings, and scale of the subject property. More information related to the analysis process will be provided following the tables.

Summary of Office and Life Sciences Development Site Sales Data (Table 1 of 4)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#1 Proposed Redwood Life Site, Redwood City	3-19 $655,100,000 †	Longfellow Real Estate Partners PGIM, Inc.	3,470,267 net SF	Commercial Park Commercial-Office Professional/ Technology	The property is currently developed with 20 office buildings containing a total of 1.06 million square feet of gross floor area. The buyer is seeking approvals to demolish those buildings and redevelop the site with 3,398,400 gross square feet of floor area, of which 75,000 square feet (2%) would be a hotel and the remainder would be devoted to office and life sciences uses. The total floor area ratio would be 97.9%.	**$193 †**
Subject Willow Village, Menlo Park	N/A N/A	N/A N/A	See the text	O-B and R-MU-B Office and Mixed Use Residential	The analysis presumes the property is fully entitled for both the base level development scenario and the bonus level proposal, which would allow for office development of 833,661.55 gross square feet (base scenario) or up to 1,600,000 gross square feet under the bonus level proposal.	**N/A**

† This sale involved a 49% interest in the property. Our sources variously reported that the price paid for the partial interest ranged from about $321 million to $323 million. In our view, the lower figure came from the most reliable source. Presuming no discount associated with the fractional interest purchased, the effective price for a 100% interest would be about $655,100,000 based on a $321,000,000 price for 49% of the property. See the text for more information.

Summary of Office and Life Sciences Development Site Sales Data (Table 2 of 4)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#2 222 East Fourth Ave., San Mateo	10-19 $37,000,500 ‡	Lane SM, LLC Draeger's Super Markets, Inc.	49,478 SF	CBD/R Downtown Retail Core	The property was completely unentitled at the time of sale. The buyer has submitted plans to develop the site with 101,744 square feet of office space, 17,647 square feet of retail space, and 10 residential units with 8,424 square feet of floor area. Including ancillary space the total GFA would be 135,876 square feet, for a 274.6% FAR.	**$272 ‡**
#3 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 Alexandria Real Estate 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 #3 has a floor area potential of 700,000 square feet, or a 129.2% floor area ratio. Substantial work is still needed to obtain entitlements.	**$162**

‡ This sale involved a fee interest for the significant majority of the site and a leasehold interest (assumption of a ground lease) in the remainder. Our sources reported that the price paid represented about a $3 million discount as a result of the leasehold interest factor. If were to add for the impact of that factor, the effective price per SF of GFA would increase to $294.

Summary of Office and Life Sciences Development Site Sales Data (Table 3 of 4)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#4 775-777 Industrial Road, San Carlos	11-20 $37,250,000 *	777 Industrial Owner, LLC 775 Industrial, LLC	122,465 SF	Heavy Industrial Planned Industrial	This property was developed with a new 44,000-square foot auto dealership in 2018. Although the building is only about three years old, the buyer has proposed developing the site with a 122,462-square foot life sciences facility, or very slightly less than a 100% FAR.	**$304 ***
#5 625-655 North Mathilda Ave., Sunnyvale	10-19 $85,001,000	625-675 Mathilda, LLC DiNapoli Family, LP	330,664 SF	Peery Park Specific Plan District Innovation Edge	The property sold with entitlements to build a new office project. According to the approved plans, the project will have 316,365 square feet of gross floor area when using the City of Menlo Park's definition of GFA, for an FAR of 95.6%.	**$269**

* According to the current plans, the buyer of the property at 775-777 Industrial intends to retain part of the shell of the existing dealership building on that site and construct a three-story speculative life sciences project. See the text for more details.

Summary of Office and Life Sciences Development Site Sales Data (Table 4 of 4)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#6 684-870 West Maude Ave./ 470-474 Potrero Ave., Sunnyvale	4-19 $165,500,000	Sunnyvale Owner, LLC 870 Maude, LLC	626,262 SF	Peery Park Specific Plan Innovation Edge and Mixed Industry Core	The seller brought the property through the entitlement process prior to the analyzed sale. The approved plans call for developing 498,545 square feet of new office space and retaining an existing 58,188-square foot building and converting that structure to office use. The total gross floor area would thus amount to 556,733 square feet, for an 88.9% FAR.	**$297**
#7 3375 Scott Blvd., Santa Clara	3-20 $51,000,000	3375 Scott Blvd., LLC Cooperage Development Co.	252,034 SF	ML (Light Industrial) Low Intensity Office/R&D	The property sold with entitlements to develop a six-story, 237,107-square foot office building of Type I construction, 13,463 square feet of amenity space, and a four-story parking structure. The project FAR equals 94.1% excluding the amenity space, which was not designed as enclosed building area.	**$215**

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

The assignment requires land value estimates for the subject property's office component both on bonus level and base level planning guidelines. We will initially analyze the Willow Village 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 property would have office development potential both from the portion of the site with the O-B zoning (1,586,312.9 square feet of net land area according to the most recent planning submittal) and the portion with the R-MU-B zoning (753,766.9 square feet of net land area).

The applicant has proposed developing a total of 1,506,343.0 square feet of office space, which requires the use of the bonus scenario zoning guidelines. According to city staff, the entitlements would allow up to 1,600,000 square feet of office space, which of course also would require bonus development. The office buildings mostly would consist of four-story to six-story structures.

The office component of the development would also include two large parking structures. Because the subject property mostly sits within a special flood hazard zone, an underground garage is not possible. The plans call for above grade parking structures. According to the submittal, the office portion of the proposed development would have 3,680 on-site parking spaces, for a parking ratio of 2.4 spaces per 1,000 square feet of floor area. One could reasonably argue that some of the planned public parking also would be attributable to the office component but that would be a very minor total.

If we were to apply the proposed office gross floor area just to the proposed net land area with the O-B zoning, then the proposed floor area ratio would be 95% (at 1,506,643 square feet) to 101% (at 1,600,000 square feet). The proposed office floor area is well below the maximum allowed total of 1,774,754.63 square feet when considering the potential from both the O-B and R-MU-B portions of the overall site.

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.

In analyzing the gross floor areas of the proposed developments, we applied Menlo Park's standards for calculating floor area. Those standards differ from some other cities in the Bay Area. Of particular note for this assignment, two of the analyzed sales include so-called community amenity buildings that are counted as floor area in some calculations. In both cases, however, the amenity "building" area in question is not fully enclosed space, according to the planning documents. In both cases the areas in question mainly consist of recreation space (such as outdoor seating, barbecue areas, horseshoe courts, patios, decks, and planter box areas).

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. One sale (#3) is part of a much larger proposed assemblage. However, there is no evidence to indicate that that factor had any significant impact on price.

Sale #1 is the proposed Redwood Life development site located along Bridge Parkway and Island Drive in Redwood City. As noted in the summary table, a 49% interest in the property sold to a prominent life sciences developer in 2019. Our best source indicated that the price paid for the acquired interest was $321 million. If we were to extrapolate that figure for a 100% interest, the implication would be a price of about $655.1 million.

In many cases, the sale of a minority interest in a property would be discounted to account for a number of factors, perhaps most importantly including a lack of control. That is, the sale price for a 49% interest would be discounted to a figure significantly lower than simply 49% of the value of the 100% property interest. In this particular case, however, the buyer actually is the controlling entity in the development process. On that basis, it is reasonably arguable that the sale price did not reflect a discount for lack of control. We will not make an adjustment for conditions of sale but it is possible that some discount may have been reflected in the price paid for the fractional interest.

Sale #4 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 part of the shell of the auto dealership building and re-use the solar panels, but the development would mainly be new construction. The seller had acquired the assemblage for $7,695,000 in 2015 and then demolished the old buildings on the site and spent about $14 million constructing the existing development. The improvements contributed some value to the property, but based on the current development plan submittal the contribution would be significantly less than the replacement cost, since only a portion of the building shell would be utilized by the buyer. The effect of that factor will be considered subsequently, when accounting for any contributory value of improvements on the sale properties.

In the case of sale #6, the project approvals required the developer to retain an existing 58,188-square foot industrial building. That building will be renovated and converted mainly to office use. Again, the effect of that factor will be accounted for subsequently.

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

Financing/Concessions

No concessions were reported for any of the sales. To the best of our knowledge, the sellers received cash in each case. No adjustments will be applied.

Property Rights Conveyed

As previously discussed in this report, the subject property is presumed to be unleased for this analysis. Some of the sales involved leased fee interests, with the properties being rented to tenants at the time of sale. 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.

Sale #2 is an atypical transaction, in that the majority of the transaction involved a fee simple interest but a smaller part of the site had a long-term ground lease in place at the time of sale. The buyer acquired a fee interest in the majority of the property and a leasehold interest in the remainder. According to our sources, the price reflected about a $3 million discount from fee value as a result of the ground lease interest factor. An upward adjustment will be applied for property rights for sale #2.

Market Conditions

The local office market generally benefitted from rising rental rates and property prices through the latter half of the 2009-2019 economic recovery phase. Since the onset of a recession in February of 2020, more or less concurrent with the SARS-CoV-2 pandemic outbreak in the U.S., office rental rates and prices have declined in most of Silicon Valley. Those effects have started to wane with fairly widespread vaccination among the local population and the onset of an economic recovery.

Conversely, the life sciences market is one of the few real estate sectors that has remained strong since the onset of the pandemic and recession. Unlike office workers, lab employees typically do not have the option of working from home. Moreover, such workers typically were considered essential during the pandemic. Thus, building occupancies in the life sciences sector have remained robust. Rental rates and prices generally continued to rise even during the depths of the 2020-2021 recession.

Alexandria Real Estate Equities (ARE), which is one of the largest owners of life sciences space in the U.S., reported an all-time record for leasing activity (1.9 million square feet) in their buildings in Q2-2021. The company's executive chairman stated in ARE's Q2 earnings call that "Fundamental drivers of demand are the strongest we've ever seen, rental rate growth continues unabated, and no excess supply is on the horizon at this time."

Some of the sales are rather dated, but are included in the analysis due to a shortage of more recent transactions for office or life sciences development sites. Sale #1 occurred in 2019 based on a contract executed in late-2018. The property is intended for life sciences use. A positive adjustment is warranted for market conditions.

Sales #3 and #4 also are intended for life sciences use. The sales respectively closed escrow in April of 2020 and November of 2020 but in both cases the contracts were executed long before the closing date. Again, positive adjustments will be made for both of those sales.

Sale #2 occurred in 2019. The developer has proposed a mixed use project that would consist mostly of office space (about 80% of the floor area) and partly of retail (14%) and residential (6%) space. Rents and prices for all three product types generally were rising in 2019 but then reversed in 2020 and into early-2021. More recently, all three sub-markets have started to show some signs of recovery but rents remain below peak levels. A negative adjustment will be made for market conditions for sale #2.

Sales #5 and #6 are proposed office development sites. Both sold in 2019. As noted, office market conditions were subsequently improving before reversing in early-2020. The office market has very recently gained back some of the ground lost during the height of the pandemic outbreak. Considering all factors, downward adjustments will be made for market conditions for these two sales.

Sale #7 also is a proposed office development site. The property sold in early-2020. For this sale, a downward adjustment will be applied to account for changing office market conditions between the sale date and the effective date of our valuation analysis.

Entitlements/Approvals

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. The positive effect of the entitlements can vary greatly depending on specific circumstances, including the scale of development, the type of project, and the perceived difficulty of obtaining approvals.

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.

Sales #5, #6, and #7 all had entitlements in place when the sales occurred. For those three properties, the sellers had brought the proposals through the approval process prior to the transaction. No adjustments are needed for those three properties.

Sale #1 transferred with no entitlements whatsoever for the proposed development and in fact the official development application was submitted well after the sale closed escrow. The entitlement process is likely to be difficult due in part to the scale of the proposed project and concerns over housing-to-jobs ratio imbalance issues in Redwood City. A significant upward adjustment is warranted.

Sale #2 also had no entitlements in place when the sale occurred. The buyer must bear the cost, risk, time, and effort associated with obtaining approvals for the proposed project, with no guarantee of success. Again, a substantial upward adjustment is needed.

In the case of sale #3, again the property sold without entitlements. In that case, the buyer had already begun the work of attempting to obtain approvals for a large development assemblage of which sale #3 would be a component part. As a result, the buyer had already incurred some of the necessary expenses of obtaining approvals and had lessened risk to some extent. An upward adjustment will be applied, but the adjustment rate is mitigated by the circumstances of the sale.

Sale #4 had been developed with a new auto dealership building in 2018. The property had no entitlements or approvals in place whatsoever for the buyer's intended use of the property as a life sciences development site. The buyer did begin the planning process with the City of San Carlos while the sale was in escrow. Moreover, some of the background engineering work that had been done for the auto dealership project might reduce the cost and time needed to entitle the current proposal. A positive adjustment will be made, with the rate lessened by the noted factors.

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. Office rental rates in the Bayfront Area also are very high relative to the norm for Silicon Valley.

Sale #1 lies within the Redwood Shores district of Redwood City, along Bridge Parkway and Island Drive, backing to Belmont Slough. While Redwood Shores has high office rental rates by any objective standard, rates tend to be higher in the Bayfront Area. However, it must be noted that sale #1 is an extremely large site (about 84 gross acres and more than 79 net acres) that will allow for a large campus environment of the proposed life sciences space, which will be distinct from the remainder of Redwood Shores. Given that factor, no adjustment will be applied for location.

Sale #2 has a prominent location occupying the entire block bound by Fourth Avenue, Ellsworth Avenue, Fifth Avenue, and B Street in downtown San Mateo. The district has fairly high retail rental rates compared to most commercial districts in San Mateo County. Office rental rates are high by most standards but typically fall below those of the Bayfront Area. A positive adjustment is warranted for location.

Sales #3 and #4 both sit within a well-established industrial, flex, and R&D district running through Belmont, San Carlos, and Redwood City. The district has been evolving toward higher intensity uses, with San Carlos in particular being a hub of life sciences activity. For life sciences uses, achievable rents in the area of sales #3 and #4 generally are reasonably similar to those of the subject's district. However, office demand and office rental rates are much higher in the subject's district. Considering all factors, positive adjustments will be made for location.

Sales #5 and #6 both sit within the Peery Park area of Sunnyvale. The district is undergoing a transition from low intensity industrial uses to higher intensity office and R&D uses. The adoption of the Peery Park Specific Plan in 2016 set forth new planning guidelines allowing much higher floor area ratios, conditional on the provision of certain community benefits. While office rents in the area are significantly higher than typical for Silicon Valley, broker surveys, the CoStar property database, and executed lease data indicate that the office rental rates are higher in the subject's district. Upward adjustments will be made for location.

Sale #7 is located at the corner of Scott Boulevard and Garrett Drive, within a district developed with a mix of industrial, flex, R&D, and office space in Santa Clara. The City of Santa Clara has long had an extremely high office vacancy rate (currently 17.0% according to CoStar and reported at 24.2% in Cushman & Wakefield's Q2-2021 market report); for reference, CoStar reports the Bayfront Area's office vacancy rate at 4.4%). Office rental rates throughout Santa Clara tend to trail far below those of the Bayfront Area. A major upward adjustment is needed for location.

Lot Shape/Topography/Easements/Functional Utility Factors

The subject property has mildly sloping topography. The site is extraordinarily large and has an efficient shape. The property has good accessibility and visibility.

We have reviewed the original tract map and recent civil engineering drawings, which show easements encumbering the subject property. We have also reviewed civil engineering drawings that show the paths of proposed easements that would affect the site if it were developed as currently planned. We noted no apparent significant adverse issues resulting from existing or proposed easements.

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. Furthermore, the subject property sits within a special flood hazard zone. Those factors would tend to increase construction costs.

All of the analyzed sales are nearly level to mildly sloping parcels. All have reasonably efficient lot configurations. Some sit within areas of Bay Mud or otherwise none poor soils conditions. Two of the properties (sales #3 and #4) are in a special flood hazard zone.

For most of the sales, negative adjustments will be applied for lot utility factors related mainly to soils and flood zone status. We have not been provided with any site preparation costs for the proposed subject development but we consider it likely that development costs would be at least somewhat elevated as a result of the soil conditions and flood zone status.

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. For example, life sciences projects typically are large. As such, smaller sites can have reduced marketability for that use. Consequently, such projects with some frequency involve an assemblage of smaller parcels into a larger development site.

Another factor to consider is that larger projects can achieve some cost economies of scale versus relatively small developments. That factor can reduce or eliminate some of the effects of larger scale on marketability.

Of particular note, the proposed subject development would be enormous by the normal standards of the primary competitive area. In this section of the report we are focusing on the office component of the proposed project. However, the development would also include residential, retail, and hotel space. The total planned project size is roughly 3½ million square feet. Even at base zoning development parameters the achievable size would be about half of the planned total, which would still be an enormous project by the standards of the main competitive area.

Sale #1 is one of the extremely few development proposals (along with some projects planned by Alphabet/Google) of similar scale to the proposed Willow Village project. In the case of sale #1, the applicant is proposing to demolish 1.06 million square feet of existing office and life sciences space and build a new project with 3,398,400 square feet of gross floor area, 98% of which would be devoted to life sciences space. No adjustment will be applied for scale/marketability factors for sale #1.

Sale #2 is part of a large assemblage. The proposed project would contain about 1½ million square feet of space, nearly identical to the amount of proposed office space under bonus parameters for the Willow Village property and fairly similar to the total allowed base level floor area for Willow Village as a whole. No adjustment will be made for scale/marketability.

The other sale properties all involve projects that would be considered large to extremely large by local market standards but nevertheless are much smaller in scale than the subject. Minor to moderate downward adjustments will be applied for the estimated effect of marketability differences.

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 O-B and R-MU-B by the City of Menlo Park. In this part of the analysis, we are mainly focusing on the O-B component under bonus level zoning parameters. At 1,506,643 to 1,600,000 square feet, the proposed office space would represent a 95% to 101% floor area ratio when applied to the O-B portion of the site. (In point of fact, some of the office floor area potential comes from the R-MU-B portion of the Willow Village property.)

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, or likely allowed gross floor area. For office or life sciences properties, differing floor area ratios usually do not have major impacts on achievable price per square foot of floor area as long as (1) the projects are of reasonably similar design, height, and construction type and (2) parking requirements are similar.

Still, there are some planning code and other regulatory factors that can affect development site prices per square foot of floor area. One such factor relates to required parking ratios. The development proposal for the office component of the subject property calls for a parking ratio of 2.4 spaces per 1,000 square feet. To accommodate the project, parking structures would be needed. The proposed parking ratio is lower than typical by general competitive market area standards for office space, 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.

We must also note that the assignment instructions require us to ignore the community amenity value impact applicable to the subject property. Normally, the effect of the need to provide such an amenity at the appraised property would reduce market value.

The planning code for the site of sale #1 allows a base floor area ratio of 80%. The ratio can be increased to 100% under certain conditions, including but not limited to the provision of public access to the bay and shoreline. The sale property abuts Belmont Slough and the development proposal calls for completing some public access improvements along that narrow waterway. The proposed floor area ratio of 97.9% is within the ratio allowed under the planning code.

The current development proposal calls for an on-site parking ratio of 2.26 spaces per 1,000 square feet of gross floor area. (Note: we are excluding bicycle parking requirements in the discussion of parking requirements or proposals.) Most of the parking would be contained within parking structures at and above grade. The proposed parking ratio is reasonably similar to the ratio proposed for the subject property and in both cases the parking would mainly be at and above grade in structures. The need for public access improvements in the case of sale #1 will be considered subsequently.

As with all cities in the competitive market area, Redwood City charges significant fees that apply on most new developments. Redwood City has a large impact fee for affordable housing and minor fees for transportation impact and school impact (along with usual fees for planning and associated work). In addition, the City normally charges a public art fee of 1% of construction costs for new commercial projects. For a project of the scale proposed for the site of sale #1, that would be a substantial figure. If the full art fee were charged, it is likely that the overall fees would be at least slightly higher than those in the subject's district (excluding the effect of the community amenity requirement in Menlo Park). With the limited information available at this time regarding the development proposal, however, we will not apply an adjustment for development fee differences.

For sale #2, the planning code allows a wide variety of uses and permits floor area ratios as high as 300%. The development proposal calls for a 274.6% floor area ratio.

The proposed parking ratio for sale #2 is 1.75 spaces per 1,000 square feet of floor area. The need for on-site parking is somewhat lessened because the property sits within a downtown district where public lots and garages are readily available. The parking would be situated in a two-level, below grade garage. That factor would tend to significantly increase the development cost versus above grade structured parking but in this case the cost might be reduced because the property already has an excavated garage below grade. Considering all factors, a negative adjustment applies for the parking requirement factor.

Development fees in San Mateo are substantial, and include a commercial linkage fee, child care fee, art fee, and transportation management fee. The costs are a higher than the norm for the local market. If the subject were exempted from the community amenity requirement, the applicable fees would likely be slightly lower. A minor upward adjustment applies, which partly offsets offset the adjustment for the parking differential.

Sales #3 and #4 both are 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.

Sale #3 is part of an assemblage where no entitlements are in place. The preliminary discussions for 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. That is very similar to the ratio proposed for the subject. No adjustment applies.

The building plans for the site of sale #4 call for a parking ratio of 1.9 spaces per 1,000 square feet of floor area. That ratio would be lower than the normal requirement and it is possible that it will not be approved. At this time, however, no approvals are in place and we cannot say for certain what ratio would be considered acceptable. For this analysis, we will presume that the project could be approved with the proposed ratio. On that basis, a negative adjustment is needed, as the subject's higher proposed parking ratio would push its development cost upward without having a commensurate positive effect on achievable rents.

Sales #5 and #6 both sit within the Peery Park Specific Plan area. For both properties, the base allowed floor area ratio is only 35% of the lot size. In both cases higher ratios are achievable (up to 100%) but only with the provision of community amenities. Both properties have entitlements in place for bonus level floor area ratios. In each case, substantial community amenity fees were required (along with other amenities) in order to obtain the project approvals.

Menlo Park of course also has a community amenity requirement but we are required to overlook that fact when analyzing the bonus scenario value of the subject property. On that basis, the subject has a comparative advantage versus sales #5 and #6, since for those properties the developers had to pay fees among other community amenity requirements.

In addition, the entitlements for both sales #5 and #6 require much higher parking ratios (3.1 spaces per 1,000 square feet of floor area in each case) than the subject. The plans call for the very large majority of parking to be at and above grade in structures. The lesser parking ratio for the subject is considered to be a comparative advantage, which results in an additional upward adjustment in each case.

Sale #7 sits within the ML (Light Industrial) zoning district of Santa Clara. Despite the industrial label, the zoning code does allow for office space. The land use designation under the general plan is Low Intensity Office/R&D. The allowed floor area ratio is 100%. There is no bonus provision. The approved development has a 94% FAR, or 100% if counting the amenity space as floor area.

The City of Santa Clara has significantly lower development fees than Menlo Park, even when excluding the effect of the community amenity requirement in Menlo Park. That is a comparative disadvantage for the subject property. On the other hand, the approved development for the site of sale #7 necessitates the provision of an extremely high parking ratio by comparison (3.7 spaces per 1,000 square feet versus 2.4 spaces per 1,000 SF). In both cases, parking structures are needed. The subject's lower parking ratio represents a major advantage. Considering all factors, a substantial upward adjustment is warranted for land use/planning code/regulatory factors.

Development Type

We do not have full development plans for the subject property but it is considered likely that an office component at Willow Village would involve Type I construction, mainly of four to six stories in height. All of the sales for which building plans are available would involve Type I construction, with heights ranging from three to seven stories.

The development proposal for sale #1 involves a life sciences project. Conversely, in this part of the appraisal we are analyzing proposed office space at Willow Village. As previously discussed in this report, the construction costs per square foot for life sciences buildings tend significantly to exceed those of office buildings. However, in most cases, including the Bayfront Area, typically the life sciences buildings do not produce additional rent commensurate with the added cost.

For that reason, historically the price per square foot of GFA for life sciences development sites typically have trailed well below those of office sites. That gap has lessened in recent years as strong demand for life sciences space has resulted in faster rental rate increases for that product type than has been the case for offices. Still, there typically is a substantial difference in the achievable land prices. To account for that factor, an upward adjustment is warranted for sale #1.

For sale #2, the applicant has proposed a mixed use project. About 80% of the floor area would be office space, about 14% would consist of ground floor retail space, and the remainder would be residential space.

In downtown San Mateo, achievable net office rental rates exceed those of retail space and are much higher than those of residential units. In this part of the analysis, we are focusing on office space. Sale #2 thus has a comparative disadvantage versus the subject, which necessitates an upward adjustment.

Sales #3 and #4 are proposed life sciences development sites. Upward adjustments will be applied for both of those properties.

Sales #5, #6, and #7 all had approvals in place for office developments. No adjustments will be applied.

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

The subject property fronts on three existing, developed public streets. Willow Road would remain in place under the development proposal, with some changes along the right-of-way. However, Hamilton Avenue and Hamilton Court as they run through the subject property would be removed. Developing the property as planned will require major infrastructure and site preparation improvements, including the construction of new public streets extending from Willow Road into the project site as well as some new private streets serving the project. Additionally, some of the existing utility lines would be demolished and new utility lines installed.

The amount of required infrastructure and site preparation work is far more substantial than would be the case for typical development sites is the competitive area. Most development sites in the local market are already-developed, in-fill properties located on existing public streets. Infrastructure and site prep work also would be needed for a typical development site but the scale normally would be far lower than that needed for the subject (even if we were to exclude the effect of the proposed tunnel that would link Willow Village to Facebook's Hacker Way campus site).

Unfortunately, we do not have complete data regarding the likely costs of the proposed scope of work for the subject property. The VPA appraisal report summarized a few reported "horizontal" site cost items but omitted the items representing much of the reported costs. We do not have any power to compel the prospective developer to produce that information.

The lack of more complete information reduces the ability to reliably analyze sales data versus the subject property either on base or bonus level zoning parameters.

On page 30 of their report, VPA ultimately concluded that the projected horizontal costs for Willow Village were typical with a few noted exclusions. Nevertheless, it is fair to say that most development projects in the local market do not require the same extent of new street work as would the subject project and would not typically require removing most of the existing utility lines and installing mostly new utility lines. At least on that basis, the subject's infrastructure and site preparation costs would likely be elevated relative to many development sites in the local market.

For this analysis, we will use the limited available information to estimate the effect of differences in needed infrastructure/site preparation work between the subject and the sale properties. However, if better information were available the results might be significantly different.

Furthermore, in particular the effect might be especially pronounced when evaluating the subject property on base level zoning parameters. On that basis, necessary infrastructure and site preparation costs would be spread out among a smaller project, encompassing about half of the floor area of the bonus scenario. If the scope of work and cost thereof did not change commensurately with the reduction in floor area, then the base level value would suffer from a significant adverse effect. At this time, however, we have zero information regarding what the infrastructure and site preparation costs might be for the subject under base level zoning parameters, as that issue is never discussed in the VPA appraisal report.

In our view, all of the analyzed sale properties would likely require significantly lower site prep and infrastructure costs per square foot of gross floor area than would the subject. There are some differences among the various sales, with some being more similar to the subject in that regard than others. Nevertheless, significant negative adjustments will be made for all of the sale properties.

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. The VPA appraisal report did state that a restrictive deed covenant would preclude residential use of the Willow Village property. As previously noted in this report, we are presuming that the deed restriction does not in fact affect the subject property or that it would be removed prior to any development.

The site of sale #3 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, or that new development might be significantly delayed by required remediation work. 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 industrial, office, R&D, and health center space having a combined total building area of 1,003,910 square feet in 20 structures. The buildings now all appear to be occupied and/or controlled by Facebook, with the buildings being known as numbers MPK 40 through MPK 59. However, in this analysis we are presuming that the subject property is fully entitled for a new development and we are valuing the land. On that basis, the improvements would be demolished in short order and thus they are not considered to have any significant interim rent potential for the applicable valuation scenarios.

The site of sale #1 currently is developed with 20 office and life sciences buildings, all of which were developed in the late-1990s. The buildings generally appear to be in above average condition. At the time of sale, the property was 90% leased. The development proposal calls for demolishing all of the buildings. However, the existing improvements are capable of producing major rental income during any period needed to obtain development approvals/entitlements. A large negative adjustment will be made to account for that factor, based mainly on the estimated interim rent potential.

Sale #2 is developed with an existing supermarket building, which is 24 years old, appears to be in good shape, and can produce interim rent during the entitlement period. A downward adjustment is thus warranted.

The site of sale #3 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. Of course the buildings will need to be demolished to allow for the new development. Considering all factors, no adjustment will be made.

Sale #4 has an existing auto dealership building, which will be partly re-used for the proposed life sciences project on the site. The improvements had a reported construction cost of $14 million. Based on the current building plans, a substantial amount of the building shell would be re-used in the new life sciences development. A negative adjustment will be applied for the estimated contributory value of the improvements.

Sale #5 had been improved with structures prior to the sale but the property sold with entitlements for new office buildings. The former structures were demolished and cleared. No adjustment will be applied.

In the case of sale #6, the developer agreed to retain an existing 58,188-square foot industrial building on the site as one of the community amenities of the project. The development plans called for renovating that building and converting it to office use but the building shell probably did contribute some value. A downward adjustment will be applied.

The site of sale #7 is developed with four industrial/flex buildings. The property sold with approved plans to demolish the improvements and redevelop the site with a new office building and parking structure. As such, the contributory value of the improvements was negligible. No 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 #1	**Sale #2**	**Sale #3**	**Sale #4**
Location:	Redwood Life Site	222 E. Fourth	1075 Commercial	777 Industrial
FAR by Menlo Park Definition:	97.9%	274.6%	129.2%	100.0%
Price per Sq. Ft. of GFA:	**$193**	**$272**	**$162**	**$304**
Economic Adjustments				
Conditions of Sale:	$0	$0	$0	$0
Adjusted Base:	**$193**	**$272**	**$162**	**$304**
Financing/Concessions:	$0	$0	$0	$0
Adjusted Base:	**$193**	**$272**	**$162**	**$304**
Prop. Rights/Lease Status:	$0	$22	$0	$0
Adjusted Base:	**$193**	**$294**	**$162**	**$304**
Market Conditions:	$29	($15)	$13	$12
Adjusted Base:	**$222**	**$279**	**$175**	**$316**
Entitlements/Approvals:	$55	$70	$26	$41
Adjusted Base:	**$277**	**$349**	**$201**	**$357**
Physical/Code Adjustments				
Location:	$0	$40	$30	$30
Shape/Topog./Funct. Utility:	($6)	($17)	$0	$0
Scale/Marketability:	$0	($44)	$0	($45)
Land Use/Regulatory Issues:	$0	($10)	$0	($25)
Development/Const. Type:	$40	$24	$40	$40
Utility Availability:	$0	$0	$0	$0
Required Infrastr./Site Prep.:	($25)	($60)	($25)	($50)
Known Hazardous Materials:	$0	$0	$0	$0
Improvements:	($30)	($25)	$0	($57)
Adjusted Value per SF GFA:	**$256**	**$257**	**$246**	**$250**

Bonus Scenario Adjustment Grid (Second of Two)

	Sale #5	**Sale #6**	**Sale #7**
Address:	625-55 N. Mathilda	W. Maude/Potrero	3375 Scott
FAR by Menlo Park Definition:	95.7%	88.9%	94.1%
Price per Sq. Ft. of GFA:	**$269**	**$297**	**$215**
Economic Adjustments			
Conditions of Sale:	$0	$0	$0
Adjusted Base:	**$269**	**$297**	**$215**
Financing/Concessions:	$0	$0	$0
Adjusted Base:	**$269**	**$297**	**$215**
Prop. Rights/Lease Status:	$0	$0	$0
Adjusted Base:	**$269**	**$297**	**$215**
Market Conditions:	($13)	($9)	($13)
Adjusted Base:	**$256**	**$288**	**$202**
Entitlements/Approvals:	$0	$0	$0
Adjusted Base:	**$256**	**$288**	**$202**
Physical/Code Adjustments			
Location:	$40	$40	$80
Shape/Topog./Funct. Utility:	($13)	($14)	($10)
Scale/Marketability:	($26)	($23)	($25)
Land Use/Regulatory Issues:	$39	$46	$50
Development/Const. Type:	$0	$0	$0
Utility Availability:	$0	$0	$0
Required Infrastr./Site Prep.:	($50)	($50)	($50)
Known Hazardous Materials:	$0	$0	$0
Improvements:	$0	($16)	$0
Adjusted Value per SF GFA:	**$246**	**$271**	**$247**

Sales Comparison Approach Conclusion (Bonus Level Scenario Office Component)

Under the appraisal guidelines, we must presume that the subject property has entitlements in place for the development of 1,600,000 square feet of office space under the bonus level zoning scenario. (The current plans show 1,506,643 square feet of office space but the entitlements reportedly will allow for 1,600,000 square feet.) For this part of the appraisal review, we analyzed seven development site sales. Four of the seven properties are intended solely or mainly for office development and the other three are proposed life sciences projects, which would have a mix of office and laboratory space. The analyzed sales produced sale prices per square foot of proposed gross floor area varying from $162 to $304 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 $246 to $271 per square foot. The median adjusted value amounts to $250 per square foot. The average adjusted value equals $253 per square foot, with a standard deviation of $9 per square foot. Sales #1 and #3 are the most similar to the subject in scale, but both of those are proposed life sciences development sites. The sales generally receive fairly similar weight in the analysis.

In estimating an indicated value for the subject property's office component 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 July 30, 2021, we estimate that the market value of the office land component under the bonus level scenario valuation guidelines amounts to **$252 per square foot of proposed gross floor area of office space**. Applying that rate to the subject property's proposed gross office floor area of 1,600,000 square feet under bonus level zoning produces a value indication of **$403,200,000.**

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 45% floor area ratio for office space in the O-B zone plus a 10% floor area ratio for office space in the R-MU-B zone, or a total allowed office GFA of 833,661.55 square feet under base level zoning parameters. That figure matches the base GFA provided to us by the City of Menlo Park.

If the office space were located solely on the O-B zone section of Willow Village, as in the current proposal, then the floor area ratio effectively would be 52% (with 1,599,273.0 net square feet of land with the O-B zoning under base level assumptions, according to the City).

We are required to presume that full development entitlements are in place for the base level office development potential. In fact, of course there is no development proposal even remotely resembling the base scenario development intensity for the Willow Village site. In fact, there is no development proposal for any other property in the Bayfront Area involving a project 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.

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

If the subject property were to be developed under the base level zoning parameters, the required parking ratio would be in the range of 2.0 to 3.0 spaces per 1,000 square feet of floor area the applicable zoning standards. The current office component proposal would have a ratio of 2.4 spaces per 1,000 SF of GFA and it is reasonable to presume that a similar ratio would apply under a hypothetical base level proposal.

As we have previously discussed in this report, we consider it a virtual certainty that structured parking would be needed to accommodate the needed parking ratio under the base level zoning parameters. Given the required setbacks, open space, building height limitations, and other zoning guidelines, it would not be mathematically possible to design a project that would be code complying and have sufficient surface parking. We will also note that the base level scenario presumes that the O-B section of the property would have a 10% floor area ratio composed of commercial space, which could not have an office use. That component would also need on-site parking.

The lower density proposal might reduce construction costs per square foot to some extent, as lower building height would typically result in a lesser cost per square foot, all else being equal. On the other hand, a larger project might well have some advantage in terms of economy of scale, which could influence construction cost per square foot downward.

As we have previously discussed in this report, infrastructure and site preparation requirements and costs could have substantial impacts on the value of the subject property. That is true under either the bonus or base level zoning scenarios. However, we have information from the VPA appraisal on that topic only for the bonus scenario, and even then we have only incomplete information.

It is quite possible that the base level scenario value would suffer a much greater negative effect on achievable price per square foot of GFA than the bonus scenario. If the costs needed for infrastructure and site preparation did not decline more or less commensurately with the lesser base scenario development scale (45% less achievable office floor area under base level standards versus the current proposal), then the achievable price per square foot of GFA for the base scenario would be negatively impacted.

As previously noted, we have zero information regarding the estimated infrastructure and site preparation costs for the subject property under base level zoning parameters. Consequently, at this time we do not have sufficient information to significantly alter adjustments for that variable. At such time as such information became available, it might be appropriate to reevaluate that factor.

In estimating an indicated value for the office component of the subject property by the Sales Comparison Approach for the base level scenario, we have again 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 July 30, 2021, we estimate that the market value of the office component land under the base level scenario valuation guidelines amounts to **$252 per square foot of allowed office gross floor area**. Applying that rate to the subject property's base level allowed office gross floor area of 833,661.55 square feet under base level zoning produces a value indication of **$210,082,711, which will be rounded to $210,100,000.**

Residential Component Valuation

The residential component valuation section of the VPA appraisal report included a total of 11 transactions, one of which was listed twice as a sale. We have previously noted that we do not think that the majority of the reported transactions actually were suitable comparisons for the subject property's potential residential component either on base or bonus scenario terms.

The base and bonus level scenarios for the subject property respectively allow maximum densities of 30 and 100 units per acre of land. The respective allowed maximum residential floor area ratios are 90% and 225%. Inclusive of the allowed non-residential component space in the R-MU-B zone, the effective allowed floor area ratios are 105% and 250%, but the residential components cannot exceed 90% and 225% ratios (unless additional bonuses were to be granted under state guidelines that allow for increased ratios for projects providing on-site affordable housing).

The zoning parameters present a quandary from a valuation standpoint. In the local market, a development density of 30 units per acre would be very unusual. Properties zoned for moderate density uses in the local market often are developed with townhouses. However, it is exceedingly rare for a townhouse project to have a density of more than about 25 units per acre. For townhouses, a range of about 15 to 24 units per acre would be typical. Moreover, new townhouses usually have an average unit size of roughly 1,600 to 2,000 square feet. In contrast, the base level zoning parameters would necessitate a floor area ratio of 90%, which would result in an average unit size of exactly 1,306.8 square feet. The base scenario requires the assumption of a project of exactly 30 units per acre with exactly a 105% floor area ratio, with the residential component floor area ratio being exactly 90%.

As a result, of the noted factors, a development at base level parameters at the subject site almost certainly would not consist solely or even largely of townhouse product. A mix of stacked units and townhouses would certainly be possible but a project composed solely of townhouses would be unlikely in the extreme. A mix of development product could have Type V townhouse buildings and Type III stacked units. Given the parameters of the zoning code, the unit mix would likely consist of the latter product type in the very large majority.

Moreover, even under base level zoning guidelines the subject would have the potential for 523 residential units. Menlo Park has a very small townhouse and condominium market. We think it is highly unlikely that developers would be keenly interested in building 523 for-sale units at the subject property, whether those would be townhouses or condominiums. The current development proposal is for a rental project. Overall, we think that developers would have relatively little interest in building a residential or mixed use project at the subject property under base level zoning guidelines.

In contrast to the base level scenario, there are many residential and mixed use projects in the general competitive area with densities around the bonus level scenario guidelines. Just in the Bayfront Area of Menlo Park, several proposals for such projects exist using bonus level R-MU-B zoning parameters.

Numerous new projects at densities of 100 units per acre or more have been built in recent years in nearby cities. Meanwhile, developments at 30 units per acre are very rare and the one we can immediately cite in the primary competitive area is a small project (33 for-sale units) that we do not believe could be considered competitive with the subject, with its potential of 523 to 1,730 units. There is one proposed project in Redwood City that has a density of 40 units per acre, but again that is a comparatively small development (72 for-sale units).

The tables on the next two pages summarize five sales of proposed residential and mixed use development sites 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 scale of the subject property. Two of the sales are in the Bayfront Area of Menlo Park and have the same land use designation and zoning as the residential/ mixed use component part of Willow Village. More information related to the analysis process will be provided following the tables.

In the table, the sales are presented in descending order of proposed development intensity, from the highest to the lowest proposed floor area ratios. In calculating the proposed gross floor areas of the analyzed sales, we used the City of Menlo Park's definition of GFA. On that basis, the proposed floor area ratios for sales #4 and #5 are much lower than what the actual planning submittals show, in large part because those cities include structured parking as part of GFA but Menlo Park does not.

Summary of Residential and Mixed Use Development Site Sales Data (Table 1 of 2)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#1 Menlo Portal Site, Menlo Park	1-21 $46,200,000	GS MP Portal Owner Vogel Trust, et al.	135,519 SF	R-MU-B Mixed Use Residential	The buyer has proposed developing the site with a seven-story apartment building (335 units) and a three-story office building. The project would have a total GFA of 361,449.1 square feet, for a floor area ratio of 259.1%. The entitlement process was underway but not complete at the time of sale.	**$128**
#2 Menlo Uptown Site, Menlo Park	12-20 $75,100,000	CLPF Group Uptown Menlo Park, LLC Battagin, et al.	210,263 SF	R-MU-B Mixed Use Residential	The grantee has proposed developing the site with a pair of eight-story apartment buildings (441 units) and six three-story townhouse buildings (42 units), for a total of 483 units. The project would also have a small commercial component (2,939 SF). According to the June 2021 set of plans, the GFA would be 475,895 SF, for a 226.3% FAR. The entitlement process was underway but not complete at the time of sale.	**$158**
Subject Willow Village, Menlo Park	N/A N/A	N/A N/A	753,766.9 to 759,924.8 SF (net)	R-MU-B Mixed Use Residential	The analysis presumes the property is fully entitled for both the base level development scenario and the bonus level proposal, which would allow for residential development of 686,923.3 gross square feet in 523 units (base scenario) or 1,695.975.5 gross square feet in 1,730 units under the actual bonus level proposal.	**N/A**

Summary of Residential and Mixed Use Development Site Sales Data (Table 2 of 2)

Sale #/ Address	Closing Date/ Sale Price	Grantee/ Grantor	Lot Size	Zoning/ Land Use	Allowed or Intended Use	**Price/Sq. Ft. GFA**
#3 777 West Middlefield Road Mountain View	2-20 $191,000,000	Mt. View Owner, LLC (Miramar Capital) Mt. View Owner, LLC (Colony Capital)	422,999 SF	Planned Dev. High Density Residential	The property received planning entitlements in May of 2019 for the development of a new apartment project with 716 units and 782,341 square feet of gross floor area in four- to five-story buildings. The proposed FAR is 185.0%	**$244**
#4 925 S. Wolfe Road, Sunnyvale	9-20 $58,000,000	SummerHill 925 S. Wolfe Road, LLC Peppertree Square, LLC	239,144 SF	R-3 Medium Density Residential	The buyer brought the property through the entitlement process while the sale was in escrow. The entitled project allows for the development of 128 for-sale townhouse units of Type V construction. The proposed gross floor area is 232,925 square feet by Sunnyvale measurement standards but 170,023 square feet by Menlo Park standards, for a 71.1% FAR.	**$341**
#5 551 Pilgrim Drive, Foster City	5-19 $40,300,000	SummerHill Pilgrim Triton, LLC Pilgrim Triton Phase III FC, LP	219,978 SF	CM/PD Service Commercial with Housing	The property sold entitled, partly at the buyer's expense and effort. The plans called for the development of 22 rental apartment units and 70 for-sale townhouses, for a total of 92 units, with a mix of Type III and Type V construction. The plans show a GFA of 150,546 square feet using Menlo Park measurement standards, for a 68.4% FAR.	**$268**

Summary Comments on the Analysis of the Residential Development Site Sales under Bonus Scenario Intensity

Initially, the sales will be analyzed versus the bonus level development scenario for the residential component of the Willow Village property. The planned development calls for 1,730 residential units with a total gross floor area of 1,695,975.5 square feet, for a 225% residential floor area ratio at a density of 100.0 units per acre. The planned residential buildings also would include some commercial space, but that floor area will not be valued in this part of our analysis. Subsequently, we will focus on the value of the subject property's residential component under the base level development scenario.

Adjustments will be made to the sales to account for perceived differences between the base 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 are largely the same as those used in the office component analysis. One difference is that in analyzing residential sales we must also consider how differences in affordable housing requirements (if any) between the sale properties and the subject might impact value.

Economic Factors

Conditions of Sale

The residential component analysis includes five sales. The affordable housing component of sale #5 has some atypical conditions, but those will be analyzed subsequently. All of the sales represented arm's-length transactions. There is no evident need for any adjustments for conditions of sale.

Financing/Concessions

No special financing affected the sales. The seller(s) received cash in each case. No concessions were reported. No adjustments are needed.

Property Rights Conveyed

We do not know whether any leases encumber the subject property. For purposes of this assignment, we have presumed that no leases encumber the property. Consequently, for all appraisal scenarios we are valuing a fee simple interest in the subject property. Some of the sales had rental agreements or minor 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

Apartment property rents and prices steeply increased during the 2010-2019 recovery phase of the economic cycle. However, most of that gain was concentrated in the period between 2011 and mid-2016. Subsequently, apartment property prices showed flattening trends from around late-2016 through mid-2017. More recently, apartment property prices again significantly increased in the second half of 2017 and through 2018. Local market apartment property prices showed a flat to perhaps mildly rising trend in 2019 and into early-2020.

Much of the U.S. economy was essentially shut down in the spring of 2020. Restrictions have since been loosened, and economic activity was vastly improved in the second half of the year and GDP growth has remained positive into 2021. Still, subsequent to the pandemic outbreak investment property sales activity has been fairly slow.

Real Capital Analytics (RCA) and Green Street Advisors both produce monthly reports of property price trends. For the apartment sector, the former showed only a minimal decline in prices even at the height of the pandemic and then a quick recovery. RCA's most recent index indicated a 10.1% year-over-year increase in apartment property prices.

Green Street's apartment property price index, on the other hand, showed an almost immediate 10% decline in achievable apartment property prices after the widespread outbreak of the pandemic in the U.S. in the spring of 2020. Since September of 2020, however, their reports have showed a consistent recovery in price levels. As of the end of June of 2021, Green Street's apartment property price index was up by 12% year-over-year and was actually slightly higher (up by 1%) than the level just prior to the pandemic outbreak.

During the current recession, the Bay Area apartment market has experienced more disruption than many areas of the U.S., with a large increase in apartment vacancies and significant effective rental rate declines. Those adverse changes have been greater in newer, higher-priced apartment product in the Bay Area than in older, lower-priced product.

The post-pandemic sales that have occurred in the local market provide some conflicting evidence, with some showing little or no apparent change or even some improvement in achievable prices and others appearing to show a decline. Overall, based on the preponderance of the available evidence it is considered likely that achievable apartment property prices at present are little changed from the levels prior to the pandemic, despite declines in occupancies and rental rates. Both occupancy and rental rates have shown some improvement in recent months as vaccines have become widely distributed, some of the restrictions on businesses and gatherings have been lifted, and economic growth has resumed.

The for-sale housing market held up better than the rental market during the pandemic, but results varied significantly depending on location, price segmentation, and product type. In general, detached housing remained strong virtually throughout the pandemic and related recession. The condominium and townhouse sectors initially weakened and then have generally bounced back very recently.

Sales #1 and #2 closed escrow fairly recently, in January of 2021 and December of 2020. Thus, both sales closed in the midst of the pandemic and before the wide availability of vaccines. However, both sales were in escrow for very long periods of time while the prospective buyers worked through the initial phases of the entitlement process for redeveloping the sites.

In the interim between the contract dates and the date of this valuation analysis, the residential market was generally modestly improving until the onset of the recession early in 2020. As noted, apartment occupancies and rents subsequently were declining. The preponderance of evidence indicates that property prices fell as well. More recently, however, the market has recovered some of the lost ground in rents and occupancies, and prices appear largely to have recovered.

A minor upward adjustment for market conditions will be made for sale #1, which had an older contract date than sale #2. For sale #2, no adjustment will be applied.

The reported transfer of the entity interest in 777 West Middlefield Road (sale #3) has previously been discussed in this report. That transfer occurred just before the onset of the recession. Price levels appear largely or completely to have recovered from their near-term drop after the pandemic outbreak. No adjustment will be made for market conditions.

Sale #4 closed escrow in the midst of the pandemic (September of 2020) but the contract actually was executed in early-2019. No adjustment will be made for any changes in market conditions between the contract date and the valuation date.

Sale #5 occurred in the spring of 2019. Again, no adjustment is considered to be warranted for market conditions.

Entitlements/Approvals

The effect of entitlements has previously been discussed in this report. Generally, it is considered at least somewhat easier to obtain entitlements for a residential project than for a commercial or mixed use development. On the other hand, the residential component of the subject property would be enormous by local standards and it is part of a very large mixed use project. In this appraisal, we must value the property as if entitlements were in place for the proposed project and for the maximum allowed base level development intensity. Of course, there is no development proposal under the base level zoning parameters.

The proposed development for the site of sale #1 was approved by the City of Menlo Park in June of 2021 but is under appeal as of the date of this report. The sale closed escrow in January of 2021, which obviously was prior to the granting of approvals. The buyers had been working on obtaining approvals while the sale was in escrow, at their own time, expense, effort, and risk. Doing so of course mitigated risk to some extent, but still a significant upward adjustment is needed for entitlement status.

The site of sale #2 is unentitled at present. Approvals might be achievable before the end of this year. The sale closed in December of 2020. As with sale #1, the buyers had been working on obtaining approvals during escrow at their own time, expense, effort, and risk. Again, a positive adjustment is needed for entitlement status.

Sales #3 and #5 both were fully entitled at the time of the reported sales. No adjustment applies in the former case. For sale #5, however, the approval expense and effort was partly borne by both the seller and buyer. A minor upward adjustment is warranted in that case.

For sale #4, the grantee carried the property through the approval process at its own expense and effort while the sale was in escrow. An upward adjustment is warranted in that cases, but the rate is lessened due to the reduced risk resulting from the buyer working on the entitlements during the escrow period.

Physical and Code/Regulatory Factors

Location

The subject property lies within a well-established district within the city limits of Menlo Park. The district is primarily developed with commercial and industrial uses but some large multi-family residential projects have been recently constructed and several large multi-family or mixed use projects are currently proposed.

Facebook's presence in the Bayfront Area of course provides a major demand driver for all types of real estate. Any project developed at the subject site would be within easy walking distance of numerous existing Facebook campus buildings, as well as many other office buildings and life sciences buildings in the district. Furthermore, the Willow Village property itself would be developed with more than 1.5 million square feet of office space, providing major employment opportunities again within very easy walking distance.

On the other hand, the subject site fronts on busy Willow Road and lies near Bayfront Expressway, which exposes some of the site to significant traffic noise. That fact could be mitigated to a substantial degree as a result of the extremely large size of the Willow Village property, allowing most of the residential units to be set in quieter parts of the site.

The subject property is in the Ravenswood Elementary School District, which has a significantly lesser reputation than the Menlo Park City School District, for example. That factor would not likely have a large effect on a rental project developed at the subject site but it would carry far more importance at a for-sale project.

The Menlo Portal property (residential component sale #1) has a corner setting, with frontage on Constitution Drive and Independence Drive, within the Bayfront Area. The site is very close to Bayfront Expressway and Highway 101 and is affected by resultant traffic noise. This property actually lies within the Redwood City School District, which is extremely uncommon for a property in the Menlo Park city limits. As with the Ravenswood District, the Redwood City School District generally has a lower reputation than the Menlo Park City School District. The location of sale #1 is very similar to that of the subject. No adjustment applies.

The Menlo Uptown property (sale #2) consists of an interior, L-shaped site that fronts on Constitution Drive and Jefferson Drive. As with the subject, the property is in the Bayfront Area, close to Bayfront Expressway and U.S. Highway 101, and it sits in the Ravenswood School District. This location also is considered to be very similar to that of the subject.

Sale #3 has an interior setting with street-to-street frontage on busy West Middlefield Road and North Shoreline Boulevard in the Jackson Park neighborhood of Mountain View, near the main headquarters of Alphabet/Google. The property is affected by some noise from the arterial streets but the site is very large, allowing most of the units to be shielded from noise impacts to a large degree. The property is in the Mountain View-Whisman School District, in the Theuerkauf Elementary School and Crittenden Middle School attendance areas. Recently-constructed Stevenson Elementary School also is located in the district, and is a choice school within the district. The local public schools have much higher CSR scores than the public schools serving the subject property. While school districts tend to be a very important factor at for-sale housing projects they are of less significance for rental projects, such as that planned for the site of sale #3.

Sale #3 sits in an area of very high demand for rental and for-sale housing. Overall, considering all factors the location of sale #3 is rated superior to that of the subject. A negative adjustment is warranted for that factor.

Sale #4 sits within a primarily multi-family residential area of Sunnyvale, fronting on heavily-trafficked South Wolfe Road. In general, Menlo Park has much higher residential rents and prices than Sunnyvale. On the other hand, most of Menlo Park lies in the Menlo Park City School District or the Las Lomitas School District, both of which have far superior reputations relative to the Ravenswood School District in which the subject property sits. Sale #4 sits within the Santa Clara School District, in the Braly Elementary and Peterson Middle School attendance areas. Those schools have higher CSR scores relative to the public elementary and middle schools that would serve the subject property. The development proposal for the subject property consists solely of rental product, which would offset the school district factor to a substantial degree. The subject would also benefit from the development of a major adjacent office project, which would enhance demand for nearby residential units. Considering all factors, for a rental project the subject's location is considered to be superior, which results in a positive adjustment.

Sale #5 is located in the Pilgrim-Triton master plan area of Foster City, with frontage on Triton Drive, Pilgrim Drive, and Hillsdale Boulevard, one block from State Highway 92. The property is affected by some traffic noise. In the case of for-sale housing, sale #5's setting in a school district with a far superior reputation would be a significant advantage over the subject. As noted, the effect would be lessened for a rental project. Sale #5 is very close to major employers, including the Gilead Sciences headquarters. Considering all factors, a negative adjustment is warranted for location.

Lot Shape/Topography/Easements/Functional Utility Factors

The proposed residential/mixed use portion of the subject property would contain 17.3 net acres of land. The property has mildly sloping terrain and a reasonably efficient lot shape. 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 but the subject site is located in an area where many properties lie on Bay Mud soils. That factor can result in increased construction costs. In addition, some increased costs would be expected because the subject property sits within a special flood hazard zone, which will likely require elevating the site by the addition of fill materials.

All of the analyzed sales are nearly level to mildly sloping parcels. Sales #1 and #2 also are situated in an area of prevailing Bay Mud soils and are in a special flood hazard zone. No adjustments will be applied for those sales. Sale #5 also is in an area with generally poor soil, but it is not situated in a special flood hazard area. On the other hand, that property has a somewhat inefficient lot shape. A minor positive adjustment will be applied for that sale. The other two sales sit in areas where soil conditions are generally considered to be superior and neither of those sale properties is within a special flood hazard zone. In consideration of all factors, downward adjustments will be applied for those two sales.

Scale and Marketability

The subject's residential land area is extremely large by local market development site standards and it is a part of an even larger proposed site that would include office, retail, and hotel component parts. The large scale would tend to reduce marketability versus more standard development site sizes. To some degree, that differential might be mitigated because the current design of the proposed project would allow for potentially subdividing off the proposed residential and mixed buildings onto their own individual parcels.

It must also be noted that most apartment developers are seeking to build projects with 100 or more units and over the years some have told us that they would not build a project with fewer than 200 units. Projects of that size or larger have stronger appeal to institutional buyers than do relatively small apartment developments. Thus, for that market segment a relatively large site can have significantly wider appeal than a small site. On the other hand, a very low percentage of for-sale housing product developers are looking to build projects of 200 units or more, particularly if the product would be stacked condominium units.

For the R-MU-B zoning district, the scenarios analyzed in this report involve total allowed gross floor area ratios of 105% (base scenario) and 250% (bonus), with the allowed residential components respectively amounting to 90% and 225%. The respective allowed residential floor areas would be 683,932.3 square feet (base) or 1,695,975.5 square feet (bonus). The residential density by necessity at the base level scenario would be 30 units per acre. The proposed density under bonus guidelines is 100 units per acre. At those densities, the residential unit count would be either 523 or 1,730.

The sales vary widely in lot size and proposed gross floor area, in part due to the need to analyze the sales for the widely different base and bonus level development scenarios. The range in lot size is from 3.203 to 9.711 acres. All of those are large sites by local market standards but still all are significantly smaller than the subject. The proposed gross floor areas range from 150,546 to 782,341 square feet, with an average of 388,051 square feet. While all are much larger than typical residential development sites in the subject's main competitive area, all are smaller than the bonus level allowed development. One of the projects is larger than the subject's allowed base level GFA.

For the bonus scenario, at least minor downward adjustments will be made to all of the sales to account for the estimated effect on value of scale/marketability factors. For the sales with extraordinarily large proposed project sizes (sales #1, #2, and #3), the adjustments are relatively minor while larger adjustments apply to the other two sales.

Land Use/Planning/Regulatory Factors other than Affordable Units

The sales have very widely varying proposed floor area ratios, ranging from 68.4% to 259.1%. Of course, those sales must be used in analyzing the subject both on base level zoning parameters (presumed 90% residential FAR) and bonus parameters (proposed 225% FAR).

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 or proposed gross floor area. In general, for multi-family residential projects or mixed use projects that (a) have very minor non-residential components and (b) are of similar construction type, the achievable sale prices per square foot of allowed or planned gross floor area will tend to decline only very slowly with increasing development intensity.

There can be large differences in achievable price per square foot of gross floor area resulting from different product types and/or different construction. For example, many low-rise multi-family projects in the local market consist of townhouse projects of Type V construction. Conversely, stacked units of three to five floors above grade or above podium level parking usually are Type III construction. That type of construction tends to cost significantly more per gross square foot of floor area than Type V construction. Moreover, many Type III projects have structured parking, which is more far more expensive to build than surface parking or carports, which are sometimes used at relatively low density projects.

Any project taller than five stories above grade or taller than five stories above podium level normally usually would need to be Type I (non-combustible) construction, which is more expensive per square foot of gross floor area to erect than Type III, and far more expensive than Type V. Again, Type I projects usually would have structured parking, which is more expensive than surface or carport parking.

The effect on value of product and construction type factors will be considered subsequently. In this part of the analysis, we will focus on differences in planned use intensity and product type. We will also consider regulatory requirements, including factors such as community amenities and development fees. In this part of the analysis the subject is presumed to have approvals for development at a 225% residential floor area ratio.

Sales #1 and #2 both are situated in the Bayfront Area of Menlo Park. Both have the same zoning and land use designations as the residential component of the subject property. The proposed gross floor areas per residential unit for both sites are very similar to the proposal for the subject. Those sales are ideal comparisons from the standpoint of land use/planning guidelines.

In both cases, the development proposals utilize bonus level zoning parameters. For sale #1, the prospective developer has proposed to develop the 3.203-acre site with an apartment building and a commercial building, using bonus level parameters. The plans call for the construction of 335 residential units, for a density of 104.6 units per acre. Although the proposed density nominally is higher than the 100 unit per acre maximum under the zoning code, additional bonuses are allowed under state law for projects providing affordable housing on-site. The total proposed floor area would be 361,449.1 square feet, of which the large majority (326,581.0 square feet, or 90.3%) would be residential and the remainder (34,868.1 square feet) would be commercial. The effect of the unit mix will be analyzed subsequently.

The developer must provide community benefits in accordance with Menlo Park's policy related to bonus level development in the R-MU-B zone. While the subject development also would require community benefits, in the appraisal we are required to overlook that factor as it relates to the bonus scenario valuation of the subject property. However, the buyer of sale #1 obviously would not have overlooked the community benefit requirement and in fact must provide the required community benefits. A substantial upward adjustment is thus needed in the analysis of this sale for land use/regulatory factors.

For sale #2, the building plans were most recently revised in June of 2021. Those plans were submitted subsequent to the date that the sale closed but the plans have had only fairly minor changes from the development submittal that was in place at the time of closing. The proposed floor area did increase in the current submittal. We used the current submittal to calculate the price per square foot of floor area for sale #2. If we had used the prior submittal, the price per square foot of GFA would be very slightly higher. The difference is essentially immaterial in the context of the valuation analysis.

The current plans call for the project to have 441 stacked apartment units in two buildings. That portion of the development also would include a very minor commercial component, comprising 2,939 square feet. The project also would have six townhouse buildings, with a total of 42 units. In total, the current proposal for the 4.827-acre site would have 483 units, or a density of 100.0 units per acre. The total proposed gross floor area is 475,895 square feet.

A tiny percentage of the proposed GFA (0.6%) would consist of commercial space. That is an immaterial factor in the context of the analysis.

On the other hand, as with sale #1 the developer in this case must provide community benefits in accordance with Menlo Park's policy related to bonus level development in the R-MU-B zone. That factor of course impacted the achievable price for the land. Under the assignment requirements, we must overlook the community amenity requirement's effect on the subject's value. Accordingly, an upward adjustment is needed.

Sales #1 and #2 have proposed floor area ratios of 259.1% and 226.3%, respectively. Both are of very high intensity and are fairly similar to the proposal for the subject.

Sale #3 is located in Mountain View. The general plan was amended and the property was re-zoned to accommodate the proposed development. The proposal calls for a floor area ratio of 185%, composed solely of residential units. The proposed development intensity at the site of sale #3 is lower than that of the subject. For multi-family residential development sites, there is a minor tendency for achievable price per square foot of floor area to decline with increasing floor area ratios. As such, a negative adjustment is warranted.

The site of sale #4 is intended for relatively low intensity townhouse development. The proposed floor area ratio is just 71.1% when using Menlo Park's GFA standards. That ratio is of course much lower than the bonus level scenario applicable for the subject. The proposed ratio is within a normal range for a townhouse project in the general competitive area. A substantial downward adjustment will be applied to account for the tendency of price per square foot of GFA to decline with increasing intensity.

The development proposal for sale #5 would include both stacked units and townhouses. The overall planned floor area ratio is 68.4% under Menlo Park's GFA definition. Again, a substantial negative adjustment will be applied for the difference in development intensity.

Inclusionary Zoning/Affordable/Below Market Rate Units

For residential or mixed use rental projects with 20 or more dwelling units, the City of Menlo Park requires that 15% of the residential units be set aside for low-income households, or an equivalent alternative. At for-sale townhouse projects, the City of Menlo Park typically would allow for the affordable units to be set aside for moderate income households. There is no development proposal at the base level scenario for the subject property but the aforementioned requirements would apply under either base or bonus scenarios. Under base level zoning, it might be possible for a developer to pay an in-lieu fee rather than providing the BMR units on-site. However, for any projects in the R-MU-B zone that are based on bonus level allowed density/intensity, the code requires that the units be provided on-site.

It should also be noted that Menlo Park's inclusionary zoning policy is atypical in that it further limits rents for affordable units to 75% of the market level. Therefore, even in the event where the allowed affordable rent for a particular unit type might be at or near the normal market level, the City's policy would limit achievable rents in a manner that most cities do not.

The analyzed sales have varying requirements related to affordable units. Those differences of course would tend to impact achievable sale prices.

Sales #1 and #2 are in Menlo Park and have the same zoning as the subject property. The same affordable housing requirements apply and therefore no adjustments are needed.

For sale #3, the entitlements for the proposed development require that 144 units (20%) be set aside as affordable housing for teachers and staff of the Mountain View-Whisman School District. The building plans indicate that the units would be contained within a separate building at the project site. The ratio of required affordable units is higher than that of Menlo Park. However, Mountain View allows for a substantial portion of the units to be set aside for moderate income households, which would result in higher rent potential versus units set aside for low income households. Considering all factors, no adjustment will be applied for the affordable housing requirements.

Sunnyvale requires that 12.5% of the units at the site of sale #4 be set aside as affordable. The allowed income level parameters are less restrictive than those of Menlo Park and the ratio of required affordable units is lower. A negative adjustment is therefore needed.

In the case of sale #5, the approved project includes a relatively large affordable component, comprising 22 of the 92 units in the project (24%). The affordable homes will be much smaller, "workforce housing" units relative to the remainder of the project. The remainder of the project would consist of townhouses, the majority of which would be four-bedroom homes ranging in size from 1,945 to 2,089 square feet. The ability to reduce the unit sizes at the affordable component partly offsets the need to provide a relatively high ratio of affordable units. However, the applicant also had to agree to give the City of Foster City the option to purchase the workforce housing portion of the development upon completion, at a price that would likely be well below replacement cost based on our review of the agreement. Considering all factors, the affordable housing requirement for sale #5 is considered to be a significant disadvantage versus the subject, which necessitates a positive adjustment.

Development/Construction Type

The current development plans for the residential and mixed use component of the subject property do not specify a construction type. However, given the information that is available from the plans, it appears likely that the project would be of Type III construction.

Sales #1 and #3 are high density proposed developments where the residential or mixed use buildings would be of Type III construction. No adjustments are needed for those sales for construction type.

On the other hand, the very large majority of the proposed commercial space at the site of sale #1 would be devoted to office use, which has higher net rent potential than residential units. At the proposed development intensities, achievable prices per square foot of GFA for office use tend to exceed those of residential space. That factor conveys an advantage to sale #1 over the subject, which necessitates a negative adjustment for use/development type.

The very large majority of proposed units at the Menlo Uptown site (sale #2) would be stacked apartments of Type III construction. The remainder, however, would be Type V townhouses, which typically have a lower cost of construction per square foot of floor area. For that property, a minor downward adjustment applies.

Sale #4 is a proposed townhouse project that would involve less costly Type V construction. Consequently, that property has a comparative advantage over the subject as it is likely that the construction costs per square foot would be significantly higher for a new project at the subject site using the bonus zoning level guidelines applicable in this assignment and considering the current planning submittal. Accordingly, a negative adjustment is needed for that sale.

The plans for the site of sale #5 include both Type III construction (for the affordable housing building) and Type V construction (townhouses). On balance, a negative adjustment is warranted for construction type.

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

We have previously discussed infrastructure and site preparation issues at some length in this report. The subject property would need major site improvements prior to construction of the proposed buildings. Unfortunately, the VPA appraisal report did not have sufficient detail regarding the estimated line-item costs for that work and thus we do not have complete information on exactly what might have been included in the "horizontal" construction cost figure cited by VPA. Still, the proposed development would require new public and private internal streets and would also need new utility lines, among other substantial infrastructure and site preparation work.

All of the sales require some street work, infrastructure work, and site preparation costs. However, all of the properties sit on existing public streets and required public street work would be minimal in all cases. All of the sales will require some new internal street or access way construction, but for the high density sites (sales #1 through #3) that work would be very minor in comparison to Willow Village. The townhouse developments (sales #4 and #5) would need more internal street/driveway work but still the scope would be comparatively lower.

Known Hazardous Materials

We have not been provided with any hazardous materials reports for the subject property. The VPA report indicates that a deed restriction prevents residential use of the property at present. It is an extraordinary assumption of this report that any such restriction has been removed or will be removed prior to any new construction at Willow Village. We are not aware of any significant hazardous materials that would require remediation. The sales were similar in that regard. No adjustments will be applied.

Effect of Existing Improvements

The subject property currently is improved with 20 buildings comprising about one million square feet of space. We are presuming that the subject property is fully entitled for a new development. On that basis, new construction could begin almost immediately, which would necessitate demolishing and clearing the existing improvements.

Sales #1 and #2 both have existing improvements and both properties were unentitled at the time of sale. At the former site, the property has three one-story, concrete tilt-up buildings containing 64,832 square feet of floor area. The latter property also is developed with a trio of one-story, concrete tilt-up buildings. At that site, the existing total GFA amounts to 102,212 square feet. The various buildings have some interim rent potential but since entitlements are expected fairly shortly in both cases that factor is negligible. New development will necessitate demolition. No adjustments apply.

The other residential sales had entitlements by the time that escrow closed. As such, their existing improvements needed to be demolished and cleared to make way for new development. No adjustments will be applied.

Adjustment Grids--Bonus Level Development Scenario for the Residential Component

The sales all exhibit some significant differences relative to the residential component of 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 residential component subject property for the proposed bonus level residential component development scenario. A subsequent analysis will address the adjustment process for the subject under the base level residential development scenario.

Residential Component Bonus Scenario Adjustment Grid (First of Two)

	Sale #1	Sale #2	Sale #3
Address:	Menlo Portal	Menlo Uptown	777 W. Middlefield
FAR by Menlo Park Definition:	259.1%	226.3%	185.0%
Price per Sq. Ft. of GFA:	**$128**	**$158**	**$244**
Economic Adjustments			
Conditions of Sale:	$0	$0	$0
Adjusted Base:	**$128**	**$158**	**$244**
Financing/Concessions:	$0	$0	$0
Adjusted Base:	**$128**	**$158**	**$244**
Prop. Rights/Lease Status:	$0	$0	$0
Adjusted Base:	**$128**	**$158**	**$244**
Market Conditions:	$6	$0	$0
Adjusted Base:	**$134**	**$158**	**$244**
Entitlements/Approvals:	$20	$24	$0
Adjusted Base:	**$154**	**$182**	**$244**
Physical/Code Adjustments			
Location:	$0	$0	($37)
Shape/Topog./Funct. Utility:	$0	$0	($12)
Scale/Marketability:	($8)	($9)	($12)
Land Use/Regulatory Issues:	$33	$20	$20
BMRs/Affordable Housing:	$0	$0	$0
Development/Const. Type:	($8)	($11)	$0
Utility Availability:	$0	$0	$0
Required Infrastr./Site Prep.:	($50)	($45)	($50)
Known Hazardous Mat.:	$0	$0	$0
Improvements:	$0	$0	$0
Adjusted Value per SF GFA:	**$121**	**$137**	**$153**

Residential Component Bonus Scenario Adjustment Grid (Second of Two)

	Sale #4	**Sale #5**
Address:	925 S. Wolfe	551 Pilgrim
FAR by Menlo Park Definition:	71.1%	68.4%
Price per Sq. Ft. of GFA:	**$341**	**$268**
Economic Adjustments		
Conditions of Sale:	$0	$0
Adjusted Base:	**$341**	**$268**
Financing/Concessions:	$0	$0
Adjusted Base:	**$341**	**$268**
Prop. Rights/Lease Status:	$0	$0
Adjusted Base:	**$341**	**$268**
Market Conditions:	$0	$0
Adjusted Base:	**$341**	**$268**
Entitlements/Approvals:	$34	$11
Adjusted Base:	**$375**	**$279**
Physical/Code Adjustments		
Location:	$30	($21)
Shape/Topog./Funct. Utility:	($19)	$6
Scale/Marketability:	($38)	($28)
Land Use/Regulatory Issues:	($103)	($84)
BMRs/Affordable Housing:	($19)	$56
Development/Const. Type:	($60)	($38)
Utility Availability:	$0	$0
Required Infrastr./Site Prep.:	($45)	($45)
Known Hazardous Mat.:	$0	$0
Improvements:	$0	$0
Adjusted Value per SF GFA:	**$121**	**$125**

Sales Comparison Approach Conclusion
(Bonus Level Scenario--Residential Component)

The residential component bonus level scenario requires the assumption that the subject property has entitlements in place for the development of 1,730 rental apartment units with 1,695,975.5 square feet of gross floor area. There are no recent sales of proposed projects with remotely similar locations that are similar in scale to the proposed Willow Village residential component. The sales analyzed are considered to be the best available. We must also note that the assignment instructions require the appraiser to use the same sales data in analyzing the subject property under both bonus and base level zoning parameters. In normal appraisal practice, an appraiser would be unlikely to use the same data set in analyzing the market values of proposed projects with densities of 30 and 100 units per acre.

The analyzed sales produced prices per square foot of proposed gross floor area varying from $128 to $341 per square foot, which is a broad range. All of the analyzed transactions required substantial adjustments to account for differences from the subject.

After adjustments, the range of indicated values narrows to $121 to $153 per square foot. The median adjusted value amounts to $125 per square foot. The average adjusted value equals $131 per square foot, with a standard deviation of $14 per square foot. Sales #1 and #2 receive the most weight in this part of the analysis. Nevertheless, all of the sales were considered in arriving at a market value conclusion.

In estimating an indicated value for the subject property's residential component by the Sales Comparison Approach, 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 July 30, 2021, we estimate that the market value of the residential component of the subject property under the bonus level scenario valuation guidelines amounts to **$130 per square foot of allowed gross floor area**. Applying that rate to the subject property's proposed residential gross floor area of 1,695,975.5 square feet produces a value indication of **$220,476,818, which will be rounded to $220,500,000.**

Base Level Scenario for the Residential Component

Under the base level appraisal guidelines there are no highly similar recent sales. The base level scenario requires the assumption that the subject property has entitlements in place for a mixed use development of exactly 523 residential units with exactly 683,932.3 square feet of gross floor area. The base scenario project also would include a commercial component comprising 113,988.7 square feet of gross floor area, for a total floor area ratio of 105%. The commercial component is not directly included in this part of the valuation, as that amount of allowed floor area essentially is a part of the analyzed commercial component of the project site.

The smaller scale and lower floor area ratio of the base level project would tend to result in wider marketability than the much larger bonus scenario development. That factor would tend to influence the price per square foot of GFA upward under the base scenario.

Furthermore, it is possible that a development at the base level allowed intensity for the subject could have some surface or carport parking in addition to structured parking. The potential would be partly offset by any commercial space included in mixed use buildings, as that component part also would need on-site parking.

Under base level guidelines, it is possible that a project could have a mix of stacked units of Type III construction and townhouses of Type V construction. That would be an advantage over the bonus scenario development although the Type V ratio would likely be fairly low.

The same sales are used in the analysis of the base level scenario residential component land value. However, the adjustment rates differ for factors such as scale/marketability, use/intensity, and construction type.

As with the office component base scenario analysis, the residential base level valuation is complicated by an unknown cost differential for infrastructure and site preparation. It is possible and arguably likely that the base level scenario value would suffer a significantly greater negative effect on achievable price per square foot of GFA than the bonus scenario. However, as previously discussed the VPA appraisal report provided zero information regarding the estimated infrastructure and site preparation costs for the subject property under base level zoning parameters. Consequently, we do not have sufficient information to significantly alter adjustments for that factor. At such time as such information became available, it might be appropriate to reevaluate that factor.

In estimating an indicated value for the residential component of the subject property by the Sales Comparison Approach for the base level scenario, we have again 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 July 30, 2021, we estimate that the market value of the residential land component under the base level scenario valuation guidelines amounts to **$215 per square foot of allowed office gross floor area**. Applying that rate to the subject property's base level allowed residential gross floor area of 683,932.3 square feet produces a value indication of **$147,045,444, which will be rounded to $147,000,000.**

Reconciliation and Community Amenity Value Conclusion

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 Valbridge Property Advisors' 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 any component part of Valbridge Property Advisors' 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 Valbridge Property Advisors (VPA) appraisal report.

Our review concluded that the VPA appraisal report lacked sufficient support for the stated community amenity value conclusion. Based on our review of the available market evidence, we concluded that VPA's report had significant errors in calculations of allowed base and bonus level gross floor area amounts. By inference from VPA's value conclusions per square foot of gross floor area, those square footage reporting errors resulted in understating the community amenity value by about $10.6 million. Pages 84 and 85 of this report have an overview of the derivation of that figure.

Beyond the apparent errors in square footage figures, we disagreed with some of VPA's valuation analyses of the office and residential component land values. For the office component, our bonus value conclusion per square foot of square foot of GFA is nearly identical to that of VPA. However, our base level value per square foot of GFA conclusion is significantly lower than that of VPA. In our view, the main reason for that differential is that we think the evidence completely fails to support VPA's contention that a base level project could be developed using only surface level parking.

For the residential component analysis, we rejected the majority of the sales analyzed by VPA because in our opinion most of the analyzed residential sales are not appropriate comparison properties for the subject. Moreover, VPA failed to include the two recent sales of Bayfront Area development sites in the R-MU-B zoning district. Based on our analysis, we believe that VPA's residential component value estimates for the base and bonus scenarios both are understated relative to current market value.

We should note that VPA's appraisal has an effective date of September 24, 2020 and it is possible that they would have reached significantly different conclusions if they were valuing the Willow Village property today. The valuation dates of our community amenity valuation and VPA's valuation are about ten months apart and in the interim the U.S. economy had fairly strong growth.

In accordance with the appraisal instructions, we used the Sales Comparison Approach to value the subject property's office and residential components 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 July 30, 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 Gross Floor Area	Indicated Market Value (Rounded)
Bonus	$189.23 (blended)	3,295,975.50 sq. ft.	$623,700,000
Base	$235.31 (blended)	1,517,593.85 sq. ft.	$357,100,000

For the bonus development scenario, the blended market value estimate includes contributions of $403,200,000 from the planned office component (1,600,000.0 square feet of potential GFA) and $220,500,000 from the residential component (1,695,975.5 square feet). The combined total thus amounts to $623,700,000.

For the base scenario parameters, the blended market value estimate includes contributions of $210,100,000 from the office component (833,661.55 square feet) and $147,000,000 from the residential component (689,932.3 square feet). The combined base total thus amounts to $357,100,000.

The estimated bonus level value market value exceeds the estimated base level market value by $266,600,000. The bonus level project would have 1,778,381.65 square feet of additional gross floor area relative to the base level scenario. As such, the incremental value difference for the floor area differential amounts to about $150 per square foot of gross floor area (i.e., $266.6 million value difference divided by the 1,778,381.65 square foot GFA difference). That estimate is supported by the sales data analyzed in this report.

The differential could well be viewed as conservative when considering the prices paid for transferrable development rights (TDRs) sold by the Los Altos School District. The school district recently sold a large volume of TDRs, generally at reported prices of $130 per square foot of allowed floor area. To cite one example particularly relevant to a residential component valuation, a prospective developer of a proposed high intensity condominium and apartment project in Mountain View paid $130 per square foot for TDRs in an effort to increase the floor area ratio at the property by a 65% increment, or potentially from 350% to 415%.

The noted TDRs convey rights to build additional floor area over normally allowed floor area ratios. However, they do not include any physical land area. TDRs often sell at some discount per square foot of GFA relative to the contributory value of actual land.

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 **$133,300,000.**

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

Willow Village Infrastructure Plan, undated, with no author shown (prepared for Peninsula Innovation Partners, possibly by Freyer and Laureta, Inc.)

Tentative parcel map, topographic survey map, demolition plan, grading and drainage plan, and maps of proposed site changes for the Belle Haven Retail Center and Chevron gas station properties on Willow Road; drawn by Freyer and Laureta, Inc.; undated

Topographic map and easement maps for the existing parcels of the proposed Willow Village project site, drawn by Freyer and Laureta, Inc.; undated

Tentative parcel map for the proposed Willow Village project site, drawn by Freyer and Laureta, Inc.; undated

Willow Village building plans from planning submittals in February of 2018, February of 2010, April of 2019, June of 2019, October of 2019, May of 2020, October of 2020, January of 2021, February of 2021, and May of 2021

Comprehensive plan set for the proposed Willow Village project, dated May 26, 2021; the author is not shown on the plans, which were prepared for Peninsula Innovation Partners

Architectural plans for Parcels 1, 2, 3, 6, 7, and 8 (note: no plans were available for Parcels 4 and 5)

Land use tables, project descriptions and other documents available at the City of Menlo Park's web site pages for the project (https://www.menlopark.org/1251/Willow-Village), with plans available at https://www.menlopark.org/1252/Project-plans

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 San Jose, Santa Clara, Sunnyvale, Los Gatos, Mountain View, Menlo Park, East Palo Alto, Redwood City, San Carlos, Belmont, San Mateo, Foster City, Burlingame, South San Francisco, Brisbane, 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 Valbridge Property Advisors, effective as of September 24, 2020

File records of Fabbro, Moore & Associates, Inc.

Building plans, CEQA documents, survey and other mapping records, civil engineering drawings, 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, multiple listing service records, CoStar database records, and other sources used to obtain and/or verify sales information contained within the VPA 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 the base level scenario (presumed to be entitled for 523 residential units with 689,932.3 square feet of gross floor area, office development of 833,661.55 square feet, hotel space, and retail space). In our view, it is unlikely that any prospective developers would propose a project using the base level zoning guidelines.

Assuming the subject site were vacant, the more supportable highest and best conclusion would be to develop the site at or near the maximum intensity allowed under bonus level zoning parameters. The proposed scope of development is near the maximum level allowed under bonus level guidelines. The most recent development plan submittal calls for 1,695,975.5 square feet of residential gross floor area in 1,730 units; 1,506,143 square feet of office space; 151,603 square feet of hotel space; and 141,354 square feet of retail space.

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 upon a copy of the report produced without the consent of Fabbro, Moore & Associates, Inc.

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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. Residential land sale #9 in the Willow Village appraisal report written by Valbridge Property Advisors is a reported sale of the property at 777 West Middlefield Road in Mountain View. We could not confirm the sale information and there was no recorded

transfer deed on the date of the reported sale in February of 2020 (or on any other date since the property sold in 2015) as far as we could determine. CoStar reported an entity sale (i.e., a sale of an interest in the entity owning the property, but not a property sale) in February of 2020 at a price of $191 million, which matches the sale price shown in the Valbridge appraisal. For purposes of this analysis, we will use the extraordinary assumption that Valbridge Property Advisors' stated sale price and sale data accurately reflect the value of a 100% interest in the property on the reported transfer date as determined by any entities involved in a transfer involving the property or an interest in the property at 777 West Middlefield Road. If that assumption were incorrect, there could be an effect on the assignment results.

3. 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. We have not been provided with any information regarding any leases that might encumber the subject property. The VPA appraisal report did not mention any leases and that report stated that the authors valued a fee simple interest in the subject property. Regardless of the lease status, in our view the nature of the assignment would require 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, have presumed that no leases encumber the subject property. Because we do not have any evidence to indicate whether or not any leases are in place, the presumption that no leases encumber the property is an extraordinary assumption of this review report.

4. The VPA appraisal report stated that a deed restriction affecting the subject property precludes developing any residential units on the site. We have seen no documents or other information that would indicate whether or not such a deed restriction actually exists. If such a restriction does exist, however, obviously it would need to be removed in order to develop the subject property as planned. For purposes of this review report, we have used the extraordinary assumption that either there is no deed restriction preventing a residential use of the subject property or if there is such a restriction it would be removed prior to the commencement of any redevelopment of the subject property. If that presumption were incorrect, there could be an effect on the assignment results.

5. On page 30 of their report, VPA wrote that "We were provided with horizontal site costs for the proposed project. The total cost is approximately $451,732,000, or ±$175 per square foot of land. The two largest costs are for a $70,441,000 tunnel linking Willow Village to other proximate Facebook sites and a ±$27,701,000 Belle Haven sub-station circuit. Site utility costs are $41,353,000 and demolition costs are $35,543,000. There also is a built-in $70,000,000 cost escalation to account for the long project development timeline and potential for construction costs increases."

   VPA did not state whether the cost figure was an estimate or a bid. Furthermore, their report did not define the term "horizontal site costs" and did not list all of the costs that add to the reported $451.732 million total. The specifically enumerated costs actually amounted to $245,038,000, which left $206,694,000 of the total reported costs unaccounted for in VPA's report. The shortage of information makes it impossible for a reader to judge exactly what costs are included in the reported horizontal cost total, whether the estimate is reasonable given the proposed scope of work, and how those costs might compare to other very large development sites in the general competitive market area.

   On page 30, VPA ultimately concluded that "Overall, based on our review and experience with other project site costs, the horizontal costs for Willow Village are significant, albeit typical for urban environment site costs (excluding the tunnel, substation circuit, and cost escalator)." VPA did not provide the entirety of the cost estimate/bid or an accounting of exactly what was included in the total but they indicated that they had reviewed the figures and found them to be typical except for the noted exclusions. At present, we have no information to the contrary. It is an extraordinary assumption of this review report that VPA's finding was accurate that the noted costs were typical except for the specifically noted exclusions. If that presumption 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 maximum 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.

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 Practice
Real Estate Economics	Real Estate Appraisal
Real Estate Finance	Property Management
Standards of Professional Practice	Real Estate Appraisal Principles
Residential Valuation	Anatomy of Residential Property
Business Management and Contracts	Financial Statements
Safety and Housing	Equal Opportunity Employment
Licensing and Mechanics Liens	The Secondary Mortgage Market
Quantitative Analysis	Business Statistics
Business Writing	Multi-residential Update
Microcomputer Applications	Desktop Publishing
Ethics and Professional Conduct	Consumer Protection
Agency Relationships and Duties	Statistics & Partial Interests
Capitalization and Cash Flow	Narrative Report Writing
Advanced Capitalization	Demonstration Report Writing
Advanced Applications	Cost Approach - Calculator Method
Fair Housing Laws	Title 24: California Energy Code
H.U.D./F.H.A. Appraisal Practices	Environmental Legislation
Environmental Disclosure	Non-residential Report Writing
Hotel/Motel Valuation	Retail and Industrial Markets
Fundamentals of Investment Analysis	Office and Industrial Trends

Purpose of Assignments

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

Representative List of Clients Served

Bank of Marin	Wells Fargo Bank	Northern Trust Bank
California Bank & Trust	Comerica Bank	First Republic Bank
Liberty Bank	Zions National Bank	Union Bank
Luther Burbank Savings	United America Bank	Heritage Bank of Commerce
Boston Private Bank	Global Trust Bank	Avidbank

California State Teachers' Retirement System (CALSTRS)
General Services Administration (GSA)
Federal Deposit Insurance Corporation (FDIC)
U.S. Department of Housing and Urban Development (HUD)
Small Business Administration (SBA)

Professional Designations/Affiliations

Member of the Appraisal Institute (11,198)
Certified-General Appraiser, State of California (AG009176)
Real Estate Broker, State of California (00866712)
American Association of Individual Investors (life member)

Court Testimony

I have testified as an expert in real estate valuation in San Francisco County

Properties Types Appraised

Single-family residences	Residential condominiums	Apartment buildings
Stock cooperatives	Live/work units	Design/multimedia
Office buildings	Industrial buildings	Warehouses
R&D	Shopping centers	Office condominiums
Industrial condominiums	Residential care facilities	Child care centers
Planned unit developments	Proposed construction	Mixed-use buildings
Food processing centers	Unreinforced masonry buildings	Hotels/Motels
Self-storage facilities	Fast food restaurants	Development land

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 bldgs. with 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

York Hotel
940 Sutter Street, San Francisco
96-room boutique style hotel

Wendy’s Restaurant
1313 South Wolfe Road, Sunnyvale
2,314 SF fast food restaurant

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
Avidbank
Bank of America
Bank of East Asia
Bank of Marin
Bank of Montreal
Bank of the West
Boston Private Financial Holdings
California Bank & Trust
Comerica Bank
First Bank
First National Bank
First Republic Bank
Fremont Bank
Heartland Capital
Heritage Bank
HSBC Private Bank
Industrial and Commercial Bank of China
JP Morgan Chase
Liberty Bank
Luther Burbank Savings
New Resource Bank
Northern Trust Bank
Union Bank
US Bank
Wells Fargo Bank

Beneficial Standard Life Insurance Co.
Farmers Insurance
Fireman's Fund Insurance
Kemper Insurance
Lawyers Title Insurance Corp.
Ticor Title Insurance Company

City of Belmont
City of Brisbane
City of Daly City
City of Foster City
City of Half Moon Bay
City of Millbrae
City of Oakland
City of Pacifica
City of Redwood City
City of San Bruno
City of San Carlos
City of South San Francisco
City and County of San Francisco
County of San Mateo
Mid-Peninsula Regional Open Space District
Skyline County Water District
California Department of Transportation
SamTrans
Federal Deposit Insurance Corp. (FDIC)
General Services Administration (GSA)
U.S. Dept. of Housing and Urban Dev. (HUD)
Resolution Trust Corp. (RTC)
Small Business Administration (SBA)
Veterans Administration (VA)

Applied Materials
E.I. DuPont Co.
General Motors
Hewlett-Packard
Lockheed Martin
Motorola
Nestle USA
Procter & Gamble
Safeway
Marriott Corp.
Doubletree Hotels
Dignity Health
Seton Medical Center
ESOP Investment Bankers

Bancroft & McAlister
Berra, Stross & Wallacker
Bryant, Clohan, Ott & Baruh
Chapman, Popik & White
Cooley, LLP
Fenwick & West
Flicker, Kerin, Kruger & Bissada
Gordon & Rees
Hammer & Jacobs
Howard Rome Martin & Ridley
Miller Starr Regalia
Morgan Tidalgo Sukhodrev & Azzolino
Morrison Foerster
Quinn, Emanuel, Urquhart & Sullivan
Ropers Majeski Kohn Bentley
Shartsis Friese
Sidley Austin
Thoits Law
Tobin & Tobin
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