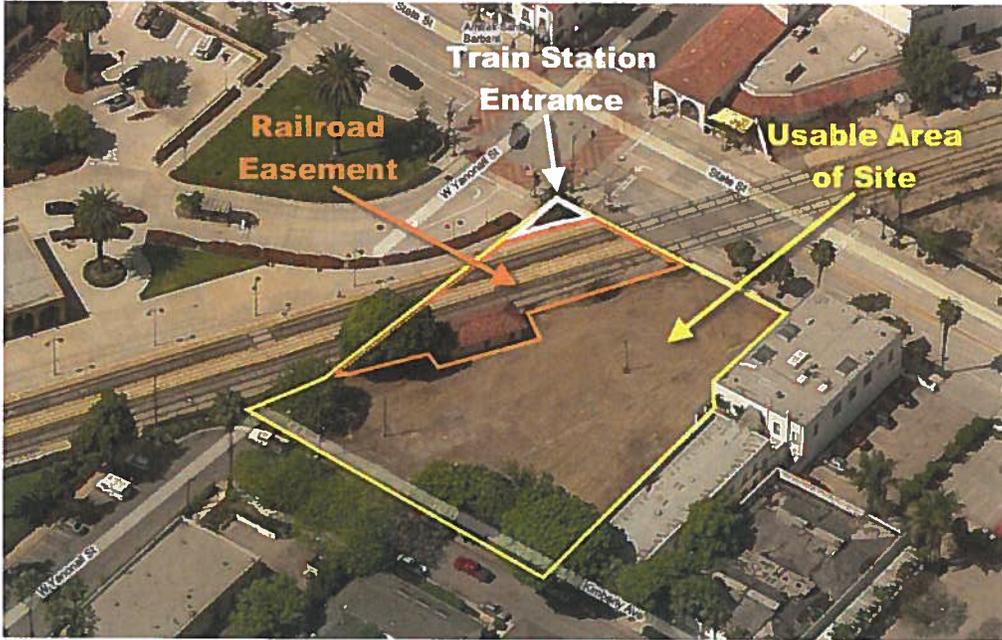


Exhibit F

**Schott & Company Appraisal,
dated August 31, 2012**

APPRAISAL REPORT:

HRC-2 ZONED LAND



125 STATE STREET, APN: 033-070-012 & 014, 033-010-012, and 033-042-016

SANTA BARBARA, CALIFORNIA

Date of Value:
August 31, 2012

Prepared For:
Marck Aguilar
Redevelopment Supervisor
City of Santa Barbara
630 Garden Street
Santa Barbara, CA 93101

Date of Report:
August 31, 2012

SCHOTT & COMPANY

REAL ESTATE APPRAISAL & CONSULTING

August 31, 2012

Marck Aguilar
Redevelopment Supervisor
City of Santa Barbara
630 Garden Street
Santa Barbara, CA 93101

Reference: Real Estate Appraisal
HRC-2 Zoned Land
125 State Street
APN: 033-075-012 & 014, 033-010-012, and 033-042-016
Santa Barbara, California

Dear Mr. Aguilar:

In accordance with your request and authorization, the above referenced real property has been examined and appraised for the purpose of reporting to you my estimate of its market value and market rental value, "as is," as of August 31, 2012. As a result of this investigation and analysis of matters pertinent to the property's value, I have concluded that the market value and market rental value of the fee simple estate, as of the date mentioned, was as follows

Market Value:	\$3,000,000
Market Rental Value/Year:	\$195,000

It should be noted that the estimate of rental value assumes a fifty year lease term with annual adjustments to the rental rate according to changes in the CPI and an adjustment to market rent on every fifth anniversary.

On the following pages can be found an appraisal report setting forth some of the information and conclusions, which, in part, form the basis for the estimate of market value expressed. This report is intended to conform to the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Foundation and the Standards of Professional Appraisal Practice and Code of Professional Ethics of the Appraisal Institute. My work would be classified as a Summary Appraisal Report.

Respectfully submitted,



Stephen G. Schott, MAI
CA #AG024150

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SUMMARY OF SALIENT FACTS

Property Address:	125 State Street Santa Barbara, California
Property Type:	HRC-2 Zoned Land
Record Owner:	City of Santa Barbara
Date of Value:	August 31, 2012
Purpose of Appraisal:	Estimate Market Value Estimated Market Rental Value
Property Rights Appraised:	Fee Simple Estate
Usable Site Area:	±22,362 Sq. Ft.
Zoning:	HRC-2, Hotel Related Commerce
Building Area:	None
Highest and Best Use:	Hold for Future Development
Valuation:	
Sales Comparison Approach:	\$3,000,000
Fee Simple Value Conclusion:	\$3,000,000
Rental Value Conclusion:	\$195,000/Year

CERTIFICATION

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

- the statements of fact contained in this report are true and correct.
- 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, opinion, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- that this appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation and in accordance with the Code of Professional Ethics and the standards of Professional Practice of the Appraisal Institute.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report.
- that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives
- 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..

As of the date of this report, I have completed the requirements under the continuing education program of the Appraisal Institute.



STEPHEN G. SCHOTT, MAI
CA#AG024150

PREMISES OF APPRAISAL

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been made with the following general assumptions and limiting conditions:

- 1) This is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
- 2) No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
- 3) The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
- 4) Responsible ownership and competent property management are assumed unless otherwise stated in this report.
- 5) The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 6) All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 7) It is assumed that there are no hidden or un-apparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- 8) It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- 9) It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report.

- 10) It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
- 11) Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
- 12) It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
- 13) The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The appraiser's 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 unless otherwise stated in this report. No responsibility is assumed for environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
- 14) Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.
- 15) Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
- 16) The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

- 17) Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with properly written qualification and only in its entirety.
- 18) Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news sales, or other media without prior written consent and approval of the appraiser.

TYPE AND DATE OF APPRAISAL

This appraisal is an estimate of the market value and market rental value, “as is,” as of August 29, 2011, of the fee simple estate in the real property described herein.

SCOPE OF APPRAISAL

This is a Summary Appraisal Report. Generally, a valuation analysis has been completed including an inspection and description of the subject property and surrounding area, consideration of highest and best use, and the application of valuation analyses. Insofar as is practical, every effort has been made to verify as factual and true all data set forth in this report. However, no responsibility is assumed for the accuracy of any information furnished by others.

INTENDED USE AND USER

The intended use of this appraisal is for potential sale or lease of the subject property. The intended user is the owner of the subject property.

FUNCTION OF APPRAISAL

The function of this appraisal is to provide valuation information to the owner of the subject property for use in a potential sale or lease of the subject property.

COMPETENCY PROVISION

Prior to accepting this assignment, the property to be appraised and the nature of the valuation problem was discussed with the client. I have the knowledge and experience to complete this appraisal assignment and have

appraised this property type before. Please see Appraiser's Experience Data included in the Addenda to this report for additional information.

DEFINITION OF TERMS

MARKET VALUE

Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by federal financial institutions in the United States of America is:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (a) Buyer and seller are typically motivated;
- (b) Both parties are well informed or well advised, and acting in what they consider their 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.

Source: Uniform Standards of Professional Appraisal Practice (of the Appraisal Foundation)

FEE SIMPLE ESTATE

The term, "fee simple estate", as used in this report, is defined as follows:

An absolute fee; a fee without limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power, and taxation. An inheritable estate.

LEASED FEE ESTATE

The term "leased fee estate", as used in this report is defined as follows:

A property held in fee with the right of use or occupancy conveyed by lease to others. A property consisting of the right of ultimate repossession at the termination of the lease.

MARKET RENT

The term "market rent", as used in this report, is defined as follows:

The rental that a property would most probably command on the open market as indicated by current rentals being paid for comparable space, as of the effective date of appraisal.

GROSS LEASE

The term "gross lease", as used in this report, is defined as follows:

A lease in which the lessor is obligated to pay all or most property charges, e.g., real estate taxes, insurance, structural repairs. Typically, the lessee is responsible for their proportionate share of utility costs.

FULL SERVICE LEASE

The term "full service lease," as used in this report, is defined as follows:

A lease in which the lessor is obligated to pay all property charges, e.g., real estate taxes, insurance, structural repairs, as well as utility costs. Additionally, janitorial costs are often included.

NET LEASE

The term "net lease", as used in this report, is defined as follows:

A lease in which the lessee pays all property charges, e.g., taxes, insurance, assessments, maintenance, in addition to the stipulated rent.

THE SUBJECT PROPERTY

PROPERTY IDENTIFICATION

INTRODUCTION

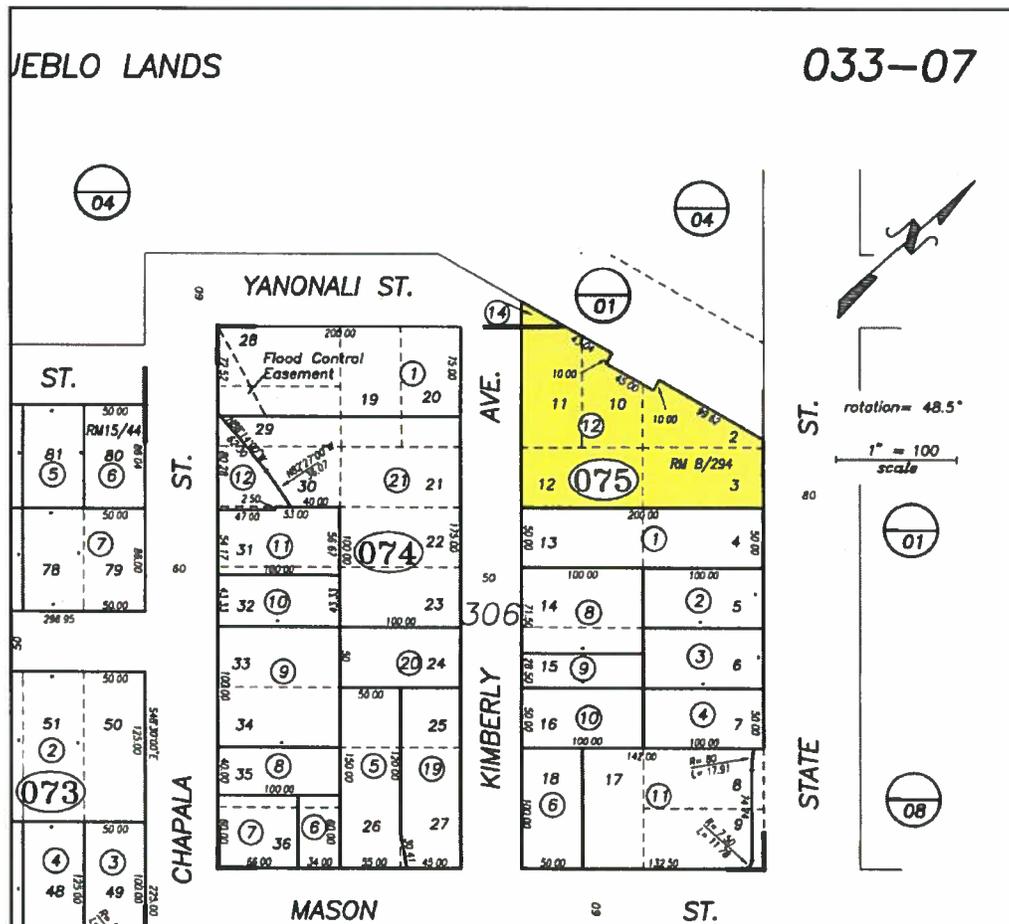
The subject property consists of an HRC-2 zoned parcel of land that is unimproved.

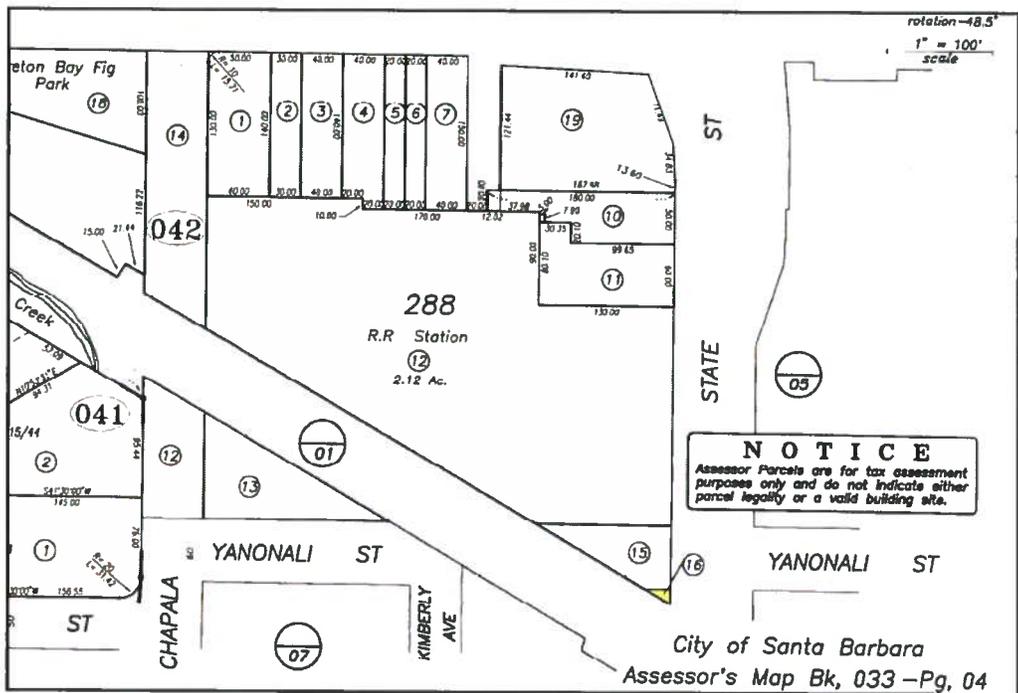
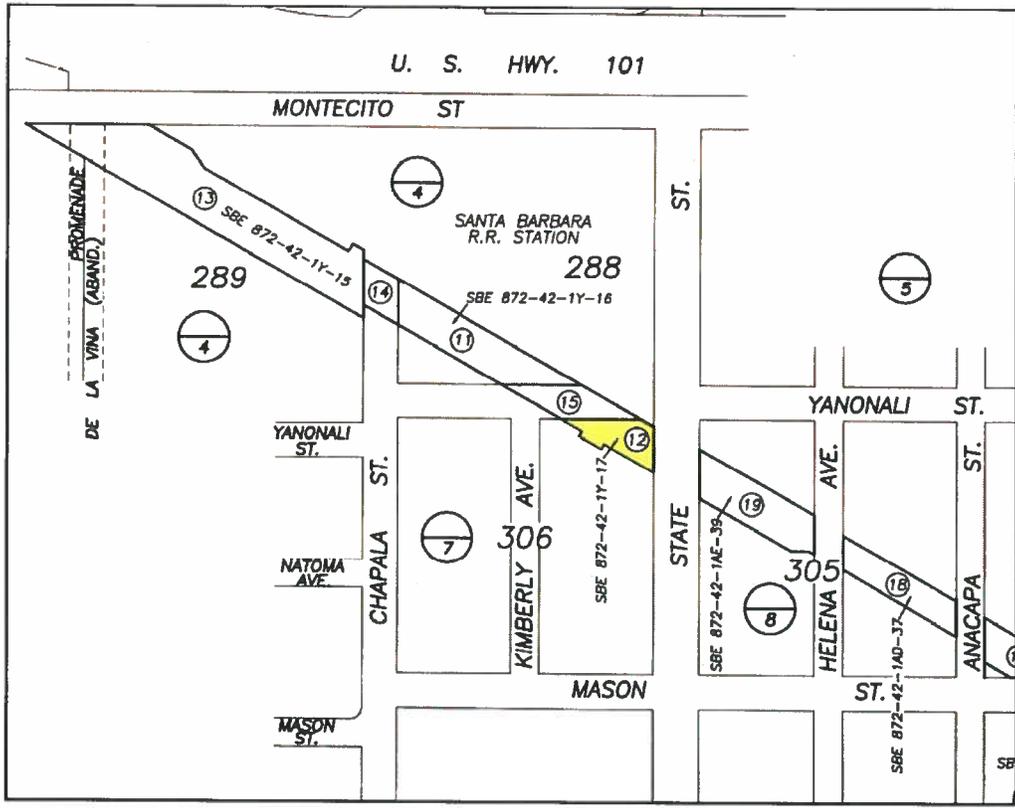
STREET ADDRESS

125 State Street
Santa Barbara, California

ASSESSOR'S PARCEL NUMBERS

Book 33, Page 075, Parcels 12 & 14
Book 33, Page 010, Parcel 12
Book 33, Page 042, Parcel 16



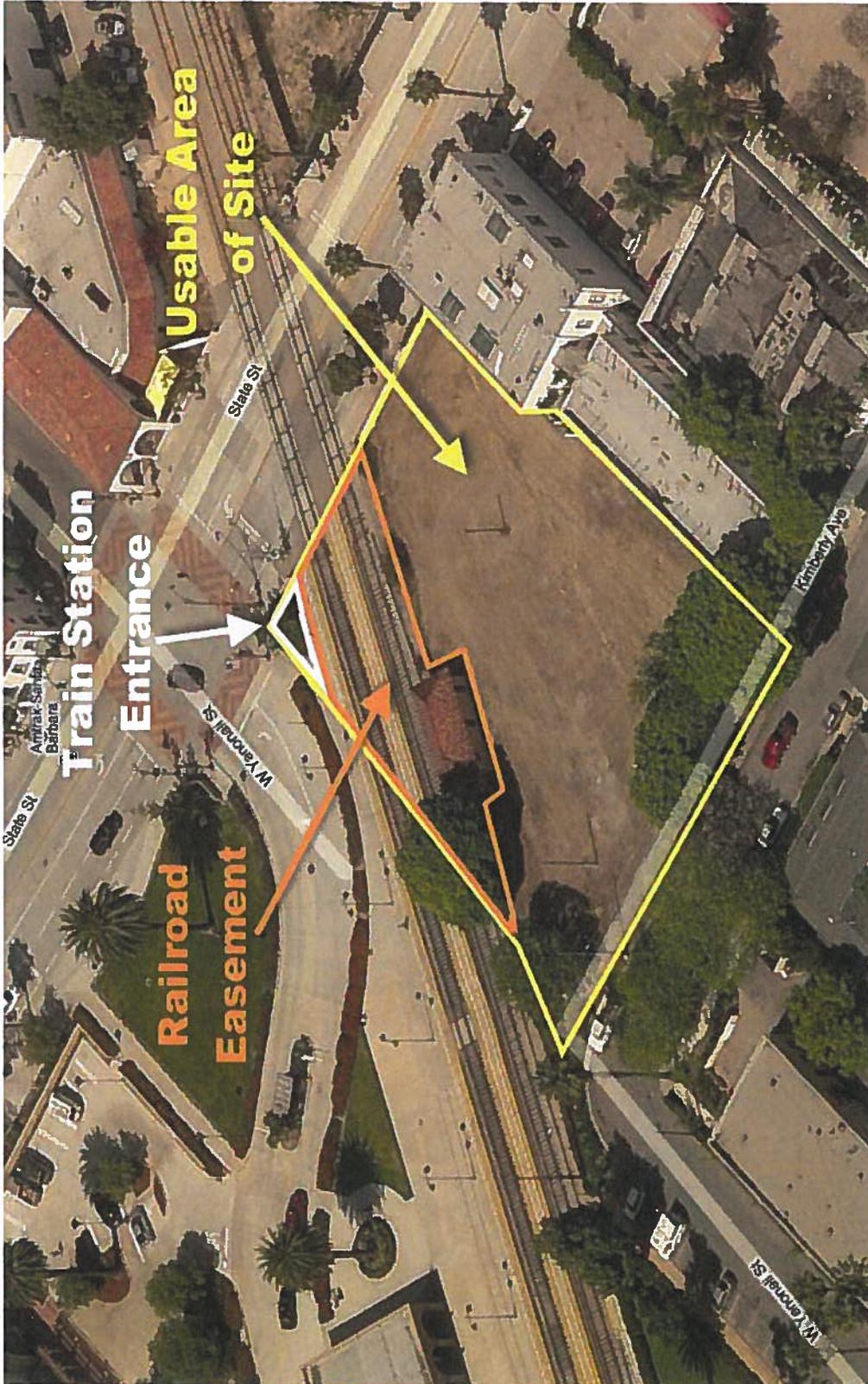


OWNERSHIP RECORD

The subject property is held in the name of the City of Santa Barbara. The property does not appear to have sold or been listed for sale in the past three years.

PERTINENT CONDITIONS OF TITLE

I have reviewed a preliminary report for the subject issued by Chicago Title and dated August 2, 2012. A northerly portion of the subject is encumbered by an easement for a railroad right of way. Additionally, there is a very small triangular area at the northern tip of the subject property that appears to be part of the entry to the train station and is not considered to be a usable portion of the subject property. In addition there is a 16.5 foot wide easement for telecommunications purposes that follows the railroad corridor and crosses the subject. It is beyond the scope of this assignment to determine specifically where the easement is located on the subject but it appears it overlaps the railroad right of way. I have assumed that this is the case. It is an assumption of this appraisal that there are no additional easements, liens, or encumbrances that could adversely affect the value or utility of the subject property. Set out below is an aerial photograph showing the subject property and the railroad right of way and the portion of the subject located at the entrance to the train station that is not considered part of the usable area of the site.



AREA DESCRIPTION

REGIONAL

The subject property is located in the City of Santa Barbara, in southern Santa Barbara County. Santa Barbara County is situated in California's central coast region. The county is approximately 100 - 150 miles northerly of Los Angeles and 250 - 300 miles southerly of San Francisco. It is bounded by San Luis Obispo County to the north, Ventura County to the east and the Pacific Ocean to the south and west. Physically, the county stretches from the Pacific Ocean on the south and west to the Los Padres National Forest to the northeast and encompasses a variety of climates and geography. The majority of the population centers are located along the southern coast and in the Santa Maria and Lompoc Valleys in "North County." The county has a current population of approximately 424,000.

The major incorporated cities in the county consist of Santa Barbara and Goleta in the south and Lompoc and Santa Maria in the north. Smaller cities and significant unincorporated areas consist of Carpinteria and Montecito along the South Coast; Los Olivos, Solvang, Buellton, and Santa Ynez in the Santa Ynez Valley; Guadalupe and Orcutt near Santa Maria; and Vandenberg Village and Mission Hills near Lompoc. These urban areas range in population from approximately 1,000 (Los Olivos/Santa Ynez) to approximately 90,000 (Santa Barbara). The urban areas are concentrated in the western and southern portions of the county, with the majority of them along U.S. Highway 101 or State Highway 1. There is very little population in the Los Padres National Forest (portions of which are wilderness areas).

The Santa Barbara metropolitan area (also referred to as the "South Coast") consists of a ±25 mile wide by ±3 mile deep area that extends from the City of Carpinteria on the east to the City of Goleta on the west, with the City of Santa Barbara in the middle. The South Coast is bounded by the Santa Barbara Channel of the Pacific Ocean to the south and the Santa Ynez Mountains to the north. The economy of the South Coast is based primarily on tourism, agriculture, research and development, and government, including the Santa Barbara campus of the University of California. The population of the area is approximately 187,000. There was substantial population growth in the area between 1940 and 1970. Reduced population growth in the 1970s, 1980s, and into the 1990s is reflective of governmental constraints; high real estate prices; and physical constraints, such as limited resources.

COMMUNITY

The City of Santa Barbara is located in the center of the Santa Barbara metropolitan area. The city limits reach from the Pacific Ocean on the south to the foothills of the Santa Ynez Mountains on the north. The prestigious residential community of Montecito is to the east of the city and the suburban Goleta Valley is to the west. Total land area of the city is 18.4 square miles. Topography varies from level coastal plain to sloping hillsides.

The population of the city is currently approximately 86,000. The population grew moderately from 1970 to 2000, and has shrunk over the past ten years by 4%. There is little available land within the city that is available for development. Thus, the potential for growth of the population of the city is very limited, unless there is a significant change in current zoning or an annexation of a significant portion of

adjacent land (both scenarios are very unlikely). The population profile of Santa Barbara is unusual in comparison to national figures in that it has a smaller proportion of family units and family units with children. As a result, a higher than typical percentage of the population consists of young adults and older retirees. There is a relatively high proportion of renters and income levels vary widely.

The City of Santa Barbara is linked to employment and housing throughout the South Coast. The employment profile of the city is generally similar to that of the metropolitan area as a whole, particularly in terms of the industry groups with the highest percentage of the total employment, retail trade, manufacturing, services, and government. The downtown central business district consists of retail establishments, government offices, professional offices, and financial institutions. The County of Santa Barbara is the largest employer in the downtown area and financial institutions are the largest employers in the private sector.

The economic base of the city (the sources of income) consists primarily of: property and pensions income, tourism, and research and development. Property and pensions income includes such items as Social Security, retirement benefits, dividends, interest, and rent.

Overall, local economic conditions are stable to slightly contracting. While the city government has often historically been blamed for actions and positions that are seen as "anti-business," this attitude appears to be waning lately. Additionally, the picturesque setting and mild climate of the area continues to attract smaller businesses despite difficulties to entry in the Santa Barbara market.

On November 7, 1989 the voters of the City of Santa Barbara passed Measure E. The ordinance limits non-residential development during the 20 years

following 1989 (which was extended until January 1, 2013) to 3,000,000 square feet over the October 1988 levels. Each year, specific levels of commercial square footage are allocated for various types of projects. Further, commercially zoned sites that were vacant as of October 1988 are limited in development to a building equivalent in size to a maximum of 25% of the site area plus 3,000 square feet. Projects proposed under the ordinance must also show that they will not adversely impact the city's water resources (no longer a significant issue), traffic within the city, and the supply of affordable housing.

The City of Santa Barbara has a total of approximately 21,420,000 square feet of non-residential building area. Roughly 50% of the space is retail, 8% is lodging facilities, and the remainder is split evenly between office and industrial space.

Primary automobile transportation in Santa Barbara is furnished by U.S. Highway 101, which runs through the city. Public transportation consists of a bus system that includes routes to most areas within the city and surrounding communities. Additionally, there is an electric bus service that operates on the downtown portion of State Street and the waterfront. The city has a relatively large community college and several private colleges, a variety of public and private schools, and two hospitals. Other area amenities include a number of sand beaches, a harbor, public parks, and hiking trails within the Los Padres National Forest, located adjacent northeasterly of the city.

In conclusion, economic conditions are stable to slightly contracting along the South Coast and Santa Barbara. Real estate in Santa Barbara is relatively expensive and generally in short supply. A shortage of land that is available to be

developed, governmental constraints, and economic factors have limited development in the recent past. These constraints to development will very likely continue into the future. The area is renowned for a mild climate and appealing setting making it a very desirable location. Overall, continued relatively strong demand for real estate within Santa Barbara is very likely.

SURROUNDING INFLUENCES

The subject property is located on State Street, Santa Barbara's primary commercial thoroughfare. The subject neighborhood is bounded by Cabrillo Boulevard and the beach to the southeast, residential uses to the southwest, U.S. Highway 101 to the northwest, and light industrial uses to the northeast. The topography of the area is generally level.

The subject neighborhood was originally developed in the 1920s with a mixture of hotels and motels, light industrial uses, and residential uses. Over time, properties along Cabrillo Boulevard generally were converted to visitor serving facilities (motels and restaurants). The first three blocks of State Street have remained a mixture of uses. Current uses consist of retail outlets, restaurants, hotels, offices, and the Santa Barbara Train Station (located one half block northwesterly of the subject). While many of the downtown blocks of State Street have undergone redevelopment, and a general economic renaissance, the first three blocks of State Street remain underdeveloped and await redevelopment.

A large redevelopment project has been proposed for the first two blocks of State Street. Originally conceived and approved as a time share hotel development, the project has been redesigned as a hotel and retail complex. Currently, the project consists of a four story shuttered hotel (that needs a seismic retrofit and complete

remodel in order to reopen), several large one story retail buildings, and a pit with a foundation poured for a new structure. The three properties sit at three corners of the intersection of State Street and Mason Street approximately one half block southerly of the subject. If this project is ever built (this redevelopment has been 20 years in the making), it will be a positive impact on the neighborhood.

Sterns Wharf is located at the terminus of State Street at Cabrillo Boulevard. This public wooden pier has a variety of shops and restaurants and, with the surrounding beaches, attracts large numbers of tourists. The Santa Barbara Train Station is located adjacent to the subject. A restoration of the train station and the redesign and remodel of the public parking lot was completed in 2002 by the Redevelopment Agency of Santa Barbara. The hotel that is adjacent to the subject recently underwent a substantial remodeling and upgrading. Additional development scheduled for the subject neighborhood includes the completion of the development of a youth hostel on a property located across State Street and one block northwesterly (under construction but on hold) from the subject. Several other redevelopments are under construction or proposed for the wider neighborhood.

The subject is located adjacent to the Union Pacific Railroad Tracks. There are approximately 15 to 20 trains that pass by the subject each day. Approximately two thirds of these trains are passenger trains. These trains stop at the Santa Barbara Train Station which is located across the tracks from the subject. Alternatively, freight trains do not stop at the subject location. While the train station is a positive from the perspective of delivering tourists to Santa Barbara, the noise and vibration caused by the train is judged to be a negative impact on the subject.

Thus, there is strong potential for a substantial change in uses in the subject neighborhood. The changes in uses will improve the appeal of the neighborhood and should increase values. Given the subject's close proximity to proposed development and the beach area, tempered by the fact that it is adjacent to the railroad tracks, the appeal of the specific subject location is judged to be good.



MARKET CONDITIONS

Values of all property types had been increasing by substantial amounts during the eight years prior to 2006. While residential values have decreased by as much as 25% since their peak in 2005, commercial real property values continued to increase until 2007. Values of commercial property contracted from 2007 to 2011. In addition to a steady stream of negative economic news, the tightening of the credit market drove an increase in overall capitalization rates for investment property (which lowered values). During the past six to twelve months, market conditions for commercial property have stabilized.

Commercial leasing activity in 2011 was robust and at levels not seen for four years. The vacancy rates for office, retail, and industrial space on the Santa Barbara South Coast is relatively low. The current vacancy rates for office, retail

and industrial space on the South Coast are 8.8%, 2.9%, and 4.4%, respectively, according to *Fourth Quarter 2011 Review*, published by the Hayes Commercial Group.

Demand among buyers of local commercial property (both investors and owner-users) has rebounded from the low levels seen in 2009 and 2010. Demand is currently high among both types of users particularly for well located properties in good condition.

SITE DESCRIPTION

LOCATION

The usable portion of the subject property is located on the southwesterly side of State Street at its intersection with the Union Pacific Railroad tracks (which is also essentially its intersection with Yanonali Street).

SHAPE AND DIMENSIONS

Technically the subject site is slightly nearly rectangular in shape but due to an easement for the railroad tracks across the northerly part of the subject, the usable area of the subject is irregular in shape. It has approximately 57 feet of frontage on State Street and 172 feet of frontage on Kimberly Avenue. It has approximately 229 feet of frontage on the railroad and stretches 200 feet between State Street and Kimberly Avenue.

SITE AREA

The subject site has a usable site area of approximately ±22,362 square feet based on information on a record of survey recorded in book 176 page 088 and the legal description. The usable area is equal to the gross site area less the areas occupied by the Union Pacific Railroad Easement and the small triangular area that is adjacent northerly of the railroad easement and is part of the entrance to the Santa Barbara Train Station.

ZONING

The subject parent parcel is zoned HRC-2, "Hotel and Related Commerce," under the jurisdiction of the City of Santa Barbara. This

designation is intended to provide areas for hotels and motel and visitor serving uses. Allowed uses consist of hotels, motels, lodging facilities, and other visitor serving uses. Office uses are allowed on second and third floors with the issuance of a conditional use permit (office uses may not exceed 50% of the building area).

There is no minimum lot size. Maximum building height is 3 stories or 45 feet. There is no maximum site coverage requirement. A minimum front yard setback of 10 feet for one-story buildings (that do not exceed 15 feet in height) and 20 feet for all other buildings is required. There are no interior yard setbacks required.

Further, the subject parent parcel is located in the S-D-3 "Coastal Overlay Zone." The purpose of the coastal overlay zone is to implement the Coastal Act of 1976. The Coastal Act of 1976 is intended to protect the public's access to the coastline. Properties within this overlay zone are required to obtain a coastal development permit (for new development) and are subject to a more stringent development review process than properties outside the zone.

Required parking for office, retail, and general commercial uses consist of one space per 250 square feet of gross floor area.

ACCESS AND STREETS

Access to the subject is via State Street and Kimberly Avenue. Both are dedicated public streets with approximate right-of-way widths of 80 feet and 50 feet, respectively, at the subject location. State Street is a four lane, two way street while Kimberly Avenue is a two-lane, two way street. Street improvements

include asphalt concrete road surface with sidewalks, streetlights, concrete curbs, and gutters.



Street Scene: State Street, View Southerly, Subject Located on Right Beyond Tree

UTILITIES AND SERVICES

All of the usual and customary utilities and services are available to the subject site, including natural gas, electricity, domestic water, and sanitary sewers.

TOPOGRAPHY AND DRAINAGE

The subject site is level at street grade. Drainage is along the natural contours of the parcel. There are no drainage conditions apparent which are likely to cause erosive damage to the land or structural damage to the improvements. Such an assumption is made a condition of this report.

SOILS

A soils report has not been reviewed. It is an assumption of this report that the subject soils are of adequate load-bearing capacity to support existing improvements and standard construction consistent with the highest and best use of the site.

ARCHEOLOGICAL RESOURCES

No investigation has been made to determine the potential for the existence of any archeological resources at the subject site. It has been assumed the property has no archeological resources that would impact the value of the subject site.

EARTHQUAKE ZONES

No investigation has been made to determine the existence of earthquake fault-lines on or near the subject property. There is little evidence to support the idea that property values in the area of the subject are affected by proximity to earthquake faults. It has been assumed that is the case.

HAZARDOUS WASTE AND TOXIC MATERIALS

No investigation has been made to determine the potential for the existence of hazardous waste or toxic materials, either within the improvements or underground. It has been assumed the property is free of any such substances.

EASEMENTS AND ENCROACHMENTS

As stated above, a northerly portion of the subject is encumbered by an easement for use of the railroad. Normal utility easements are usually located

along the perimeter of the site and do not affect its use. It is an assumption of this appraisal that there are no additional easements that materially affect the utility of the subject property. My inspection revealed no visual evidence of any encroachments. A survey of property boundaries is usually required to determine extent of encroachments.

FLOOD HAZARD AREA

The subject site appears to be located outside a designated 100-year Flood Hazard Area. Per Community Panel No. 06083C 1387 F, dated September 30, 2005, the subject is located in Zone AH, an area within the 100 year flood plain with flood depths of 1 to 3 feet.

IMPROVEMENTS

The subject is currently unimproved. There are Historic Landmark Commission approvals (though not a building permit) for a three story 16,691 square foot children's museum proposed to be built on the subject site. As this is not an economic use of the site, these approvals are not judged to add value to the subject site.

SUBJECT PHOTOGRAPHS



Subject as Viewed from State Street



Subject as Viewed from Kimberly Avenue

DATA, ANALYSIS & CONCLUSIONS

HIGHEST AND BEST USE

DEFINITION

Highest and best use, as used in this report, is defined as follows:

That reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value.

The physical possibility of a use is affected by the characteristics of the site and by the availability of utilities. The primary factor affecting which uses are legally permissible is zoning. The financial feasibility of the use of a property can be analyzed by comparing the cost of acquiring a site and constructing improvements to the value of the property upon completion of construction and achievement of stabilized operation.

HIGHEST AND BEST USE "As if Vacant"

The subject site has the physical ability to support a wide variety of uses. Legally permissible uses consist of those uses allowed under the HRC-2 zone. These uses include hotels, motels, and visitor serving uses. Given weakened market conditions the highest and best use of the subject would likely to hold for future development.

VALUATION

METHOD OF VALUATION

There are three traditional value analyses in the appraisal process. They are the Cost Approach, the Sales Comparison Approach, and the Income Approach.

The Cost Approach is based on the premise that the costs to acquire a comparable site and have comparable improvements constructed, should bear a strong relationship to value. The Income Approach is based on the premise that the present worth of anticipated future benefits (income) is highly suggestive of current value. The Cost Approach and Income Approach are not generally applicable in the valuation of land and have not been included herein.

The Sales Comparison Approach is based on the premise that cost to acquire an alternative, comparable property, allowing for differences, is reflective of value.

Following the conclusion of value for the subject property is an analysis that provides an estimation of the rental value of the subject property.

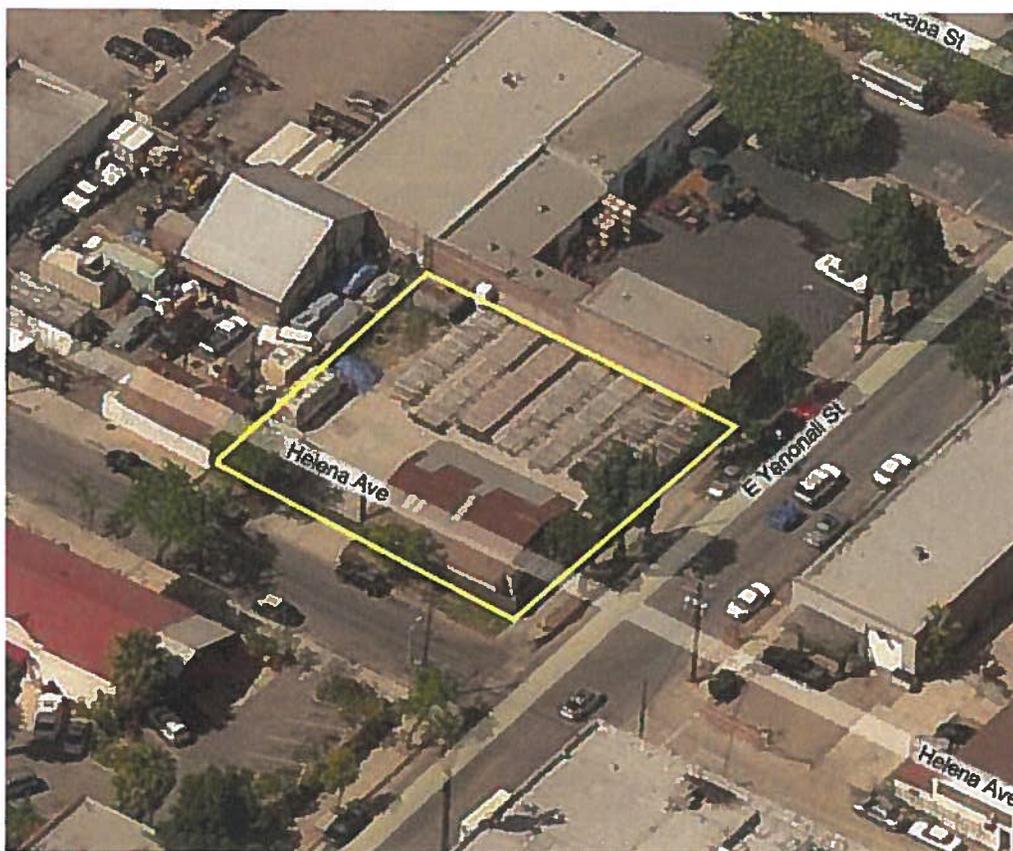
SALES COMPARISON APPROACH

In the Sales Comparison Approach to value, sales of comparable properties are analyzed for the purpose of indicating what a typical well-informed buyer and/or seller would consider in forming an estimate of the worth of the subject property as of the date of value. This valuation concept is based on the theory of substitution in which a basic premise is that a typical buyer would not pay more for a particular property than the cost to acquire an alternative property that similarly satisfies his wants and needs. The typical unit of comparison for the properties such as the subject is price per square foot of site area.

The Data

Public records have been searched, real estate brokers and property owners interviewed, as well as other market data sources contacted in an effort to obtain market data concerning properties considered to be generally comparable to the subject property. Set forth on the following pages is a brief summary of the market data that was most helpful in forming an estimate of value for the subject property.

MARKET SURVEY – LAND SALES					
No.	Location/APN/Zoning	Land Sq. Ft.	Sale Date	Sale Price	Price/Sq. Ft.
1.	23 E. Yanonali/200 Helena 033-052-018/OC	9,875	3/2011	\$970,000	\$98
2.	101 W. Figueroa St. 039-272-006/C-2	10,075	12/2010	\$1,150,000	\$114
3.	528 Anacapa St. 031-201-029/C-M	16,117	3/2012	\$2,200,000	\$137
4.	1255 Coast Village Road 009-291-018/C-1	15,922	2/2011	\$2,413,000	\$152
5.	115-121 State St. 033-075-001 & 002/HRC-2	15,459	6/2010	\$3,400,000	\$220
6.	111 State St. 033-075-003 & 009/HRC-2	7,850	1/2008	\$1,764,000	\$225
	Subject 033-075-012 & 014/HRC-2	±21,918	---	---	---



Data No. 1 (23 E. Yanonali Street; \$98/Sq. Ft.) is the early 2011 sale of a parcel located one block northeasterly of the subject. This property is improved with a dated one story light industrial building of 2,169 square feet. This property is

zoned for ocean related commercial, a somewhat different zoning than that of the subject. This property was purchased with conventional financing by the tenant (a sea cucumber processor).

This data is superior to the subject in terms of existing improvements and shape. Alternatively, it is significantly inferior in terms of location. On balance, this data is judged to indicate a value of more than \$98 per square foot for the subject.



Data No. 2 (101 W. Anapamu St.; \$114/Sq. Ft.) is the late 2010 sale of a C-2 zoned site situated on a corner, approximately one block westerly of the State Street near the heart of the central business district. This site is rectangularly shaped, level at street grade and fully paved. The site was purchased by a parking lot operator who will lease out the parking spaces and may redevelop the site at a future date. This property is located within a 40% parking zone of benefit. The buyer acquired the property with conventional financing from Bank of America.

This data is superior to the subject in terms of parking zone of benefit, market conditions, and shape. Alternatively, it is significantly inferior to the subject in terms of location. On balance, at \$114 per square foot, this data is judged to indicate a higher value for the subject.



Data No. 3 (528 Anacapa St.; \$137/Sq. Ft.) is the early 2012 sale of a C-M zoned site situated on a corner and improved with a dated average quality 3,360 square foot commercial that was constructed as a bakery in the 1950s. The buyer was an investor/developer who acquired the property with a 90% seller financed first trust deed. The financing boosted the value of the property and impacted the sale price per the agent involved in the transaction. The buyer has leased the existing building and intends to build an additional commercial building on the site. This property is located in the delineated central business district and within an 80%

parking zone of benefit (as a result, only 20% of the required parking for commercial uses must be supplied on site).

This data is superior to the subject in terms of parking zone of benefit, improvements, and shape. Alternatively, it is significantly inferior in terms of location. On balance, at \$137 per square foot, this data is judged to be a fairly good indicator of value for the subject.



Data No. 4 (1255 Coast Village Road; \$152/Sq. Ft.) is the early 2011 sale of an irregularly shaped parcel situated on a corner on Coast Village Road. This property has been used as a plant nursery for many years and has a 994 square foot showroom and a 902 square foot greenhouse. These wood frame structures are of average quality and were in fair condition at the time of sale. The buyer is an investor/developer and intends to minimally remodel/expand the existing improvements in the short term with a full redevelopment down the road.

This data is arguably superior to the subject in terms of location and values have likely decreased slightly since this property sold. On balance, this data is judged to indicate a value of less than \$152 per square foot for the subject.



Data No. 5 (115-121 State St.; \$227/Sq. Ft.) is the mid-2010 sale of the property located adjacently southerly to the subject. This property is flag shaped and is improved with a 15,459 square foot two story hotel that was very dated and had rooms without en suite bathrooms. The buyer of the property completely gutted the building and redesigned the rooms to have en suite bathrooms. This property is clearly superior to the subject in terms of existing improvements and in terms of shape. This data clearly indicates a value of less than \$227 per square foot for the subject.



Data No. 6 (111 State St.; \$225/Sq. Ft.) is the early 2008 sale of a portion of a parking lot located in the same block as the subject. This property is flag shaped. The portion of the property with frontage on State Street has 50 feet of frontage. The rear of the property (with frontage on Kimberly Ave.) has only 28.5 feet of frontage. This property was purchased by the owner of a nearby property with the intent of assembling it with the adjacent property. While this assemblage was completed in late 2008, the buyer ultimately lost the property in foreclosure. Prior to the foreclosure, the note was purchased from the lender by an investor for \$835,000 (\$106/Sq. Ft.). The investor absorbed the risk that the borrower might declare bankruptcy and forestall (or bar) foreclosure and result in legal fees. However, ultimately the borrower did not declare bankruptcy and the foreclosure was completed in July 2010.

This data sold at a time when market conditions were significantly superior to current conditions. Despite its inferior shape to that of the subject, this data is judged to clearly indicate a value of less than \$225 per square foot for the subject. Alternatively, the purchase of the note for \$106 per square foot is judged to indicate a higher value for the subject. The purchase of the note was not a guarantee that control of the property could be accomplished. Thus, the low price reflects the substantial risk associated with the purchase.

Value Conclusion

The data range in sale price per square foot from approximately \$98 to \$220. Data Nos. 1 (\$98/Sq. Ft.) and 2 (\$114/Sq. Ft.) were judged to indicate higher values per square foot of site area for the subject. Alternatively, Data Nos. 4 (\$152/Sq. Ft.), 5 (\$220/Sq. Ft.), and 6 (\$225/Sq. Ft.) indicated lower values per square foot for the subject. Data No. 3 (\$137/Sq. Ft.) was judged to be a fairly good indicator of value for the subject. Therefore, considering current market conditions, the data and discussion above, and the appeal of the subject, the value of the fee simple estate in the subject property as of the date of value was estimated to be between \$135 and \$140, say \$137 per square foot per square foot of site area.

The value of the subject has been calculated as follows:

Subject Site Area (Sq. Ft.):	±22,362
Value Factor:	x <u>\$137</u>
Indicated Value:	\$3,063,594
Value Indicated By Sales	
Comparison Approach, Rounded:	\$3,000,000

VALUE CONCLUSION

Application of the Sales Comparison Approach has resulted in the following indication of value:

SALES COMPARISON APPROACH \$3,000,000

The Sales Comparison Approach indicated a value of \$3,000,000. Therefore, I estimate that the market value of the fee simple estate in the subject property, based on assumptions, limiting conditions and certification stated, as of the date of value was \$3,000,000

THREE MILLION DOLLARS

RENTAL VALUE CONCLUSION

The estimate of market rent for the subject is made under the following assumptions:

- The lease will have a 50 year term.
- The lease will be on a triple net basis
- The rental rate will be subject to adjustments every year according to changes in the CPI
- The rental rate will be adjusted to market rent every five years.
- The lease will not be subordinated to a loan wherein the lessee is the borrower
- At the end of the lease term the lessor will gain ownership of the any improvements on the site

Ideally, recently completed long term leases of comparable properties would be available for comparison with the subject. However, there is a scarcity of these types of transactions. In lieu of this type of data, the rental value of the subject has been estimated based on the estimated expected rate of return that a property owner might expect for his investment in a piece of land like the subject.

Land lease rates are typically negotiated based on a percentage of land value. A summary of ground lease rate percentages is set out below.

<u>Property Owner</u>	<u>Ground Lease Annual Rate of Return</u>	<u>Lease Duration</u>
Private Property Owner, Santa Barbara:	7.25%	75 years
Goleta Union School District	7.00%	5 years
Santa Barbara Airport:	8.00%	Varies
City of Beverly Hills:	6.00%	Varies
City of Long Beach:	10.00%	Varies
City of Los Angeles:	9.00%	Varies
Southern California Edison:	5.00%-8.00%	Varies
The Irvine Company:	6.00%-9.00%	Varies
County of Los Angeles:	9.00%-10.00%	Varies
Cal Trans:	8.00%-10.00%	Varies
Metropolitan Water District:	8.00%-10.00%	Varies
Union Pacific Railroad:	9.50%-10.00%	Varies

The data indicate that the range found in the marketplace for land leases is from 5% of land value to 10% of land value, with all of the data but one in the 6% to 10% range. The data ranges according to the lessor as well as the circumstances pertaining to each lease.

Generally, rates of return along the South Coast are lower than those in most areas of Southern California. This stems from the fact that the barriers to entry to the local market are very high (reducing the potential for overbuilding and, thereby, diminishing returns over time).

The subject development will be new construction which reduces the risk associated with the lessor's position (once built, there is very little potential for default on the lease). In a long term lease such as that of the subject, the primary risk to the land lessor is bankruptcy of the tenant and lost revenue during the bankruptcy proceeding. Thus, considering the various facets of the subject, alternative rates of return, and current market conditions, a rate of return that is below the midpoint of the range found in the marketplace is judged to be appropriate for the subject. A rate of 6% to 7%, say 6.5% of land value, has been selected for the subject. Based on this rate, market rental values for the subject site have been calculated as follows:

	Market <u>Rent</u>
Land Value:	\$3,000,000
Market Rent as a Percentage of Land Value:	<u>x 6.5%</u>
Indicated Market Rent/Year:	\$195,000

Therefore, I estimate that the market rental value of the subject property, subject to the lease terms detailed above, based on assumptions, limiting conditions and certification stated, as of the date of value were as follows:

Rental Value (per year):	\$195,000
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EXPOSURE TIME

Exposure time is defined as follows:

"The estimated length of time the property interest being appraised would have to be offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal"

Considering the appeal of the subject, I estimate that a reasonable *exposure time* for the subject property would have been six months, (assuming a realistic asking price), based on actual marketing times for similar properties.

ADDENDA

- Appraiser's Qualifications

APPRAISER'S QUALIFICATIONS

Schott & Company
215 W. Figueroa St., 2nd Floor
Santa Barbara, CA 93101

Phone: (805) 564-8086
Fax: (805) 668-6352
E-mail: schott@west.net

Stephen G. Schott, MAI

Professional Experience

(1997 – Present):

Owner

Schott & Company (www.schottonline.com)

Real Estate Appraisal & Consulting

215 W. Figueroa Street, 2nd Floor

Santa Barbara, Ca 93101

(1991 - 1997):

Fee Appraiser

Hammock, Arnold, Smith & Co.

Real Estate Appraisers and Consultants,

200 W. Victoria Street

Santa Barbara, Ca 93101

Education

University of California at Santa Barbara

Bachelor of Arts Degree, Sociology

Appraisal Institute Courses:

1A: Real Estate Appraisal Principals

1B: Real Estate Appraisal Procedures

SPP A & B: Standards of Professional Practice

310: Basic Income Capitalization

430: Standards of Professional Practice, Part C

510: Advanced Income Capitalization

550: Advanced Applications (Challenged)

540: Report Writing

Appraisal Seminars:

Eminent Domain Law for Right of Way Professionals

Appraising Apartments

Appraiser Litigation Skills

Eminent Domain Case Update Seminar

Santa Barbara Market Conditions Update

Insurance Loss Prevention Seminar

Data Confirmation & Verification Methods

Federal & State Laws Workshop

Conservation Easements

Easement Valuation

USPAP Update

Rates & Ratios

Real Estate Investments

Cool Tools for the Appraiser

Business Practices

GIS Applications

Expert Witness Tips

Feasibility/Investment Timing

Detrimental Conditions

Appraising from Blueprints

Professional Memberships	<p>Certified General Real Estate Appraiser, No. AG024150, State of California</p> <p>MAI Designated Member of the Appraisal Institute, No. 11266</p> <p>President of the Santa Barbara Chapter of the Appraisal Institute (1998)</p> <p>Treasurer/Secretary California Central Coast Chapter of the Appraisal Institute (1999)</p> <p>Member: International Right of Way Association – Chapter 47</p> <p>California Licensed Real Estate Broker #01309727</p>
Expert Witness Testimony	Santa Barbara Superior Court
Property Types Appraised	<p><i>Commercial/Industrial</i> Single and multi-tenant office, retail, and industrial; restaurants; mixed use commercial/residential; both existing and proposed.</p> <p><i>Multi-Family</i> All sizes from duplexes to institutional grade investment properties (>100 units).</p> <p><i>Agricultural</i> Greenhouses, prime soils, ranch land,</p> <p><i>Special Purpose</i> Motels, hotels, bed & breakfast facilities, residential care facilities, tennis and swim club, nursery school, dinner theatre, girls club, religious facilities, schools, mortuary, crematorium, sorority/fraternity, student dormitory, etc.</p> <p><i>Land</i> Unimproved and under-improved commercially and industrially zoned properties; unimproved & under- improved residentially zoned land including subdivision analysis; foothill and mountainous acreage; “gentleman ranches.”</p> <p><i>Single Family</i> Large estates, unusual homes, tract homes; both existing and proposed.</p> <p><i>Easements/Condemnation</i> Total and partial acquisitions, utility easements, road construction, trail easements, reciprocal access easements, golf course landscaping easement, temporary construction easements.</p> <p><i>Fractional Interests</i> Undivided fractional interests, partnership interests</p>