

Residential Lots
Appraisal Instructions
Former Naval Station Treasure Island
San Francisco, California

I. Introduction:

This scope of work is to appraise the market value of the fee simple interest of certain land parcels of the former Naval Station Treasure Island (NSTI) in accordance with the standards and guidelines of the Uniform Standards for Professional Appraisal Practice (USPAP).

The following appraisal instructions are intended to detail the scope, standards, process, and guidelines for the valuations of the property assigned to be appraised, (the "Subject Property"). The Subject Property will consist of residential lots referred to herein as Developer Lots. The appraisal instructions herein will represent the only guidance that shall be utilized in completing this valuation assignment. This appraisal will set the purchase price of the land parcels for the Developer. The appraisal will be reviewed by the Navy and the Developer.

II. Background Information:

The former NSTI is located on two islands located within one mile of the bay shores of the city of San Francisco and connected via the Bay Bridge to Oakland and the East Bay. NSTI is entirely within the jurisdictional boundaries of the City and County of San Francisco (the "Property"). NSTI covers all of Treasure Island, an artificial island, and most of Yerba Buena Island, a natural island.

Treasure Island was constructed in 1936 and 1937 for the initial purpose of hosting the Golden Gate International Exposition. After the exposition, the island was converted to a Navy base. During World War II, the island served as a center for receiving, training, and dispatching of service personnel. Since World War II, the Navy had used the island primarily as a training and administrative center. Yerba Buena Island is a natural island where the US Army established a post on the northeastern side adjacent to present day Clipper Cove in 1867. In the 1890's, the Army built a small torpedo station complex on the island; one building, the Torpedo Depot, remains. The US Army maintained a small base on the island until 1960. In 1898, the Navy also established a training station there, which after 1923 operated as a receiving station for servicemen returning from overseas.

In 1993, Congress and the President selected NSTI for closure and disposition by the Base Realignment and Closure Commission (BRAC). The Treasure Island Development Authority (TIDA) was designated as the Local Redevelopment Authority responsible for the redevelopment of NSTI.

In 1997, under the Treasure Island Conversion Act, which amended Section 33492.5 of the California Health and Safety Code and added Section 2.1 to Chapter 1333 of the Statutes of 1968 (the "Act"), the California Legislature and the City (i) designated TIDA as the redevelopment agency under California Redevelopment Law with authority over NSTI, and (ii), with respect to those portions of NSTI which under the Act are subject to the public trust for

commerce, navigation and fisheries (the "Tidelands Trust"), vested in TIDA the authority to administer the Tidelands Trust as to such property.

Under Senate Bill 1873, which the Governor signed into law on September 15, 2004, the California State Legislature authorized a Tidelands Trust Exchange for the Project. Because under the act the Tidelands Trust generally does not apply to most of Yerba Buena Island, in the exchange, the Trust would be lifted from the portions of Treasure Island that are planned for residential and other nonpermitted Trust uses and imposed on portions of Yerba Buena Island that currently are not subject to the Tidelands Trust.

In July 2007, TIDA submitted an Economic Development Conveyance (EDC) application based on a development plan approved by the San Francisco Board of Supervisors in December 2006 (the "Development Plan"). In June 2011 TIDA and a private developer executed a Disposition and Development Agreement ("DDA") governing the redevelopment of NSTI. In _____, 2012, the United States of America executed an Economic Development Conveyance Memorandum of Agreement (EDC MOA) with TIDA regarding conditions of transfer of NSTI to TIDA. In accordance with the EDC MOA, TIDA is required to conduct appraisals of certain Developer Lots.

III. Property Description:

Insert details and description of property to be appraised.

Details to include:

- Land identifier (parcel number, phase, etc.)
- Legal description
- Land area (size)
- Excess Land Appreciation Structure as defined by major phase by product type

Description to include:

- Entitled development plan (number of units, commercial space, parking, etc.)
- Environmental use restrictions
- Covenants, Conditions, and Restrictions
- Land parcel's relationship to major phase and island-wide development plan
- Neighborhood amenities and improvements, including views, recreational facilities, dining, shopping, parks, security, access to transportation and other community amenities.

IV. Services Required:

1. The appraisal will be a self-contained report based on a comprehensive study and analysis and setting forth, in detail, all data, analysis, and conclusions, as necessary and typical of a complete, self-contained appraisal report. The appraisal preparation, documentation, and reporting shall be in conformity with the standards of USPAP. The appraisal report shall consider the highest and best use subject to the use dictated by the Development Plan as amended by TIDA per the DDA. The appraisal report must contain the following sections:

Title Page - This should include (a) the name, street address and agency assigned tract, or parcel, number (if any), of the property appraised, (b) the name and address of the individual(s) making the report, (c) the effective date of the appraisal, and (d) the

appraiser's license number and license expiration date. The effective date for the appraisal will be the date of the appraisal report.

Letter of Transmittal - This should include the date of the letter; identification of the property and property rights appraised; a reference that the letter is accompanied by a self-contained appraisal report; a statement of the effective date of the appraisal; identification of any hypothetical conditions, extraordinary assumptions, limiting conditions, or legal instructions; the value estimate, or estimates; factors considered beyond the expertise of the appraiser or otherwise not incorporated; and the appraiser's signature.

Table of Contents - The major parts of the appraisal report and their subheadings should be listed. Items in the addenda of any report shall be listed individually in the table of contents.

Appraiser's Certification - The appraisal report shall include an appraiser's signed statement certifying that:

- The statements of facts contained in the report are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions, limiting conditions, and legal instructions, and are the personal, unbiased professional analysis, opinions, and conclusions of the appraiser;
- The appraiser has no present or prospective interest in the property appraised and no personal interest or bias with respect to the parties involved;
- The compensation received by the appraiser for the appraisal is not contingent on the analyses, opinions, or conclusions reached or reported;
- The appraisal was made and the appraisal report prepared in conformity with the Appraisal Foundation's *Uniform Standards for Professional Appraisal Practice*;
- The appraiser has made a personal inspection of the property appraised and that the property owner, or his/her designated representative, was given the opportunity to accompany the appraiser on the property inspection;
- No one provided significant professional assistance to the appraiser. (If professional assistance was provided the appraiser, the name of the individual(s) providing such assistance must be stated and their professional qualifications should be included in the addenda of the appraisal report. This requirement includes both professional appraisal assistance and providers of subsidiary assistance, e.g., planning and permitting consultants, engineers, cost estimators, marketing consultants.)

The appraiser's certification shall also include the appraiser's opinion of the market value of the property appraised as of the effective date of the appraisal.

Appraisers may also add to their certifications certain items that may be required by law, the USPAP, and the appraiser's professional organization(s). However, appraisers should avoid adding certifications that are not pertinent to the specific appraisal (e.g., that the report was prepared in accordance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)) or that are beyond the scope of the appraisers' assignment. The appraiser's certification may alternately follow the appraiser's final estimate of value in the appraisal report.

Summary of Salient Facts and Conclusions - The appraiser shall report the major facts and conclusions that led to the final estimate(s) of value. This summary should include an identification of the property appraised; the highest and best use of the property; description of improvements (if any); indicated value of the property by each approach to value employed; the final estimate of value; and any hypothetical conditions, extraordinary assumptions, limiting conditions or instruction; and the effective date of the appraisal.

Photographs of Subject Property - Photographs are not required of existing improvements not deemed to be of highest and best use or historically significant and are likely to be demolished. Pictures shall show the front elevation of the major improvements, any unusual features, views of the abutting properties on either side and that property directly opposite, interior photographs of any unique features, and photographs of neighborhood amenities. When a large number of buildings are involved, including duplicates, one picture may be used for each type. Except for an overall view, photographs may be bound as pages facing the discussion or description of the photographs' content, or may be placed in the addenda of the report. Each photograph should be numbered, show the identification of the property and the date taken. In selecting photographs for inclusion in their reports, appraisers should bear in mind that some readers of the report may never have an opportunity to personally view the property. Therefore, they must rely on the photographs and the narrative description of the property provided by the appraiser to gain an adequate understanding of the physical characteristics of the property to judge the accuracy and reasonableness of the appraiser's analyses and value estimate(s).

Statement of Assumptions and Limiting Conditions - Any assumptions and limiting conditions that are necessary to the background of the appraisal shall be stated. Any client agency or special legal instructions provided the appraiser shall be referenced and a copy of such instructions shall be included in the addenda of the appraisal report. If the appraisal has been made subject to any encumbrances against the property, such as easements, these shall be stated. In this regard, it is unacceptable to state that the property has been appraised as if free and clear of all encumbrances, *except as stated in the body of the report*; the encumbrances *must* be identified in this section of the report. General assumptions and limiting conditions, such as typically contained in appraisal addenda, must be reviewed for pertinence to the assignment and allowability with respect to other provisions of the contract. General assumptions and limiting conditions that are not applicable and/or allowable shall be deleted, and all others shall be edited as necessary to be specifically applicable and appropriate. Also, assumptions and limiting conditions cannot be used by an appraiser to alter an appraisal contract, assignment letter, or the appraiser's scope of work. Unsupported hypothetical conditions, assumptions, or limiting conditions may result in disapproval of the appraisal report. The appraiser must also avoid assumptions and limiting conditions that are clearly the appraiser's own conclusions. While it may be appropriate for an appraiser to conclude and report that a probability exists that the property under appraisal could be rezoned, it is not appropriate for an appraiser to make an appraisal under the "assumption" that the property could be rezoned. The Development Plan, as amended by TIDA, establishes a precedent for land uses at the property. The adoption of an unapproved assumption, or hypothetical condition, that results in a valuation of other than the market value of the property appraised as of the effective date of the appraisal will, as a general rule, invalidate the appraisal.

Scope of the Appraisal - The appraiser shall describe the scope of investigation. The appraisal's scope should conform to its purpose and intended use. The intended use and purpose of the appraisal places specific demands on the scope of the investigation and analysis presented in the appraisal report. The appraisal report should clearly link the appraisal's scope with its purpose and intended use. The geographical area and time span searched for market data should be included, as should a description of the type of market data researched and the extent of market data confirmation. The appraiser should state the references and data sources relied upon in making the appraisal; if preferred, this information may be shown within the applicable approaches to value. The applicability of all standard approaches to value shall be discussed and the exclusion of any approach to value shall be explained. The appraiser has the burden of clearly explaining the implications of any hypothetical condition or extraordinary assumption adopted. The required explanation and discussion of the implications of such hypothetical condition or extraordinary assumption must be included in this section of the appraisal report.

Purpose of the Appraisal - This section shall include an explanation of the reason for the appraisal, and the definition of all value estimates required, and a description of the property rights appraised. The purpose of the appraisal will be to estimate the market value as of the date of the appraisal report.

This section should specifically identify the intended use and the intended user of the appraisal report. The intended user of the appraisal report will be the Contracting Party, and the intended use of the appraisal report will be to estimate the fair market value of the property as of the effective date of the appraisal report. Care should be taken to prepare the appraisal report in a manner that clearly meets the intended use of the report by the intended user. It is imperative that the appraiser utilize the correct definition of market value. For appraisals prepared under these Standards, appraisers shall use the following definition of market value:

Market value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.

This definition must be placed in this section of the appraisal report. No other definition of market value for purposes of appraisals made under these Standards is acceptable, unless otherwise required by a specific and cited federal law or regulation. Contrary to USPAP Standards Rule 1-2(c), this definition of market value does not call for the estimate of value to be *linked* to a specific *exposure time* estimate, but merely that the property be exposed on the open market for a *reasonable* length of time, given the character of the property and its market. Therefore, the appraiser's estimate of market value shall not be *linked* to a specific exposure time when conducting appraisals for purposes of acquiring federal land under these Standards. It is recognized that some appraisers' client groups (e.g., relocation companies, mortgage lenders) may require appraisers to estimate a *marketing time* for the property under appraisal. However, such estimates are inappropriate for, and must not be included in, appraisal reports prepared for acquisition of federal land under these Standards. "The request to provide a

reasonable marketing time opinion exceeds the normal information required for the conduct of the appraisal process” and is, therefore, beyond the scope of the appraisal assignment under these Standards.

Summary of Appraisal Problems - This section gives the appraiser the opportunity to acquaint the reader of the appraisal report with the specific appraisal problems, if any, which have been encountered by the appraiser and that will be discussed in detail in the body of the appraisal report. Appraisers are encouraged to take advantage of it. The appraiser should briefly describe the principal problems presented in estimating the market value of the property under appraisal and describe the estate to be taken. If the parcels under appraisal include water rights, minerals, or suspected mineral values, fixture values, timber values, or other rights of potential value, the treatment of their contributory value should be discussed, including the methodology employed to avoid the forbidden *summation* or *cumulative* appraisal. If the valuation of the property required the use of any consulting reports, these should be attached as addenda along with other sources of data for the analysis, and the appraiser should describe such reports, the method of utilization thereof, and the weight or reliance placed thereon.

2. The appraisal shall be performed based on the highest and best use that must take into account the Subject Property subject to the use dictated by the Development Plan as amended by TIDA per the DDA, and be accompanied by any supporting data.

All other methodologies other than that specifically addressed within this Scope of Work shall, to the extent practical, be based on market-derived data and methodology as formulated in a typical fair-market value appraisal. The appraiser shall consider all local, state, and federal ordinances, regulations, land use restrictions, engineering controls, and local practices when making a determination of the highest and best use.

3. All approaches to value should be considered when valuing the property. If the appraiser determines that a typical approach should be omitted, it must explain the reasons to support the exclusion in the appraisal report.

4. The appraiser shall explain the reasoning applied to arrive at the final opinion of value and how the results of each approach to value were weighed in that opinion, and the reliability of each approach to value for solving the particular appraisal problem. The appraiser shall also state his or her final estimate of value of all of the property under appraisal as a single amount.

5. TIDA shall provide the appraiser a copy of all records and data pertaining to the property detailed in Section VIII.

V. General Requirements:

1. The appraiser will be provided with Points of Contact for TIDA to assist in completing the assignment. For questions regarding the appraisal, please contact:

Name

Agency

Physical Address

Phone number and email address

2. All adjustments for dissimilarities between the appraised property and comparable market data, including sales comparables and rental data, as well as all discount and capitalization

rates, etc., must be supported by market data. The narrative description of the adjustment process shall be sufficiently complete to indicate to the reader that the adjustments or rates were derived and applied in a reasonable and rational fashion consistent with market data. The actual adjustments shall be set forth in an adjustment grid(s) and discussed in sufficient detail to lead the reader to the appraiser's conclusions.

3. A detailed description/analysis, with photographs, of the property and improvements under appraisal is required which includes: a plot plan, improvement plans and specifications with dimensions, a description of any special features or copy of the "as-built" site survey; description and size and shape of site, topographical features, soil and subsoil conditions (if known), drainage and flood zone information, access and ingress/egress, utilities availability, site's relationship to neighboring properties, potential or existing nuisances and hazards, easements, encroachments and right-of-ways, and overall functional adequacy of the site.

4. In addition to above, the following information is required for existing improvements determined to be the highest and best use or historically significant and which would remain on site: estimated size of the improvements detailed in the most standard market acknowledged unit(s), a description of interior and exterior construction features and layout, available and required number of parking spaces, physical and chronological age, total economic life, remaining economic life, effective age, quality and condition, deferred maintenance, current use, and functional utility of the improvements.

5. Photographs of all comparable market data utilized in the report shall be provided within the appraisal. Maps displaying the location of all market data must also be included. These maps should be detailed enough to show specific site identification and location so that market data can be located during a field review of the appraisal.

6. Comparable market data shall be presented in individual write-up sheets. Rental Comparable data sheets shall include at a minimum: physical address, improvement description, lessor/lessee, date of lease(s) or most recent rental transaction(s), lease rates and terms including: type of lease (gross, modified gross, triple net), TI allowances, rental concessions, expense allocations, size of space leased, etc., and date and source of verification. Comparable sales data sheets must include, at a minimum: physical address or legal description, grantor/grantee, sales price & date, financing terms and conditions to include cash equivalency, zoning, size and shape of site, description of improvements, current use, development of capitalization rate (if sale comparable is income producing) and date and source of verification. The appraiser must physically inspect all principle comparable data used.

The documentation of each comparable sale shall include:

- Parties to the transaction
- Date of transaction
- Confirmation of the transaction with buyer, seller, broker, or other person having knowledge of the price, terms, and conditions of sale, include names of person the sale was verified with and phone numbers.
- Buyer motivation
- Location
- Size
- Unit counts
- Property rights conveyed

- Consideration
- Financing terms
- Sale conditions, such as arm's length or distressed
- Improvements, include utilities available,
- Zoning
- Photographs

Cite pertinent facts such as date, size, buyer and seller, price, terms, location, and explain why each sale was not used. Properties on the market for sale, but not yet sold, may be included as comparables if the appraiser feels they are relevant to the analysis.

The appraiser shall adhere to USPAP direction pertaining to comparable sales requiring extraordinary verification and weighting considerations. These include sales to governmental agencies, sales to non-profit organizations, sales to environmental organizations, sales to parties desiring to exchange the land to the government, distressed sales, and other atypical or non-arm's length sales.

7. The appraiser must provide a line-item discussion reflecting the mathematical development of each income, expense, vacancy, infrastructure, cost-to-cure, or demolition item cited in the appraisal report. Property operating expenses must be supported by market data based on industry standards or supported by industry recognized income/expense manuals such as BOMA, IREM, etc.

8. If the appraiser chooses to use self-made or commercial appraisal software, such as ARGUS, DYNA, PROJECT, Microsoft Excel etc., he/she must provide all supporting printouts, spreadsheets, and electronic versions of the files, which support the Operating Statement or Discounted Cash Flow (DCF) Analyses provided within the appraisal.

VI. Special Considerations/Assumptions:

1. Tidelands Trust – use restriction applies to certain portions of land on YBI. Attached to this scope is an overview of Tidelands Trust.
2. Market Value – as of the effective date of the appraisal
3. Bay Bridge Completion Date – assume completion by 2013-2015 (including bridge demolition) - TBD.
4. Utilities – all required utilities will be available to support development.
5. Entitlements in place – all necessary entitlements will be in place as of the effective date. Assume the current status of development in the entitlements process.
6. Environmental Clean-up – areas affected by environmental contamination will be remediated to the proposed uses identified in the TIDA's July 1996 redevelopment plan, except in limited areas where otherwise agreed to with the regulatory agencies such as CERCLA Site 6. Use restrictions such as institutional controls may be imposed on certain portions of the property and these areas may require management of hazardous substances remaining in place in soil or groundwater during construction for development, or until concentrations have attenuated below unrestricted levels.
7. Geotechnical – assume stabilization and improvement of the Property for seismic purposes will be conducted.

VII. Appraiser Qualifications:

Appraisers shall be a State Certified General Real Property Appraiser in California where the subject property is located and be in good standing with the licensing authority where the credential was issued. Appraiser must also hold a current MAI membership designation from the Appraisal Institute. Additionally, appraiser must be practicing or working for at least 10 years in either a national firm, or a regional firm based in California and have particular experience with coastal California real property transactions involving the product type that is the subject of the appraisal. The appraiser must maintain independence from all Contracting Parties and not have any contractual relationships with Developers within the prior 24 months.

VIII. Information to be provided to the Appraiser:

1. TBD

IX. Timing & Process:

The following provides a projected schedule of key milestones. All days are completion dates from the date of award (number of days from previous task).

Contract Award Date – TBD
Kickoff Meeting with TIDA (+5 days) – TBD
Deliver Information to Appraiser (+3 days) – TBD
Property Inspection (+7 days) – TBD
Supplemental Information Request (if needed) – Anytime
Final Report (+30 days) – TBD

1. Pre-Work Conference: At the request of TIDA, the appraiser will be required to attend a pre-work conference for discussion and understanding of these instructions, including an update of the project schedule. TIDA shall extend an invitation to the Navy to attend the Pre-Work Conferences. The pre-work conference may be held in conjunction with the property examination.
2. The appraiser shall submit to the Contracting Party a complete, Self-Contained Appraisal Report along with three (3) signed copies and a live electronic copy of the appraisal report within the number of days (or date) specified within the fully executed contract for appraisal services.
4. The appraiser shall provide an electronic Portable Document Format (PDF) version of the signed appraisal report along with any maps, drawings, photos, graphs and all backup information to the Contracting Party.
6. Definition of Terms: Unless specifically defined herein or in USPAP, definitions of all terms are the same as those found in "The Dictionary of Real Estate Appraisal" (Appraisal Institute), current edition.
7. Testimony. Upon the request of the Department of Navy or United States Attorney or the Department of Justice, and the City of San Francisco, the appraiser shall, in any judicial proceedings, testify as to the value of any and all property included in the appraisal report as of the valuation date. Fees for these services shall be determined upon the Contracting Party's request for testimony.

X. Confidentiality:

The Contracting Party and the appraiser acknowledge and agree that in the course of performing the Work under this agreement, the Contracting Party may disclose Confidential Information, which has been approved and authorized by Contracting Party for release, to the appraiser.

The appraiser agrees not to disclose the Contracting Party Confidential Information to any Third Party and to treat it with the same degree of care as it would its own confidential information. It is understood, however, that the appraiser may disclose the Contracting Party Confidential Information on a "need to know" basis to the appraiser's employees and Subcontractors. All such employees and Subcontractors of the appraiser shall have executed a confidentiality agreement with the Contracting Party requiring a promise of confidentiality concerning the Contracting Party Confidential Information.

Appraiser's valuations and supporting appraisal reports are confidential information as well and the appraiser shall strictly abide by the Confidentiality provisions of the Ethics Rule of USPAP, which provides as follows:

- An appraiser must protect the confidential nature of the appraiser-client relationship.
- An appraiser must act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results.
- An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than:
 - 1) the client and persons specifically authorized by the client;
 - 2) federal, state enforcement agencies and such third parties as may be authorized by due process of law; and
 - 3) a duly authorized professional peer review committee.

Under exception #1 in the preceding paragraph, appraisers must obtain written authorization from the Contracting Party before disclosure. The passage of time in and of itself does not extinguish either the appraiser's responsibility for confidentiality or the appraiser/client relationship. The appraiser/client relationship is extinguished only upon written release from the Contracting Party. Even though the appraiser/client relationship may terminate, the appraiser remains subject to the confidentiality provisions of USPAP.