

2020 MILLS ACT APPLICATIONS
 ASSESSOR PRELIMINARY VALUATIONS

As of July 1, 2020

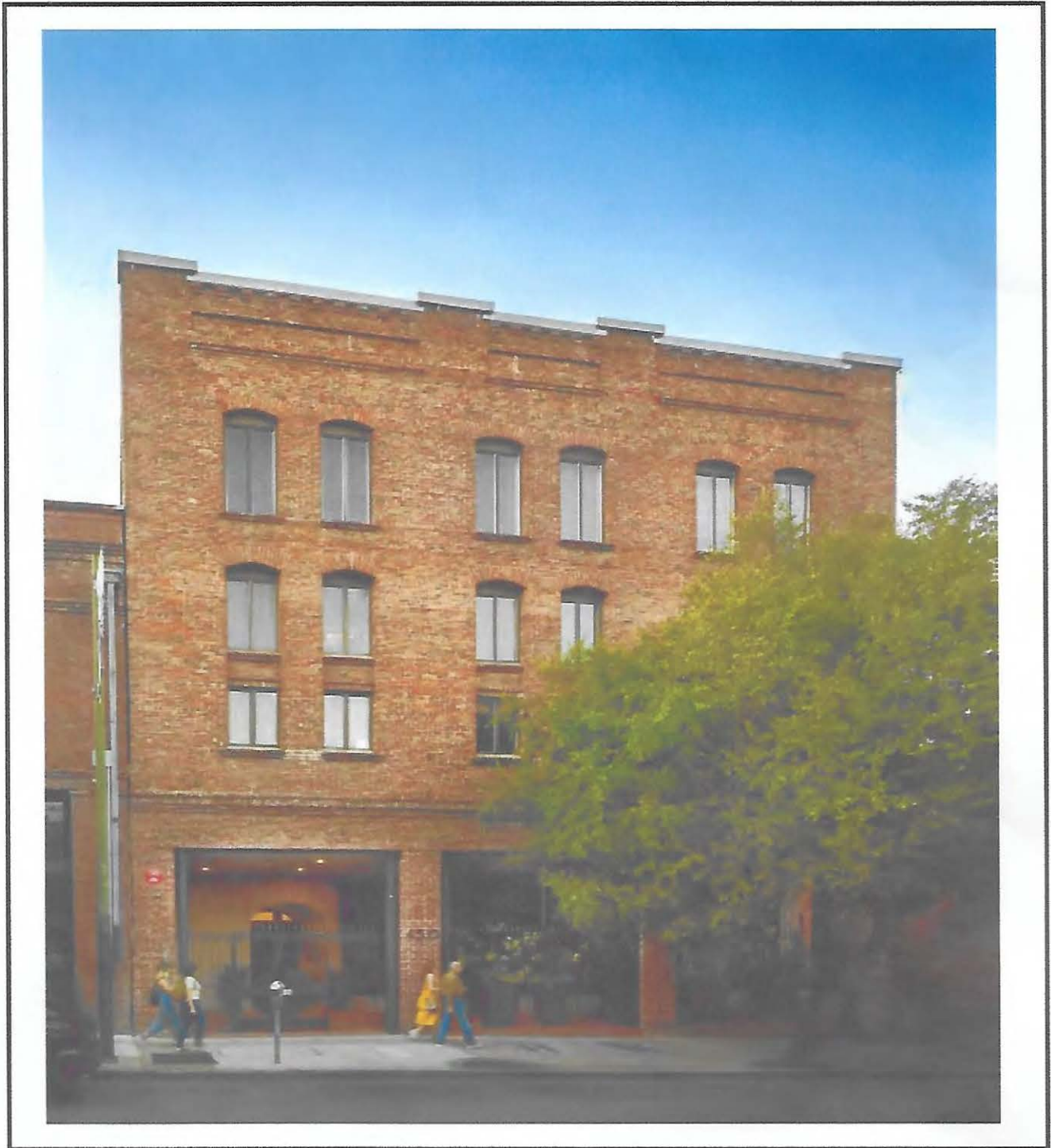
Upon recording of the Mills Act contract by December 31, 2020 the first year of the Mills Act Value will be for the 2021-2022 fiscal year

APN	Address	Property Type	Owner Occupied	Year Built	Square Feet	2020 Factored Base Year Value	Restricted Income Approach Value	Market Value	Taxable Mills Act Value	Reduction in Assessed Value	Percentage % Reduction From FBVY	2019 * Property Tax Rate	Estimated Property Taxes without Mills Act	Estimated Property Taxes with Mills Act	Estimated Property Tax Savings
0164-010	450 Pacific	Office	No	1907/2009	28,586	\$31,771,200	\$23,363,000	\$32,873,000	\$23,363,000	(\$8,408,200)	-26.46%	1.1801%	\$374,932	\$275,707	(\$99,225)
0865-008	59 Potomac	SFR	Yes	1899	1,751	\$2,594,940	\$632,000	\$2,650,000	\$632,000	(\$1,962,940)	-75.64%	1.1801%	\$30,623	\$7,458	(\$23,165)
1255-080	1315 Waller	SFR	Yes	1900/2018	3,164	\$3,392,672	\$1,658,342	\$4,000,000	\$1,658,342	(\$1,734,330)	-51.12%	1.1801%	\$40,037	\$19,570	(\$20,467)

- Remarks:
- (a) 2020 property tax rate will not be established until late September 2020
 - (b) Historical property contract must be recorded by December 31, 2020
 - (c) Mills Act valuation becomes effective as of January 1, 2021 for the Fiscal year July 1, 2021 to June 30, 2022



**Office of the Assessor / Recorder - City and County of San Francisco
Mills Act Valuation**



**450 Pacific Avenue
As of 07/01/2020**

**OFFICE OF THE ASSESSOR-RECORDER - CITY & COUNTY OF SAN FRANCISCO
MILLS ACT VALUATION**

APN:	0164-010	Lien Date:	7/1/2020
Address:	450 Pacific Avenue	Application Date:	5/1/2020
SF Landmark No.:		Application Term:	10 years
Applicant's Name:	Pacific Stables Property Owner LLC	Last Sale Date:	9/16/2019
Agt./Tax Rep./Atty:	Jesse Feldman	Last Sale Price:	\$31,771,200
Fee Appraisal Provided:	Yes		

FACTORED BASE YEAR (Roll) VALUE		INCOME CAPITALIZATION APPROACH		SALES COMPARISON APPROACH	
Land	\$19,063,000	Land	\$14,017,800	Land	\$19,723,800
Imps.	\$12,708,200	Imps.	\$9,345,200	Imps.	\$13,149,200
Personal Prop	\$0	Personal Prop	\$0	Personal Prop	\$0
Total	\$31,771,200	Total	\$ 23,363,000	Total	\$ 32,873,000

Property Description

Property Type:	Commercial	Year Built:	1907/2009	Neighborhood:	Jackson Square/Fin. District North
Type of Use:	Office	(Total) Rentable Area:	28,586	Land Area:	7,150
Owner-Occupied:	No	Stories:	4	Zoning:	C2
Unit Types:	Commercial	Parking Spaces:	No parking		

Total No. of Units: 1

Special Conditions (Where Applicable)

See Additional Comments Tab.

Conclusions and Recommendations

	Per SF	Total
Factored Base Year Roll	\$ 1,111	\$ 31,771,200
Income Approach - Restricted Direct Capitalization	\$ 817	\$ 23,363,000
Sales Comparison Approach	\$ 1,150	\$ 32,873,000
Recommended Value Estimate	\$ 817	\$ 23,363,000

Appraiser: Marcus Chan

Principal Appraiser: James Bias

Hearing Date:

Additional Comments

Address: 450 Pacific Avenue
APN: 0164-010
Event Date: 7/1/2020

Objective: Summarize and document the Mills Act information obtained under 441(d) and conversation/communication with co-owner Jesse Feldman. The files provided are the original lease and lease amendments, lease offering memo, 7/23/19 fee appraisal, partial 2019-2020 cash-flow statement, 11-years pro-forma, summary of capital expenditure and annual maintenance related to Mills Act.

Summary of work performed:

The subject property was sold by owner-user "450 Pacific LP" (owned by Keesal, Young & Logan, PC (KYL)) on 09/16/19. The seller and buyer agreed on a 6 months leaseback from 09/10/19 to 03/11/20. The original leaseback agreement was for 26,476 SF (90% of rentable space), \$65/SF annual, with expense terms that requires the tenant to reimburse landlord for all operating expenses and property taxes based on FBYV before sale. Later in March 2020, an amendment was executed for additional 36 months of lease under the same conditions of the original lease. Per conversation with co-owner Jesse Feldman, on 08/12/20, he disclosed the owners tried to lease building to new tenants without success. He said, the owners were able to negotiate for the current tenant to extend the lease. I asked him about the rent that appears below market. He claimed they were lucky to keep the current tenant because they feared the building would undergo foreclosure without any income.

Per review of lease amendment, the rent and expense terms remain the same. Additionally, there would be 3 months of rent deferral, payable in the future without interest. The 3-month rent (\$430,235) is to be repaid in 33 equal installments starting 09/01/20. The annual increase is 3%. The landlord was also required to reimburse \$110,000 to the tenant as lease contract costs. The tenant pays all operating costs, which are comprised of utilities, insurance, janitorial, maintenance and adm costs. Other expenses are the property taxes equivalent based on the seller's old FBYV. Per lease agreement, the landlord pays the tax portion of the supplemental assessment.

The appraisal report states the As-Is fee simple interest as of 07/31/19 to be \$31,800,000 and the prospective stabilized 08/01/20 value to be \$40,800,000. The estimated 08/01/20 prospective rent is \$90/SF NNN with TI allowance of \$150/SF and 6 months free to new tenant.

Per reported cost estimates, the maintenance cost between 2022 and 2025 is \$17,006 annually. The estimated total restoration cost is \$1,622,754. The restoration is estimated to start in phases, beginning in 2025 and ending by 2031.

Per co-owner J. Feldman, the owner-use stated in the Mills Act application is incorrect. He confirmed that total rentable of the building is 28,586 SF; and initially the company used 2,858 SF as a leasing office and the remaining 26,476 SF for the leaseback to the seller. He claimed the company no longer occupies that space and now is left for the tenant KYL to use without additional charge. He claimed that there is no additional amendment or agreement for the use of that area. Based on owner's disclosure, the building is fully tenant occupied.

Conclusion:

Based on available information is concluded the following:

- The total rentable area is 28,586 SF to be used in the Mills Act valuation.
- Industrial Gross Rents (IG) typically cover the commercial property operating expenses on top of the Base Rent. IG rents may include, but are not limited to, property taxes, maintenance, insurance and others expenses, depending on the negotiated terms. Per lease agreement with landlord, tenant KYL pays base rent of \$65/SF and reimburses the landlord for all operating expenses, as defined in the agreement. Per review of cash-flow and pro-forma reports, the amount reimbursable to the landlord (portion of taxes, adm expenses, insurance, others) is estimated to be \$8.42/SF. Under the lease agreement terms, the rent is equivalent to \$73.42/SF IG. Accept in-place rent and landlord concessions as market due to leasing environment under COVID-19 conditions. See breakdown of estimated reimbursable to the landlord.
- Accept and use owners' reported operating expenses as reported actual is in line with projected expenses.
- Under the lease agreement, the tenants pays equivalent to 35% of property taxes whereas the landlord pays 65%. Will use tax rate component equal to 0.7671% (or 1.1801% x 65%),

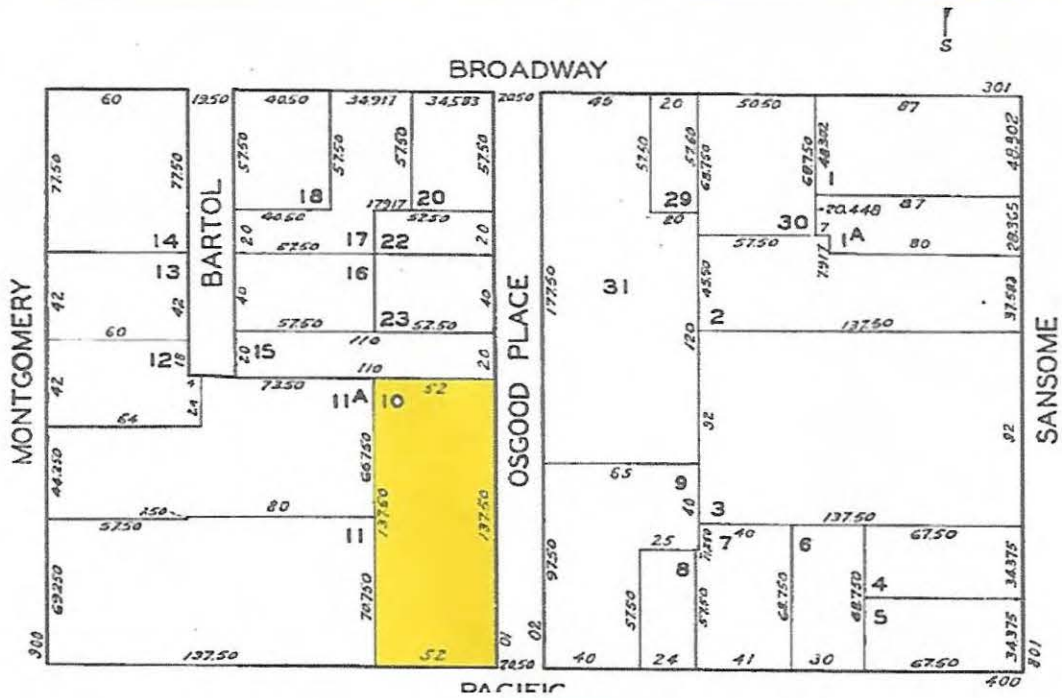
Reported Operating Expenses

Expense Name	Annual Expense	Exp/ SF
Regular Tax (tenant)	\$111,742.00	\$3.91
Adm Expenses	\$44,000.00	\$1.54
Insurance	\$63,057.00	\$2.21
Professional Fee	\$20,000.00	\$0.70
Accounting Fee	\$2,000.00	\$0.07
Total	\$240,799.00	\$8.42

SUBJECT PHOTOGRAPHS AND LOCATOR MAP

Address: 450 Pacific Avenue

APN: 0164-010



SUBJECT PHOTOGRAPHS AND LOCATOR MAP

Address: 450 Pacific Avenue

APN: 0164-010



INCOME APPROACH

Address: 450 Pacific Avenue

Lien Date: 7/1/2020

	<u>Sq. Ft.</u>		<u>Annual Rent/SF</u>		
Potential Gross Income	28,586	x	\$73.42	IG	\$2,098,889
Less: Vacancy & Collection Loss			3%		<u>(\$62,967)</u>
Effective Gross Income					\$2,035,922
Less: Anticipated Operating Expenses (Pre-Property Tax)*			\$8.42		<u>(\$240,799)</u> 12%
Net Operating Income (Pre-Property Tax)					\$1,795,123

Restricted Capitalization Rate

2020 interest rate per State Board of Equalization			4.2500%		4.2500%
Risk rate (4% owner occupied / 2% all other property types)			2.0000%		2.0000%
2019 property tax rate **			1.1801%	65%	0.7671%
Amortization rate for improvements only					
Remaining economic life (in years)	60	0.0167	<u>0.6667%</u>		<u>0.6667%</u>
Improvements constitute % of total property value		40%			<u>7.6837%</u>

RESTRICTED VALUE ESTIMATE

Rounded Value **\$23,362,650**
\$23,363,000

Rent Roll as of

<u>Unit</u>	<u>Bdrm/Ba</u>	<u>SF</u>	<u>Move In Date</u>	<u>Monthly Contract Rent</u>	<u>Annual Rent</u>	<u>Annual Rent / Foot</u>
All		28,586	9/10/2019	\$143,412	\$1,720,940.04	\$60.20
Total:		28,586		\$143,412	\$1,720,940	\$60.20

Summary of Subject and Comparable Leases

Address: 450-460 Pacific Ave.
 APN: 0164 010
 Event Date: 7/1/2020

No.	Block/Lot	Address	Tenant	Floor	Lease Signed	Lease Start	Term - Mo's	NRA	Starting Rent	Effective Rent	Lease Type	T.I.'s/ S.F.	Mo's Free Rent	Escalations/Comments
Subject Property Leases														
Subj.														
Subj.														
Subj.														
									Avg	#DIV/0!				
Comparable Rents (Sorted by Property Type)														
	0164 030	350 Broadway	Knotel	1 & 2		9/4/2019	180	5,896	\$71.00		IG			3% inc annual. Tenant pays util. & janitorial.
	0164 030	350 Broadway	Knotel	3		9/4/2019	180	1,021	\$73.00		IG			3% inc annual. Tenant pays util. & janitorial.
	0262 021	201 California #440	Two Six Capital Llc			4/1/2019	36	2,651	\$75.00		FSG			Renewal (2017 rent roll show lease expire 3/31/2019)
	0241 027	600 California #900	Bridge Housing Corp.			4/1/2019	60	20,945	\$75.50		FSG			From rent roll.
	0166 001	747 Front St	Minted			2/1/2019	38	38,000	\$77.00		IG	\$20.00		3% inc annual. Source: Brick+Timber Confidential Memo
	0175 003	727 Sansome St	H2O Plus			12/1/2018	60	5,000	\$90.00		IG	None		3% inc annual. Source: Brick+Timber Confidential Memo
	0174 008	710 Sansome St	OneLogin			10/1/2018	86	40,125	\$82.00		FSG	\$15.00		3% inc annual. Source: Brick+Timber Confidential Memo
	0196 027	415 Jackson St	01 Advisors			3/1/2018	96	3,545	\$75.00		FSG	None		3% inc annual. Source: Brick+Timber Confidential Memo
	0141 013	855 Front St	Craft Ventures			12/1/2018	120	16,433	\$85.00		NNN	None		2% inc annual. Source: Brick+Timber Confidential Memo
	0084 008	1265 Battery St (Levi's Plaza)	Pereira & O'Dell Advertising			2/1/2019	100	17,237	\$84.00		FSG	\$100.00		3% inc annual. Source: Brick+Timber Confidential Memo
	0136 001	55 Green St	Getaround	All		10/1/2018	120	45,527	\$73.90		NNN	\$110.00		3% inc annual. Lease includes 17 prkg spaces.
									\$77.40					
Comparable Rental Active Listings														
	0175 011	476-478 Jackson St	Loopnet Lease offering memo	2 & 3				2,600	\$81.50					Listing date 10/02/19
	0136 004A	940 Battery St	Loopnet Lease offering memo	1,2,3,4				26,720	\$85.00					Listing date 01/02/20
	0175 004	402 Jackson St	Loopnet Lease offering memo					1,800	\$85.00		IG			Sublease. Listed 03/10/20. Updated 7/14/20.
	0175 024	477 Pacific Ave	Loopnet Lease offering memo	3				3,280	\$78.00		FSG			Small Bldg. Listed 03/26/20. Updated 7/28/20.
Average									\$82.38					

Market By The Numbers

Submarket	Total RBA (SF)	Vacancy Rate		Avail Rate		Net Absorp (SF)	Under Construction (SF)	Avg Ask Total	Avg Asking Rent		Direct Avg Ask Total	Avg. Direct Rent	
		Class A	Class B	Class A	Class B				Class A	Class B		Class A	Class B
North Financial	27,474,560	7.1%	10.2%	10.6%	15.0%	-605,944	0	\$87.66	\$88.14	\$87.36	\$89.29	\$90.40	\$87.80
South Financial	27,702,873	6.4%	6.2%	9.0%	7.2%	-685,120	1,250,000	\$93.16	\$93.70	\$78.39	\$95.91	\$96.10	\$82.12
CBD Average	55,177,433	6.8%	8.5%	9.8%	11.3%	-1,291,064	1,250,000	\$90.55	\$91.50	\$85.93	\$92.67	\$93.83	\$87.17
SCMA*	7,573,690	8.5%	8.4%	9.0%	7.4%	-344,106	766,537	\$82.91	\$92.64	\$80.15	\$87.75	\$97.50	\$84.56

Income and Expense History

Address: 450 Pacific Avenue
 APN: 0164-010
 Value Date: 7/1/2020

Bsmt Storage
 Flrs 2 - 4
 Mezzanine

Occupancy as of Sales Date: **100%**

Total NRA (not including Bsmt) 28,586

	Historical Income and Expenses					
	Period = Sep 2019-Jun 2020		Pro-Forma 2021		Pro-Forma 2022	
	Total	Per S.F.	Total	Per S.F.	Total	Per S.F.
Income						
Rental Income	\$ 1,362,411	\$ 47.66	\$ 1,742,452	\$ 60.95	\$ 1,794,725	\$ 62.78
Rental Abatement	\$ (286,823)	\$ (10.03)				
BY Escalations/Recoveries	129,144	4.52	198,844	6.96	202,821	7.10
Storage Income	-	-	-	-	-	-
Misc. Income	-	-	-	-	-	-
Other Income*	-	-	-	-	-	-
Total Income	\$ 1,204,732	\$ 42.14	\$ 1,941,296	\$ 67.91	\$ 1,997,546	\$ 69.88
Expenses						
Real Estate Taxes	89,151	3.12	\$ 319,931	\$ 11.19	\$ 326,330	\$ 11.42
Utilities	-	-	-	-	-	-
Insurance	24,801	0.87	63,057	2.21	64,319	2.25
Janitorial	100	0.00	-	-	-	-
Security	3,673	0.13	-	-	-	-
Payroll	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	-	-
Legal & Professional	22,000	0.77	22,440	0.78	22,889	0.80
General & Administrative	41,965	1.47	44,880	1.57	45,778	1.60
Management Fee	-	-	-	-	-	-
State Tax	2,500	0.09	-	-	-	-
Total Expenses	\$ 184,190	\$ 6.44	\$ 450,308	\$ 15.75	\$ 459,316	\$ 16.07
Less: Property Taxes	89,151	3.12	319,931	11.19	326,330	11.42
Pre-Tax Total Expenses	\$ 95,039	\$ 3.32	\$ 130,377	\$ 4.56	\$ 132,986	\$ 4.65
Pre Tax Net Operating Income	\$ 1,109,693	\$ 38.82	\$ 1,810,919	\$ 63.35	\$ 1,864,560	\$ 65.23

* Other income includes: Reimbursable share of Op.expenses

Management Fee % 0.00% 0.00% 0.00%

SALES COMPARISON ANALYSIS

Subj. APN	ADDRESS	SALE PRICE \$ PER SQ.FT.	Value Per SQ.FT NRA	NEIGHBORHOOD	Location	LOT SIZE	YEAR BUILT	NRA SQ.FT.	CONDITION	OVERALL ADJUSTMENT	ADJ Sales Price \$/SF NRA
	450 Pacific Avenue 0164-010	\$31,771,200 \$1,111		Jackson Square/Fin. District North		7,150	1907/2009	28,586	Good		
1	450 Pacific Avenue 0164-010	9/16/2019 \$31,771,200	SUBJECT \$1,111	Jackson Square/ Fin.	Similar	7,150	1907/2009	28,586	Good	0%	\$1,111
2	747 Front St APN: 0166-001	9/12/2019 \$68,385,000	\$918	Fin. District North	Inferior 10%	17,542	1909/2014	74,510 5%	Average 5%	20%	\$1,101
3	600 Battery St APN: 0173-001/009	1/18/2019 \$115,000,000	\$1,025	Fin. District North	Inferior 5%	39,737	1927/1999	112,208 5%	Good	10%	\$1,127
4	451 Pacific Ave APN: 0175-027	1/17/2020 \$12,850,000	\$1,252	Jackson Square/ Fin.	Similar	3,436	1908/1980	10,264	Good	0%	\$1,252
										0%	\$0

RANGE OF VALUES	\$1,111	to	\$1,127
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Estimated Market Value of SQ.FT: **\$1,120**

<u>NRA</u>	X	<u>\$/SQ.FT</u>	
28,586	X	\$1,150	\$32,873,900

ESTIMATED MARKET VALUE \$32,873,000