MERCED COUNTY
CONTRACT NO. _____

LEASE FOR GROUND
BETWEEN
MERCED COUNTY AND
CITY OF MERCED

This Ground Lease and Option to Purchase Agreement, herein called "Agreement," is made at Merced, California, by and between the County of Merced, a political subdivision of the State of California, herein called "LESSOR," and the City of Merced, a charter city of the State of California, herein called "LESSEE." LESSOR and LESSEE shall herein collectively be referred to as the "Parties."

1. PREMISES

LESSOR does hereby lease to the LESSEE, and LESSEE hereby takes into service from LESSOR, upon the terms, agreements, and conditions hereinafter set forth, the ground underlying certain premises (the Premises) as shown as the 5.06 acre Parcel A on the attached parcel map designated as Exhibit "A" consisting of two (2) pages, which is incorporated herein and by this reference made a part hereof and more commonly described as follows:

That certain real property including all improvements located on an approximately 5.06 acre parcel as described in the grant deed recorded in document 2009-061427 and generally known as 1137 "B" Street Merced, California 95341 (APN 035-010-071).

LESSOR shall retain the full and complete right of access and use of the modular building, small storage building, and parking area located on the Premises while this Agreement is in effect.

All real property is owned by LESSOR.

2. PURPOSE AND INTENT

The Parties understand and agree that LESSOR desires that the Premises be used as a site to develop affordable housing to low income individuals and families, and LESSOR has agreed to lease the premises and grant an option to purchase the Premises to LESSEE for that sole purpose. LESSEE desires to lease and subsequently purchase the Premises for the sole purposes of developing affordable housing on the Premises.

3. ENVIRONMENTAL REVIEW COMPLIANCE

The Parties recognize that the development of affordable housing on the Premises is subject to compliance with applicable federal and state environmental laws. LESSEE shall be solely responsible for, and assumes any and all liability in connection with compliance with such laws. Specifically, the Parties agree that LESSEE is the Lead Agency for purposes of the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) as that Act applies to this Agreement or any action taken pursuant to this Agreement.

4. LEASE TERM

The term of this Agreement shall be fixed from the date both Parties have executed this lease, which shall be determined by the latest date stated with the Parties' signatures, and continue until June 30, 2023, unless terminated earlier under the terms of this Agreement.

5. RENT

LESSEE agrees to pay LESSOR a total amount of one dollar ($1.00) yearly as rent.

6. OPTION TO PURCHASE

LESSOR hereby grants to LESSEE the exclusive right and option (the Option) to purchase the Premises upon the terms and conditions set forth in this section and subject to compliance with all terms and conditions of this Agreement.

A. The purchase price for the Premises shall be set at the appraised value of one million, eighty thousand dollars ($1,080,000) as determined by the appraisal made by K.R. McBay Co. with an appraisal effective date of August 17, 2017, attached as Exhibit B.
B. The Option is conditioned on LESSEE's, or assignee or successor in interest, use of the Premises being limited for a period of fifty-five (55) years to the operation of an affordable housing complex on the Premises that is affordable to low income households with income at or below sixty percent (60%) of Area Median Income. LESSEE shall be required to include the construction of eighty-nine (89) affordable housing units, thirty (30) permanent supportive housing units, an open space park, a resource center, and office space for supportive service providers as part of the development and included financing plan. LESSEE shall not use or permit the Premises or any portion of the Premises to be improved, developed, used, or occupied in any manner or for any purpose that is in any way inconsistent with the affordable housing project described above, or in violation of any law, ordinance, or regulation of any federal, state, county, or local governmental agency, body or entity. Furthermore, LESSEE shall not maintain, commit or permit the maintenance or commission of any nuisance as now or hereafter defined by any statutory or decisional law applicable to the Premises or any part of the Premises.
C. The term of the Option and LESSEE's rights thereunder shall commence from the date this Agreement is effective, and shall terminate on September 30, 2019 which should allow for the submittal of two (2) competitive 9% low income housing tax credit funding applications under the State's past timelines. The Option is conditioned on LESSEE demonstrating to LESSOR's satisfaction that LESSEE has obtained sufficient funding for an affordable housing development located on the Premises, part of which shall include funding awarded through the Low Income Housing Tax Credit administered by the California Tax Credit Allocation Committee. LESSEE shall provide LESSOR with a Preliminary Reservation Letter from the California Tax Credit Allocation Committee that states the amount of reserved low income housing tax credits the proposed project has been awarded, and lists the conditions and limitations imposed on the award. Should LESSEE not receive a federal or state credit award through the Low Income Housing Tax Credit by September 30, 2019, LESSEE and LESSOR will meet to discuss the outcome of LESSEE's application(s) including the ranking of the application(s) and the , need to extend the Option to allow for additional application submittals. Should LESSEE's application receive a score that ranks in the top 5 for that program, LESSEE may request that the Option be extended through September 30, 2020. If LESSEE obtains a federal or state credit award from the Low Income Housing Tax Credit by September 30, 2019, no extension shall be granted.
D. Upon obtaining the required funding, LESSEE may indicate its decision to exercise the

Option by execution and tender to LESSOR of a written notice of the exercise of the Option. LESSOR shall send written acknowledgement of receipt of the written notice, along with LESSOR's determination of whether LESSEE's proposed funding is sufficient to complete the project. LESSEE's right to purchase the Premises under the Option shall not be effective unless and until LESSOR acknowledges in writing that sufficient funding has been secured by the LESSEE. Upon LESSOR providing LESSEE with written notice, the Option shall be deemed "successfully" exercised.

E. After LESSEE successfully exercises the Option, LESSOR agrees to sell and LESSEE agrees to purchase the Premises in accordance with the terms of this Agreement and a Purchase Agreement to be executed at a later date. This Agreement must be in effect on the closing date of the sale. If this Agreement is not effective on the date of closing, the Option, any Purchase Agreement or other related agreement, and any rights of LESSEE in regards to present or future interest in the Premises will automatically, immediately, and completely terminate without notice.

F. LESSEE must successfully exercise the Option, complete the purchase of the Premises pursuant to the executed Purchase Agreement, and obtain title to the Premises prior to LESSEE, or any assign or successor in interest, beginning construction activities on the Premises.

G. The Parties shall execute a Purchase Agreement within ninety (90) days of LESSEE successfully exercising the Option. The Purchase Agreement shall contain, in substantially the same form, the terms outlined in Exhibit C of this Agreement.

7. USE OF PREMISES

The Premises may be occupied and used by LESSEE exclusively for the purpose of performing the planning and preparation necessary for the affordable housing development described in section 6 of this Agreement.

LESSOR shall retain possession and use of the improvements specifically identified in section 1 of this Agreement for the duration of the Agreement. In the event LESSEE exercises the Option, the Parties agree to the terms outlined in Exhibit C, Purchase Agreement Terms, regarding the disposition of the improvements.

8. UTILITIES

LESSOR shall pay or cause to be paid all charges for the furnishing of gas, water, electricity, telephone, cable, satellite, and any other data transmission, services, and other public utilities to said Premises during the term of this Agreement.

9. REPAIRS AND RESTORATION

A. Maintenance by LESSEE and LESSOR. At all times during the term of this Agreement, LESSEE shall, at LESSEE's sole cost and expense, keep and maintain said Premises, excluding the improvements identified in section 1, in good order and repair and in a safe and clean condition. LESSOR shall be responsible for the upkeep, repair, and maintenance of the improvements identified in section 1 during the term of this Agreement.

B. Requirements of Governmental Agencies. At all times during the term of this Agreement, LESSEE at LESSEE's sole cost and expense, shall:

1) Excluding the improvements identified in section 1 above, LESSEE shall make all alterations, additions, or repairs to said Premises, or the improvements or Facilities on said Premises required by any valid law, ordinance, statute, order, or regulation now or hereafter made or issued by any federal, state, county, local, or other governmental agency or entity;

2) Excluding the improvements identified in section 1, observe and comply with all valid laws, ordinances, statutes, orders, and regulations now or hereafter made or issued respecting said Premises or the improvements or Facilities on said Premises by any federal, state, county, local, or other governmental agency or entity;

3) If LESSEE, in LESSEE's sole discretion, desires by appropriate legal proceedings brought in good faith and diligently prosecuted in the name of LESSEE, or in the names of LESSEE and LESSOR where appropriate or required, the validity or applicability to said Premises of any law, ordinance, statute, order, or regulation now or hereafter made or issued by any federal, state, county, local, or governmental agency or entity; provided however, that any such contest or proceeding, though maintained in the names of LESSEE and LESSOR, shall be without cost to LESSOR, and LESSEE shall protect said Premises and LESSOR from LESSEE's failure to observe or comply during the contest with the contested law, ordinance, statute, order, or regulation;

4) Indemnify and hold LESSOR and the property of LESSOR, including said Premises, free and harmless from any and all liability, loss, damages, fines, penalties, claims, and actions resulting from LESSEE's failure to comply with and perform the requirements of this section.

C. LESSEE's Duty to Restore Premises. Should, at any time during the term of this Agreement, any buildings or improvements which are owned by LESSOR now or hereafter on said Premises be destroyed in whole or in part by fire, theft, or any other cause attributable to LESSEE's negligence or willful misconduct, this Agreement shall continue in full force and effect and LESSEE, at LESSEE's own cost and expense, shall reimburse LESSOR's reasonable costs in replacing such improvements on the Premises, or at a different location of LESSOR's choosing.

D. Application of Insurance Proceeds. Any and all insurance proceeds resulting from insurance maintained by LESSEE that becomes payable at any time during the term of this Agreement because of damage to or destruction of any buildings or improvements on said Premises shall be used by LESSEE toward the cost of repairing and restoring the damaged or destroyed buildings or improvements in the manner required by Section 9.C. of this Agreement.

10. INDEMNITY AND INSURANCE

A. Indemnity Agreement. The LESSEE shall indemnify, defend and hold harmless, LESSOR, its Board of Supervisors, officers, employees, agents and assigns from and against any and all claims, demands, liability, judgments, awards, interest, attorney's fees, costs, experts' fees and expenses of whatsoever kind or nature, at any time arising out of or in any way connected with LESSEE's performance of this Agreement, including but not limited to actions arising from public interest, land use, laws concerning affordable housing development, and environmental legal actions. Attorney's fees shall include any and all attorney's fees including

attorney's fees and staff time incurred by the offices of COUNTY counsel. LESSOR shall have full discretion to select legal counsel of its own choosing to represent LESSOR, at a cost not exceeding the prevailing and reasonable rates for counsel practicing environmental and land use law in the State of California, or practicing any other area of law that LESSOR determines the Claim may reasonably require. This clause for indemnification shall be interpreted to the broadest extent permitted by law and shall survive the termination or expiration of this Agreement.

B. Insurance. LESSEE shall maintain at LESSEE's expense the following insurance:

1) LESSEE shall deliver and provide to LESSOR proof of Commercial General Liability insurance of at least $2,000,000 per occurrence and $3,000,000 annual aggregate covering bodily injury, personal injury, property damage, and fire damage liability of at least $500,000. The policies shall cover all bodily injury, personal injury and property damage liability, up to full replacement value, resulting from acts or omissions of the LESSEE, its agents or employees in relation to the Premises. The policies shall name the LESSOR, its officers, agents and employees as additional insured, using ISO form CG2026 or an alternate form that is at least as broad as form CG2026, as to any liability arising from the performance of this Agreement.

2) LESSEE shall deliver and provide to LESSOR proof of Property Insurance covering the repair or replacement of the Premises and all improvements or betterments on the property. The policy shall include coverage for acts of vandalism and malicious mischief and shall include full coverage of LESSEE's own contents and furnishings during the term of this Agreement.

3) LESSEE shall deliver and provide to LESSOR proof of Automobile Liability insurance of at least $1,000,000 per accident for bodily injury and property damage, or alternatively split limits of $500,000 per person and $1,000,000 per accident for bodily injury with $250,000 per accident for property damage. The automobile policies shall be endorsed to name LESSOR, and its officers, employees and agents as additional insured.

4) LESSEE shall deliver and provide to LESSOR proof of Workers' Compensation Statutory coverage, if and as required according to the California Labor Code, including Employers' Liability limits of $1,000,000.00 per accident. The policy shall be endorsed to waive the insurer's subrogation rights against the LESSOR.

C. Other Insurance Provisions.

1) The LESSEE shall include all Contractors and Sub-contractors as insured's under its policies or shall furnish Certificates of Insurance for each Contractor or Sub-contractor. All coverages for Contractors or Sub-contractors shall be subject to all of the requirements and limits stated herein.

2) The LESSEE shall, prior to commencing occupancy and or operations, furnish Certificates of Insurance for each required insurance to the LESSOR, Department of Public Works/Professional Services Division. Certificates shall have any special policy endorsements attached that may be required to affect or accomplish the required insurance coverages and conditions specified, if not fully described on the Certificates.

3) If the LESSEE maintains broader coverage and/or higher limits than the minimums shown

above, the LESSOR requires and shall be entitled to the broader coverage and/or higher limits maintained. Any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to the LESSOR.

4) The LESSEE'S insurance coverage shall be primary insurance as respects the LESSOR, and any insurance or self-insurance maintained by the LESSOR, its officers, agents and employees shall be in excess of LESSOR'S insurance and shall not contribute with it.

5) All insurance policies are to be placed with admitted insurers rated by A.M. Best as A:VII or higher. Lower rated, or approved but not admitted insurers, may be accepted if prior approval is given by LESSOR's Risk Manager.

6) Each policy required above shall be endorsed to provide LESSOR with ten (10) days prior written notice of cancellation. LESSOR is not liable for the payment of premiums or assessments on the policies.

11. ASSIGNMENT AND SUBLEASING

LESSEE shall not assign, sublease, or otherwise transfer this Agreement, any right or interest in this Agreement, or any right or interest in said Premises or any of the improvements that may now or hereafter be constructed or installed on said Premises, without the express written consent of LESSOR first had and obtained. Consent by LESSOR to one assignment shall not be deemed to be consent to any subsequent assignment of this Agreement by LESSEE.

12. TERMINATION

Notwithstanding section 4 above, this Agreement shall terminate if LESSEE has not successfully exercised the Option under the terms of section 6 of this Agreement. This Agreement must be in effect on the closing date of the sale. If this Agreement is not effective on the date of closing, whether due to the expiration of the term or termination for any reason, the Option, any Purchase Agreement or other related agreement, and any of LESSEE's (and anyone claiming by or through LESSEE) rights or interest in the Premises shall be immediately and unconditionally terminated without notice.

LESSEE further agrees that it has no claim in either law or equity against LESSOR for damages or other relief should the Agreement be terminated, and waives any such claims it may have.

13. TERMINATION FOR CONVENIENCE

Notwithstanding anything to the contrary, LESSOR may terminate this Agreement at any time without cause or legal excuse by providing LESSEE with thirty (30) calendar days written notice of such termination.

14. REMEDIES OF LESSOR ON DEFAULT OF LESSEE

Should LESSEE default in the payment of rent, if any, or in the observance or performance of any of LESSEE's covenants or agreements herein, and should such default continue after ten (10) calendar days following receipt of written notice thereof from LESSOR to LESSEE requiring payment, in the case of default in the payment or rent; or after thirty (30) calendar days from the receipt of written notice thereof by LESSOR to LESSEE requiring performance in case of such

other defaults, LESSOR shall have the right to terminate this Agreement and personally, or by LESSOR's agent enter and take possession of the leased Premises and remove LESSEE and LESSEE's property there from. LESSEE shall have the right to cure any default within the period of notice thereof as specified herein above, and, if the default, other than in the matter of payment of rent, is of such a nature that it cannot be cured within the thirty (30) calendar day period specified in the notice thereof, it shall be sufficient if LESSEE shall in good faith commence during said period to cure such default if so accomplished within a reasonable time thereafter. The rights and remedies granted to LESSOR herein are concurrent and cumulative and are in addition to, and not in derogation of, all other rights and remedies, whether legal or equitable, available to LESSOR.

15. COMPLIANCE WITH GOVERNMENTAL REGULATIONS

LESSOR and LESSEE, in respect to their individual covenants and duties, will comply with the requirements of local, State, and Federal authorities now in force, or which may hereafter be in force, pertaining to the said Premises.

16. HAZARDOUS SUBSTANCE

LESSEE agrees that it will comply with all laws, either federal, state, or local, existing during the term of this Agreement pertaining to the use, storage, transportation, and disposal of any hazardous substance as that term is defined in such applicable law. In the event LESSOR or any of its affiliates, successors, principals, employees, or agents should incur any liability, cost, or expense, including attorney fees and costs, as a result of the LESSEE'S illegal or alleged illegal use, storage, transportation, or disposal of any hazardous substance, including any petroleum derivative, drug or drug residue, the LESSEE shall indemnify, defend, and hold harmless any of these individuals against such cost. Where the LESSEE is found to be in breach of this provision due to the issuance of a government order directing the LESSEE to cease and desist any illegal action in connection with a hazardous substance, or to remediate a contaminated condition caused by the LESSEE or any person acting under LESSEE's direct control and authority, LESSEE shall be responsible for all costs and expenses of complying with such order, including any and all expenses imposed on or incurred by LESSOR in connection with or in response to such government order.

17. CHANGES IN THE LAW

During the term of this Agreement should any Federal, State of Local law be enacted, which materially affects this Agreement, the Parties may renegotiate this Agreement at that time.

18. RIGHT TO ENTRY

LESSEE shall permit LESSOR, or their agents, to enter said Premises for the purpose of examining, exhibiting the same, or making such repairs or alterations as may be necessary for the safety or preservation thereof. This right of entry is in addition to LESSOR's rights regarding its use of the Premises as stated in sections 1 and 7.

19. TAXES

LESSOR agrees to pay all taxes, assessments, or charges which at any time may be leveled by any governmental entity upon interest in this Agreement or any possessory right LESSOR may have in any improvements against said Premises.

20. DISPOSITION OF IMPROVEMENTS

Upon termination of this lease for any cause, LESSEE shall remove any and all equipment and improvements of the LESSEE and restore the entire premises to its condition prior to the execution of this lease, except, however, the LESSOR may approve, in writing, any deviation from this requirement.

21. NOTICES

A. All notices, requests, demands or other communications under this Agreement shall be in writing. Notice shall be sufficiently given for all purposes as follows:

1) Personal Delivery. When personally delivered to the recipient, notice is effective upon delivery.

2) First Class Mail. When mailed first class to the last address of the recipient known to the Party giving notice, notice is effective three mail delivery days after deposit in a United States Postal Service office or mailbox.

3) Certified Mail. When mailed by certified mail, return receipt requested, notice is effective upon receipt, if delivery is confirmed by a return receipt.

4) Overnight Delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account, notice is effective on delivery, if delivery is confirmed by the delivery service.

5) Facsimile Transmission. When sent by fax to the last fax number of the recipient known to the party giving notice, notice is effective upon receipt, provided that: a) a duplicate copy of the notice is promptly given by first class mail or certified mail or by overnight delivery, or b) the receiving party delivers a written confirmation of receipt. Any notice given by fax shall be deemed received on the next business day if received after 5:00 P.M. (recipient's time) or on a non-business day.

B. Any correctly addressed notice that is refused, unclaimed or undeliverable because of an act or omission of the party to be notified shall be deemed effective as of the first date that the notice was refused, unclaimed or deemed undeliverable by the postal authorities, messengers or overnight delivery service.

C. Information for notice to the Parties to this Agreement at the time of endorsement of this Agreement is as follows:

LESSEE	LESSOR
City of Merced	County of Merced
Development Services Department	Public Works Department
678 W. 18th Street	715 Martin Luther King, Jr. Way
Merced, CA 95340	Merced, CA 95341-6041

Any party may change its address or fax number by giving the other party notice of the change in any manner permitted by this Agreement.

22. **MODIFICATION OF THE LEASE**

Notwithstanding any of the provisions of this Agreement, this writing contains the entire agreement between the Parties hereto, and there are no other agreements or understandings written or oral. This Agreement may not be changed or modified except in writing and signed by the Parties hereto.

23. **RECORDATION OF AGREEMENT**

This Agreement and any amendment or cancellation thereof shall be filed or recorded in the real property records of the County of Merced.

24. **WAIVER OF TERMS**

No waiver of any terms, conditions, or covenant of this Agreement by either Party shall be deemed as a waiver of any other item, condition, or covenant herein contained, nor of the strict and prompt performance thereof.

25. **CONSTRUCTION**

The Parties agree that each Party and its counsel have reviewed and revised this Agreement and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not apply in the interpretation of this Agreement or any amendments or exhibits hereto.

26. **VENUE**

Any dispute concerning any question of fact or law arising under this Agreement or any litigation or arbitration arising out of this Agreement, shall be tried in Merced County, unless the Parties agree otherwise or are otherwise required by law.

27. **CAPTIONS**

The captions of each paragraph on this Agreement are inserted as a matter of convenience for reference only, and in no way define, limit or describe the scope or intent of this Agreement in any way.

28. **COPIES OF THE AGREEMENT**

This Agreement is executed in counterparts each of which shall be deemed a duplicate original.

IN WITNESS HEREOF, the Parties, the day and year first above written, have affixed their signatures hereto.

LESSEE

By: _____
Michael W. Murphy
Mayor, City of Merced

LESSOR

By: _____ JUN 5 2018
Jerald R. O'Banion, Chairman
Merced County Board of Supervisors

ATTEST:
CITY CLERK

BY _____
Assistant/Deputy City Clerk

APPROVED AS TO LEGAL FORM:
MERCED COUNTY COUNSEL

By: _____
James N. Fincher

Jeffrey B. Grant

CITY OF MERCED

By: _____ 6/19/18

300620 PO # 130693
FUNDS/ACCOUNTS VERIFIED

6/19/18
FINANCE OFFICE DATE

Funds Available 6/19/18
071-1363-552.21-00 FL 6/19/18
$6.00

EXHIBIT A

Parcel Map

OWNER'S STATEMENT

THE UNDERSIGNED being the party having a record title interest in the land as plotted by this map, hereby consents to the preparation and recordation of this map

RAYMOND A. BESSEMER

IMPROVEMENT STATEMENT

This map approved subject to improvements as called out in Resolution No. 657 of the City of Merced. Minor Subdivision Commitee, as amended, ~~on dated~~ January 11, 2000 on file at the City of Merced Planning Department

SURVEYORS STATEMENT

This map was prepared by me or under my direction and is based on a field survey in conformance with the requirements of the Subdivision Map Act and local ordinance at the request of Dr. Raymond Bessemer on July 14, 1999. I hereby state that this map substantially conforms to the approved or conditionally approved tentative map if any, and that all monuments shown hereon have been set and are of the character and occupy the positions indicated and are sufficient to enable the survey to be retraced

Paul J. Gregory
PAUL J. GREGORY L.S.3812

ACKNOWLEDGEMENT

State of California
County of MERCED

On ~~before~~ before me STEVEN A. KOENIG, Notary Public personally appeared Raymond Bessemer, Known to me or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) ~~is~~ are subscribed to the within instrument and acknowledged to me that ~~he~~ ~~she~~ ~~they~~ executed the same in ~~his~~ ~~her~~ ~~their~~ authorized capacity (ies), and that by ~~his~~ ~~her~~ ~~their~~ signature(s) in the instrument the person(s), or entity upon behalf of which the person(s) acted, executed the instrument

NOTARY SIGNATURE

MERCED 8/15/1724
COUNTY PLACE OF BUSINESS

AUGUST 2001
COMMISSION EXPIRATION DATE

STEVEN A. KOENIG
PRINTED NAME OF NOTARY

CITY ENGINEER'S STATEMENT

I hereby state that I have examined this parcel map and the subdivision shown hereon is substantially the same as it appeared on the tentative map, and any approved alterations thereof, that all provisions of the Subdivision Map Act and local ordinances applicable at the time of approval of the tentative map and that I am satisfied that the map is technically correct

Dated this 4 day of FEBRUARY 2000

Steven M. Stroud R.C.E. 24078
CITY ENGINEER

REGISTERED PROFESSIONAL ENGINEER
STEVEN M. STROUD
No. 24078
Exp. 12-31-01
CIVIL
STATE OF CALIFORNIA

RECORDER'S STATEMENT

Filed this 2nd day of March ~~1st~~ 2000, at 1:40 o'clock P.M. in Book 86 of Parcel Maps at Page(s) 22-23 at the request of Paul Gregory

Inst No. 6746
Fee 10.00 pd

James Ball
COUNTY RECORDER

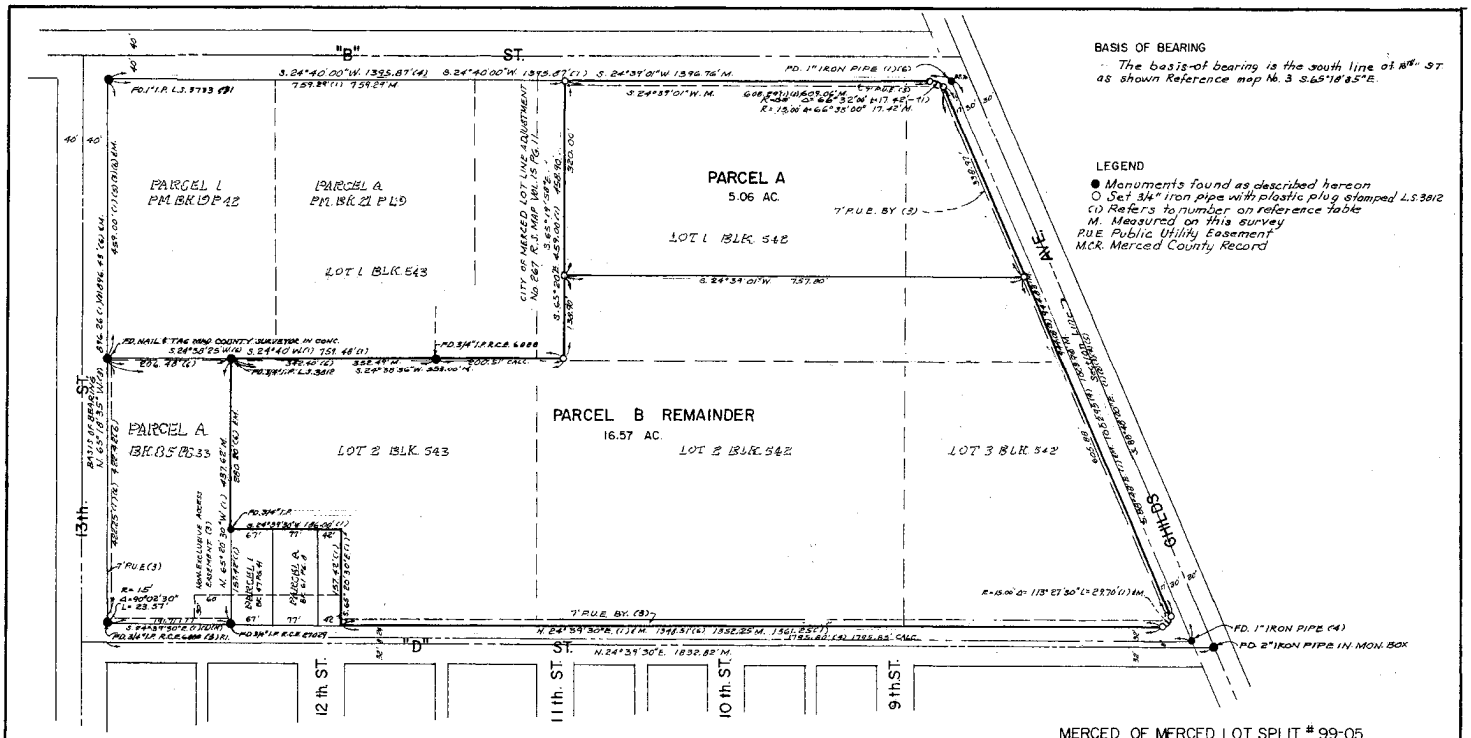
BY Anita N. Ruettgers DEPUTY

CITY OF MERCED LOT SPLIT #99-05

PARCEL MAP FOR
RAYMOND A. BESSEMER M.D.

BEING A DIVISION OF PARCEL B REMAINDER AS SHOW ON PARCEL MAP BOOK 85 PAGES 32 & 33 MERCED COUNTY RECORDS, BEING A PORTION OF BLOCKS 542 & 543 AS SHOWN ON " MAP OF MERCED CITY AND SUBDIVISION OF ADJOINING ACREAGE PROPERTY" BOOK 2 OF. MAPS MERCED COUNTY RECORDS AT PAGE 59
SECTION 30, T. 7 S. R. 14 E. M.D.B & M.
MERCED COUNTY CALIFORNIA
AUGUST , 1999

BOOK 86 PAGE 22



MERCED OF MERCED LOT SPLIT # 99-05

PARCEL MAP FOR

RAYMOND A. BESSEMER, M.D.

BEING A DIVISION OF PARCEL B REMAINDER AS SHOWN ON PARCEL MAP BOOK 85 PAGE'S 32 & 33 MERCED COUNTY RECORDS, BEING A PORTION OF BLOCKS 542 & 543 AS SHOWN ON "MAP OF MERCED CITY AND SUBDIVISION OF ADJOINING ACREAGE PROPERTY" BOOK 2 OF MAPS MERCED COUNTY RECORDS AT PAGE 59 IN SECTION 30, T. 7S. R. 14 E. M.D.B.&M.

MERCED COUNTY, CALIFORNIA

SCALE 1"=100' AUGUST., 1999

BOOK 86 PAGE 23

EXHIBIT B

APPRAISAL REPORT

COMMERCIAL LOT & MODULAR OFFICE
1137 B STREET,
MERCED, CA 95341
APN: 035-010-071
MERCED COUNTY

EFFECTIVE DATE OF APPRAISAL
AUGUST 17, 2017

PREPARED FOR

MERCED COUNTY
DEPARTMENT OF ADMINISTRATIVE SERVICES
2222 M STREET, ROOM1
MERCED, CA 95340

PREPARED BY

K. R. MCBAY CO.
P.O. BOX 1804
TURLOCK, CA 95380-1804
(209) 634-0402

K. R. McBay Company

Real Estate Valuation and Consultation
Commercial, Agricultural, Eminent Domain

August 25, 2017

Frank Rybka
Merced County
Department of Administrative Services
2222 M Street, Room 1
Merced, CA 95340

RE: Commercial Lot and Modular Office
1137 B Street, Merced CA 95341
APN: 035-010-071 (Merced County)

.

Mr. Rybka:

In accordance with your request, an appraisal was completed on the above referenced property. The purpose of the appraisal is to provide a supported opinion of the "As-Is" Market Value of the Fee Simple Estate in the subject property.

The appraisal and appraisal report format conforms to the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Specifically, the client and appraiser identified Scope of Work is relied upon.

This is an introductory letter to the following appraisal report. The value opinions stated in this letter must be placed in the context of the entire report. The appraisal is based upon Extraordinary Assumptions which if proven false could affect the value conclusion. See Extraordinary Assumptions section of this appraisal report. As a result of our investigation and analyses, and based upon the assumptions and limiting conditions stated within this report, it is our opinion, that the Market Value, As-Is, Fee Simple Estate, as of August 17, 2017, the effective date of the appraisal, is:

ONE MILLION EIGHTY THOUSAND DOLLARS
$1,080,000

Kenneth R. McBay, Principal/Sr. Appraiser
MAI, ARA, SR/WA, AI-GRS
CA Certified General AG008218
(Expires 4/18/2019)

Ryan D. Heiny, Sr. Appraiser
CA Certified General AG041138
(Expires 6/1/2019)

K. R. McBay Co.
www.krmcbayco.com

P. O. Box 1804
Turlock, CA 95381-1804

Kenneth R. McBay, Principal/Sr. Appraiser
Direct: 209 634 0402
Email: kennethmcbay@krmcbayco.com

Ryan D. Heiny, Sr. Appraiser
415 589 8755
ryanheiny@krmcbayco.com

Mark A. Souza, Sr. Appraiser
209 495 8021
marksouza@krmcbayco.com

EXECUTIVE SUMMARY

Client Name:	Merced County
Location:	1137 B Street, Merced CA 95341 Merced County
Legal Description:	See Grant Deed in Addenda
Assessor's Parcel Numbers:	APN: 035-010-071 (Merced County)
MSA:	Merced County MSA
Census Tract:	3.01
Owner of Record:	County of Merced, a body politic and corporate
Property Rights Appraised:	Fee Simple Estate
Property Size:	5.06 acres/220,414 SF
Building Improvements:	4,260 Square Foot Modular Office Building
General Plan:	C-O Commercial Office
Zoning:	P-D Zone (Planned Development): This zone is intended to provide a zone which can permit and enjoin logical or desirable development and carry out the objectives of the general plan.
Flood Zone:	Zone X – Panel #060191 0440 G, Dated 12/2/2008
Environmental Hazards:	None known or observed, See Extraordinary Assumptions
Highest and Best Use:	As if vacant: Development to commercial use as allowed by zoning. As improved: Potential continued use "As-Is" of the parking lot with interim use or demolition of the modular office building and development to commercial use as allowed by zoning.
Effective Date of Value:	August 17, 2017
Marketing Period:	Less than 12 months

Property Value

Value by Cost Approach	$1,080,000
Value by Sales Comparison Approach	NA
Value by Income Approach	NA
Market Value – Fee Simple Estate	$1,080,000

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PART I

INTRODUCTION

INTRODUCTION

THE PROPERTY

The property appraised is the Fee Simple Estate of a 5.06 acre parcel with a temporary modular office structure, located at 1137 B Street in Merced, CA. The subject is APN: 035-010-071 in Merced County. The subject site is improved with a 4,260 SF GBA modular office building, parking lot, and landscaping (See Site Description).

The City of Merced plans on acquiring a portion of the subject for the purposes of neighborhood storm drainage. The subject was previously appraised with a 1.24 acre detention basin being developed on the southern portion of the subject, and granted to the City of Merced; reducing the land available for development. Basic land prep was completed (basic excavation and storm pipe noted). We have been asked to value the parcel as a whole (available for development), and dis-regard the prior project. The city is re-evaluating its storm drainage project and the required size of its acquisition on a portion of the subject (see Site Analysis). The subject is appraised in its "before condition" in regards to the planned future acquisition, and it is an Extraordinary Assumption that the entire subject site would be available for development, typical of other parcels in the City of Merced (see Extraordinary Assumptions).

LEGAL DESCRIPTION

See Grant Deed in Addenda.

CLIENT

Merced County

PROPERTY RIGHTS APPRAISED

Fee Simple Estate

PURPOSE OF THE APPRAISAL REPORT

The purpose of this appraisal is to provide a supported opinion of the market value of the Fee Simple Estate of the subject property.

INTENDED USER AND USE

This report is provided for the sole use of the specified client for the function stated.

OWNERSHIP/ACQUISITION HISTORY

Title to the subject is vested in the County of Merced. The subject is not currently listed for sale or lease and no market sales have occurred in the prior five years.

SCOPE OF THE APPRAISAL

To appraise this property, the Cost, Income, and Sales Comparison Approaches to value were considered. The applicable approaches are used. The scope of the appraisal included:

- A physical inspection of the subject property.
- Inspections of the comparable properties utilized in this report.
- Discussions with listing agents regarding comparable properties and market trends.
- Documentation of current market data including review of sales and current market listings. The market data contained in this report was obtained from a variety of sources and has been used to document the valuation conclusions. Those sources included discussions with appraisers, real estate agents, and market participants familiar with the market area and searches of Loopnet.com and the local MLS.
- Use of the Merced County Treasurer/Tax Collector and Planning Departments website and online Geographic Information System.
- The Cost Approach was considered appropriately supported, adequate for credible assignment results, and was utilized in the valuation.
- Analysis of the data obtained and correlation of the findings into Final Value Estimates.

DATE OF VALUE

The valuation date is based upon the date of inspection, August 17, 2017.

DEFINITIONS

MARKET VALUE[1]

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

A. Buyer and seller are typically motivated;
B. Both parties are well informed or well advised, and each is acting in what they consider their own best interest;
C. A reasonable time is allowed for exposure in the open market;
D. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
E. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

HIGHEST AND BEST USE[2]

This is an appraisal concept, which is defined as follows:

The reasonable, probable and legal use of vacant land or an improved property which is physically possible, appropriately supported, financially feasible, and which results in highest land value.

FEE SIMPLE ESTATE[3]

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government (taxation, eminent domain, police power and escheat).

LEASED FEE ESTATE[4]

An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; the rights of the lessor or the leased fee owner and leased fee are specified by contract terms contained within the lease (Lessor's or Landlord's Estate.)

LEASEHOLD ESTATE[5]

The right to use and occupy real estate for a stated term and under certain conditions, conveyed by a lease (Tenant Estate.)

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[1]Office of the Controller of the Currency, 12CFR, Part 34, Sub-part C – Appraisals, 1/1/2004.
[2]The Appraisal of Real Estate, 13th Ed., Appraisal Institute, Chicago, Illinois, 2008.
[3]Ibid
[4]Ibid
[5]Ibid

ASSUMPTIONS AND LIMITING CONDITIONS

1. That to the best of our knowledge, the legal descriptions, title information, maps, statements of fact, and related data contained within the report, upon which the analysis and conclusions are based, are true and correct. However, since much of said data was furnished by others, absolute correctness cannot be guaranteed by the appraiser unless known to be a fact by his own personal knowledge.

2. Neither all nor part of the contents shall be disseminated to the public through advertising media, public relations media, news media, or any other public means of communication without the prior written consent and approval of the undersigned. Possession of this report, or any copy thereof, does not carry with it the right of publication or reproduction without the written consent of the appraiser.

3. Delivery of this report constitutes completion of this appraisal assignment, and any further consultation, including pre-trial appearances, will be the subject of a further assignment.

4. All plot plans, maps, and improvement diagrams in this report are included to assist the reader in visualizing the property and are not necessarily drawn to scale.

5. Title to the subject is assumed marketable. The property is valued in fee simple unless otherwise noted, assuming competent ownership and management.

6. Unless otherwise stated in this report, the existence of hazardous material, or pollutants from any source whether man-made or from natural sources, including, but not limited to radio-active, toxic or explosive, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on, in, or adjacent to the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value, and if re-appraised, additional cost will be necessary to estimate the effects of such an impact.

7. The use of this report is subject to the requirements of various appraisal organizations relating to review by its duly authorized representatives.

8. No consideration has been given in this appraisal to personal property located on the premises or any consideration given to the cost of relocating any property personal or real from the subject.

9. Any distribution of total value between land and improvements applies under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal, and are invalid if so used.

10. That no opinion is expressed to any subsurface oil, gas or mineral rights. It is assumed that there are no adverse subsurface conditions, particularly those related to soil bearing capacity.

11. The appraiser reserves the right to make such adjustments to the concluded value reported, as may be required by consideration of additional data or more reliable data that may become available.

12. That all required licenses, permits, consents, or other legislative or administrative authority from any local, state, or national governmental, private entity, or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based or assumed.

13. That no engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable and no encroachment of real property improvements is considered to exist. The appraiser has not been provided any survey.

14. The appraiser will not be required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been made previously.

15. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.

16. Acceptance of and/or use of this appraisal report constitutes acceptance of the general assumptions and general limiting conditions included within this report.

17. This appraisal report has been prepared for the use of the addressee only. No responsibility is assumed for its possession, use, or reliance upon factual data, or conclusions, contained herein by anyone other than the addressee. The report is intended solely for the purpose stated herein.

18. That any existing encroachment, if any, of subject improvements on adjacent property has no material effect on value of subject property.

19. No structural report was made available to the appraiser and it is therefore assumed the subject improvements are structurally sound and without structural damage.

20. That any projections presented in this Report, including, but not limited to, those involving income, expenses, capitalization rates and yield (discount) rates, are not predictions of the future. They are intended to represent typical projections made by investors and developers in the market place. The various underlying assumptions, taken in the aggregate, are believed to provide a reasonable basis for the forecast herein; however, the real estate market is constantly changing in response to economic conditions and, therefore, some assumptions may not materialize and unanticipated events and circumstances may occur. Consequently, the actual results during a projection period may vary from the forecast and the variation may be material. No warranty or representation is made, or implied, that the projections in the instant analysis will take place or that financing can be obtained at the appraised value.

21. The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in estimating value of the property.

22. The liability to the client or client requirements such as any review is limited to 30 days after receipt. Any changes, corrections, or revisions, after this time are subject to acceptance by K. R. McBay Company, and are subject to additional fees for extra services.

EXTRAORDINARY ASSUMPTIONS

1. An environmental assessment was not available to the appraiser. It is an Extraordinary Assumption that there are no environmental issues affecting the valuation of this property.

2. A Preliminary Title Report was not available for review. It is an Extraordinary Assumption that there are no title issues affecting the valuation and that the existing subject parcel is adequately described by the Grant Deed (See Addenda).

3. The City of Merced plans on acquiring a portion of the subject for the purposes of neighborhood storm drainage. The subject was previously appraised with a 1.24 acre detention basin being developed on the southern portion of the subject, and granted to the City of Merced; reducing the land available for development. Basic land prep was completed (basic excavation and storm pipe noted). We have been asked to value the parcel as a whole (available for development), and dis-regard the prior project. The city is re-evaluating its storm drainage project and the required size of its acquisition on a portion of the subject (see Site Analysis). The subject is appraised in its "before condition" in regards to the planned future acquisition, and it is an Extraordinary Assumption that the entire subject site would be available for development, typical of other parcels in the City of Merced.

CERTIFICATE OF APPRAISER

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

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

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

3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.

9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by their duly authorized representatives.

10. I have personally inspected the subject of this report.

11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

12. As of the date of this report, I have completed the Standards and Ethics Education Requirements for Candidates of the Appraisal Institute.

Ryan D. Heiny, Sr. Appraiser
General Certificate #AG041138 (Expires 6/1/2019)

CERTIFICATE OF APPRAISER

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

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

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

3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

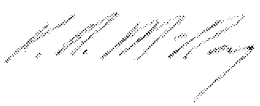
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.

9. The use of this report is subject to the requirements of the Appraisal Institute, American Society of Farm Managers and Rural Appraisers, and the International Right of Way Association, relating to review by their duly authorized representatives.

10. I have not personally inspected the subject of this report.

11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, American Society of Farm Managers and Rural Appraisers, and the International Right of Way Association.

12. As of the date of this report, I have completed the continuing education program of the Appraisal Institute, American Society of Farm Managers and Rural Appraisers, and the International Right of Way Association.



Kenneth R. McBay, MAI, ARA, SR/WA, AI-GRS
General Certificate #AG008218 (Expires 4/18/19)

PART II

FACTUAL AND DESCRIPTIVE DATA

REGIONAL PROFILE

The subject is a portion of those properties affected by the social, economic and environmental influences of the Merced Metropolitan Statistical Area (MSA), comprised of Merced County.

Location and Area

The subject property is located at 1137 B Street in the City of Merced. The property is approximately ¾ of a mile southwest of the central business district in the City of Merced and within ½ of a mile of State Highway 99 to the northeast. Merced County is bordered by Stanislaus County to the north and Madera County to the south. Merced County spans the Central San Joaquin Valley from the western coastal ranges to the foothills of Yosemite Park to the east.

The county's 1,234,370 acres consist mainly of a level, agriculturally rich alluvial plain produced by the Chowchilla, San Joaquin, and Merced Rivers. Agriculture is one of the county's main sources of revenue. Based on production, Merced is the fifth-leading agricultural county in California. Milk and related products from Merced's commercial dairies generate the greatest amount of revenue. Other crops grown in commercial quantities include almonds, beef, poultry, and sweet potatoes

Six incorporated cities are located in the county and include Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced. Merced is the county seat.

Population Trends

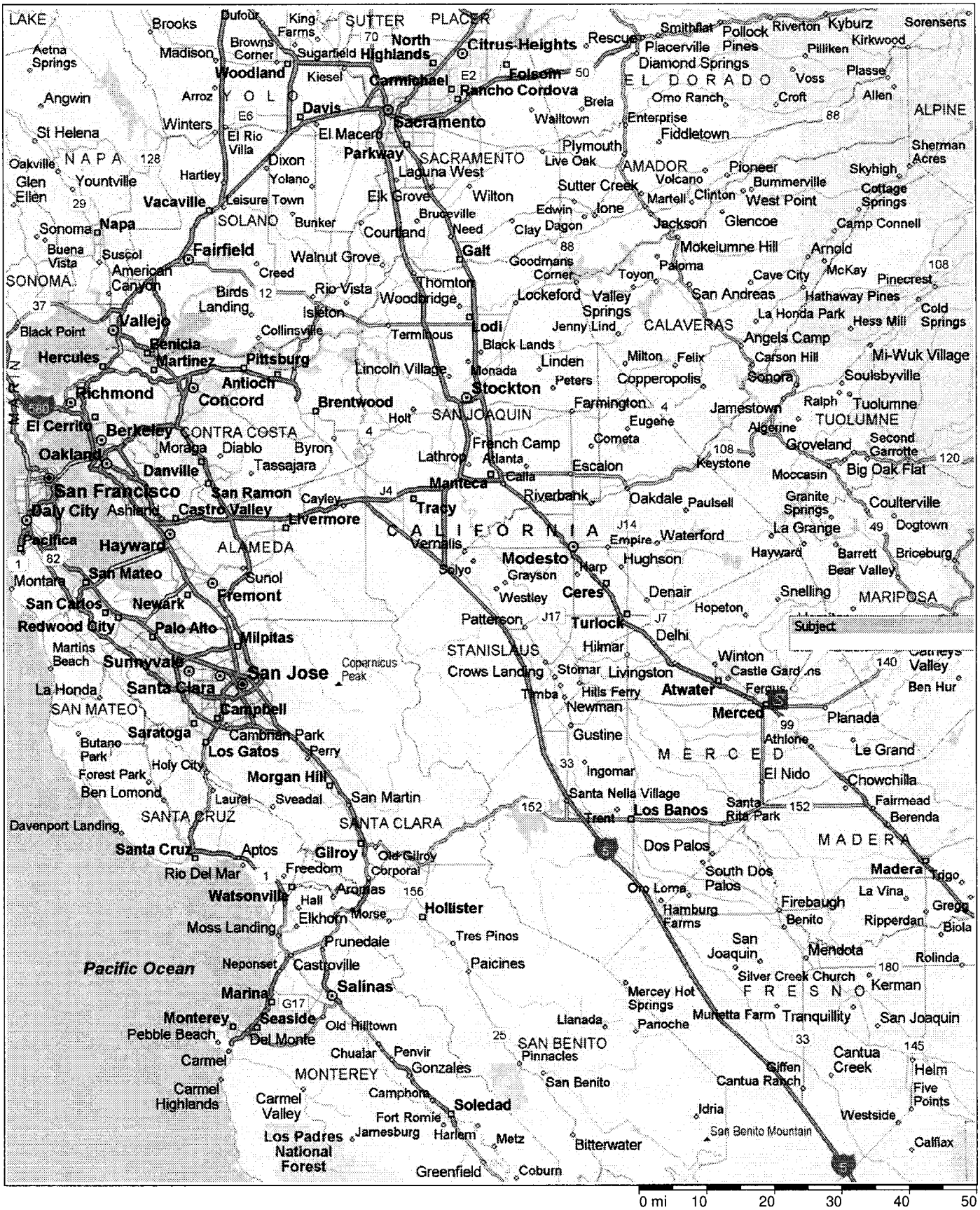
Population in Merced County reached 268,672 as of January 1, 2016, Merced County experienced an increase of 8.6% from 2009 to 2017 indicating a moderate rate of population growth.

The following table illustrates the 2009 – 2017 population growth for the county and selected areas of Merced County.

POPULATION – MERCED COUNTY/CITIES							
	2009	2011	2013	2014	2015	2016	2017
Atwater	27,677	28,377	28,931	28,905	29,023	30,059	30,406
Dos Palos	4,911	4,973	5,036	5,013	5,023	5,375	5,391
Gustine	5,412	5,546	5,626	5,606	5,618	5,840	5,886
Livingston	12,988	13,266	13,542	13,696	13,735	13,848	13,947
Los Banos	35,654	36,525	37,017	37,003	37,145	39,354	39,993
Merced	78,430	79,259	80,599	81,176	81,722	83,955	84,464
Unincorporated	87,954	90,038	91,727	93,168	93,868	93,116	94,578
County Total	253,026	257,984	262,478	264,567	266,134	271, 547	274,665

Source: California Department of Finance

REGION



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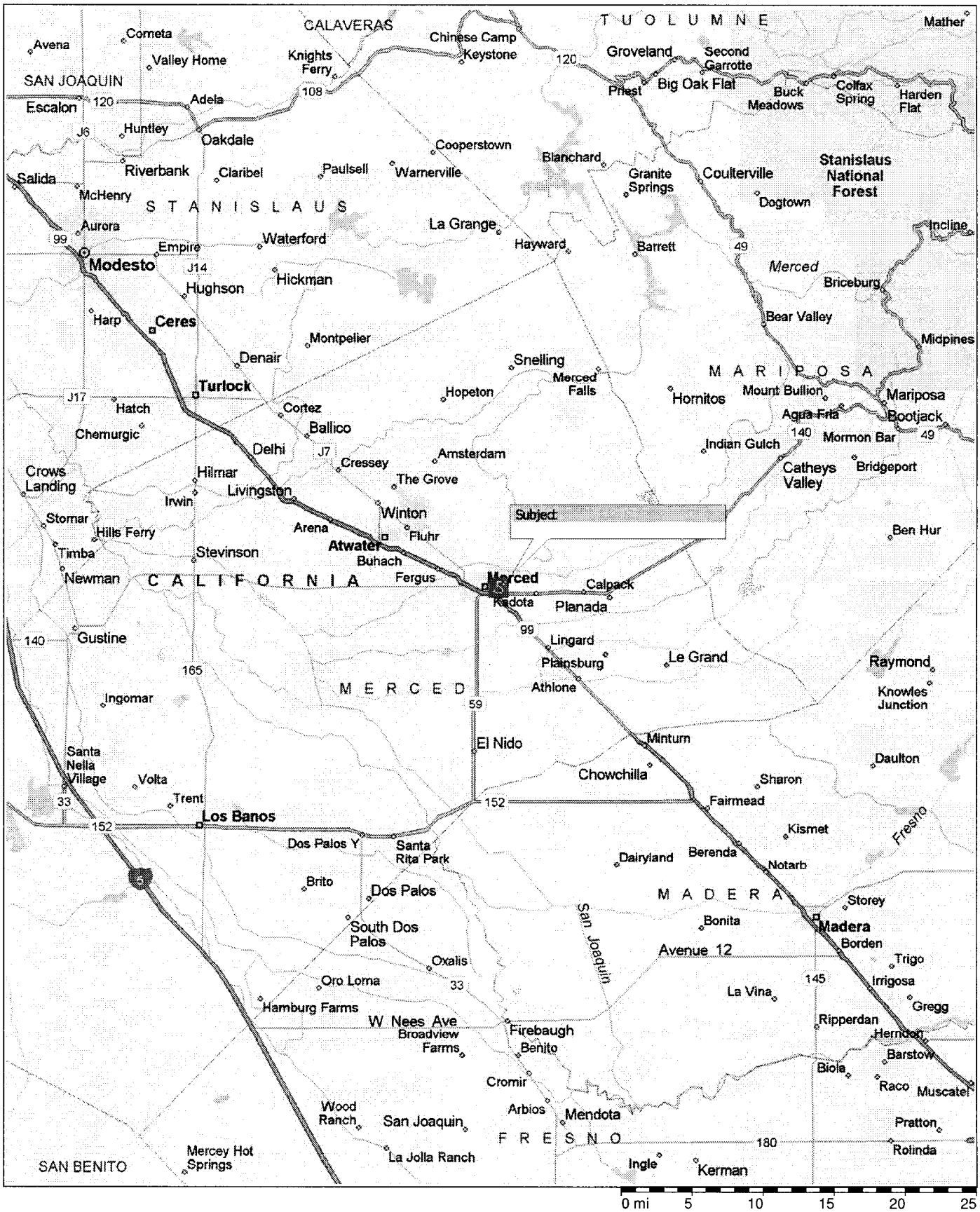
AREA



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Employment Trends

The unemployment rate in Merced County was 9.4 percent in June 2017; below the year-ago estimate of 10.1 percent. This compares with an unadjusted unemployment rate of 4.9 percent for California and 4.5 percent for the nation during the same period.

Merced County	2009	2011	2012	2013	2014	2015	2016
Civilian Labor Force	105,200	109,900	110,000	112,700	113,025	115,100	115,000
Civilian Employment	87,300	87,100	88,600	96,100	98,267	102,000	103,000
Civilian Unemployment	17,900	22,800	21,400	16,500	14,758	13,100	12,100
Civilian Unemp. Rate	17.0%	20.7%	19.5%	14.7%	13.0%	11.4%	10.5%

Source: State of California, Department of Employment Development

Industry Employment

The following table indicates the changes in employment by industry categories and a relatively diverse economic base.

	2010	2011	2012	2013	2014	2015	2016
Total, All Industries	69,200	70,100	71,800	74,000	75,800	77,400	79,200
Total Farm	10,800	11,400	12,500	13,600	13,700	14,100	14,000
Total Nonfarm	58,400	58,700	59,200	60,400	62,000	63,400	65,200
Total Private	41,700	42,200	42,800	43,800	44,900	45,700	46,700
Goods Producing	9,900	9,800	10,000	10,300	11,400	11,600	11,500
Mining, Logging, and Const	1,600	1,600	1,600	1,600	1,700	1,900	2,200
Manufacturing	8,300	8,200	8,400	8,700	9,700	9,700	9,400
Nondurable Goods	7,300	7,300	7,400	7,500	8,300	8,400	8,000
Service Providing	48,500	48,900	49,200	50,100	50,700	51,800	53,600
Private Service Providing	31,800	32,400	32,800	33,500	33,600	34,100	35,100
Trade, Transp & Utilities	11,400	11,800	12,100	12,100	12,000	12,200	12,600
Wholesale Trade	2,000	2,100	2,200	2,100	1,900	1,800	2,000
Retail Trade	7,200	7,400	7,400	7,600	7,800	8,000	8,100
Transport, Wrhsng & Util	2,200	2,400	2,400	2,500	2,300	2,400	2,500
Information	600	400	400	400	400	300	300
Financial Activities	1,600	1,500	1,600	1,500	1,600	1,600	1,800
Prof & Business Services	4,200	4,400	4,300	4,300	3,800	3,800	3,700
Ed & Health Services	8,100	8,200	8,300	8,800	9,100	9,400	9,800
Leisure & Hospitality	4,500	4,600	4,700	5,000	5,400	5,400	5,600
Other Services	1,400	1,400	1,400	1,400	1,300	1,400	1,400
Government	16,700	16,500	16,400	16,600	17,100	17,700	18,500
Federal Government	800	800	700	700	800	800	800
State & Local Government	15,900	15,700	15,700	15,900	16,300	16,900	17,700
State Government	2,400	2,500	2,700	2,900	3,100	3,200	3,500
Education	1,800	1,900	2,100	2,300	2,500	2,600	2,900
Excluding Education	600	600	600	600	600	600	600

Source: State of California, Department of Employment Development

The following table identifies major employers in Merced County.

EMPLOYER NAME	LOCATION	INDUSTRY
Central Valley Trucking	Merced	Sand & Gravel (whls)
Dole Packaged Foods LLC	Livingston	Food Products-Retail
E & J Gallo Winery	Livingston	Wineries (mfrs)
Foster Farms	Livingston	Poultry Processing Plants (mfrs)
Gallo Cattle Co	Atwater	Cheese Processors (mfrs)
Golden Valley Health Ctr	Merced	Clinics
Hilmar Cheese Co	Hilmar	Cheese Processors (mfrs)
J Marchini & Son	Le Grand	Farms
Liberty Packing Co	Los Banos	Packing & Crating Service
Live Oak Farms	Le Grand	Fruits & Vegetables-Growers & Shippers
Livingston Union School Dist	Livingston	School Districts
MCOE	Merced	Educational Cooperative Organizations
Memorial Hospital Los Banos	Los Banos	Hospitals
Merced College	Merced	Schools-Universities & Colleges Academic
Merced County Human Svc	Merced	Government Offices-County
Mercy Medical Ctr Merced	Merced	Hospitals
Nor Cal Nursery	Turlock	Fruits & Vegetables-Wholesale
Quad/Graphics Inc	Merced	Printers (mfrs)
Scholle IPN Packaging Inc	Merced	Truck-Transporting
Sensient Natural Ingredients	Livingston	Flavoring Extracts (whls)
University of Ca-Merced	Merced	Schools-Universities & Colleges Academic
Weaver Union School District	Merced	Schools
Werner Co	Merced	Ladders-Manufacturers
Western Marketing & Sales	Atwater	Farms
Yosemite Wholesale Warehouse	Merced	Warehouses

Source: California State Employment Development Department

Conclusion

Population estimates for Merced County indicate continued moderate but steady growth for the area. High unemployment exists in Merced County. The primary economic base of the county is anticipated to remain agricultural with related higher seasonal unemployment. The 2016 average unemployment rate in Merced County was 10.5 percent. The long term economic trend for Merced County is anticipated to remain at moderate population and employment growth, trending with the Central Valley economy.

NEIGHBORHOOD PROFILE

Location

The subject property is located at 1137 B Street in the City of Merced. The property is approximately ¾ of a mile southwest of the central business district in the City of Merced and within ½ of a mile of State Highway 99 to the northeast.

Composition/Uses & Trends

Land uses in the neighborhood reflect primarily residential, public use and professional office properties. The property is adjacent office buildings, an apartment complex to the west and cemetery to the east. Transportation linkages, including a well-developed regional highway system serving the area, rail service, and the Merced Regional Airport, are all conducive to continued commercial development in the area. The UC Merced campus located in the northern portion of the City of Merced has been the center of most recent residential development in the area; with some commercial development occurring approximate to the Highway 99 corridor. UC Merced is undergoing a $1.3 billion-dollar expansion expected to be completed in 2020, increasing student capacity to 10,000 students. Economic trends in the subject neighborhood are stable to positive. Long-term trends are considered positive. The subject neighborhood is well positioned for future growth.

Public Services & Utilities

The subject neighborhood is served adequately by local elementary, middle and high schools in the City of Merced. Public higher learning centers are Stanislaus State University in Turlock, Fresno State University and UC Merced. Police and Fire protection is provided by the City of Merced.

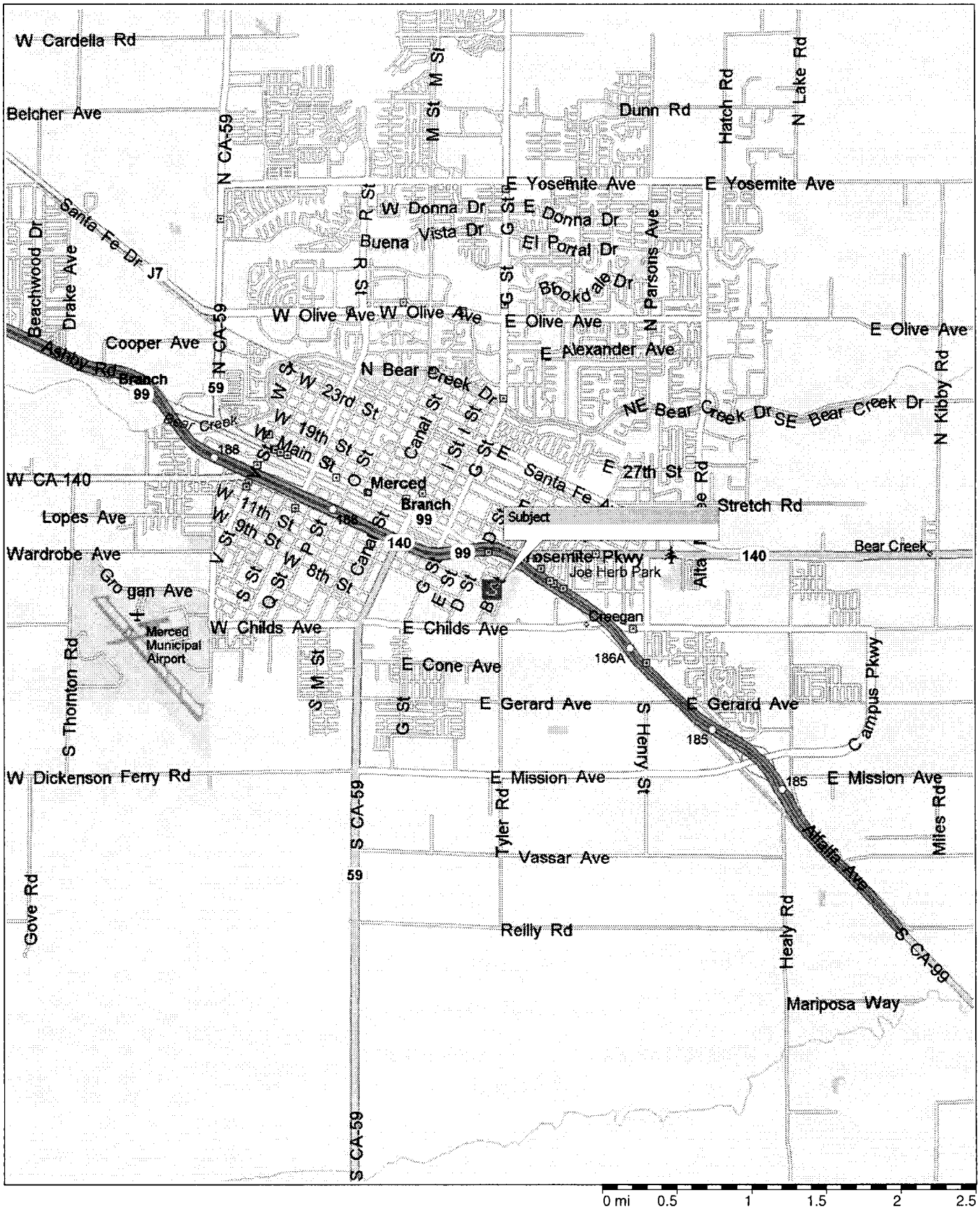
Local medical services are available in the City of Merced with Mercy Medical Center Merced Hospital located in northern Merced.

Public utilities are available in the neighborhood. The subject property has public water, sewer and trash removal provided by the City of Merced. Electrical and natural gas service is provided by PG&E and Merced Irrigation District. Telephone services are available from a number of providers.

Conclusion

The subject neighborhood is an average quality commercial area in the City of Merced. The long-term economic future of the area appears good. Overall the neighborhood appears to be in a stable stage of development. There is still low demand for residential and commercial development land due to the resale values and supply of existing properties and the current costs of new development. However, development is in the beginning stages of recovery, with several new projects underway and a continuing upward trend. It is anticipated that long-term employment and economic growth of the neighborhood will trend in relationship with the regional economy.

NEIGHBORHOOD



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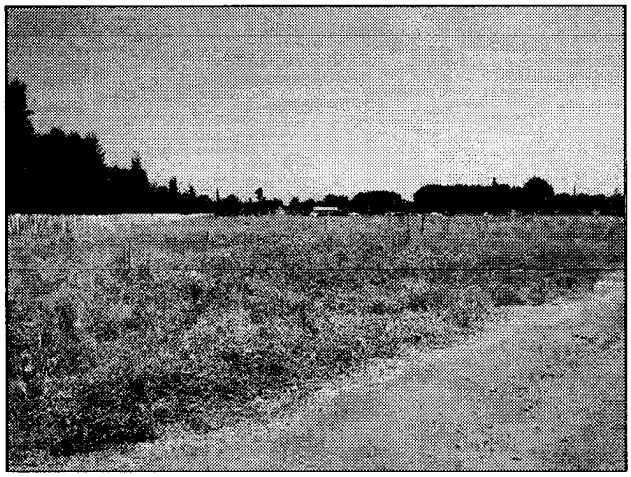
SUBJECT DESCRIPTION

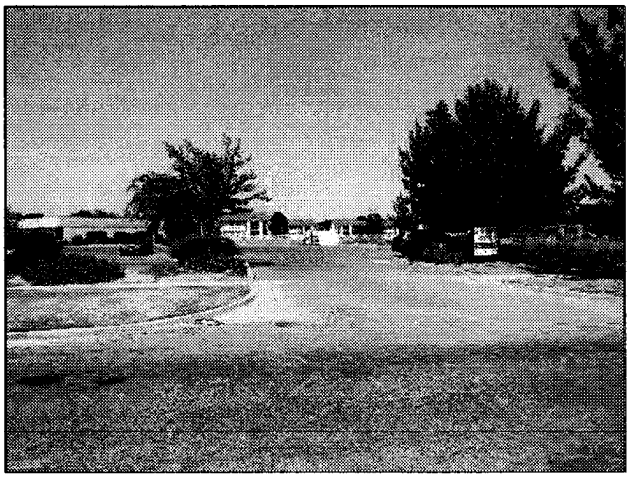
SUBJECT PHOTOGRAPHS

AERIAL PHOTOGRAPH – SUBJECT PROPERTY APPROXIMATE BORDERS
(SOURCE: GOOGLE EARTH, DATED 5/2/17)

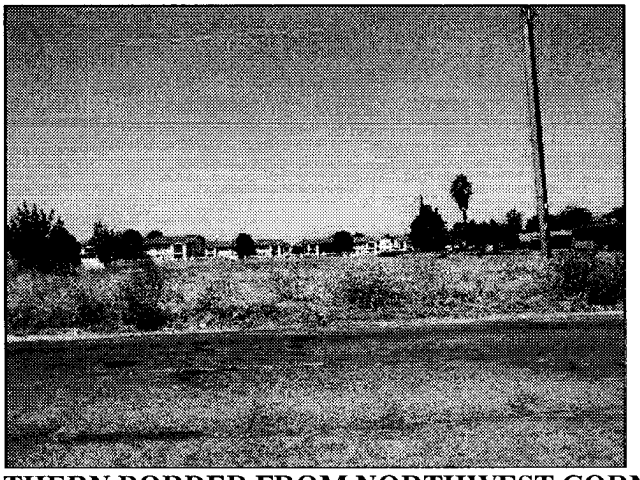
SUBJECT PHOTOS



SUBJECT PROPERTY – SOUTHERN PORTION FROM SOUTHERN BORDER

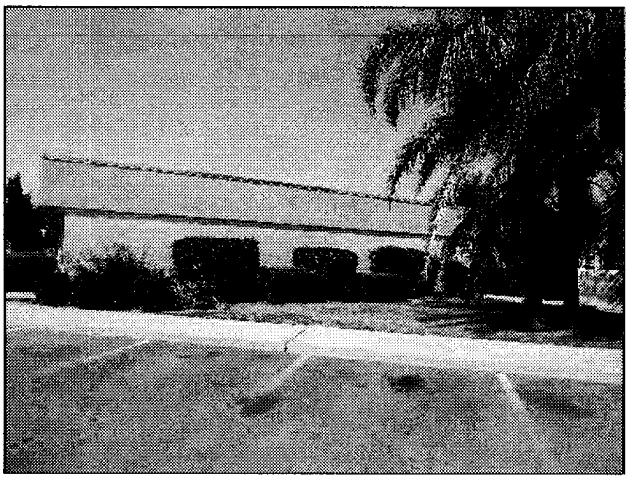


SUBJECT PROPERTY – NORTHERN PORTION

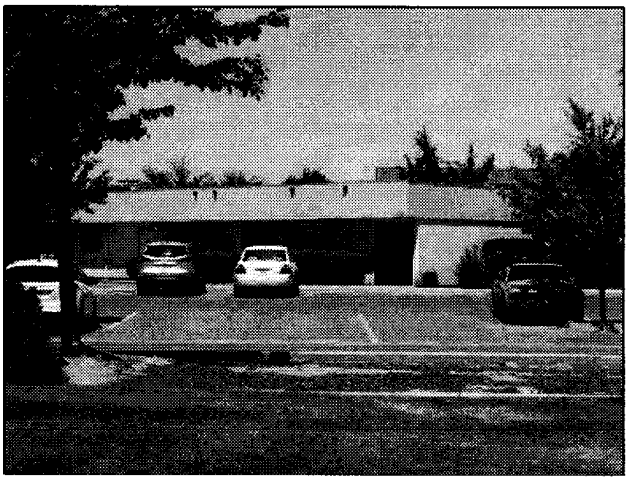


NORTHERN BORDER FROM NORTHWEST CORNER

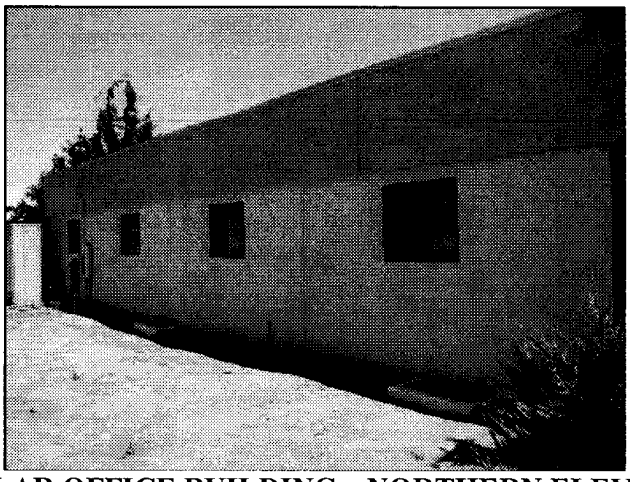
SUBJECT PHOTOS



MODULAR OFFICE BUILDING – EASTERN ELEVATION

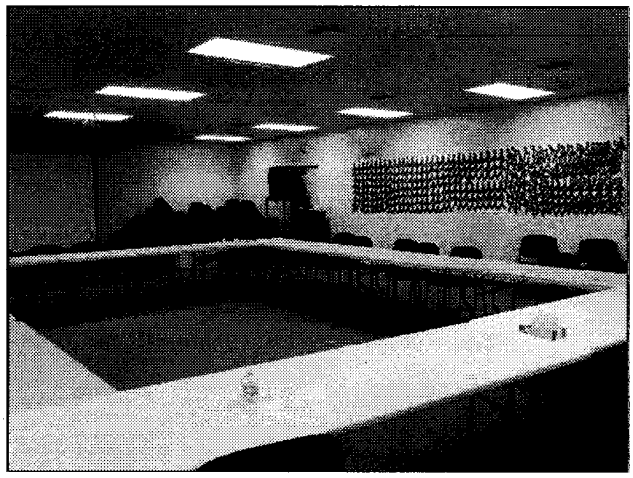


MODULAR OFFICE BUILDING – SOUTHERN ELEVATION



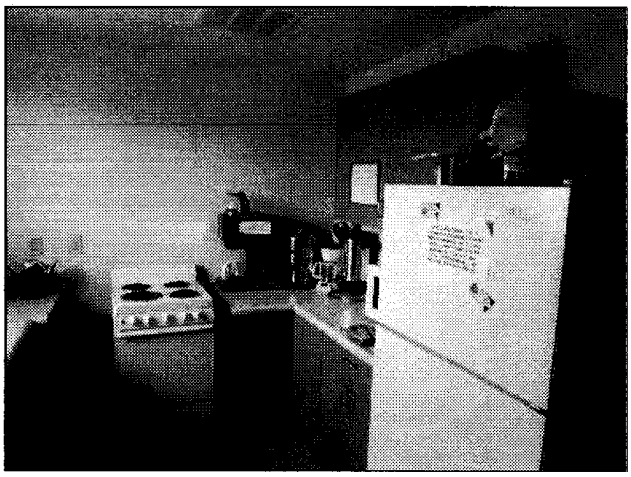
MODULAR OFFICE BUILDING – NORTHERN ELEVATION

SUBJECT PHOTOS



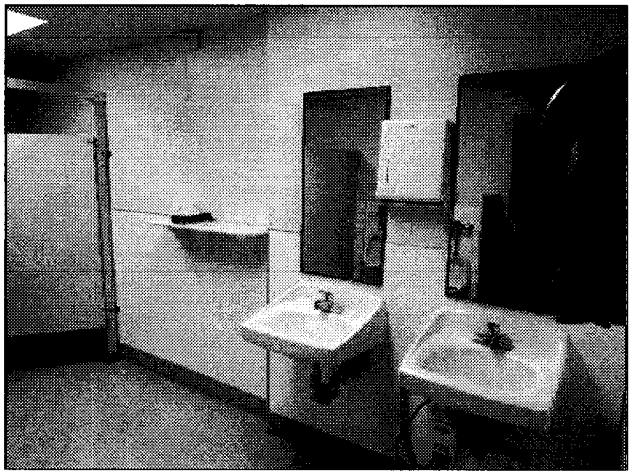
OPEN OFFICE/CONFERENCE AREA

TYPICAL OFFICE AREA

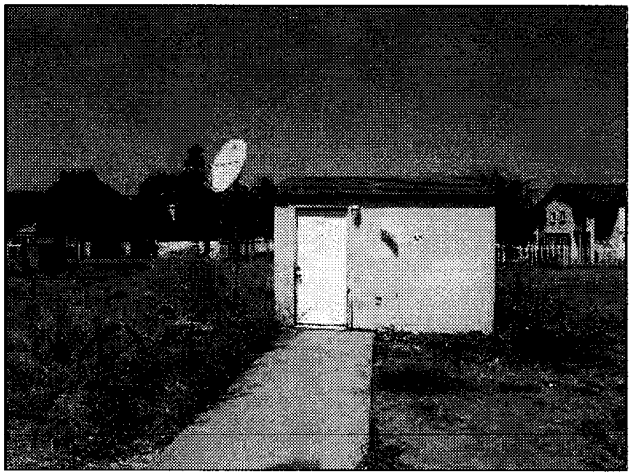


KITCHENETTE

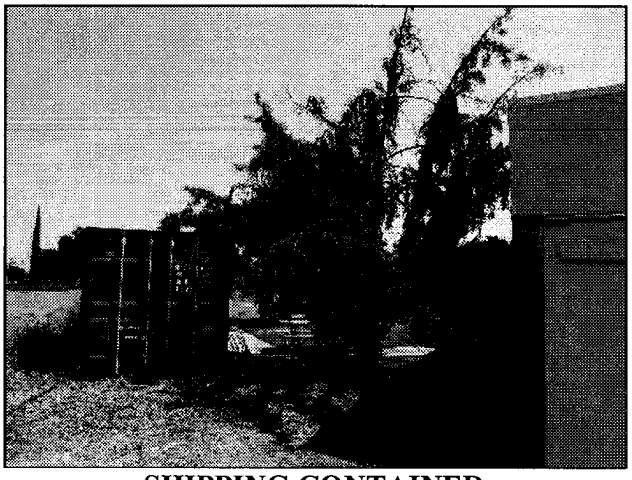
SUBJECT PHOTOS



RESTROOM

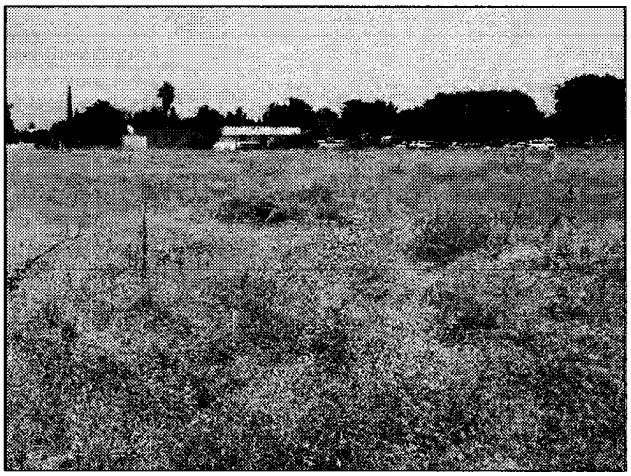


SHED BUILDING

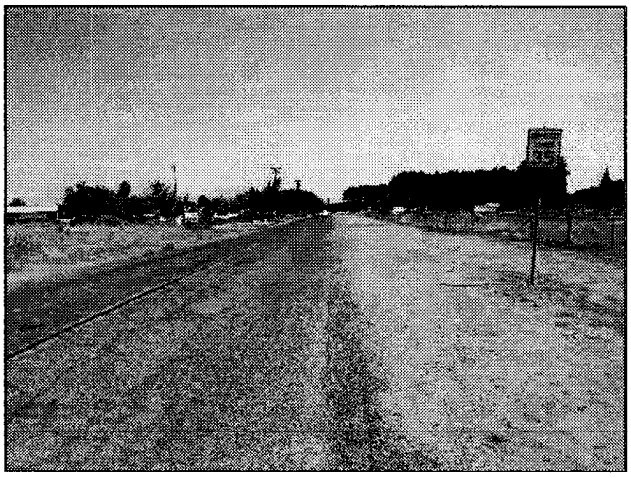


SHIPPING CONTAINER
(PERSONAL PROPERTY NOT INCLUDED IN VALUATION)

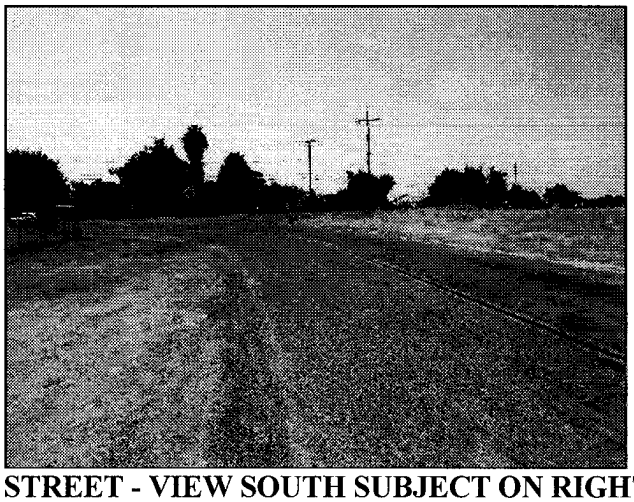
SUBJECT PHOTOS



CURRENT STORM DETENTION BASIN - SOUTHERN PORTION OF PARCEL



B STREET - VIEW NORTH SUBJECT ON LEFT



B STREET - VIEW SOUTH SUBJECT ON RIGHT

SITE ANALYSIS

Owner of Record: County of Merced, a body politic and corporate

Location: 1137 B Street, Merced CA 95341
Merced County

Legal Description: See Grant Deed in Addenda

Assessor's Parcel Number / Assessed Value and Taxes (2014-2015):

The subject is owned by a public entity and has been historically exempt from property taxes.

Size and Shape: 5.06 acres/220,414 SF – Irregular

General Plan: C-O (Commercial Office)

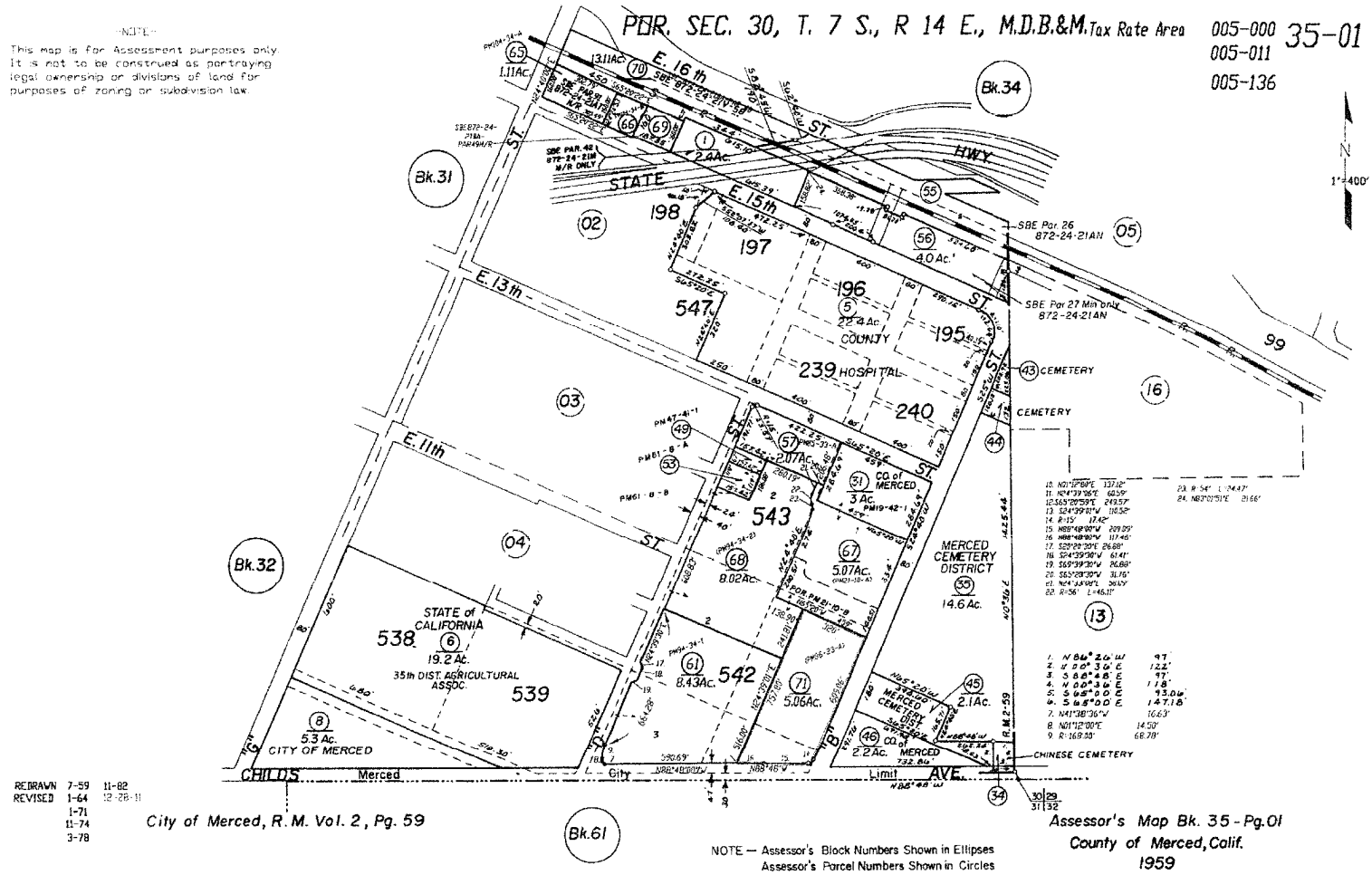
Zoning: P-D Zone (Planned Development):
This zone is intended to provide a zone which can permit and enjoin logical or desirable development and carry out the objectives of the general plan by:

A. Permitting the initial development or enlargement of commercial districts in close proximity to residential areas while protecting the character and quality of adjacent residential uses;
B. Permitting clusters of multiple-family developments in appropriate locations within single-family zones with suitable controls imposed;
C. Providing for the location, under suitable safeguards of desirable types of research and manufacturing uses adjacent to and within commercial or residential areas;
D. Permitting planned developments on a large scale which would include a combination of any two or all of the above mentioned developments;
E. Permitting the redevelopment of parcels for residential, commercial, or industrial purposes or any combination thereof, in areas already built upon, but which now have marginal development.

Flood Zone: Zone X – Panel #060191 0440 G, Dated 12/2/2008
(Area of minimal flood hazard, usually depicted on FIRMs as above the 500-year flood level)

Seismic (Alquist-Priolo): The subject is not located within an Alquist-Priolo Earthquake Fault Zone.

Environmental Hazard: None known or observed (See Extraordinary Assumptions).

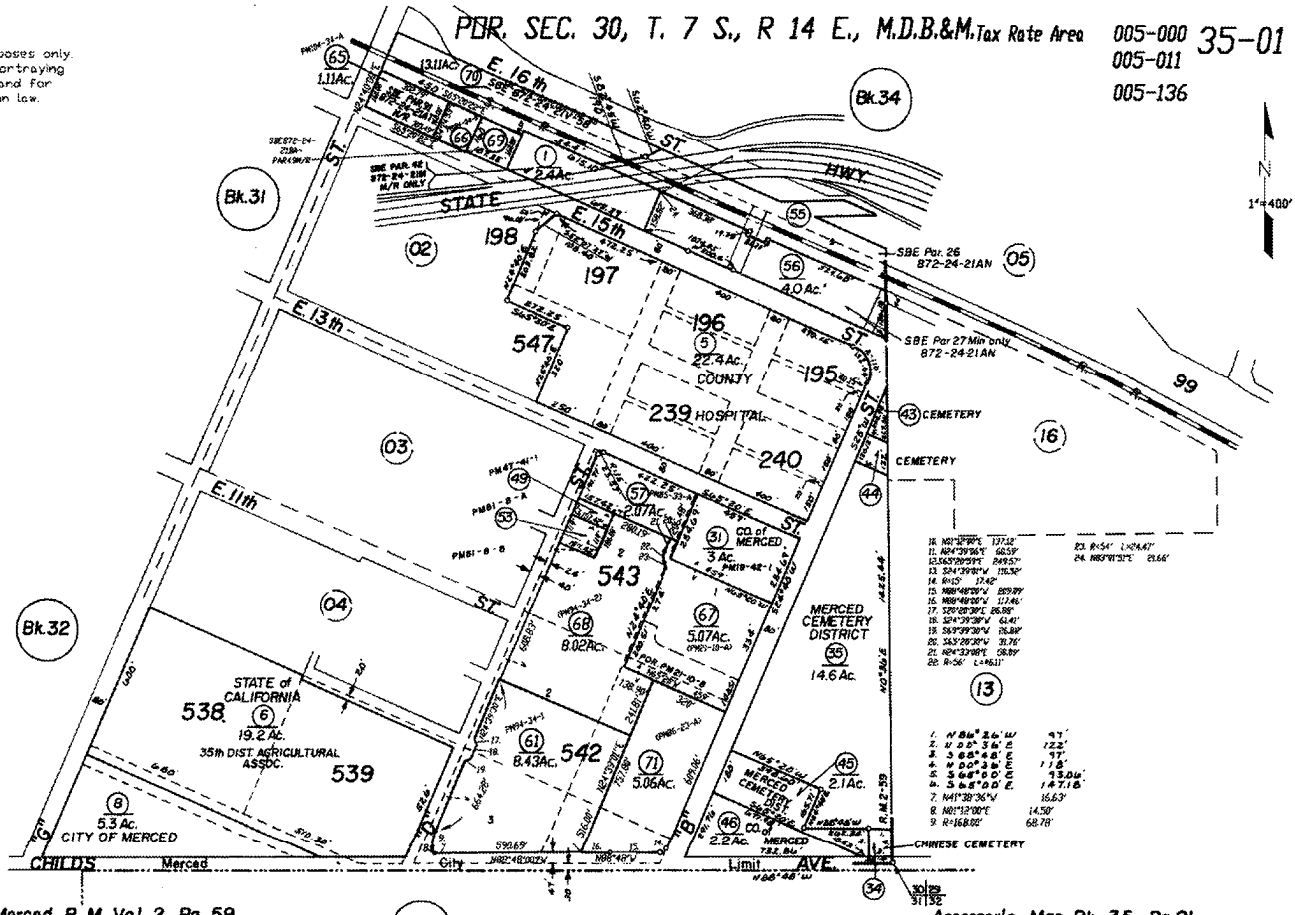


Subject (Portion of APN)

-NOTE-

This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.

POR. SEC. 30, T. 7 S., R 14 E., M.D.B.&M. Tax Rate Area 005-000 005-011 005-136 35-01



REDRAWN 7-59 11-82
REVISED 1-64 12-28-11
1-71
11-74
3-78

City of Merced, R. M. Vol. 2, Pg. 59

NOTE — Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

Assessor's Map Bk. 35 - Pg. 01
County of Merced, Calif.
1959

Topography:	Generally level
Access:	Site access is good from B Street.
Frontage:	Approximately +/- 609.06' of frontage along B Street.
Street Improvements:	Asphalt paved street, partially with curbs, gutters, sidewalks and street lights.
Utilities:	Electricity, telephone, gas, municipal water and sewer to site.
Easements:	Typical public utility and street easements are assumed: a Preliminary Title Report was not available for review. See Extraordinary Assumptions.
Apparent adverse easements, conditions, encroachments or other adverse conditions:	No adverse easements or encroachments were observed. It is an Extraordinary Assumption that there are no title issues affecting the valuation (See Extraordinary Assumptions).
Landscaping:	The subject has average quality landscaping including bushes and trees along perimeter and grass, bushes and trees around modular office structure.
Site Improvements:	Asphalt paved parking lot with curbs, gutters, sidewalks, landscaping, and Parking lot lights (See Photos). Most of these site improvements may be able to be utilized in the future development of a permanent office structure. Utilization of the existing improvements would depend on a number of factors such as the design of new structures and building or zoning requirements.
Functional Adequacy & Utility:	The City of Merced plans to acquire a portion of the subject for a neighborhood storm detention project. The subject was previously appraised with a 1.24 acre detention basin being developed on the southern portion of the subject, and granted to the City of Merced; reducing the land available for development. Basic land prep was completed (basic excavation and storm pipe noted). We have been asked to value the parcel as a whole (available for development), and dis-regard the prior project. The city is re-evaluating its storm drainage project and the required size of its acquisition on a portion of the subject (see Site Analysis). We spoke to representatives in the City Planning Department (Francisco Mendoza, planner) and the Engineering Department (Steve Son). They stated that development on the subject is on hold while they determine the required size of the storm drainage system, in regards to their larger project.

The site is improved with an asphalt parking lot and temporary modular office building. A typical buyer would most likely develop the site with permanent office buildings and utilize the modular building as a temporary use or rent for its remaining economic life. The site is fully functional for a commercial office or retail use (see Extraordinary Assumptions).

IMPROVEMENT ANALYSIS

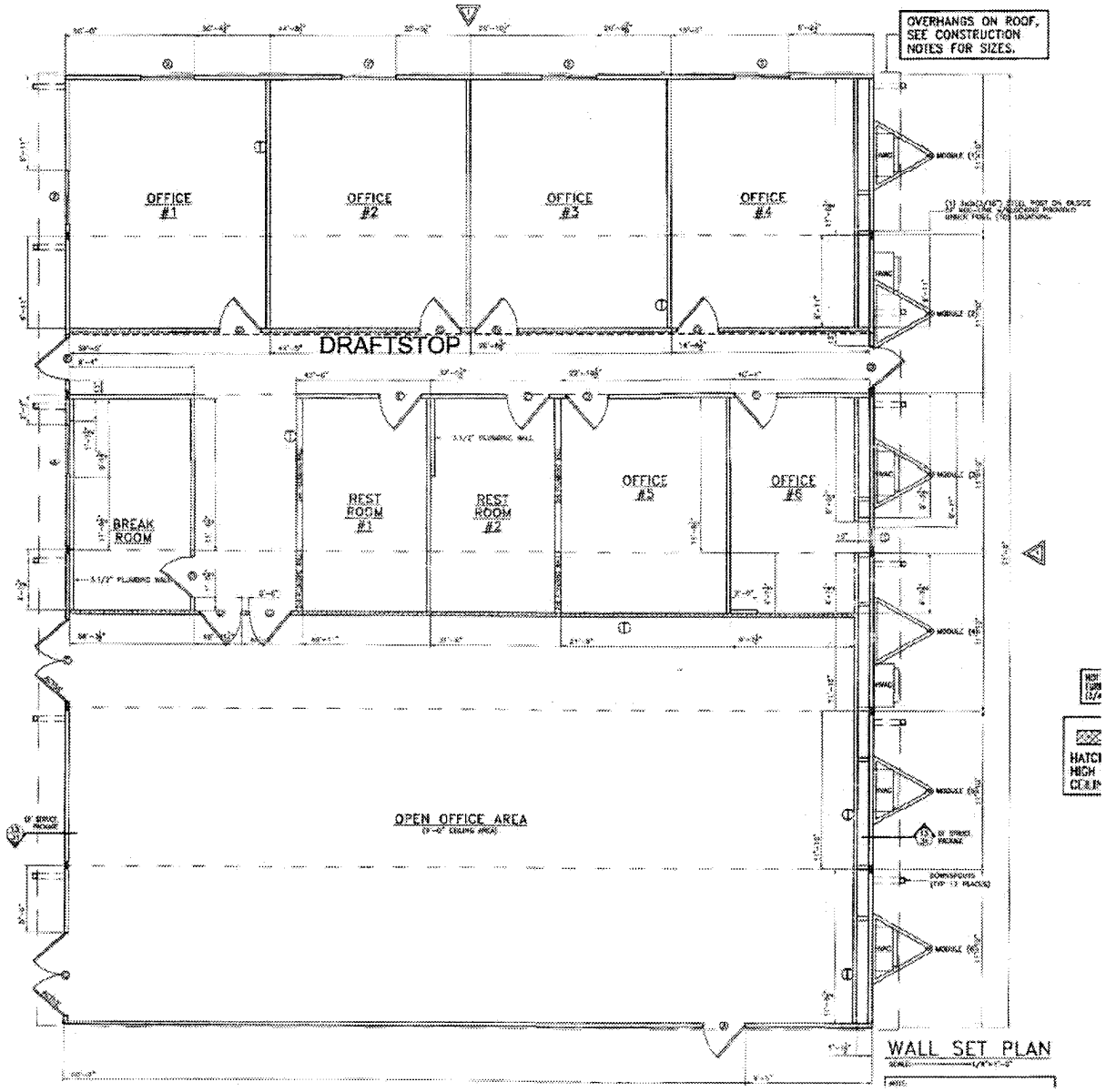
The subject is improved with a modular office building that is 60' x 71' or 4,260 SF (See Floor Plan on following page). The measurements from the Floor Plan were confirmed by the appraiser. The modular office construction is considered to be low-cost and short-lived as compared to typical construction. Actual age of the modular office building was unknown and estimated based on a review of satellite photos. Construction is estimated at approximately the year 2000. The modular structure is detailed further in the chart below:

Chronological Age (Year Built):	17 Years (2000, estimated)
Estimated Effective Age:	17 Years
Estimated Remaining Economic Life:	13 Years
Overall Condition:	Average
Stories:	One
Class of Construction:	Modular
Construction Quality:	Low Cost
Exterior Walls:	Stucco
Roof (Frame / Covering):	Metal / Composition Roof
Foundation:	Concrete Stem Wall
Interior Wall Covering:	Vinyl
Ceiling:	Acoustic Tile
Floor Coverings:	Carpet, Vinyl, Linoleum
Lighting:	Florescent
HVAC:	Floor Mounted HVAC

Miscellaneous Improvements:

There is one 12' x 12' (144 square feet) wood shed near the subject. The shed is considered average quality and average condition. The building site area is serviced by an asphalt paved parking area and driveway in front of the modular office. The site has an average level of landscaping and site improvements (See Site Analysis Section).

Attachment A: Floor Plan



PART III

ANALYSIS AND CONCLUSIONS

HIGHEST AND BEST USE

The term "Highest and Best Use", as used in this report, is defined as follows:

> "The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value."[1]

In estimating highest and best use, there are essentially four criteria:

1. **Physical Possibility:** What uses of the property in question are physically possible, given its physical characteristics?

2. **Legally Permissible:** What uses are permitted by zoning, deed restrictions, and under other land use regulations on the property in question?

3. **Financially Feasible:** Which physically possible and legally permissible uses will produce an economic return to the owner of the property?

4. **Maximally Productive:** Among the uses, after the above criteria are examined, which will produce the highest net return or the highest present worth?

The criteria are to be applied to the improved and to the vacant property. In estimating a highest and best use, the site is analyzed:

1. As if vacant and available for development and
2. As is presently improved

AS IF VACANT ANALYSIS

In accordance with the definition of highest and best use, it is appropriate to analyze the site as it relates to legally permissible, physically possible, financially feasible, and maximally productive as it relates to anticipated market conditions.

Physically Possible: The size, shape, and topography affect the uses to which the land can be developed. The utility of a property will depend upon such other factors as its frontage and depth. Irregularly shaped properties may cost more to develop and may have less utility than regularly shaped property of the same total area. The subject appears to be physically adaptable to a variety of uses, limited only by legally permissible constraints.

Legally Permissible: Private deed restrictions, zoning regulations, leases, building codes, historical district controls, and environmental regulations often preclude many possible highest and best uses. The subject is zoned PD (Planned Development), with a Commercial Office General Plan. The zoning allows for a wide range of potential uses. See Improvement Analysis.

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[1] The Appraisal of Real Estate, Thirteenth Edition, 2008

Financially Feasible: Any property use that is capable of producing a positive rate of return is believed to be feasible. Factors determining which property uses are feasible include those which determine the legally permissible and physically possible uses. Other important factors to consider are the location, adjacent property uses, and the neighborhood's characteristics. These factors, along with appropriate market information, assist in the analysis of what returns could prudently be expected from the various alternative property uses.

The area surrounding the subject consists of residential, public use and professional office uses. A wide range of use as described by zoning limitations are considered financially feasible.

Maximum Productivity: The capital investment required to develop the subject as though vacant would be different for various uses. When invested capital varies among alternative uses, the income from each use must be related to its invested capital base by calculating the rate of return. The use producing the highest rate of return to the land is the highest and best use of the property as vacant. The maximally productive use is considered a commercial use within the range of financially feasible uses. The specific maximally productive use determination is beyond the scope of the appraisal.

Conclusion of Highest and Best Use - As If Vacant

Based on the foregoing discussion, the highest and best use of the subject site, as though vacant, is concluded to be development to a commercial use within the range of uses allowed by zoning.

As Improved –"As-Is"

The site is improved with a modular office structure that is considered an interim use, and asphalt paved parking lot with curbs, gutters, sidewalks, landscaping and parking lot lights.

The "As Improved" analysis will concentrate on determining the viability of the existing use. The five possible alternative treatments of the property are discussed below:

Demolition/Removal - One alternative would be to remove the site improvements and modular office, creating a vacant site. This is physically possible, and legally permissible, but is not financially feasible or maximally productive. The value of the property, as improved, exceeds the value of the land as vacant for the typical buyer. Additionally, the modular office has an estimated remaining effective life of 13 years and may serve as a temporary office during construction or have a possible rental value during its remaining life. Additionally, the parking and site improvements may have value to a potential buyer.

Expansion – The subject property is partially improved to a parking lot and modular office. The modular office is low-cost and not suitable for expansion. The typical buyer would not expand, but demolish the existing improvements or utilize as an interim use and construct additional permanent office space.

Conversion – Any permanent structure or development can be converted to an alternative use at a cost. The subject is not improved with any permanent structures. The modular office is considered a low-cost structure and has no conversion value.

Renovation – The subject parking lot is in average condition. Renovation is not necessary. The typical buyer would most probably demolish the low-cost modular office or utilize temporarily until the end of its economic life, rather than consider renovation.

Continued Use "As-Is" - The subject has a greater value as vacant and ready for typical development. Continued use "As-Is" as a parking lot is considered a viable option with interim use of the modular office building.

Conclusion of Highest & Best Use - As Improved: Based on the foregoing discussion, the highest and best use of the subject site as improved is concluded to be a probable Continued use "As-Is" of the parking lot with interim use or demolition of the modular office building and development of the site to a commercial use allowed by zoning.

The subject is zoned planned development, with an office general plan designation; located in the City of Merced in Merced County, part of the Central Valley market. Specific statistical data was limited for the City of Merced. Trends from neighboring Central Valley communities are considered generally reflective of market trends in the subject's market area and type of development.

Market conditions adjustments were based on (1) Business Forecasting Center at the University of the Pacific Eberhardt School of Business, (2) Colliers International office market news and statistics, (3) Loopnet.com research, as applicable, (4) Discussions with real estate agents familiar with the area, (5) and sale and re-sale data for Comparable Sales in this report.

The following information is provided by the Business Forecasting Center at the University of the Pacific Eberhardt School of Business, California and Metro Forecast: May 30, 2017

- The California economy continues to perform well, in spite of an uncertain policy environment.
- Unemployment should decline to 4.5% for by the end of the year, and stabilize in 2018 and 2019.
- Nonfarm payroll jobs will grow 1.7% in 2017 a decrease in growth. The pace of growth will stabilize around 1.4% in 2018 and beyond.
- California population growth has slowed from approximately 350,000 per year to 250,00 per year, which should continue through 2020.
- The San Francisco area should maintain the fastest regional job growth, over 2% in 2017 and 2018, despite unemployment below 3% and slow growth in housing stock. This is partially due to workers re-locating to the Central Valley.

The following table provides a projection of the employment change and unemployment rate to 2020. The data indicates that the unemployment rate in Merced, Stockton and Modesto MSA will remain above 6% through 2020.

Central Valley Metro Forecast Summary

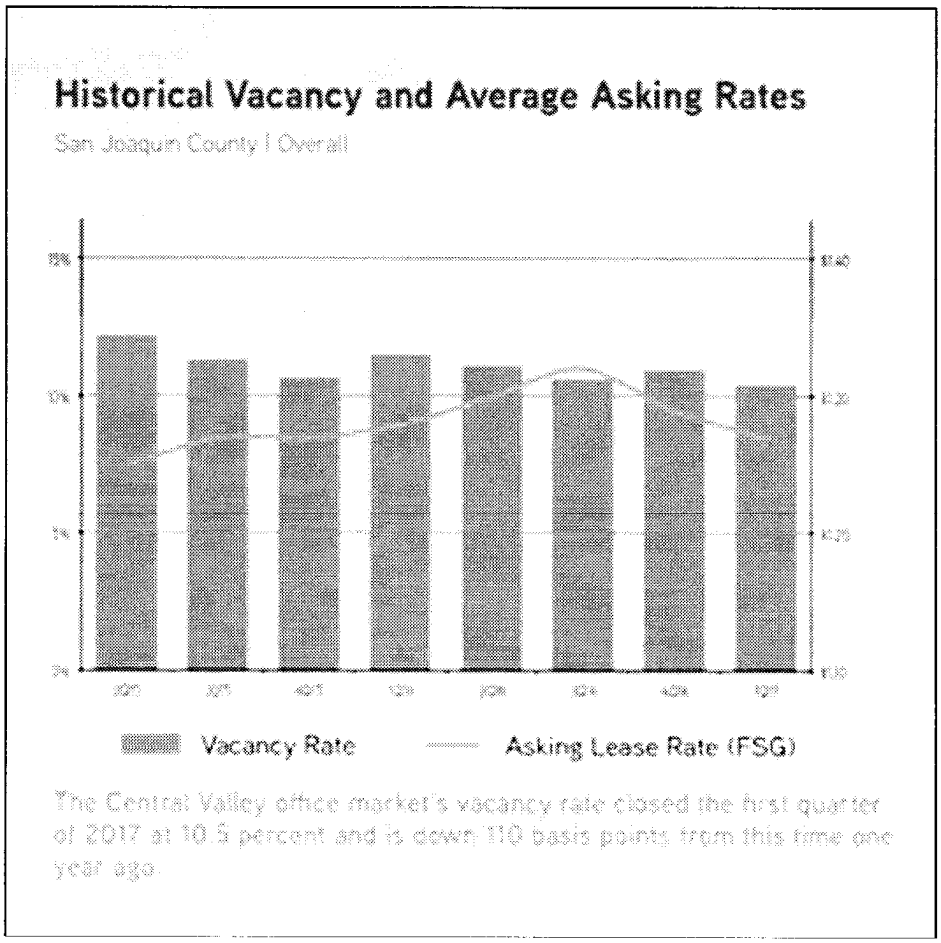
Metro Area	Nonfarm Payroll Employment (% change)					Unemployment Rate (%)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Sacramento	3.5	1.1	1.5	1.6	1.2	5.2	4.7	4.5	4.5	4.6
Stockton	3.4	1.8	1.5	1.3	1.0	8.0	7.3	6.8	6.7	6.8
Modesto	3.3	2.1	1.2	1.3	0.9	8.5	7.7	7.6	7.5	7.7
Merced	2.6	0.4	1.9	1.9	1.6	10.4	9.8	9.3	8.8	8.6
Fresno	3.4	1.9	1.4	1.4	1.1	9.4	8.8	8.4	8.1	8.1
California	*2.7*	*1.7*	*1.4*	*1.1*	*0.9*	*5.4*	*4.8*	*4.5*	*4.5*	*4.7*

Sacramento MSA includes Sacramento, El Dorado, Placer, and Yolo counties. Stockton, Merced, Fresno and Modesto MSAs correspond to San Joaquin, Merced, Fresno and Stanislaus counties.

Overall Office Market (Central Valley):

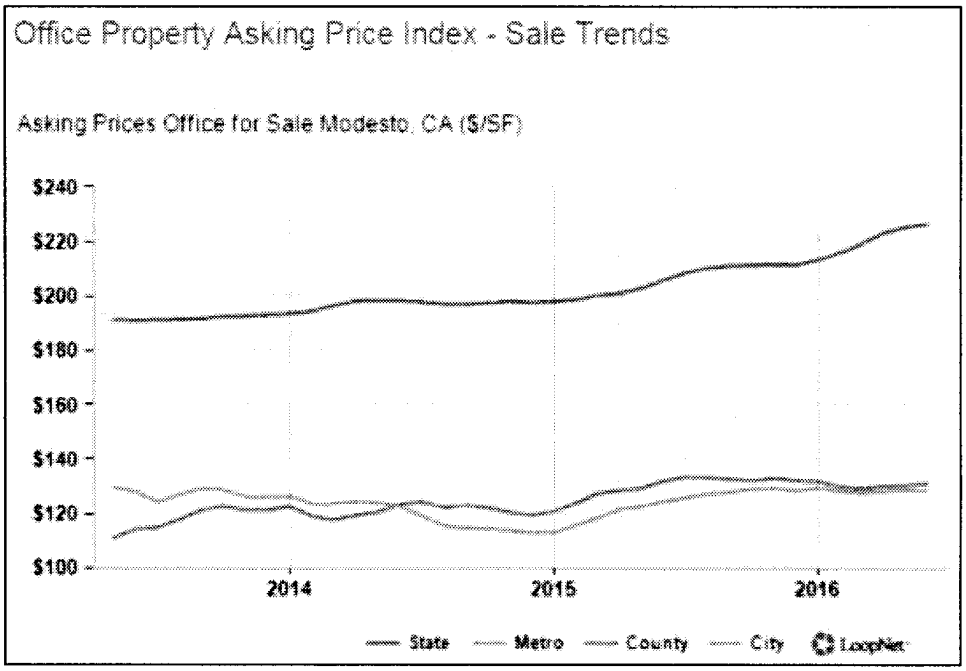
- The East Bay office market is continuing to report ongoing rent growth and absorption. Overall vacancy rate in the Tri-Valley is at 10.4 percent and Class A asking rents are pushing $3.00 per square foot on a full service basis. The Central Valley is starting to follow suit.
- The Central Valley's office market vacancy rate is down 110 basis points over last year, to 10.5 percent in the first quarter of 2017.
- San Joaquin County had a net absorption of 49,103 square feet for the quarter.
- The average asking lease rate increased from $1.45/sf in Q1 2016 to $1.49/sf in Q1 2017, or 2.76% year over year for Class A space.
- The prices per square foot for office space averaged $156.07 per square foot, and the average cap rate was 6.23%.
- Year over year, the vacancy rate for Class B and C space has decreased to 9.0% and 4.9%, respectively.
- The Stockton submarket vacancy rate fell to 12.1 percent in the first quarter of 2017. The average asking lease rate for all product classes in Stockton was $1.33 per square foot per month, $0.05 higher than this time one year ago.

The following graph is provided by Colliers International Stockton Market Research Office Report 1Q 2017 for all office sectors: It compares historical vacancy (blue columns) and asking rates (yellow line).

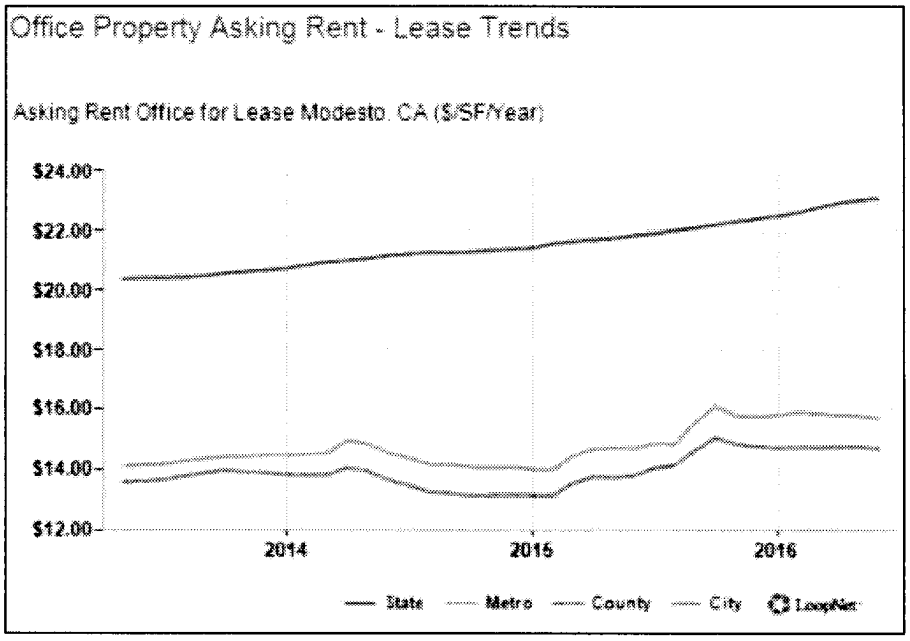


Loopnet.com Data:

The following data is provided by LoopNet for the Modesto MSA. The data provides the average asking price and average lease price through June 2016.



	Jun 16	vs. 3 mo. prior	Y-O-Y
State	$226.32	+3.3%	+10.0%
Metro	$131.12	+1.4%	-0.7%
County	$131.12	+1.4%	-0.7%
City	$128.61	+0.7%	+3.2%



	Jun 16	vs. 3 mo. prior	Y-O-Y
State	$23.08	+1.3%	+5.7%
Metro	$14.69	-0.3%	+6.4%
County	$14.69	-0.3%	+6.4%
City	$15.71	-0.9%	+6.9%

Based on the LoopNet information, the office list price average, three months prior to June 2016 increased 0.7% (0.23/mo.), while the previous 12 months prior to June 2016 they increased 3.2% (0.27/mo). The lease rates for office space decreased 0.9% (0.3%/mo) three months prior to June 2016, while they increased 6.9% (0.58%/mo) 12 months prior to June 2016.

Discussion with Real Estate Agents:

During the course of this appraisal, market participants, city officials and real estate brokers were contacted regarding the market conditions for the subject's property type. The following is a summary of some of the opinions and statements.

Steve Tinetti of Tinetti Realty Group (209) 261-3684 was contacted by Ryan Heiny of K. R. McBay Company in August 2017 regarding the market for development land in the subject's market area. Mr. Tinetti stated that the market for development land is strengthening and attributes the increase to an increase in job growth. He believes that the job growth and development is being fueled by a $1.3 billion-dollar expansion project of UC Merced. He sees development centered around the UC area and migrating through the city. Mr. Tinetti notes that many of the prime development locations in the downtown area have now been developed, with few reaming undeveloped well located parcels.

Dan Gallagher of Coldwell Banker Real Estate (209) 777-5626 was contacted by Ryan Heiny of K. R. McBay Company in August 2017 regarding the market for development land in the subject's market area. Mr. Gallagher, was very familiar with the market area. He is currently working with a developer on a retail project at Campus Parkway and Gerrard. He stated that development is picking up in the area. Mr. Gallagher believes there is increasing demand for development land with enough activity that the City of Merced has become unresponsive to requests, due to a large backlog. Mr. Gallagher also stated that Walmart will be building a location just south of E. Childs Ave. Despite the increasing demand, prices have remained flat over the past few years. Mr. Gallagher stated that the development timeframe for his retail project is 5-7 years, and based on its location and demand.

Ranjeet Singh of Gonella Real Estate (209) 261-6164 was contacted by Ryan Heiny of K. R. McBay Company in August 2017 regarding the market for development land in the subject's market area. Ms. Singh stated that the market for development land is generally stable. She is currently on the board of directors for the local MLS and sees interest in development increasing.

Neil Ballweber of Tinetti Realty Group (209) 261-3684 was contacted by Ryan Heiny of K. R. McBay Company in August 2017 regarding the market for development land in the subject's market area. Mr. Ballweber stated that the market for development land is strong and has not seen a price increase in land over the prior several years.

Jay Fiorini of Fiorini Real Estate (209) 495-2794, was contacted by Ryan Heiny of K. R. McBay Company in August 2017 regarding the market for development land in the subject's market area. Mr. Fiorini stated that the market for development land has been flat, and that a parcel he sold in 7-2015 in Turlock, just appraised last month for the same value as its sale price, as support for his statement.

Additionally, numerous brokers and market participants were contacted by Ryan Heiny of K. R. McBay Co. in April of 2017 regarding the market for industrial properties in the subject's greater market area. Many of the participants stated that property values seem to be increasing over the prior two years for industrial buildings in the Stockton MSA with particular strength from the Tracy region and increasing the nearer the Bay Area. The Bay Area market trends seem to be migrating east as noted in the Colliers International and Eberhardt School of Business reports. One of the participants notes that leasing activity was particularly strong in 2016 and may have slowed slightly. Although the subject's specific market is further from the Bay Area and the land is zoned Planned Development (office). It is indirectly influenced by market conditions throughout the San Joaquin Valley, with some development crossover from light-industrial projects.

Brokers that were surveyed in April 2017, included the following:

Rob Stevens of RE/Max Executive (209) 985-3776
Briana office manager, Tami Gosselin of Century 21 M&M Associates (209) 557-2609
Kuldip Hundal of Royal Realty (209) 598-5939

Sale-Resale Data:

Relevant sale-resale data was not available.

Market Conditions Summary:

The following table is a tabulation of the above market area reports in order to establish a market conditions adjustment for the subject property.

Source	Building Type	MSA	Data Type	Start	End	Change	Per Month
Colliers	Office	San Joaquin	Asking Lease	1Q 16	1Q 17	3.9%	0.33%
LoopNet	Office	Modesto	Asking Sale	2Q 15	2Q 16	3.2%	0.27%
LoopNet	Office	Modesto	Asking Lease	2Q 15	2Q 16	6.9%	0.58%
						Avg.	**0.39%**

The cumulative data provides an indication of a market increase in asking prices. The above data indicates an average increase of approximately 0.39% per month for most of 2015 and 2016. The data tends to indicate a market that has been strengthening.

Conclusion:

A market conditions adjustment was researched based upon an array of available data for the subject's market area. Sale-resale data was not available and broker opinion supports a conclusion of no adjustment. The data shows a market that is increasing at a modest rate, however, this data is specific to improved properties. Market Participants noted a strengthening market for development land that has yet to impact prices. No Market Conditions adjustment is concluded based on the lack of area specific reports, with emphasis on comments from market participants that were specific to the subject area and type.

MARKETABILITY

Definition of Marketing Period

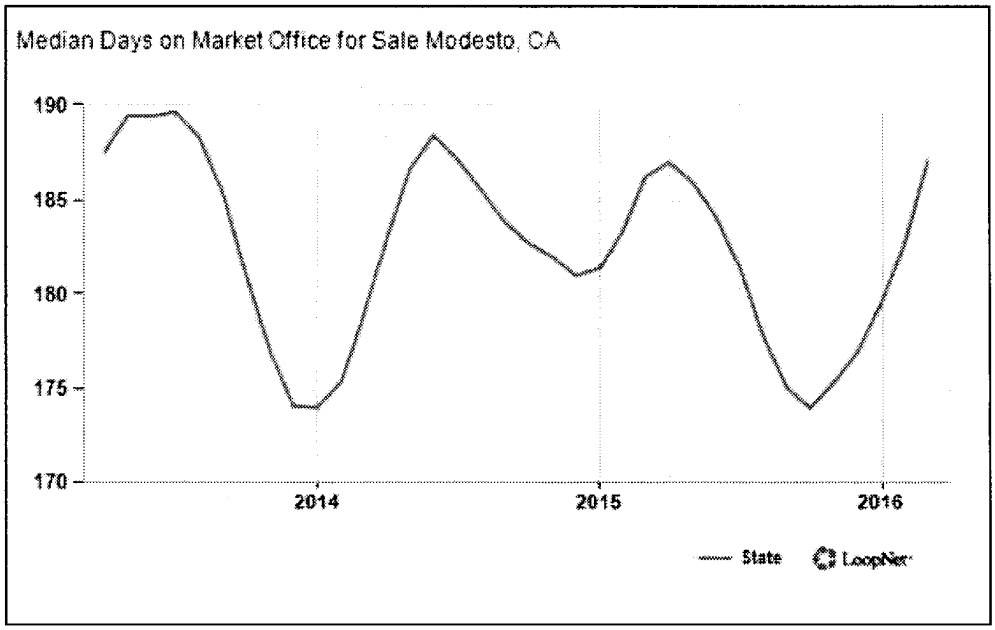
The Marketing Period is defined as the amount of time necessary to expose a property on the open market in order to achieve a sale. Implicit in this definition are the following conditions:

- The property will be actively exposed and aggressively marketed to potential purchasers through marketing channels commonly used by sellers of similar types of properties.
- The property will be offered at a price reflecting the most probable mark-up over market value used by sellers of similar properties.
- A sale will be consummated under the terms and conditions of the definition of market value stated in this report.

Estimate of Reasonable Marketing Time

Sale #2, #4 and #5 indicated days on market. Sale #2 was on the market for one day only. Sale #4 showed a marketing time of 777 days and went through several price reductions. Sale #5 was on the market for 50 days. The sales used in this report indicated an averages days-on-market of 276 days and the longest marketing period sale went through price reductions before reaching the market price.

The following graph from Loopnet.com illustrates the median days on market for office properties in the State of California. Median Days on market peaked in mid-2013 at approximately 190 days and has since remained in a fairly steady range of 173 to 188 days. See chart below:



Based on the limited data, a marketing time of less than 12 months is considered reasonable.

Exposure Time

Inherent in the definition of market value and marketing time is an adequate amount of *exposure* to the open market. Two excerpts from the definitions of both market value and marketing time are listed as follows:

Market Value:

"...a reasonable time is allowed for *exposure* in the open market."

Marketing Time:

"...the property will be actively *exposed* and aggressively marketed to potential purchasers through marketing channels commonly used by sellers of similar type properties."

Exposure time, as defined by the Dictionary of Real Estate Appraisal, Fourth Edition is stated as follows:

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

The exposure time for the subject property is estimated to be roughly equal to the marketing time previously stated (i.e., less than 12 months).

THE APPRAISAL PROCESS

The appraisal process is the orderly program in which the data used to estimate the value of the subject property are acquired, classified, analyzed, and presented. The first step is defining the appraisal problem - i.e., identification of the real estate, the effective date of the value estimate, the property rights being appraised, and the type of value sought. Once this has been accomplished, the appraiser collects and analyzes the factors that affect the market value of the subject property. These include area and neighborhood analysis, site and improvement analysis, highest and best use analysis, and the application of the three approaches to estimating the property value: the Cost Approach; the Sales Comparison Approach; and the Income Approach.

In the Cost Approach to value accrued depreciation is deducted from the cost new of the improvements, and this added to the land value. The resultant figure indicates the value of the whole property. Generally, the land value is obtained through the Sales Comparison Approach. Replacement cost new of the improvements is estimated on the basis of current prices for the component parts of the building less depreciation, which is computed after analyzing the disadvantages or deficiencies of the existing building as compared to a new building.

The Sales Comparison Approach is used to estimate the value of the land as if vacant and/or the whole property as improved. The appraiser gathers data on sales of comparable properties and analyzes the nature and condition of each sale, making logical adjustments for dissimilar characteristics. Typically, a common denominator is found. For land value, this is usually either a price per square foot or price per acre. For improved properties, the common denominator may be price per square foot, price per unit, or an effective gross income multiplier.

At times, the available market data will not allow for quantitative adjustments (dollar or percentage) based upon such techniques as paired sales analysis, cost-based estimates, statistical, or survey techniques. Qualitative adjustments are then applied to the Comparable Sales to rank the sales and bracket the value of the subject. The Sales Comparison Approach gives a good indication of value when sales of similar property are available.

The Income Approach is predicated on the assumption that there is a definite relationship between the amount of income a property will earn and its value. This approach is based on the principle that value is created by the expectation of benefits derived in the future. The anticipated annual net income of the subject property is processed to produce an indication of value. Net income is the income generated before payment of any debt service. The process of converting into value is called capitalization, which involves dividing the net income by a capitalization rate. Factors such as risk, time, interest on the capital investment, and recapture of the depreciating asset are considered in this rate. The appropriateness of this rate is critical, and there are a number of techniques by which it may be developed.

A final step in the appraisal process is the reconciliation or correlation of the value indications. In this process, the appraiser considers the relative applicability of each of the three approaches used, examines the range between the value indications, and places major emphasis on the approach that appears to produce the most reliable solution to the specific appraisal problem. The purpose of the appraisal, the type of property, and the adequacy and reliability of the data are analyzed; these considerations influence the weight given to each of the approaches to value. In analyzing, it can be readily observed that most of the information pertaining to the fair market value of the subject property must be derived from the market place because the appraiser anticipates the actions of buyers and sellers in the market.

Exclusion of Approaches

Based on the relatively unique characteristics of the subject with smaller, lower value building improvements of a low cost, interim use and relatively higher land value, the Cost Approach was considered the most applicable approach. The Sales Comparison Approach was not applicable based on the lack of relevant sales data for the subject lower cost modular office building improvements. The Income Approach was not applicable based on the low income potential of the land and building improvements in relationship to the total value. The Cost Approach alone produces a credible valuation.

COST APPROACH

Methodology

This approach consists of an analysis of the property's physical value. The principle of substitution is the underlying rationale of this approach. The principle is based upon the concept that a prudent person would not pay more for a property than the cost of constructing, without undue delay, an equally desirable and useful property.

In the Cost Approach, the following steps are employed to reach an estimate of value:

1. Estimate land value as if vacant;
2. Estimate the improvements' replacement cost new, including indirect costs;
3. Estimate the necessary developer's overhead and profit for the type of property being appraised, including profit on the land;
4. Add replacement cost new and profit to calculate the total cost new of the property;
5. Estimate accrued depreciation, if any, from physical, functional, and external causes;
6. Deduct accrued depreciation from the total cost new of the property to estimate the current value by the Cost Approach;
7. Add land value;
8. Adjust the individual fee simple value, if necessary, to reflect the property interest being appraised.

In this report the appraiser will consider the costs on a replacement cost basis. Replacement cost is defined as:

> "The cost of construction at current prices of a building having utility equivalent to the building being appraised but built with modern materials and according to current standards, design and layout."

This definition is modified as appropriate and applied to permanent plantings.

The next step in the Cost Approach is to estimate accrued depreciation. Accrued depreciation is defined as the difference between reproduction costs new as of the date of appraisal, and the present contributory value of the improvements. Accrued depreciation represents the loss in utility to the subject property compared to that which it would have if it were new and represented the highest and best use of the site. There are four basic types of accrued depreciation:

1. **Curable Physical Deterioration** (Deferred Maintenance) represents items in need of immediate repair, which a typical buyer would consider necessary and justified upon purchase.

2. **Incurable Physical Deterioration** is sub-classified into Short-lived and Long-lived:

   A. **Short-lived** components are those with remaining economic lives that are shorter than the remaining economic life of the entire building.

   B. **Long-lived** components are those with remaining economic lives that are similar to that of the entire building.

3. **Functional Obsolescence** constitutes a reduction in utility resulting from the decreased capacity of the structure or a part of the structure to perform its intended function.

4. **Economic Obsolescence** (Location or external obsolescence) is usually incurable. This is a case of diminished utility because of negative environmental forces outside the property's boundaries. The method of correcting the problem customarily lies outside the property and its cost is usually excessively expensive.

LAND VALUATION

Land or site value is estimated via the Sales Comparison Approach, which involves the comparison of sales of properties similar to the subject to provide a basis for estimating its value. Elements of comparison are the physical and economic characteristics of properties that cause prices paid for real estate to vary. The differences between the comparable and the subject that could affect their values are considered. The result of this process is to establish a reasonable approximation of the value of the subject as of the date of the appraisal, based on the similarities or dissimilarities of the comparables to the subject.

There are six common elements of comparison that are usually considered in the sales comparison analysis. These are real property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, date of sale (market conditions), and physical and economic characteristics. A range of values of the subject is usually found in this analysis. The appraiser must correlate the range into a final indicated value by selectively rating the comparables as to their overall comparative values.

Several items of comparability are utilized for analyzing the property, land only, and are shown as follows:

Real Property Rights Conveyed: The rights conveyed must be identified, whether Fee Simple Estate or a lesser right in the property.

Financing Terms: This item considers terms that are not typical in the market. This would include below or above current market interest rates, atypical payback periods, seller financing, buy-downs, and exchange influences. If the seller received cash for the property, it is considered a cash basis sale.

Conditions of Sale: This item would include any unusual circumstances surrounding the purchase of a property, including distress sales due to bankruptcy, delinquent taxes, partnership splits, long-standing options, or any other less than arms-length transaction.

Expenditures Made Immediately After Purchase: A knowledgeable buyer considers expenditures that will have to be made upon purchase of property because these costs affect the price that buyer agrees to pay.

Market Conditions: This category reflects changes in market conditions over time. These may be caused by inflation, deflation, fluctuations in supply and demand, and other factors. An economic recession tends to deflate all real estate prices. However, a decline in demand sometimes affects only one category of real estate. Time itself is not the cause of this adjustment; market conditions, which shift over time, create the need for an adjustment.

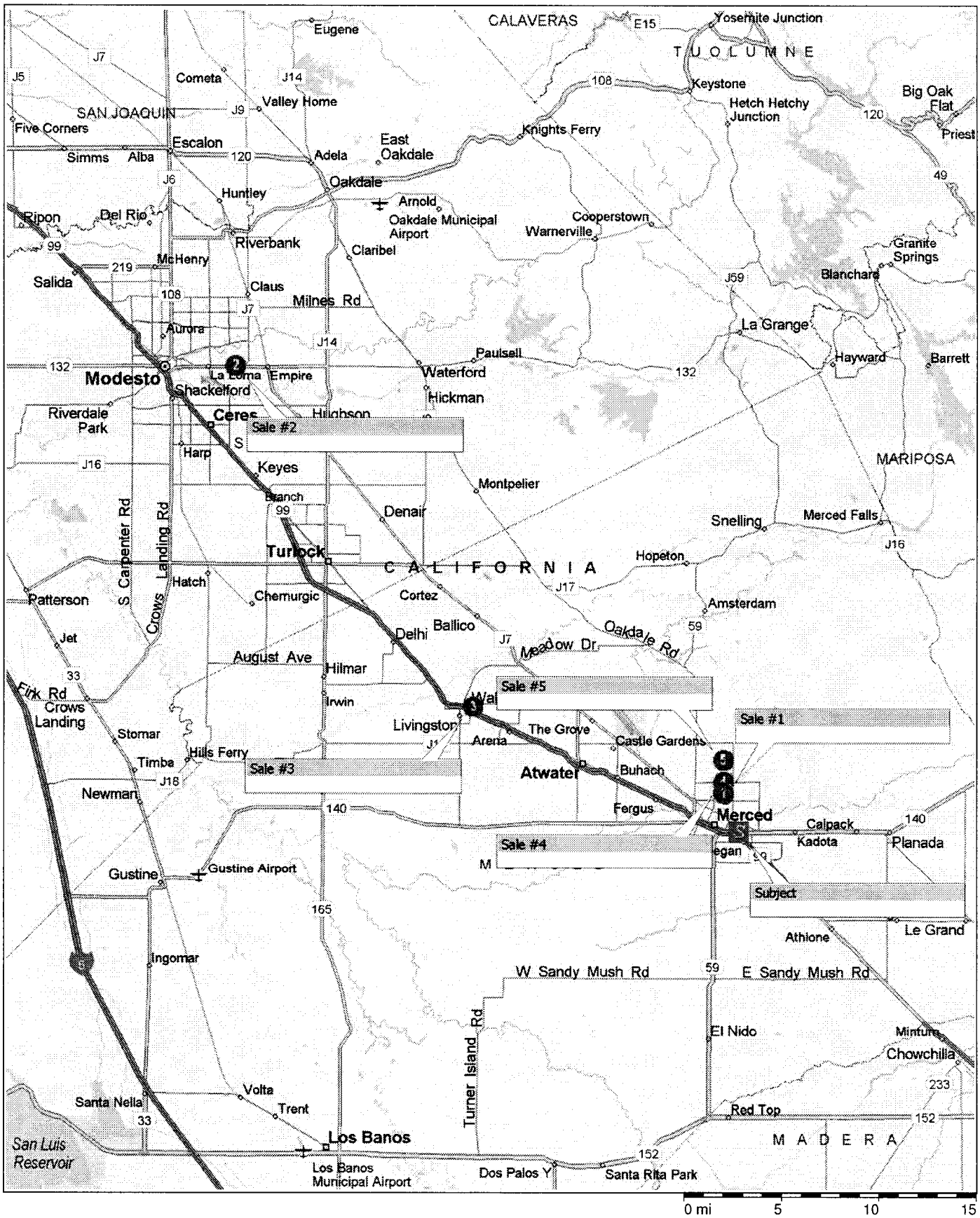
After this **physical and economic** characteristics are considered.

Where possible, paired sales analysis is conducted to abstract adjustments for financing, conditions of sale, market conditions, and physical and economic characteristics.

Research of recent land sales in the subject market area revealed the following sales

COMPARABLE LAND SALES					
SALE #	**LOCATION**	**SALE PRICE**	**SALE DATE**	**ACRES & SF**	**$/SF**
1	3172 M Street Merced, CA APN: 236-230-010	$ 505,000	01/08/16	1.60 AC 69,696 SF	$7.25
2	3301 Yosemite Blvd., Modesto, CA APN: 033-089-034, 035, 036	$ 700,000	03/25/16	3.30 AC 187,308 SF	$3.74
3	Pacific Avenue Livingston, CA APN: 047-100-052	$ 392,000	05/16/16	1.50 AC 65,340 SF	$6.00
4	3603 M Street Merced, CA APN: 230-220-055	$ 710,000	06/03/16	2.60 AC 113,256 SF	$6.27
5	Cardella & M Street Merced, CA APN: 230-010-016	$1,100,000	10/24/16	8.33 AC 362,855 SF	$3.03
Subj.	1137 B Street Merced, CA APN: 035-010-071 (Portion)	N/A	N/A	5.06 AC 220,414 SF	N/A

COMPARABLE SALES



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LAND SALE #1

SATELLITE IMAGE – APPROXIMATE BORDERS

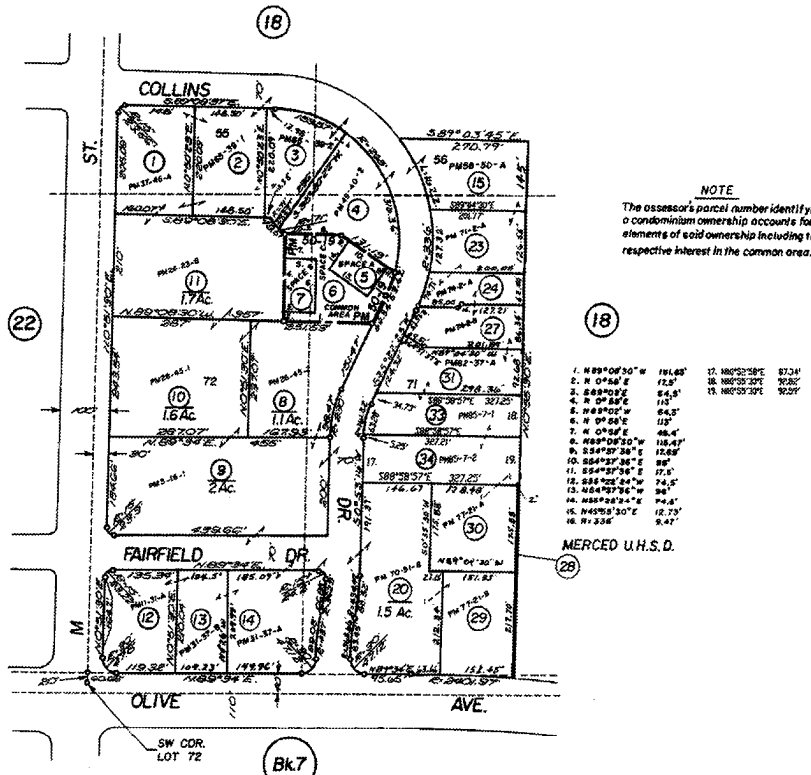
STREET VIEW

—NOTE—
This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.

POR. SE 1/4 SEC.18,T.7S.,R.14E.,M.D.B.&M.

Tax Rate Area 5-05 **236-23**

N
1"=200'



DRAWN 8-91
REVISED 5-95
9-97
12-99

Crocker Colony, RM Vol.5, Pg.6
Peppertree Plaza, PM Vol.50, Pg.19 (Condominium) C.C.R. Rec. Vol. 2402 Pg.928

NOTE—Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

Assessor's Map Bk.236 Pg.23
County of Merced, Calif.
1991

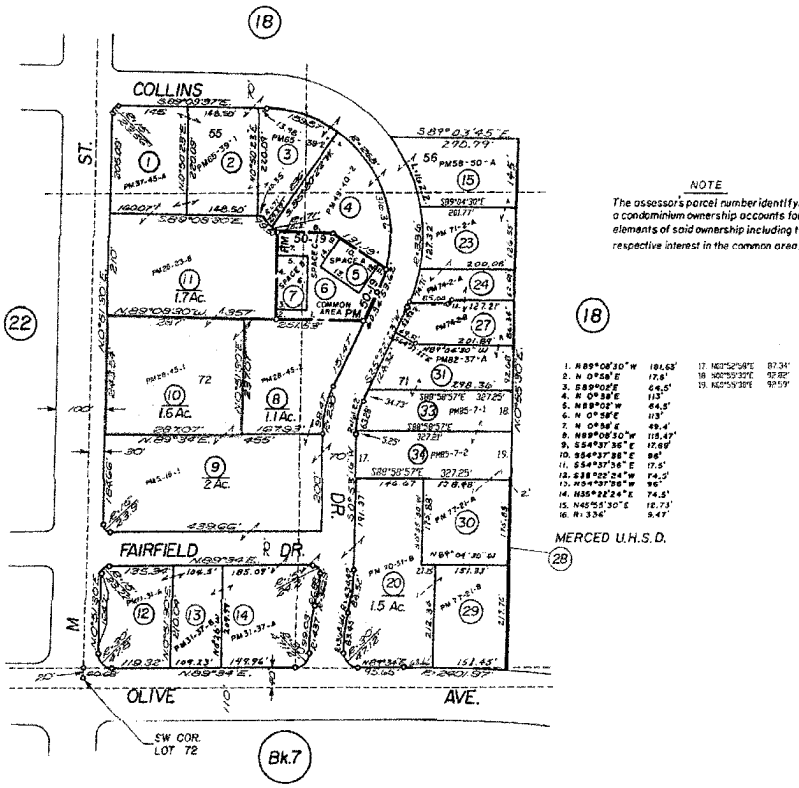
— NOTE —
This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.

POR. SE 1/4 SEC.18, T.7S., R.14E., M.D.B.&M.

Tax Rate Area 5-05 **236-23**

N

1" = 200'



NOTE

The assessor's parcel number identifying a condominium ownership accounts for all elements of said ownership including the respective interest in the common area.

DRAWN 8-91
REVISED 5-95
9-97
12-99

Crocker Colony, RM Vol.5, Pg.6
Peppertree Plaza, PM Vol. 50, Pg.19 (Condominium) C.C.R. Rec. Vol. 2402 Pg. 928

NOTE—Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

Assessor's Map Bk.236 Pg.23
County of Merced, Calif.
1991

Sale #1

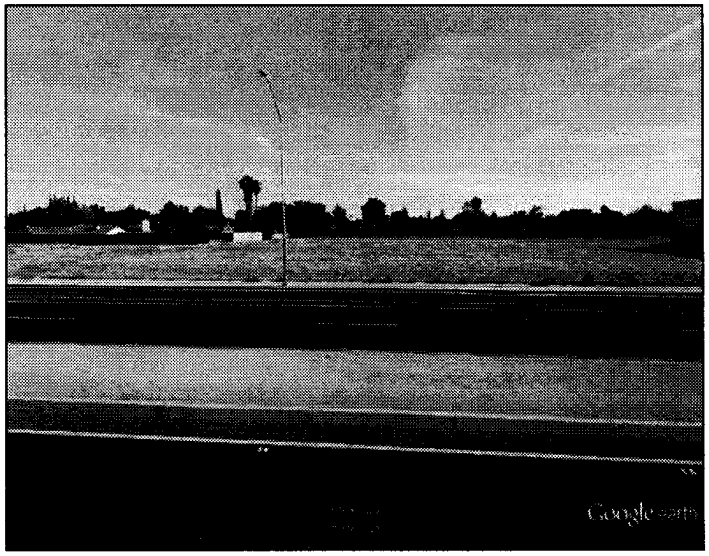
LAND SALE #1

Type:	Commercial Lot	
Location/Address:	3172 M Street, Merced, CA	
County:	Merced	
Assessor's Parcel #:	236-230-010	
Seller:	Puray, Meria E.	
Buyer:	CVRC North, LLC.	
Topography:	Generally Level	**Doc #:** 587
Highest and Best Use:	Commercial Development	**Record. Date**: 01/08/16
Site Utility:	Average	**Verification:** MLS/Realist/Broker
Price:	$505,000	**Price/SF:** $7.25/SF
Conditions of Sale:	None	
Terms:	Cash	
Site Area:	1.60 AC/69,696 SF	
Zoning/General Plan:	P-D, Planned Development (City of Merced)	
Access/Visibility:	Good	
Off-sites:	Fronts public maintained road, with Curbs, Gutters or Sidewalks	
Utilities:	To Site	
Improvements when sold:	None	
Present Use:	Professional Office Building	

Comments: The details of this sale were confirmed by Janet Bamford at the listing agents' office Gonella Realty (209) 383-2171, the MetroList service and public records via Realist.com. The site has average functional utility, good visibility, good access and represents a commercial lot ready for development. M street is a high traffic commercial corridor in the City of Merced. Surrounding development includes fast food restaurants, retail and fuel stations.

LAND SALE #2

SATELLITE IMAGE – APPROXIMATE BORDERS



STREET VIEW – PROVIDED BY GOOGLE EARTH

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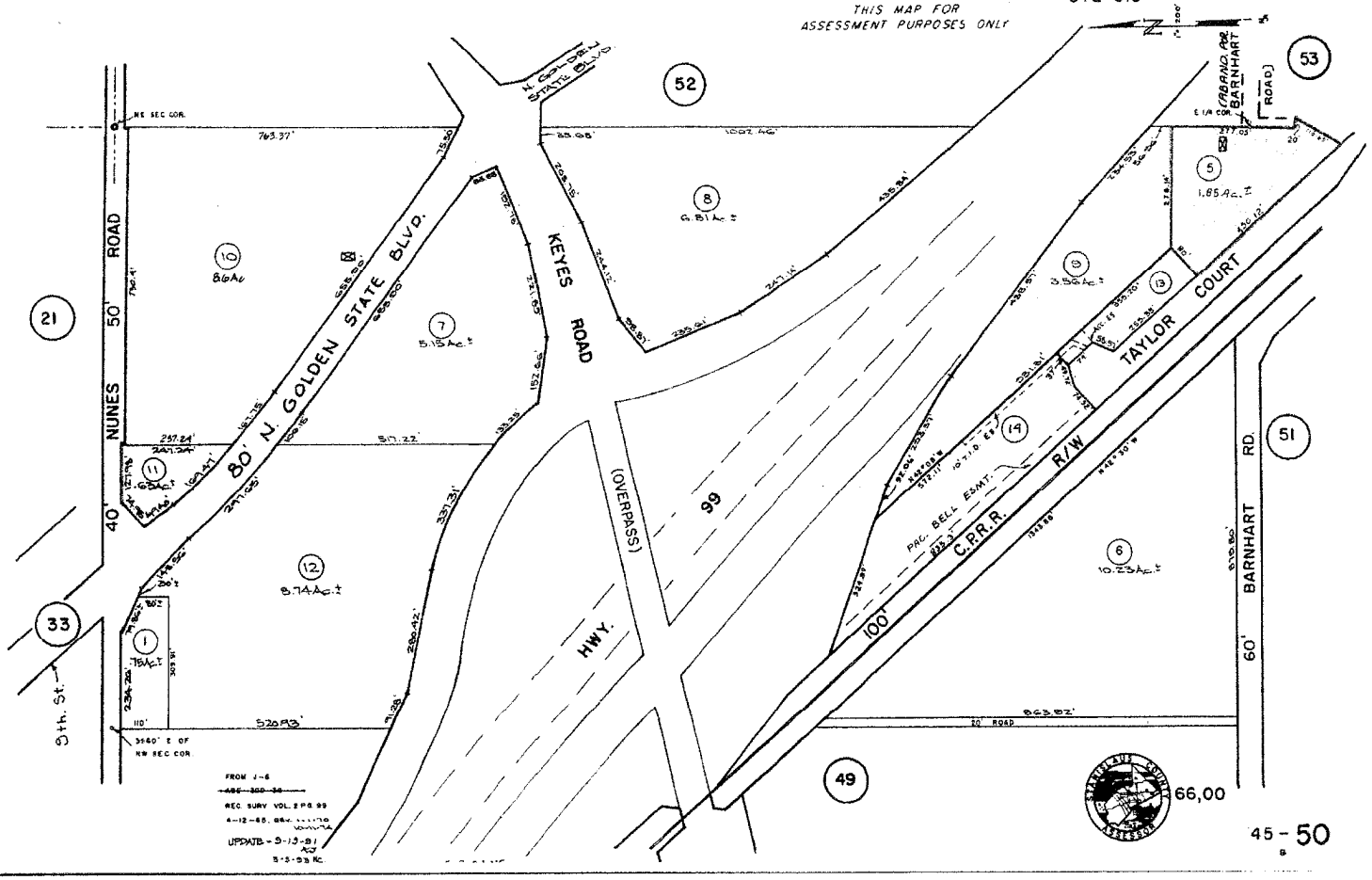
E 1/2 OF NE 1/4 SECTION 31 T.4 S. R.10E. M.D.B. & M.

072 01
072 014
072 015

45-50

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



Sale #2

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E 1/2 OF NE 1/4 SECTION 31 T. 4 S. R. 10E. M.D.B. & M.

072 01
072 014
072 015

45-50

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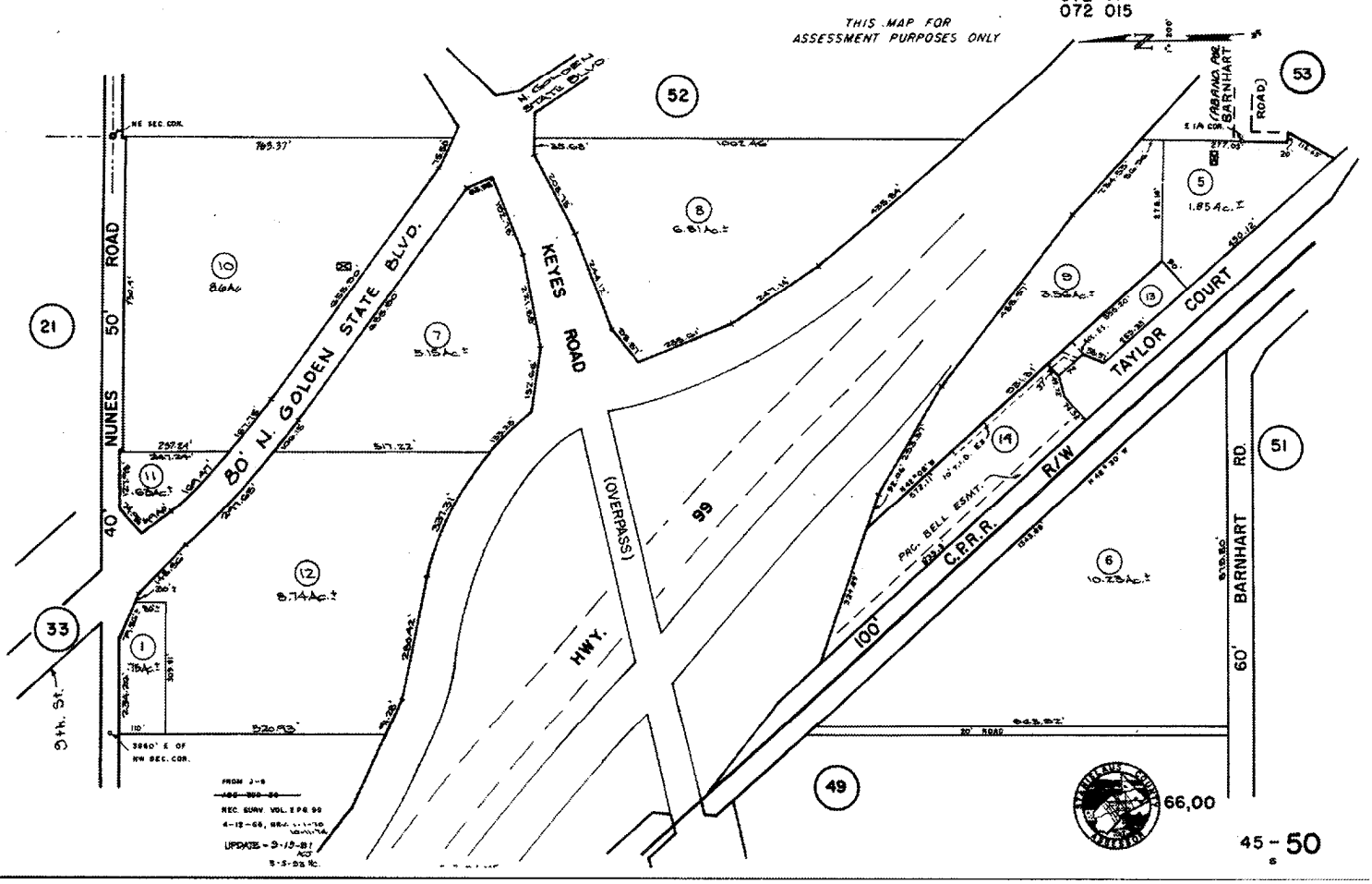
ASSESSMENT PURPOSES ONLY



45-50

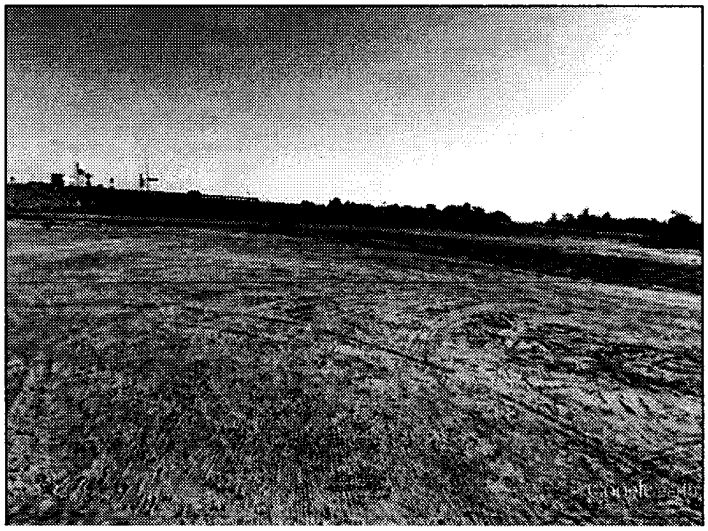
LAND SALE #2

Type:	Commercial Lot	
Location/Address/City:	3301 Yosemite Ave., Modesto, CA 95357	
County:	Stanislaus	
Assessor's Parcel #:	033-089-034, 035, 036	
Seller:	Carranza Ents., LLC	
Buyer:	TPC CS Holdings I, LLC.	
Topography:	Generally Level	
Highest and Best Use:	Commercial Development	
Record. Date:	3/25/16	**Doc #:** 21436
Site Utility:	Below Average	**Verification:** MLS/Realist
Price:	$700,000	**Price/SF:** $3.74/SF
Conditions of Sale:	None	
Terms:	Cash	
Site Area:	4.30 Acre/187,308 SF	
Zoning/GP:	C-3 Highway Commercial	
Access/Visibility:	Average/Average	
Off-sites:	Fronts public maintained road with curbs, gutters, sidewalks, streetlights.	
Utilities:	All utilities to the site.	
Present Use:	Vacant	

Comments: The details of this sale were unable to be confirmed by a party to the sale and as such it is utilized for secondary support only. According to MetroList, these three adjacent commercial parcels were sold together and ready for commercial development. The property is located in an inferior commercial area of primarily industrial development in the City of Modesto. The lot is flag shaped with a smaller portion of street frontage and functional utility is considered below average.

LAND SALE #3

SATELLITE IMAGE – APPROXIMATE BORDERS



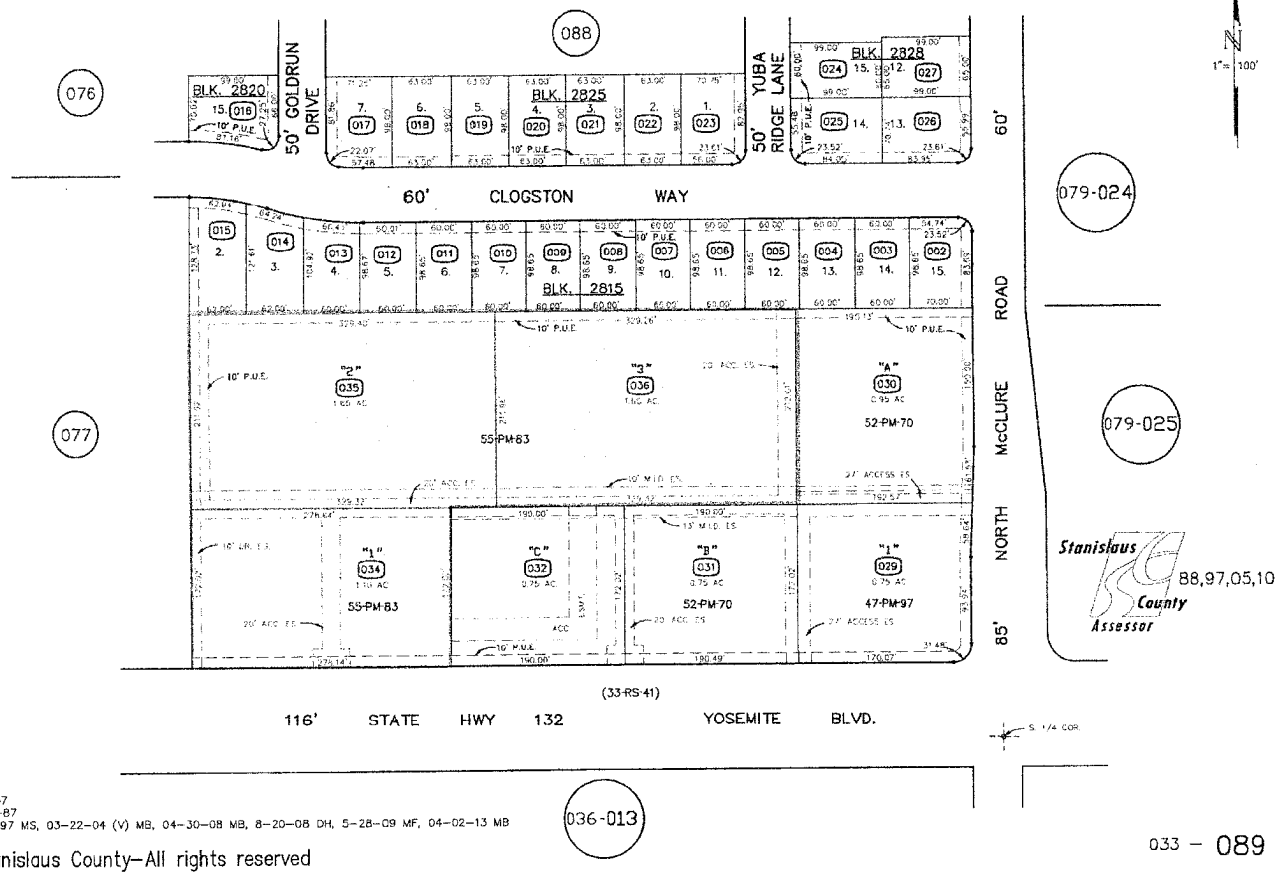
STREET VIEW – PROVIDED BY GOOGLE EARTH

POR. SW 1/4 SECTION 25 T.3S. R.9E. M.D.B.&M.

002 117 033 – 089

POR. DRY CREEK WOODS (32M13)

THIS MAP FOR ASSESSMENT PURPOSES ONLY



Stanislaus County Assessor

88,97,05,10

FROM: 033-37
DRAWN: 9-29-87
REVISED: 1-31-97 MS, 03-22-04 (V) MB, 04-30-08 MB, 8-20-08 DH, 5-28-09 MF, 04-02-13 MB

036-013

033 – 089

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Sale #3

POR. SW 1/4 SECTION 25 T.3S. R.9E. M.D.B.&M.

POR. DRY CREEK WOODS (32M13)

002 117 033 – 089

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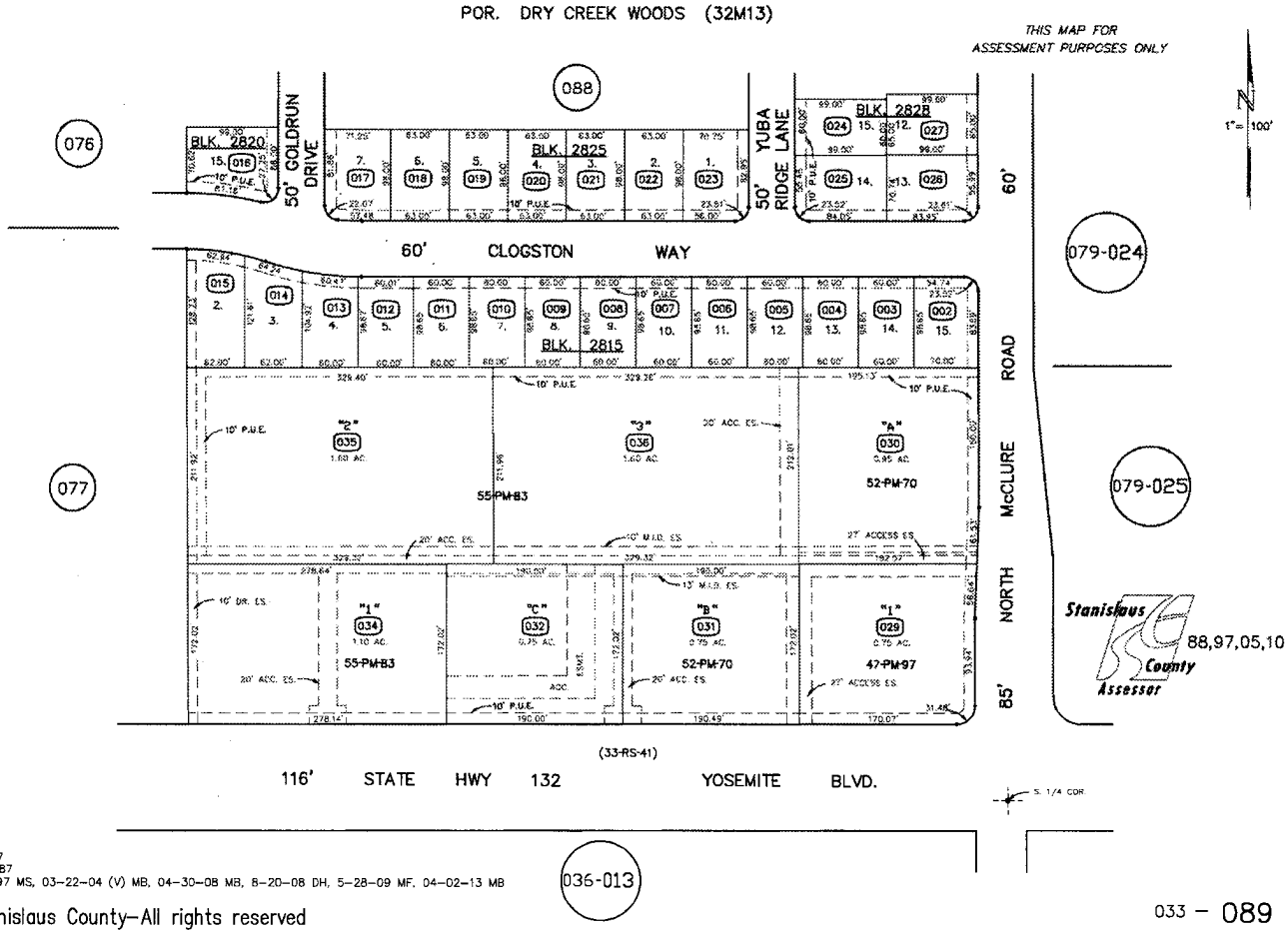

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DRAWN: 9-29-87
REVISED: 1-31-97 MS, 03-22-04 (V) MB, 04-30-08 MB, 8-20-08 DH, 5-28-09 MF, 04-02-13 MB

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033 – 089

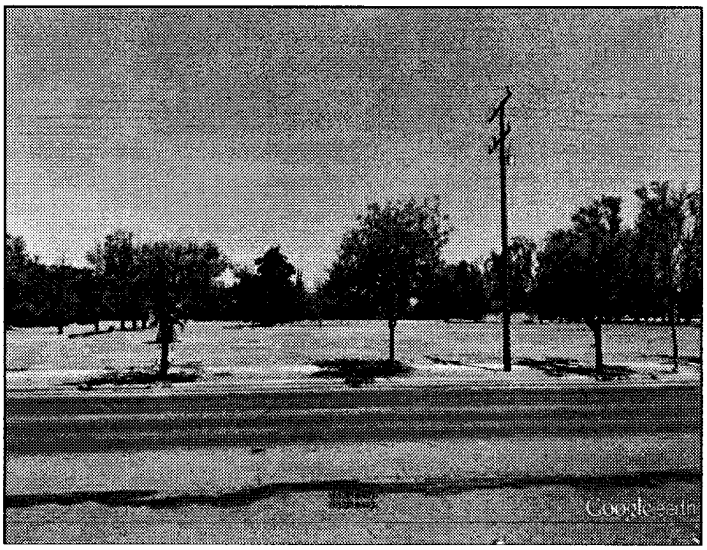
LAND SALE #3

Type:	Industrial/Commercial Lot	
Location/Address/City:	Pacific Avenue, Livingston, CA	
County:	Merced	
Assessor's Parcel #:	047-100-052	
Seller:	JEG Livingston Ranches, LLC.	
Buyer:	Singh, Simarjit	
Topography:	Generally Level	
Highest and Best Use:	Commercial Development	
Record. Date:	5/16/2016	**Doc #:** 15715
Site Utility:	Average	**Verification:** MLS/Realist
Price:	$392,000	**Price/SF:** $6.00/SF
Conditions of Sale:	None	
Terms:	Cash	
Site Area:	1.50 Acre/65,340 SF	
Zoning/GP:	M-2 - General Industrial	
Access/Visibility:	Good/Good (Corner Parcel)	
Off-sites:	Fronts public maintained road. No curbs, gutters, sidewalks.	
Utilities:	All utilities to the street.	
Improvements when sold:	None	
Present Use:	Vacant	

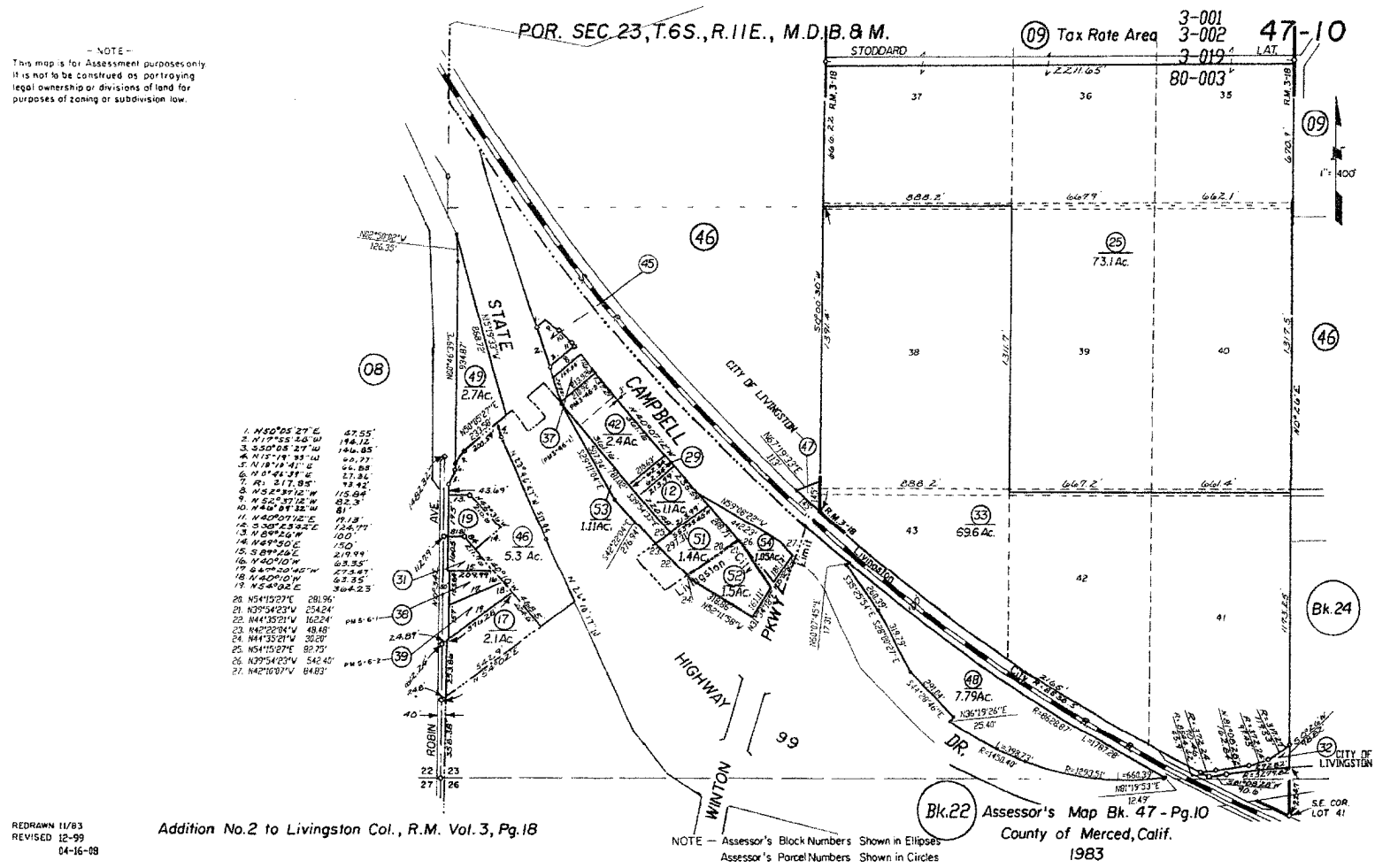
Comments: The details of this sale were confirmed by Fredrick Polanco of Century 21 (209) 725-9100. This sale has good, corner lot visibility and close proximity to Highway 99. The site has average functional utility. This site is zoned for industrial use, but was marketed as a commercial parcel and reportedly the buyer plans to construct a retail type use. The property is located with good access and visibility to 99 and highway commercial/fast food developments.

LAND SALE #4

SATELLITE IMAGE – APPROXIMATE BORDERS

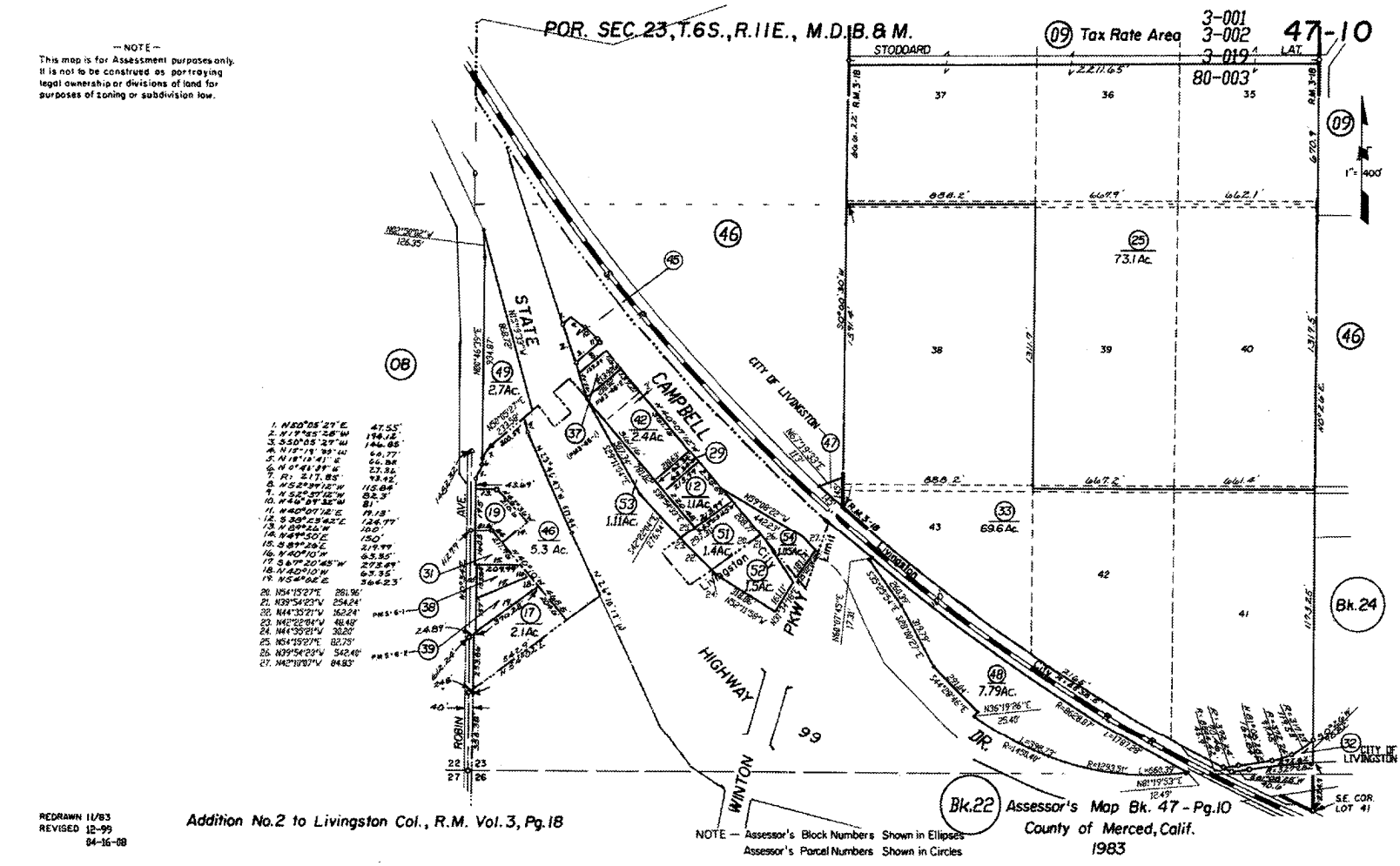


STREET VIEW – PROVIDED BY GOOGLE EARTH



– NOTE –
This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.

Sale #4



— NOTE —
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REDRAWN 11/83
REVISED 12-99
04-16-08

Addition No.2 to Livingston Col., R.M. Vol. 3, Pg. 18

NOTE — Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

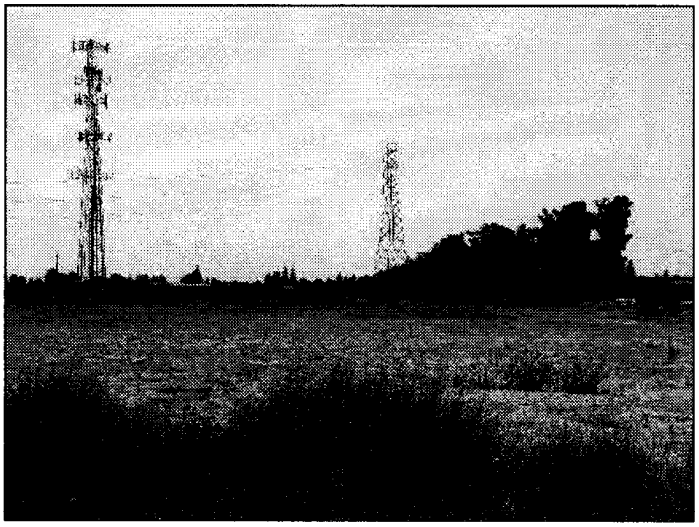
LAND SALE #4

Type:	Commercial Lot	
Location/Address/City:	3603 M Street, Merced, CA	
County:	Merced	
Assessor's Parcel #:	230-220-055	
Seller:	Aloes & Cedars, LLC.	
Buyer:	Pacific Gas & Electric	
Topography:	Generally Level	
Highest and Best Use:	Commercial Development	
Record. Date:	6/03/2016	**Doc #: 17834**
Site Utility:	Average	**Verification:** MLS/Agent/Realist
Price:	$710,000	**Price/SF:** $6.27/SF
Conditions of Sale:	None	
Terms:	Cash	
Site Area:	2.6 Acre/113,256 SF	
Zoning/GP:	C-O Commercial Office	
Access/Visibility:	Average/Good (Corner Parcel)	
Off-sites:	Fronts public maintained road, curbs, gutters, sidewalks, street lights.	
Utilities:	All utilities to the site	
Improvements when sold:	None	
Present Use:	Vacant Commercial Lot	

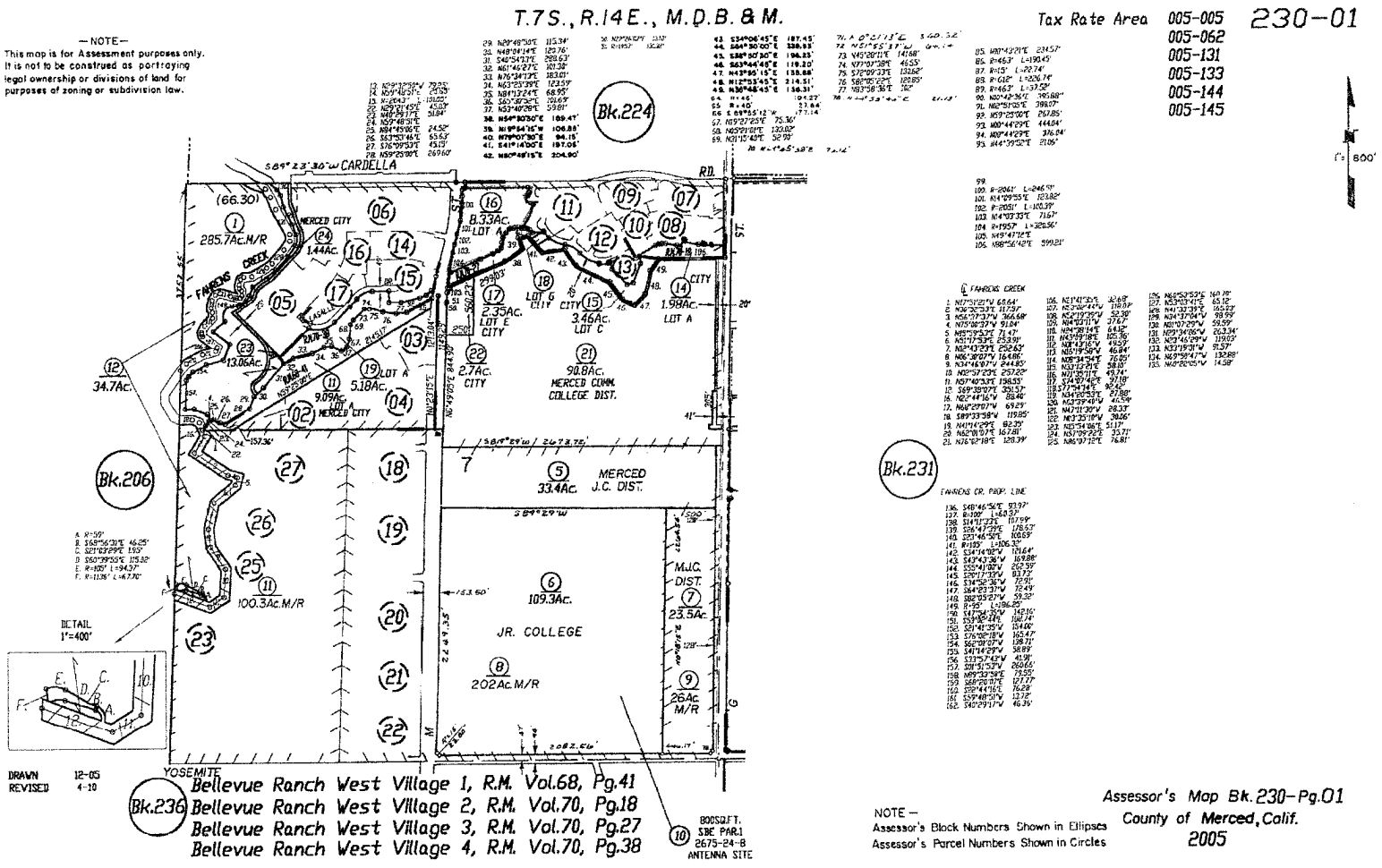
Comments: The details of this sale were confirmed by Paul Asai of Tinetti Realty Group (209) 384-3885. All utilities were at site at the time of sale. The property was previously developed to a church. The property was sold to a public utility that plans to put in a transfer station and split the lot for re-sale. According to the broker, this represented a market sale and the seller had additional offers if this sale fell through. The broker felt that the price was at the current market. The property has landscaping and parking from the previous church that had been removed.

LAND SALE #5

SATELLITE IMAGE – APPROXIMATE BORDERS



STREET VIEW

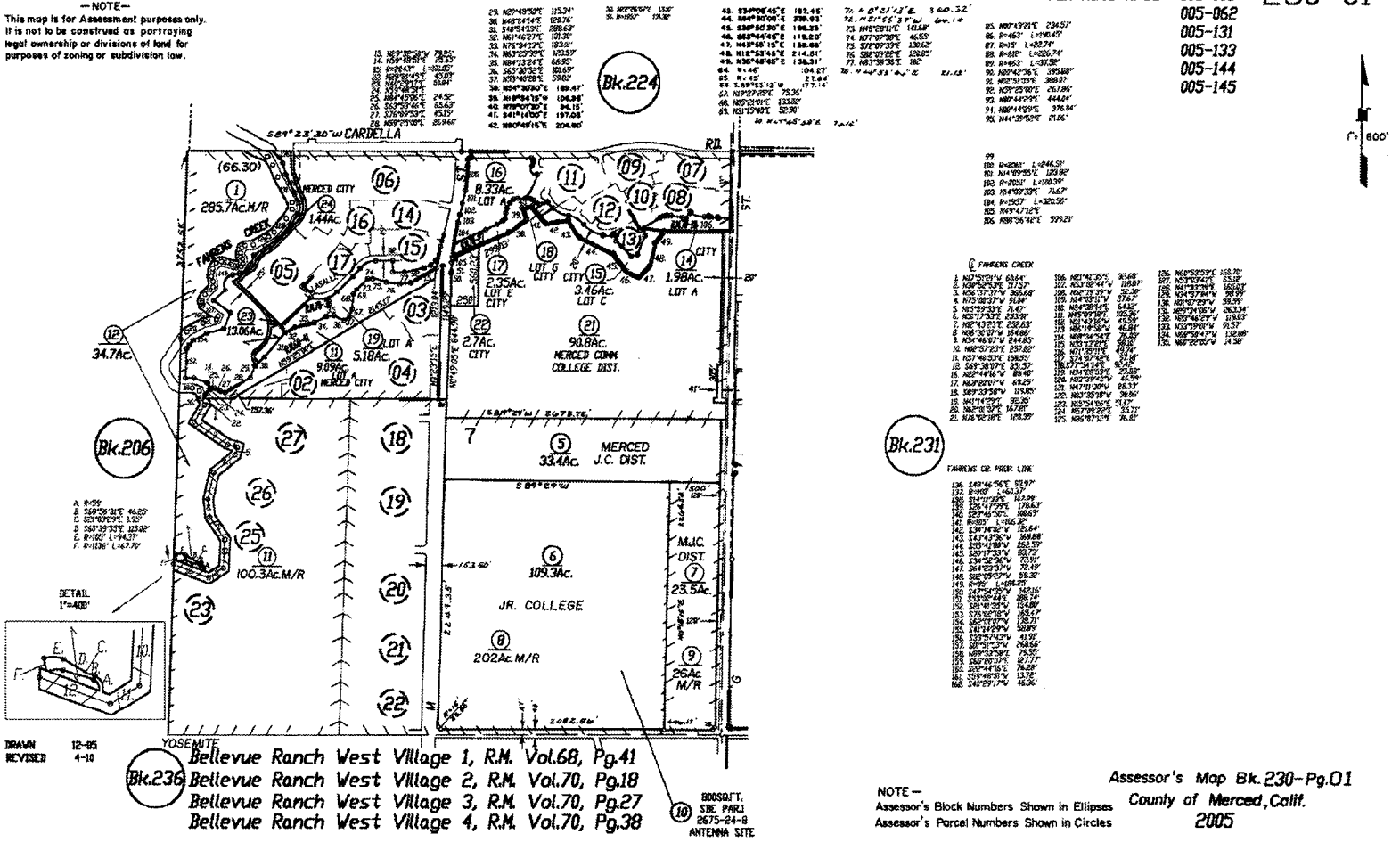

T.7S., R.14E., M.D.B. & M.
Tax Rate Area 005-005 230-01
005-062
005-131
005-133
005-144
005-145
— NOTE —
This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.
Bk.224
Bk.206
Bk.231
Bk.236
S89°23'30"W CARDELLA RD.
MERCED CITY
285.7Ac.M/R
1.44Ac.
8.33Ac. LOT A
2.35Ac. LOT E CITY
LOT G CITY
3.46Ac. LOT C
1.98Ac. LOT A
CITY
2.7Ac. CITY
90.8Ac. MERCED COMM. COLLEGE DIST.
13.06Ac.
34.7Ac.
5.18Ac. LOT A
9.09Ac. LOT B MERCED CITY
33.4Ac. MERCED J.C. DIST.
109.3Ac. JR. COLLEGE
202Ac. M/R
100.3Ac.M/R
23.5Ac. M.J.C. DIST.
26Ac. M/R
FAHRENS CREEK
YOSEMITE
DETAIL 1"=400'
DRAWN 12-05
REVISED 4-10
Bellevue Ranch West Village 1, R.M. Vol.68, Pg.41
Bellevue Ranch West Village 2, R.M. Vol.70, Pg.18
Bellevue Ranch West Village 3, R.M. Vol.70, Pg.27
Bellevue Ranch West Village 4, R.M. Vol.70, Pg.38
800SQ.FT. SBE PAR.1 2675-24-B ANTENNA SITE
NOTE — Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles
Assessor's Map Bk.230-Pg.01
County of Merced, Calif.
2005
1" = 800'

Sale #5

T.7S., R.14E., M.D.B. & M.

Tax Rate Area 005-005 230-01
005-062
005-131
005-133
005-144
005-145

—NOTE—
This map is for Assessment purposes only. It is not to be construed as portraying legal ownership or divisions of land for purposes of zoning or subdivision law.



Bellevue Ranch West Village 1, R.M. Vol.68, Pg.41
Bellevue Ranch West Village 2, R.M. Vol.70, Pg.18
Bellevue Ranch West Village 3, R.M. Vol.70, Pg.27
Bellevue Ranch West Village 4, R.M. Vol.70, Pg.38

DRAWN 12-85
REVISED 4-10

NOTE—
Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

Assessor's Map Bk.230-Pg.01
County of Merced, Calif.
2005

LAND SALE #5

Type:	Commercial Lot	
Location/Address:	Cardella and M St., Merced, CA	
County:	Merced	
Assessor's Parcel #:	230-010-016	
Seller:	N/A – Public info does not match broker data (see Comments)	
Buyer:	Merced High Sch Quarterback Cl	
Topography:	Generally Level	**Doc #:** 36133
Highest and Best Use:	Commercial Development	**Record. Date**: 10/21/16
Site Utility:	Average	**Verification:** MLS/Realist/Broker
Price:	$1,100,000	**Price/SF:** $3.03/SF
Conditions of Sale:	None	
Terms:	Cash	
Site Area:	8.33 AC/362,855 SF	
Zoning:	P-D, Planned Development (City of Merced)	
Access/Visibility:	Average/Average	
Off-sites:	Fronts public maintained road, Curbs, Gutters and Sidewalks	
Utilities:	To Site	
Improvements when sold:	None	
Present Use:	Vacant	

Comments: The details of this sale were confirmed by Janet Bamford at the listing agents' office Gonella Realty (209) 383-2171, the MetroList service and public records via Realist.com. The listing broker's office reported this as a market sale. Public records show the sale with Merced Qb Club LLC granting title to Merced High Sch Quarterback Cl, which appears to be a related entity. As such, this sale is used as secondary support only. The site has average functional utility, visibility, and access and represents a commercial lot ready for development. M street is a high traffic commercial corridor in the City of Merced. However, this lot is located past the high traffic area, in a newly developed residential neighborhood Surrounding development includes newly developed single-family residences. The site is oddly shaped, which is considered to impact its functional utility.

VALUE CONCLUSION: LAND

Comparable sales have been selected to reflect, as much as possible, attributes discussed above as they relate to the subject property. The comparable sales are similar to the subject in that they have potential for development to a commercial property.

Sale #1

No adjustments were required for Property Rights Conveyed, Financing Terms, Conditions of Sale, Expenditures After Purchase, or Market Conditions. Location was considered superior based on surrounding development in the neighborhood and adjusted downward 10%. Size was adjusted downward to reflect the typically higher price paid on a per unit basis for relatively smaller properties; a 15% adjustment for the size difference is considered reasonable. Visibility was considered superior and adjusted downward 5%. Access was considered superior and adjusted downward 5%. Site Improvements were considered inferior and adjusted upward 5%. All other adjustment factors were considered generally similar. The adjusted value is $5.07/square foot.

Sale #2

No adjustments were required for Property Rights Conveyed, Financing Terms, Conditions of Sale, Expenditures After Purchase, or Market Conditions. Location was considered inferior based on surrounding industrial development and was adjusted upward 10%. The lot is flag shaped and Functional Utility is considered inferior, a 10% upward adjustment is made. Site Improvements were considered inferior and adjusted upward 5%. All other adjustment factors were considered generally similar. The adjusted value is $4.67/square foot.

Sale #3

No adjustments were required for Property Rights Conveyed, Financing Terms, Conditions of Sale, Expenditures After Purchase, or Market Conditions. Location was considered superior based on surrounding highway commercial development in the neighborhood and adjusted downward 10%. Size was adjusted downward to reflect the typically higher price paid on a per unit basis for relatively smaller properties; a 15% adjustment for the size difference is considered reasonable. Off-Sites were lacking curbs, gutters, sidewalks; considered inferior and adjusted upward 5%. Visibility was considered superior and adjusted downward 5%. Access was considered superior and adjusted downward 5%. Site Improvements were considered inferior and adjusted upward 5%. All other adjustment factors were considered generally similar. The adjusted value is $4.80/square foot.

Sale #4

No adjustments were required for Property Rights Conveyed, Financing Terms, Conditions of Sale, Expenditures After Purchase, or Market Conditions. Location was considered superior based on surrounding highway commercial development in the neighborhood and adjusted downward 10%. Size was adjusted downward to reflect the typically higher price paid on a per unit basis for relatively smaller properties; a 10% adjustment for the size difference is considered reasonable. Visibility was considered superior and adjusted downward 5%. All other adjustment factors were considered generally similar. The adjusted value is $4.70/square foot.

LAND SALE ADJUSTMENT GRID 1137 B Street, Merced, CA 95341						
Physical Characteristics:	**Subject**	**Sale #1**	**Sale #2**	**Sale #3**	**Sale #4**	**Sale #5**
Sales Price (Unadjusted)	N/A	**$505,000**	**$700,000**	**$392,000**	**$710,000**	**$1,100,000**
Size (Acres)	5.06	1.60	4.30	1.50	2.60	8.33
Size (SF)	220,414	69,696	187,308	65,340	113,256	362,855
Price/Acre (Unadjusted)		$315,625	$162,791	$261,333	$273,077	$132,053
Price/SF (Unadjusted)		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment						
Adjusted Value		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Financing Terms	N/A	Cash	Cash	Cash	Cash	Cash
Adjustment						
Adjusted Value		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Conditions of Sale	N/A	Market	Market	Market	Market	Market
Adjustment						
Adjusted Value		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Expenditures Immediately After Purch.	N/A	None	None	None	None	None
Adjustment						
Adjusted Value		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Market Conditions	8/17/2017	1/8/2016	3/25/2016	5/16/2016	6/3/2016	10/24/2016
Adjustment						
Adjusted Value		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Prelim. Adjusted $/SF		**$7.25**	**$3.74**	**$6.00**	**$6.27**	**$3.03**
Physical Characteristics:						
Location	Average	Superior	Inferior	Superior	Superior	Superior
Adjustment		**-10%**	**10%**	**-10%**	**-10%**	**-5%**
Topography	Level	Similar	Similar	Similar	Similar	Similar
Adjustment						
Size (Acres)	5.06	1.60	4.30	1.50	2.60	8.33
Adjustment		**-15%**		**-15%**	**-10%**	**15%**
Shape (Func. Utility)	Average	Average	Below Average	Average	Average	Below Average
Adjustment			**10%**			**10%**
Zoning (Entitlements)	PD/Office	Similar	Similar	Inferior	Similar	Similar
Adjustment				**5%**		
Off-Sites/Utilities						
Curb/Gutter/Sidewalk	C/G/S Hypothetical	C/G/S	C/G/S	None	C/G/S	C/G/S
Electric	To site	To site	To site	To site	To site	To site
Public Water	To site	To site	To site	To site	To site	To site
Public Sewer	To site	To Site	To Site	To Site	To site	To site
Adjustment				**5%**		
Visibility	Average	Superior	Similar	Superior	Superior	Similar
Adjustment		**-5%**		**-5%**	**-5%**	
Access	Average	Superior	Similar	Superior	Similar	Similar
Adjustment		**-5%**		**-5%**		
Site Improvements	Landscaping	Inferior	Inferior	Inferior	Similar	Inferior
Adjustment	Parking Lot	**5%**	**5%**	**5%**		**5%**
Overall Adjustment		**-30%**	**25%**	**-20%**	**-25%**	**25%**
Adjusted Value / SF		**$5.07**	**$4.67**	**$4.80**	**$4.70**	**$3.79**

Sale #5

No adjustments were required for Property Rights Conveyed, Financing Terms, Conditions of Sale, Expenditures After Purchase, or Market Conditions. Location was considered superior based on surrounding newer development and was adjusted downward 10%. Size was adjusted upward to reflect the typically lower price paid on a per unit basis for relatively larger properties; a 10% adjustment for the size difference is considered reasonable. The lot is irregularly shaped and Functional Utility is considered inferior, a 10% upward adjustment is made. Site Improvements were considered inferior and adjusted upward 5%. All other adjustment factors were considered generally similar. The adjusted value is $3.79/square foot.

Conclusion- Preliminary Land Value

Prior to adjustments, the price per square foot ranged from $3.74 to $7.25. After adjustments, the range is from $3.79/square foot to $5.07/square foot. Sale #2 and #5 are utilized as secondary support only (see sales data sheets). Sale #1, #3 and #4 are given primary emphasis and have a range of $4.70 to $5.07/square foot. Placing the most emphasis on Sale #1, #3 and #4 with secondary support from sale #2 and #5, the land value is concluded at $4.75/SF.

$4.75/SF x 220,414 square feet = $1,046,967, Round $1,050,000

BUILDING IMPROVEMENT
DEPRECIATED REPLACEMENT COST

Replacement Cost Analysis

The Marshall Valuation Service is used to estimate the total improvement costs. The replacement cost new will be calculated by adding direct and indirect costs and an appropriate allowance for entrepreneurial profit. Any depreciation from physical, functional, or external sources will then be deducted from the estimated replacement cost new. Finally, the depreciated improvement value will be added to the land value to conclude a value estimate by the Cost Approach.

Marshall Valuation Service

The cost summary on the following pages identifies each of the separate improvements components and indicates the appropriate Marshall Valuation Service designation including the Section, Page, and description. Additionally, the appropriate adjustments including, perimeter, story height, and current and local multipliers are applied as necessary to derive an adjusted base cost for each of the subject's primary improvement components. After the appropriate base unit cost is derived the cost is extended based upon the component sizes. The total improvements replacement cost is thus established.

Costs included in the Direct Costs:

The following construction costs are included in this cost estimate:

- Cost of interim money during normal periods of construction, but not discount points.
- Site preparation including finish grading and excavation for foundation and back-fill.
- Utilities from structure to lot line figured or typical setback.
- Contractor's overhead and profit, including job supervision, workmen's compensation, fire and liability insurance, unemployment insurance, equipment, temporary facilities, security, etc.

Costs included in the Indirect Costs:

Certain costs are not included in the direct costs. These are generally indirect or soft costs. The additional costs that were excluded by the Marshall Valuation Service and added in our analysis are as follows:

- Insurance & Taxes Costs during Construction: Estimated at $2,500.
- Professional Fees (including Title, Escrow, and Appraisal): Estimated at $5,000.
- Loan Fees: Estimated at 2% of direct costs.
- Contingency / Miscellaneous Costs: Estimated at 2% of direct costs.

Developer's Profit / Entrepreneurial Incentive

Entrepreneurial incentive compensates the developer for project risk and management. It is unlikely that a developer would proceed with a development unless adequate profit is available to justify the effort. This cost component includes office overhead, staff, and profit. Entrepreneurial incentive generally ranges from 8% to 15% of the replacement cost and land value, depending upon project size, location, and marketability. An entrepreneurial profit of 10% is considered reasonable due to type of structure and size.

Depreciation

From the improvement (replacement) cost new, a dollar amount of depreciation may be deducted. There are three types of depreciation: physical, functional, and external. Physical depreciation is the result of physical wear and tear on the improvements. Functional obsolescence is the result of design or physical problems, which reduce the income-producing ability or desirability of the subject property. External obsolescence is the result of outside influences (economic and neighborhood) that decrease the value of the property.

Physical Depreciation:

Physical depreciation was estimated based upon the Age/Life Method. Improvements are depreciated based on estimates of Effective Age and Estimated Economic Life shown in the Improvement Analysis section. The estimated effective age is divided by the estimated economic life of the subject building to derive a percentage amount of depreciation. The economic life estimates were based on reference to Marshall Valuation Services.

Functional Depreciation:

Due to the atypical modular building construction the subject suffers from some Functional Obsolescence. The design of the building, large un-partitioned office area and low cost finishes appear dated and is atypical of a permanent office building in the area. A Functional Obsolescence of 20% is applied.

External Obsolescence:

The market for development land and office properties is described as flat with increasing demand by market participants. External Obsolescence is not considered warranted.

See depreciated replacement cost summary on following page:

Conclusion – Building Improvements

The Depreciated Replacement Cost of the subject's building improvements is estimated at $31,000, see summary on following page.

Value Conclusion by the Cost Approach

The indicated value by the Cost Approach is

(See Extraordinary Assumptions)
ONE MILLION EIGHTY THOUSAND DOLLARS
$1,080,000

DEPRECIATED REPLACEMENT COST - BUILDING IMPROVEMENTS
ADDRESS: 1137 B Street, Merced, CA 95341

DIRECT COST OF IMPROVEMENTS — Marshall Valuation Service

Bldg #1 - Modular Office, Sec. 64, Pg. 8, "Average"								First Floor	
Base Cost, First Floor	$	28.25	Local	1.13	Current	1.03	$	32.88	
Building #1			1,960	SF	$	32.88	/SF	$	64,445
Total								**$**	**64,445**

*Extended totals are subject to differences due to rounding.

SITE IMPROVEMENTS & MISCELLANEOUS STRUCTURES (Estimated Depreciated Contributory Value):

Shed Building (Sec 17, Pg. 12)	$	3,000
Landscaping & Site Improvements Included in Land Value from Sales Comparison Approach		
Total	**$**	**3,000**

FURNITURE, FIXTURES & EQUIPMENT: - Not Included in Valuation

TOTAL DIRECT COSTS:		**$ 67,445**

INDIRECT COSTS:

Architectural/Planning Fees (included in base cost estimate):			
Insurance & Taxes During Construction:		$	2,500
Title, Escrow, and Appraisal:		$	5,000
Loan Fees:	2.0% of direct costs	$	1,349
Miscellaneous:	2.0% of direct costs	$	1,349
TOTAL INDIRECT COSTS:			$ 10,198
TOTAL DIRECT AND INDIRECT COSTS:			$ 77,643
Developer's Profit:	10% of direct, indirect, and land costs.	$	7,764
ESTIMATED REPLACEMENT COST:	$ 85,407 **(Rounded)**		$ 85,000

DEPRECIATION:

Physical Depreciation

Bldg.	Cost New	Allocated Indirect	Allocated Dev. Prof.	Total Cost New	Effect. Age (Est.)	Economic Life	Depr.	Depreciation
Building #1	$ 64,445	$ 10,198	$ 7,764	$ 82,407	17	30	57%	$ 46,697.44
	$ 64,445	$ 10,198	$ 7,764	$ 82,407				$ 46,697

Physical Depreciation		$	46,697
Physically Depreciated Replacement Cost New		$	38,303
Functional Obsolescence	20%	$	7,661
Physically and Functionally Depreciated Replacement Cost New			30,642
Economic Obsolescence	0%	$	-
Physically and Functionally and Economically Depreciated Replacement Cost New		$	30,642
TOTAL DEPRECIATION:		$	54,358
	(Rounded)		$ 54,000
DEPRECIATED REPLACEMENT COST			$ 31,000
LAND VALUE FROM SALES COMPARISON			$1,050,000

VALUE INDICATION FROM COST APPROACH — **(Extended totals are subject to differences due to rounding)** — **$ 1,080,000**

RECONCILIATION

Cost Approach	**$1,080,000**
Sales Comparison Approach	**NA**
Income Approach	**NA**

The Sales Comparison Approach and Income Approach were not applicable based on the characteristics of the building improvements.

The Cost Approach is considered to adequately support the value conclusion. Five closed sales were utilized. Sales data was considered adequate and the overall data adequately bracketed the subject's land value.

The opinion of the subject's Market Value, Fee Simple Estate, as of August 17, 2017 is:

ONE MILLION EIGHTY THOUSAND DOLLARS
$1,080,000

PART IV

ADDENDA

ENGAGEMENT CONTRACT

MERCED COUNTY

PURCHASE ORDER NO.	
P156874	
Printed 07/03/2017	Page 1

REQUISITION NO R0063915

VENDOR:
MCBAY, KENNETH R
DBA: KR MCBAY COMPANY
PO BOX 1804
TURLOCK, CA 95381

BILL TO:

INQUIRIES TO:
DEPARTMENT OF ADMINISTRATIVE SERVICES
2222 M STREET RM 1
MERCED, CA 95340
ATTN FRANK RYBKA
(209) 385-7331

SHIP TO:

PLEASE DELIVER THE FOLLOWING IN ACCORDANCE WITH THE TERMS AND CONDITIONS SPECIFIED ON THE ATTACHED DOCUMENTS.

BID/QUOTE NO.	SHIP VIA	EFFECTIVE DATE	TERMS	F.O.B. POINT	DEL DATE
	YOUR ROUTE		NET 30	DESTINATION	08/29/2017

LINE	QTY	UNIT	DESCRIPTION	UNIT PRICE	TAX	EXTENDED PRICE
1	1.00	JB	APPRAISAL OF COMMERCIAL LOT AND MODULAR OFFICE BUILDING.: 1137 B STREET MERCED, CA 95341 APN 035-010-071 PER PROPOSAL DATE 7/1/2017 AND SUBMITTED BY KENNETH R. McBAY	$2,900.00	$0.00	$2,900.00
			TOTAL	**$2,900.00**	**$0.00**	**$2,900.00**

Authorized Company Officer (please print name)

Signature (in blue ink) Date

Mark Cowart
Administrative Services Director

LEGAL DESCRIPTION/GRANT DEED

Recorded in Official Records, Merced County

KENT B. CHRISTENSEN
Merced County Recorder

12/22/2009
10:48 AM
RE03

P Public T

Doc#: 2009–061427

Titles:	1	Pages:	2
Fees			0.00
Taxes			0.00
Other			0.00
PAID			$0.00

RECORDING REQUESTED BY:

When Recorded Mail Document and Tax Statement to:

County of Merced
715 Martin Luther King Jr. Way
Merced, CA 95340

SPACE ABOVE THIS LINE FOR RECORDER'S USE

APN: 035-010-071

GRANT DEED

The undersigned grantor(s) declare(s) the amount of transfer tax is $0.00. R&T 11922

FOR A VALUABLE CONSIDERATION, receipt of which is hereby acknowledged,

Calvary Chapel of Merced,

hereby GRANT(s) to the County of Merced, a body politic and corporate, the following described real property located in the City of Merced, State of California:

All that portion shown as Parcel A on that certain Parcel Map for "Raymond A. Bessemer, M.D." recorded March 2, 2000, in Book 86 of Parcel Maps, Pages 22 and 23, Merced County Records.

Dated: 11-5-09

Calvary Chapel of Merced

Gregory B Boyd
By: Gregory B Boyd

STATE OF CALIFORNIA
COUNTY OF Contra Costa

On Nov 5, 2009 before me,
D. Heiden, Notary Public, personally appeared

Gregory B. Boyd

who proved to me on the basis of satisfactory evidence to be the person~~(s)~~ whose name~~(s)~~ is/are subscribed to the within instrument and acknowledged to me that ~~he~~/~~she~~/~~they~~ executed the same in ~~his~~/~~her~~/~~their~~ authorized capacity~~(ies)~~, and that by ~~his~~/~~her~~/~~their~~ signature~~(s)~~ on the instrument the person~~(s)~~, or the entity upon behalf of which the person~~(s)~~ acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

Witness my hand and official seal.

Signature D. Heiden

D. HEIDEN
COMM. #1803305
Notary Public-California
CONTRA COSTA COUNTY
My Comm. Exp. JULY 19, 2012

BEFORE THE BOARD OF SUPERVISORS
OF THE COUNTY OF MERCED, STATE OF CALIFORNIA

In the Matter of
ACCEPTING GRANT DEED FROM)
CALVARY CHAPEL OF MERCED FOR)
PROPERTY LOCATED AT 1137 "B") RESOLUTION NO. **2009-237**
STREET IN MERCED CALIFORNIA (APN)
035-010-071))

WHEREAS, it is deemed in the best interest of the County of Merced that the Grant Deed, dated November 5, 2009, conveying property interest to the County of Merced from Calvary Chapel of Merced for property located at 1137 "B" Street, Merced, California; and,

WHEREAS, the property included in the Grant Deed consists of a 5.06 acre parcel represented by APN 035-010-071; and,

WHEREAS, upon acceptance, the original Grant Deed will be placed in escrow with Fidelity National Title Company, Order No. 3005861; and,

WHEREAS, the original Grant Deed will be recorded by Fidelity National Title Company as part of the escrow process.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Supervisors for the County of Merced that the Grant Deed from Calvary Chapel of Merced executed on November 5, 2009 for property located at 1137 "B" Street in Merced be accepted by and on behalf of the County of Merced, State of California.

I, DEMITRIOS O. TATUM, Clerk of the Board of Supervisors of the County of Merced, do hereby certify that the foregoing resolution was regularly introduced, passed and adopted by said Board at a regular meeting thereof held on 8th day of December, 2009 by the following vote:

SUPERVISORS:

AYES: Deidre F. Kelsey, John Pedrozo, Hub Walsh, Mike Nelson, Jerry O'Banion

NOES: None

ABSENT: None

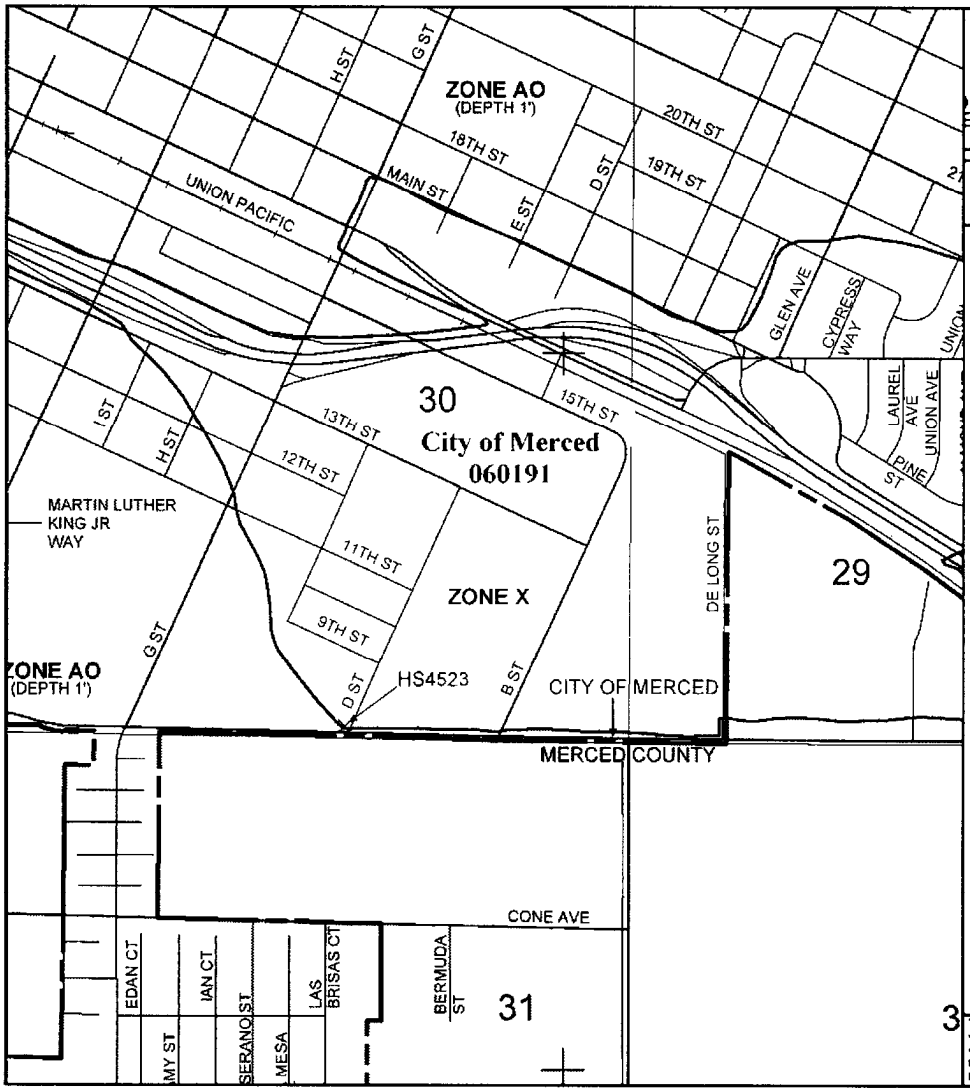
WITNESS my hand and the Seal of this Board this 8th day of December, 2009.

MERCED COUNTY 18 55

DEMITRIOS O. TATUM, CLERK

By _____
Deputy

FEMA MAP



MAP SCALE 1" = 1000'

0 1000 2000 FEET

0 300 600 METERS

NFIP

NATIONAL FLOOD INSURANCE PROGRAM

PANEL 0440G

FIRM

FLOOD INSURANCE RATE MAP

MERCED COUNTY, CALIFORNIA

AND INCORPORATED AREAS

PANEL 440 OF 1225

(SEE MAP INDEX FOR FIRM PANEL LAYOUT)

CONTAINS:

COMMUNITY	NUMBER	PANEL	SUFFIX
MERCED, CITY OF	060191	0440	G
MERCED COUNTY	060168	0440	G

Notice to User: The Map Number shown below should be used when placing map orders; the Community Number shown above should be used on insurance applications for the subject community.

MAP NUMBER
06047C0440G

MAP REVISED
DECEMBER 2, 2008

Federal Emergency Management Agency

This is an official copy of a portion of the above referenced flood map. It was extracted using F-MIT On-Line. This map does not reflect changes or amendments which may have been made subsequent to the date on the title block. For the latest product information about National Flood Insurance Program flood maps check the FEMA Flood Map Store at www.msc.fema.gov

APPRAISER LICENSE

Business, Consumer Services & Housing Agency

BUREAU OF REAL ESTATE APPRAISERS

REAL ESTATE APPRAISER LICENSE

Ryan D. Heiny

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

"Certified General Real Estate Appraiser"

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 041138

Effective Date: June 2, 2017
Date Expires: June 1, 2019

Jim Martin, Bureau Chief, BREA

3033200

THIS DOCUMENT CONTAINS A TRUE WATERMARK - HOLD UP TO LIGHT TO SEE "CHAIN LINK"

Business, Consumer Services & Housing Agency

BUREAU OF REAL ESTATE APPRAISERS

REAL ESTATE APPRAISER LICENSE

Kenneth R. McBay

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

"Certified General Real Estate Appraiser"

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 008218

Effective Date: April 19, 2017
Date Expires: April 18, 2019

Jim Martin, Bureau Chief, BREA

3034415

APPRAISER QUALIFICATIONS

K. R. McBay Company

Real Estate Valuation and Consultation
Commercial, Agricultural, Eminent Domain

QUALIFICATIONS OF RYAN D. HEINY

PROFESSIONAL QUALIFICATIONS:

State of California Certified General Real Estate Appraiser, #AG041138
Candidate for Designation, Appraisal Institute

FORMAL EDUCATION:

California State University Stanislaus — B. A., Organizational Communications
Graduated "Magna Cum Laude"

EXPERIENCE:

2011 - Present: K. R. McBay Co.; Senior Real Estate Appraiser: Appraisal of industrial, agricultural, multi-family residential, retail, office, development properties, eminent domain, right-of-way valuation. Experience included appraisal of owner-occupied and income-producing properties, in addition to appraisal review.

2006 – 2011 Robert Ford & Associates; Real Estate Appraiser: industrial, retail, agricultural, office, hotel/motel, mixed and special use and vacant land valuation. Experience included appraisal of owner-occupied and income-producing properties.

2005 - 2006 World Savings/Atlas Securities; Financial Analyst: Experience included stock and bond asset valuation, and risk exposure analysis.

2001 - 2005 Merrill Lynch Pierce Fenner & Smith; Financial Analyst: Experience included stock and bond asset valuation, and risk exposure analysis.

PROFESSIONAL APPRAISAL EDUCATION:

Advanced Income Capitalization
Quantitative Analysis
Advanced Concepts and Case Studies
Advanced Market Analysis and
Highest and Best Use
Business Practices and Ethics
Sales Comparison Approach
General Appraiser Income Approach I
General Appraiser Income Approach II
Site Valuation and Cost Approach
Report Writing and Case Studies
Commercial Appraisal Review
Expert Witness for Commercial Appraisers
Environmental Contamination of
Income Properties
Environmental Pollution and Mold
Analyzing Industrial Buildings for Mortgage
Underwriting
Foundations in Sustainability;
Greening the Real Estate Industry
Minimizing Liability in Commercial Appraisal
Real Estate Finance, Statistics and Valuation
Modeling
Market Analysis and Highest and Best Use
2016-2017 USPAP Update
2013-2014 USPAP Update
2010-2011 USPAP Update
2007-2008 USPAP Update
National USPAP Course
Basic Appraisal Principles
Basic Appraisal Procedures
Laws and Regulations for California Appraisers

K. R. McBay Co.
P. O. Box 1804
Turlock, CA 95381-1804

(209) 634-0402 Office & Fax
www.krmcbayco.com
kennethmcbay@krmcbayco.com

K. R. McBay Company

Real Estate Valuation and Consultation
Commercial, Agricultural, Eminent Domain

QUALIFICATIONS OF KENNETH R. MCBAY

PROFESSIONAL QUALIFICATIONS:

MAI (Member Appraisal Institute) - Designated Member of the Appraisal Institute
AI-GRS (Appraisal Institute-General Review Specialist) – Designated Commercial Reviewer
ARA (Accredited Rural Appraiser) - American Society of Farm Managers & Rural Appraisers
SR/WA (Senior Right of Way Agent) - International Right-of-Way Association
State of California Certified General Real Estate Appraiser, #AG008218
Licensed Real Estate Broker, State of California, #00777996
Conservation Easement Valuation (Appraisal Institute & ASFMRA)
Litigation Appraisal (Appraisal Institute)

FORMAL EDUCATION:

Hancock College	A.S. Degree, Business (Real Estate)
California State Polytechnic University	B.S. Degree, Agronomy
California State Polytechnic University	M.S. Degree, Agricultural Management
University of South Illinois	One year completed toward MBA

EXPERIENCE:

2000 - Present:	K. R. McBay Co.: Agricultural, commercial, and eminent domain real estate valuation and consultation.
1995 - 2000:	Professional Appraisal & Right-of-Way Services, Inc.: Right-of-way services, retail, office, industrial, special use, agricultural, and multi-residential valuation.
1991 - 1994:	Woollard Associates: Retail, office, industrial, special use, subdivision, residential, and agricultural valuation.
1987 - 1989:	Bank of America Agricultural O.R.E.O.("Other Real Estate Owned"): Valuation and analysis of foreclosure properties. Administration of property management section.
1982 – 1987:	John Hancock Life Insurance Co. Real Estate Investment Department: Valuation and analysis of full range of agricultural properties, management of property portfolio, origination and underwriting of loan portfolio.
1979 – 1982:	Cal Coast Irrigation: Designed and sold full range of farm and ranch irrigation systems
1977 – 1979:	Continental Factors Corporation: Managed portfolio of absentee owner farms and ranches, provided feasibility analysis of various agricultural real estate acquisitions, and brokerage services.

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kennethmcbay@krmcbayco.com

EXHIBIT C

PURCHASE AGREEMENT TERMS

The Parties agree that a Purchase Agreement shall be executed within ninety (90) days of the LESSEE successfully exercising the Option. In substantially the same form, the Purchase Agreement shall include, but not be limited to, the following terms:

A. The requirement that use of the Premises shall be limited to the construction and operation of the affordable housing development described in section 6, subsection (B), shall be included as a Deed Covenant in the Grant Deed used to convey LESSOR's interest in the premises.
B. Any land use entitlement LESSEE grants to a third party regarding the Premises shall be conditioned on the use of the Premises conforming to the requirements of section 6, subsection (B), of this Agreement.
C. The Parties agree to cooperatively explore additional funding to assist with the permanent supportive housing units for no less than a 15 year period that are required under section 6 of this Agreement. These options may include, for example, funds made available under the Building Homes and Jobs Act, otherwise known as SB 2.
D. The Grant Deed used to convey LESSOR's interest in the Premises shall include a Deed Covenant that reserves for LESSOR a reversionary interest in the Premises. (COUNTY's Power of Termination). In the event LESSEE, an assignee or successor in interest, has failed to begin "physical construction" of the project identified in section 6, subsection (B) within two (2) years of the closing date, the Deed Covenant shall provide LESSOR with the unconditional right and power to terminate all of LESSEE's (and anyone claiming by or through LESSEE or any of LESSEE's successors or assigns) rights, title, estate, and interest in the Premises, to reenter and repossess the Premises, to revoke the Grant Deed, and enforce the Deed Covenant. For purposes of this Purchase Agreement only, "physical construction" shall mean the presence of forms or structures that are unfinished or finished. Should the LESSOR choose to exercise such right, the funds provided for payment of the Premises by the LESSEE, as outlined in section 6, subsection(A), of the Lease for Ground Agreement, will be refunded to the LESSEE by the LESSOR at the time the LESSOR reenters and repossesses the Premises.
E. LESSOR shall have, at its sole option and expense, ninety (90) days from the closing date to relocate from the Premises the improvements then existing on the Premises. Should the LESSOR choose to exercise such right, it will credit from the purchase price as indicated in the Lease for Ground Agreement section 6,subsection (A), an amount of $31,000. Should the LESSOR chooses not to exercise such right, the LESSEE shall have absolute discretion to dispose of the existing improvements and will not be required to maintain or restore the existing improvements to their original condition within the revisionary period.
F. LESSEE agrees to an "As-Is" purchase. LESSEE shall take title to the Premises in its present physical condition and on an "as is" and "where is" basis, with all faults, defects and deficiencies, whether known or unknown, it being understood that LESSOR is not making any representations or warranties whatsoever to LESSEE as to the physical condition, including without limitation the structural soundness thereof, habitability, merchantability, or fitness of the Premises, or any portion thereof, for any particular use or purpose by LESSEE, whether or not such proposed use or purpose has been

communicated to LESSOR or is desired by LESSOR, nor is LESSOR making any representation or warranty whatsoever as to the presence, absence or proximity on, under, in, or near the Premises of any hazardous, toxic, carcinogenic or otherwise harmful substances, or seismic faults or flood hazards, nor is LESSOR making any representation or warranty whatsoever as to whether or not the Premises complies or does not comply with any laws, regulations, ordinances, related to the condition, uses or occupancy thereof. LESSOR shall not be liable for any loss, damage (including consequential damage) or diminution of value of any kind or nature caused to the Premises, directly or indirectly, whether or not such loss, damage (including consequential damage) or diminution of value was discovered before or after the closing date.

G. LESSEE agrees to indemnify and hold LESSOR harmless against any and all claims arising out of the existence of hazardous substances or hazardous wastes in the soil or groundwater.