

APPRAISAL SUMMARY STATEMENT
SUMMARY OF THE BASIS FOR JUST COMPENSATION
(Pursuant to Government Code Section 7267.2)

BASIC PROPERTY DATA

PROPERTY LESSEE:	BlueLine Rentals, LLC (formerly Volvo Construction Equipment Rents, Inc.)
ACQUIRING PARTY/LESSOR:	City and County of San Francisco (“City”)
PROJECT:	General Services Administration’s Fleet Management Central Shops Facility Project (“Project”)
PROPERTY LOCATION:	1975 Galvez Avenue, San Francisco, California
DATE PROPERTY OCCUPIED BY PROPERTY LESSEE:	September 2012
ZONING:	PDR-2
PRESENT USE:	Light industrial, equipment rental yard
HIGHEST AND BEST USE:	As If Vacant: Industrial development As Improved: Current use
TOTAL PROPERTY AREA:	1.11 acres
PROPERTY RIGHTS PROPOSED TO BE ACQUIRED:	Net Present Value of Leasehold Interest
DATE OF THIS VALUATION:	August 4, 2016

BASIS OF VALUATION

The just compensation being offered by the City and County of San Francisco (“City”), is not less than the City’s approved appraisal of the fair market value of the net present value of the leasehold interest (“Leasehold Interest”) proposed to be acquired at the Subject Property. The fair market value of the Leasehold Interest is based on an appraisal prepared according to accepted appraisal procedures. Where appropriate, lease rates of comparable properties and income data are used to determine Market Rent. Recent lease transactions of comparable properties are included in this Summary below. The appraiser has given full and careful consideration to the highest and best use of the Leasehold Interest in the Subject Property and to all other material factors affecting its value, including, but not limited to, zoning, development potential, and the income the leasehold Interest in the Subject Property is capable of producing.

California Code of Civil Procedure Section 1263.320 defines fair market value as follows:

- A) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.
- B) The fair market value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable.

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The Dictionary of Real Estate Appraisal, 4th Edition, published by the Appraisal Institute defines market rent as follows:

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

- 1) lessee and lessor are typically motivated;
- 2) both parties are well informed or well advised, and acting in what they consider their best interests;
- 3) a reasonable time is allowed for exposure in the open market;
- 4) the rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract; and
- 5) the rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

APPROACHES TO VALUE

The **Discounted Cash Flow ("DCF") Analysis Summary**, resulting in the Net Present Value of the positive leasehold interest in the Subject Property:

Net Present Value of Leasehold Advantage												
Current Market Monthly Rent (\$1.15 /Sq. Ft. of Building Area, Assuming a 60% Site Coverage Ratio & \$0.50/Sq. Ft. of Additional Yard Area)												
Monthly Market Rent	\$26,402											
Annual Market Rent	\$316,818											
Market Rental Escalation/Yr.	3.0%											
Current Contract Rent												
Current Monthly Rental Rate	\$14,220											
Monthly Rental Rate in Sept. 2016	\$14,505											
First Year Contract Rent	\$173,775											
Annual Contract Escalations	2.0%											
Lease Expires 9/23/2027												
Year	1	2	3	4	5	6	7	8	9	10	11	12
Annual Market Rent	\$316,818	\$326,323	\$336,112	\$346,196	\$356,581	\$367,279	\$378,297	\$389,646	\$401,336	\$413,376	\$425,777	\$438,550
Annual Contract Rent	\$173,775	\$177,251	\$180,796	\$184,411	\$188,100	\$191,862	\$195,699	\$199,613	\$203,605	\$207,677	\$211,831	\$216,067
Leasehold Advantage	\$143,043	\$149,072	\$155,317	\$161,784	\$168,482	\$175,417	\$182,598	\$190,033	\$197,730	\$205,698	\$213,946	\$222,483
Discount Rate	7.00%											
Net Present Value of Leasehold	\$1,387,975											
Net Present Value of Leasehold (Rounded)	\$1,388,000											

Lease Expires: September 23, 2027 (approximately 11 years from date of value)

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Value of the property interests proposed to be acquired:

- A. Net Present Value of the positive leasehold Interest: \$ 1,387,975
Remaining 11-year lease term, subject to a Discount Rate (or Yield Rate) of 7.0%

- B. Improvements Pertaining to the Realty: \$ 0

- \$ 1,387,975
(Sum of items A & B)

After acquisition, the Lessee will have no interest in the Subject Property, thus damages are not included in the appraiser's analysis of just compensation of the property rights proposed to be acquired.

The amount of any other compensation: **\$0.00**

CITY APPROVED JUST COMPENSATION FOR ACQUISITION: **\$1,388,000.00**
(rounded)

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SUMMARY OF THE BASIS FOR JUST COMPENSATION

Narrative summary of the valuation process supporting compensation:

The City and County of San Francisco ("City") is working to acquire real property interests in San Francisco's Bayview neighborhood necessary for the construction of its General Services Administration's Fleet Management Central Shops Facility ("Project").

The City made an offer to purchase and was able to obtain possession of the property located at 1975 Galvez Avenue in San Francisco, California ("Subject Property") as of March 14, 2016 (at close of escrow). The City ("Lessor") took possession of the Subject Property subject to a lease agreement dated September 25, 2012 by and between the former property owner, W.Y.L. Five Star Service Industries, Inc., and BlueLine Rentals, LLC (formerly Volvo Construction Rentals, Inc.) ("Lease Agreement"). The terms and use of the Subject Property by BlueLine Rentals, Inc. ("Lessee") is defined by the Lease Agreement. It appears that the Lessee utilizes the Subject Property to operate a commercial equipment rental business.

The Lease Agreement had an initial term of 5 years, which began on October 1, 2012 and expires on or about September 24, 2017. There are two, five-year options to renew the lease that would extend the terms through September 24, 2027. Based on a review of the lease by the City, only the tenant has the option to renew the terms and the Lessor's options to extend the terms are limited to the scheduled increases stated for the renewal periods unless the tenant is in default. The base monthly rental rate started at \$13,400 dollars with an escalation rate of 2% per year. The current monthly rental rate is \$14,220.19. At the expiration date of the Lease Agreement, the lease is subject to two options to renew for five years each at scheduled increases of 2% per year of the last month's previous rent. The lease is on a triple net ("NNN") basis which means the tenant is responsible for all fixed and operating expenses including property taxes, insurance, utilities, and maintenance or janitorial costs.

The Project schedule requires that the City occupy the Property prior to the termination of the Lessees' interest per the Lease Agreement.

The Subject Property is located in the Bayview neighborhood of San Francisco at the east end of Galvez Avenue, where Galvez Avenue and Selby Street intersect. The Subject Property has public street frontage along both Galvez Avenue and Selby Street with access from the east end of Galvez Avenue. Galvez Avenue is a two-lane, two directional road that runs in a northwest to southeast direction crossing under the Interstate 280 freeway and off-ramp.

The Subject Property is approximately 1.11 acres or 48,338 square feet of land area and is generally level. The site forms a right trapezoid shape and portions are located under the raised Interstate 280 freeway and exit ramp. There are no street frontage improvements along Selby Street in front of the subject property, although on street parking is provided under the freeway right-of-way.

The Subject Property consists of a 48,338 square foot fenced and paved yard improved with an approximately 7,050 square foot metal warehouse industrial building, according to the description in the purchase agreement to the City. The site coverage ratio is calculated to be approximately 15% with one loading door along the front of the building. According to public records, the building was constructed in 1964 and is assumed to be in average condition for its age. The subject was appraised from the public right of way, access to the site was denied by the Lessee. Thus, no further information on the interior build-out, condition of the building or observation of any personal property was made by the appraiser.

APPRAISAL SUMMARY STATEMENT
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The zoning category of the subject Property is PDR-2 or Core Production, Distribution, and Repair. According to the zoning ordinance, "the intent of this District is to encourage the introduction, intensification, and protection of a wide range of light and contemporary industrial activities". Thus, this zoning district prohibits new housing, large office developments, large-scale retail, and the heaviest of industrial uses, such as incinerators. Generally, all other uses are permitted.

A preliminary title report was reviewed by the appraiser. The report indicated four recorded easements on the Subject Property related to public street right of way and the overhead 280 freeway. The recorded easements do not appear to have a significant effect on the overall value or marketability of the Subject Property. Although the elevated freeway above portions of the site prohibit construction of permanent structures. Use of those areas is limited generally to outside storage.

The appraiser considered the highest and best use of the Subject Property, both as if vacant and as improved. The Subject Property is currently utilized by a commercial equipment rental business with a large yard space. Based on the existing land use designations, the location of the subject, current market conditions and surrounding uses, the development of a light industrial use is the concluded highest and best use of the Subject Property, if it was vacant. Because of the scarcity of properties in the market area with a large proportion of open yard space, the highest and best use of the Subject Property, as improved is concluded to be for the continued use as improved and for outdoor storage and yard space (where existing overhead easements preclude any permanent structures).

As discussed previously, the City acquired fee title to the Subject Property in March of this year, subject to the existing Lease Agreement. In order for the City to proceed with the planned Project, the remaining leasehold interest must be acquired from the Lessee and terminated. The Net Present Value of the leasehold interest in the Subject Property is calculated as of the date of value.

The actual current rent for the Subject Property is \$14,220 NNN and is scheduled to increase to \$14,505 on September 23, 2016, per the Lease Agreement. Annual increases are fixed at 2% per year, including extension periods.

The appraiser conducted a rent survey to use in forming an opinion of fair market rent for the Subject Property. The rent survey focused on improved industrial warehouse properties and specifically those properties with a relatively low site coverage ratio in the current market area. The property located to the immediate south of the Subject Property, now on a month-to-month basis, is included in the lease data collected by the appraiser due to its overall similarities to the subject. With limited additional site lease information in the San Francisco market area for other similar types of space, the appraiser expanded the search for comparables to South San Francisco, as well. See Exhibit A for a listing of industrial property lease comparables used by the appraiser.

The comparable industrial leases surveyed by the appraiser range from \$0.93 per square foot to \$5.80 per square foot per month based on building area and adjusted to an effective NNN basis by accounting for the various terms, fixed rent increases and incentives such as free rent. The comparable leases surveyed with an Industrial Gross basis, where the landlord is responsible for property taxes and insurance without reimbursement by the tenant, were given a downward adjustment by the appraiser. Therefore, all of the comparable leases are either based on a NNN basis or were converted by the appraiser in their analysis to an effective NNN basis for comparison purposes.

The appraiser found the comparable rents bracket the subject in location, quality and condition of the improvements, leased building area and leased land or yard space. The appraiser estimated, as of the date of value, the fair market rent (NNN) for the Subject Property's building is \$1.15 per square foot per month, assuming a typical site coverage ratio, and \$0.50 per square foot for the fenced and paved yard area. The estimated fair

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market rent conclusion for the Subject Property, as of the date of value, is \$26,402 per month or \$316,818 for the year.

Per the Lease Agreement, the actual contract rent, as of the date of value, for the Subject Property is reported to be \$14,220 per month on a NNN basis or \$170,640 for the year. Since the fair market rent concluded for the Subject Property is greater than the contract rent reported, the Lessee is considered to have a positive leasehold interest. The contract rent is scheduled to increase at a fixed rate of 2% per year. The Lessee has 133 months remaining under the Lease Agreement including the two, five-year options to renew the lease at their option.

Based on the lease survey and the comparable leases found in the market, the fixed increases in market rent are primarily reported at 3% per year. Thus, the scheduled annual 2% increases per the Lease Agreement also provide a further positive leasehold interest to the Lessee of the Subject Property.

To determine the Net Present Value of the leasehold interest in the Subject Property the difference in the current fair market rent and the contract rent is calculated over the remaining term of the lease, annualized, then an appropriate discount rate is applied to bring the anticipated cash flow, or leasehold interest savings, to a present value for use in determining the Just Compensation to be offered to the tenant in an equivalent lump sum payment, or buy-out. The appraiser determined a yield rate, or discount rate of 7.0% to be appropriate for an investment property similar to an income producing industrial property, such as the Subject Property. See Exhibit B for a listing of comparables (indicators) used in the capitalization rate analysis by the appraiser.

Note: An owner-occupant of a residential property containing four (4) units or less has a right to review the appraisal on which the written offer to purchase is based.

Appraisal Summary and Offer of Just Compensation
Authorized and Approved for Presentation:

CITY AND COUNTY OF SAN FRANCISCO

By: _____

Title: _____

Date: _____

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EXHIBIT A

Industrial Property Lease Comparables

Comp. #	Address	Rent \$/Month	Starting Lease Rate - Land Only \$/ Sq. Ft. / Mo.	Avg. Effective NNN Lease Rate - Bldg. Rate - Land \$/ Sq. Ft. / Mo.	Leased Area Building (Sq. Ft.)	Total Land Area (Sq. Ft.)	Lease Date
IP-01	Confidential, South San Francisco	\$20,909	\$0.50	<u>\$5.13</u> \$0.52	4,200	41,818	July-16
IP-02	601 Selby Street, San Francisco -	\$17,186	\$0.29	<u>\$1.10</u> \$0.29	15,624	59,634	June-16
IP-03	263 S. Maple Street, South San	\$18,002	\$0.81	<u>\$1.49</u> \$0.74	12,330	22,330	May-16
		\$20,000	\$0.54	\$0.51	0	36,755	Listing 7/2016
IP-04	1250 Van Dyke Avenue, San Francisco - Bayview	\$20,500	\$0.576	<u>\$0.93</u> \$0.58	20,500	35,585	May-16
IP-05	111 Toland Street, San Francisco - Bayview	\$17,500	\$0.92	<u>\$1.17</u> \$0.81	14,000	19,000	April-16
			N/A	<u>\$1.36</u>	10,000 to 30,000		Asking
IP-06	Confidential - South San Francisco	\$56,606	\$0.565	<u>\$5.50</u> \$0.58	10,600	100,188	March-15
IP-07	160 S. Linden Avenue - South San Francisco	\$40,000	\$0.42	<u>\$5.80</u> \$0.37	6,000 All Office	94,427	November-13
IP-08	555 Selby Street, San Francisco, Bayview	\$20,500	\$0.28	<u>\$1.36</u> \$0.28	16,600 9,600 Ground Fl.	72,788	July-08 May-11 Extension May-18 Mo-to-Mo.
IP-09	7 South Linden Avenue, South San Francisco	\$22,950	\$0.55	<u>\$2.23</u> \$0.58	10,935	41,818	Listing 7/2016
Subject	1975 Galvez Avenue, San Francisco - Bayview	\$14,220	\$0.29	\$2.18	7,050	48,338	DOV = 8/4/2016 Lease Date 09/25/12

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EXHIBIT B

Income Capitalization Rate Indicators

	Address	Recording Date	Sale Price	Estimated Net Operating Income	=	Indicated Cap Rate
CR-01	555 Selby Street	2/1/2016	\$6,300,000	\$246,000	=	3.9%
	San Francisco, CA					
CR-02	111 Toland Street	6/18/2015	\$4,750,000	\$482,664	=	10.2%
	San Francisco, CA					
CR-03	2495-2501 Ingalls Street	5/22/2015	\$3,508,000	\$138,661	=	4.0%
	San Francisco, CA					
CR-04	485 Irwin Street	1/24/2013	\$1,600,000	\$168,000	=	10.5%
	San Francisco, CA					
Subject	1975 Galvez Avenue	3/14/2016	\$5,000,000	\$170,640	=	3.4%
	San Francisco, CA					