

APPRAISAL REPORT

***BALBOA THEATRE, DOWNTOWN
SAN DIEGO, CALIFORNIA***

APPRAISED FOR

Civic San Diego
401 B Street, Suite 400
San Diego, California 92101

DATE OF VALUATION

January 1, 2011

DATE OF REPORT

October 21, 2019

APPRAISED BY

Jones, Roach & Caringella, Inc.
10920 Via Frontera, Suite 440
San Diego, California 92127-1732
Our File No.: 2019081

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Exhibit A	Discounted Cash Flow Analysis
Exhibit B	Comparable Sale Photographs
Exhibit C	Qualifications of the Appraisers

ALISON E. ROACH
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ROBERT N. JONES, MAI (RETIRED)
STEPHEN D. ROACH, MAI, SRA, AI-GRS

October 21, 2019

Civic San Diego
401 B Street, Suite 400
San Diego, California 92101

Reference: *Balboa Theatre, Downtown San Diego*

Dear Sir or Madame:

At your authorization and request, we have estimated the market value of the leased fee interest in the referenced property. This appraisal is to be used by the client, Civic San Diego, to assist in the process of winding down the former San Diego Redevelopment Agency. There are no other intended uses or users of the appraisal or appraisal report. The date of value is January 1, 2011. The value conclusion is presented on page one of this report.

The findings are presented in the following appraisal report. This report is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP). The report presents a summary of the data, reasoning, and analyses that were used in the appraisal process to develop my conclusions. Other supporting documentation is retained in our work file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated above. The appraisers are not responsible for unauthorized use of this report.

This appraisal was performed in conformance with the *Uniform Standards of Professional Appraisal Practice* and the supplemental requirements of the Appraisal Institute. This appraisal is subject to certain assumptions and limiting conditions that are made a part of this report. Acceptance and use of this report by any intended user constitutes acceptance of these assumptions and limiting conditions. Thank you for this opportunity to be of service.

Sincerely,



Robert P. Caringella, MAI, SRA, AI-GRS
AG003295



Alison E. Roach
3003682

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

PROPERTY OWNER:	The Redevelopment Agency of the City of San Diego (as of the date of value)
PROPERTY LOCATION:	868 Fourth Ave, city of San Diego
APN:	533-610-03
SUBJECT PROPERTY SITE DESCRIPTION:	The subject property is a developed commercial site containing 0.34 acre, or 15,002 square feet. The parcel has a basement, and the first floor level is at street grade. The parcel is zoned CCPD-ER, Centre City Planned District, Employment/Residential Mixed-Use. The subject property is located in the Downtown/Centre City Community Plan area. Within that plan, the subject is designated Employment/Residential Mixed Use.
SUBJECT PROPERTY IMPROVEMENT DATA:	The property is improved with the Balboa Theatre, a historic vaudeville/movie theater built in 1924 and renovated in about 2008. After renovation, the theater began operating as a performing arts venue (non-profit). According to building area/occupancy figures provided by the client, the building contains 41,318 square feet of occupied space (the total building area contains 44,350 square feet, including area believed to be attic space). The theater contains 1,339 seats, office space, lobbies, and corridors, as well as certain audio, visual, and lighting equipment. The subject property has been listed on the National Register of Historic Landmarks since 1996. There is no on-site parking. The property subject to a lease through 2023 with little to no rent expected.
HIGHEST & BEST USE:	Continued use as improved (performing arts venue, subject to an existing lease)
DATE OF VALUE:	January 1, 2011
DATE OF REPORT:	October 21, 2019
ESTATES APPRAISED:	Fee simple and leased fee estates
LEASED FEE VALUE:	\$4,070,000

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following extraordinary assumption (this assumption might affect the assignment results):

1. This appraisal is based on the assumption that the subject was in generally similar condition on the date of value to that found during our recent inspection (with less wear and tear, and lower expected capital improvements compared to the current budget as described later in this report).

This appraisal is subject to the following general assumptions and limiting conditions:

1. Information, estimates, and opinions furnished by others and contained in this report are assumed to be true, correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the appraisers.
2. No responsibility is assumed for matters legal in character, nor do we render an opinion as to title, which is assumed to be held in various interests as of the date of valuation unless otherwise stated.
3. It is assumed that the property is readily marketable and free of all liens and encumbrances except any specifically discussed in this report.
4. Photographs, plats, and maps furnished in this report are to assist the reader in visualizing the subject property. No survey of the subject property has been made, and no responsibility has been assumed in this matter.
5. It is assumed that there are no legitimate environmental or ecological reasons that would prevent continued operation of the property at its highest and best use.
6. A soils engineering study was unavailable for this appraisal. It is assumed that there are no hidden or unapparent conditions of the property such as subsoil conditions which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which might be required to discover such factors.
7. Possession of this report, or a copy thereof, does not carry with it the right of publication. Disclosure of the contents of this appraisal report is governed by the by-laws and regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially reference to the Appraisal Institute or the MAI and SRA designations) may be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communications without prior written consent and approval of the appraisers.
8. This report may not be used for any purpose by anyone other than the party to whom it is addressed without the written consent of the appraisers.

ASSUMPTIONS AND LIMITING CONDITIONS
(Continued)

9. The submission of this report constitutes completion of the services authorized. It is submitted on the condition that the client will provide the appraisers customary compensation relating to any subsequent required depositions, conferences, additional preparation, or testimony.
10. No warranty is made as to the seismic stability of the subject property.
11. The date of value to which the opinions expressed in this report apply is set forth in the letter of transmittal. The appraisers assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.
12. An engineering survey has not been made by the appraisers. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.
13. No opinion is expressed as to the value of subsurface oil, gas, or mineral rights and it is assumed that the property is not subject to surface entry for the exploration or removal of such materials except as is expressly stated.
14. The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short-term supply and demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraisers and could affect the future income or value projections.
15. Testimony or attendance in court or any other hearing is not required by reason of rendering this appraisal unless such arrangements are made a reasonable time in advance.
16. By acceptance and use of this report, the user agrees that any liability for errors, omissions, or judgment of the appraisers is limited to the amount of the fee charged for the appraisal. Anyone acting in reliance upon the opinions, judgments, conclusions, or data contained herein, who has the potential for monetary loss due to the reliance thereon, is advised to secure an independent review and verification of all such conclusions and/or facts. The user agrees to notify the appraisers, prior to any loan or irrevocable investment decision, of any error which could reasonably be determined from a thorough and knowledgeable review.
17. As used in this report, the word "inspection" means a viewing of the property and its improvements for appraisal purposes; it should not be construed to mean a professional building inspection in which the building structures and systems are reviewed, examined, and/or tested. Measurements taken, if any, are for appraisal purposes only and are not to be relied upon for any other use.

ASSUMPTIONS AND LIMITING CONDITIONS
(Continued)

18. No title report was made available for this appraisal. The appraisers assume no responsibility for easements, encroachments, or encumbrances not revealed by our physical inspection of the property. It is assumed that there are no easements, encroachments, or encumbrances which would limit the utility of the property.

19. Research and physical inspection of the subject property revealed no apparent contamination by hazardous chemicals or toxic wastes. In addition, no nearby land uses were noted that are commonly associated with such problems. It is assumed that no such contamination of the subject property exists.

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

21. The existence of potentially hazardous material used in the construction or maintenance of the subject improvements, such as asbestos, urea formaldehyde foam insulation, and/or toxic waste, which may or may not be present on the property, has not been considered in this valuation. The existence of such substances on or near the property may have an affect on the value of the property. The appraisers are not qualified to detect such substances. The client is urged to retain an expert in this field if desired.

22. The appraisers have personally inspected the subject property and found no obvious evidence of structural deficiencies except as stated in this report; however, no responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.

APPRAISER'S CERTIFICATE

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute.
8. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. I have made a personal inspection of the property that is the subject of this report.
11. No one provided significant real property appraisal assistance to the persons signing this report.
12. I have performed no services, as an appraiser or in any other capacity, regarding the property in the three years prior to acceptance of this assignment.
13. As of the date of this report, Robert P. Caringella, MAI, SRA, AI-GRS has completed the continuing education program for Designated Members of the Appraisal Institute and has received certification from the state of California as a Certified General Real Estate Appraiser.
14. As of the date of this report, Alison Roach has completed the Standards and Ethics Education Requirements for Candidates for Designation of the Appraisal Institute and has received certification from the state of California as a Certified General Real Estate Appraiser.



Robert P. Caringella, MAI, SRA, AI-GRS
AG003295



Alison E. Roach
3003682

October 21, 2019
Date

IDENTIFICATION OF THE PROPERTY

The subject of this appraisal is a 0.34 acre site improved with the Balboa Theatre, a historic performing arts venue located at 868 Fourth Avenue, in downtown San Diego. The property is identified as Assessor's Parcel Number (APN) 533-610-03.

PROPERTY HISTORY

According to the American Theatre Organ Society, the subject building was originally constructed in 1924. At the time, the building was state-of-the-art and included six storefronts along Fourth Avenue, with 34 offices on the floors above. The theater was utilized for both vaudeville performances and as a single-screen motion picture theater. According to the San Diego History Museum, the tiled dome of the theater is the same style as the domes of the Santa Fe Depot, a historic railway station also located in downtown San Diego. The theater was remodeled for sound pictures in 1930. In 1959, the Russo family acquired the building to protect it from potential demolition. Architects of the adjacent Horton Plaza Shopping Center incorporated the Balboa into the shopping center. The city of San Diego purchased the Balboa Theatre in 1986. The building was then closed for over twenty years. The Balboa Theatre has been on the National Register of Historic Landmarks since 1996. The City's redevelopment agency funded the rehabilitation in the early 2000s, and after an approximately \$26.5 million restoration, the Theatre reopened in January 2008. The redevelopment agency subsidized and renovated the property and leased it a non-profit, with the intent of conveying the property into city ownership, as a public arts facility. The facility was envisioned to always be in public ownership (non-taxable). The property has been operated by San Diego Theatres, a non-profit, since 2008 (the property is leased to this entity for a nominal amount as described later in this report). According to profit and loss statements for the year 2009/2010, the Balboa Theatre had gross profit of \$967,410, and net loss of \$313,149. For the 2010/2011 year, the Balboa Theatre had gross profit of \$1,471,548, and net loss of \$172,192.

OWNERSHIP

According to the deed history, title to the subject was vested in The Redevelopment Agency of the City of San Diego as of the date of value. Shortly after the date of value, in March 2011, the property was quitclaimed to the City of San Diego. In July 2012, the property was quitclaimed from

the City of San Diego to City of San Diego, Solely in its capacity as the designated successor agency to the Redevelopment Agency of the City of San Diego. These transfers are related to the State of California's Redevelopment Agency Dissolution process. The Redevelopment Agency of the City of San Diego was comprised of three entities: the City's Redevelopment Department (related to affordable housing), the Centre City Development Corporation, or CCDC (which administered the Centre City and Horton Plaza areas), and the Southeastern Economic Development Corporation (which administered the Southeastern San Diego area). After the State of California's Redevelopment Agency Dissolution, Civic San Diego was created as the Successor Agency. Civic San Diego currently oversees the Balboa Theatre and the Civic Theatre. The Balboa is leased to San Diego Theatres, Inc., a non-profit organization which operates the theatre (they also lease and operate the Civic Theatre). The subject property was envisioned to be held in public ownership.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the subject property to assist Civic San Diego in the process of winding down the former San Diego Redevelopment Agency.

DEFINITION OF VALUE

The market value definition varies whether used for taxation or value in exchange. The fair market value standard is used for property tax appraisal in California. Fair market value (also known as "full value", "full cash value", "cash value", or "actual value") is defined in Rule 2 of the State of California Board of Equalization Property Tax Rules as:

"The price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other. When applied to real property, the words "full value", "full cash value", "cash value", "actual value" and "fair market value" mean the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any legally enforceable government restrictions) would transfer for cash or its equivalent under the conditions set forth in the preceding sentence."

The spirit of this definition is similar to the commonly used concept of "market value" which is defined in *The Dictionary of Real Estate Appraisal, Sixth Edition* (2015), as follows.

“The most probable price, as of a specific date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

There is some question as to whether this asset would have ever been fully taxable if held in public ownership and operated as a non-profit. Based on the purpose of the appraisal, to assist Civic San Diego in the process of winding down the former San Diego Redevelopment Agency, the second definition of value was considered more applicable - therefore, the market value of the leased fee interest was the subject of this report. The subject property was appraised on the basis of cash. The exposure time for this property was estimated to be about six to twelve months. Exposure time is the period of time that the property would have been offered on the market prior to the hypothetical sale at market value on the date of value. This appraisal is subject to the assumptions and limiting conditions presented in this report.

INTENDED USE OF THE APPRAISAL AND USER OF THE REPORT

The intended use of this appraisal is to provide the client, Civic San Diego, value documentation in winding down the San Diego Redevelopment Agency, related to the State of California’s Redevelopment Agency dissolution process. There are no other intended uses of the appraisal or users of the appraisal report.

PROPERTY RIGHTS APPRAISED

The primary interest appraised is leased fee estate, which is defined in *The Dictionary of Real Estate Appraisal, Sixth Edition* (2015), as follows:

"The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.."

As part of this assignment, we have also estimated the value of the fee simple estate (the reversion). From the same publication the fee simple interest is described as follows:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

From the same publication an easement is described as follows:

“An interest in real property that conveys use, but not ownership, of a portion of an owner's property.”

We are not aware of any covenants, conditions, and restrictions (CC&Rs) or other such agreements or restrictions affecting the subject property beyond those noted in the report.

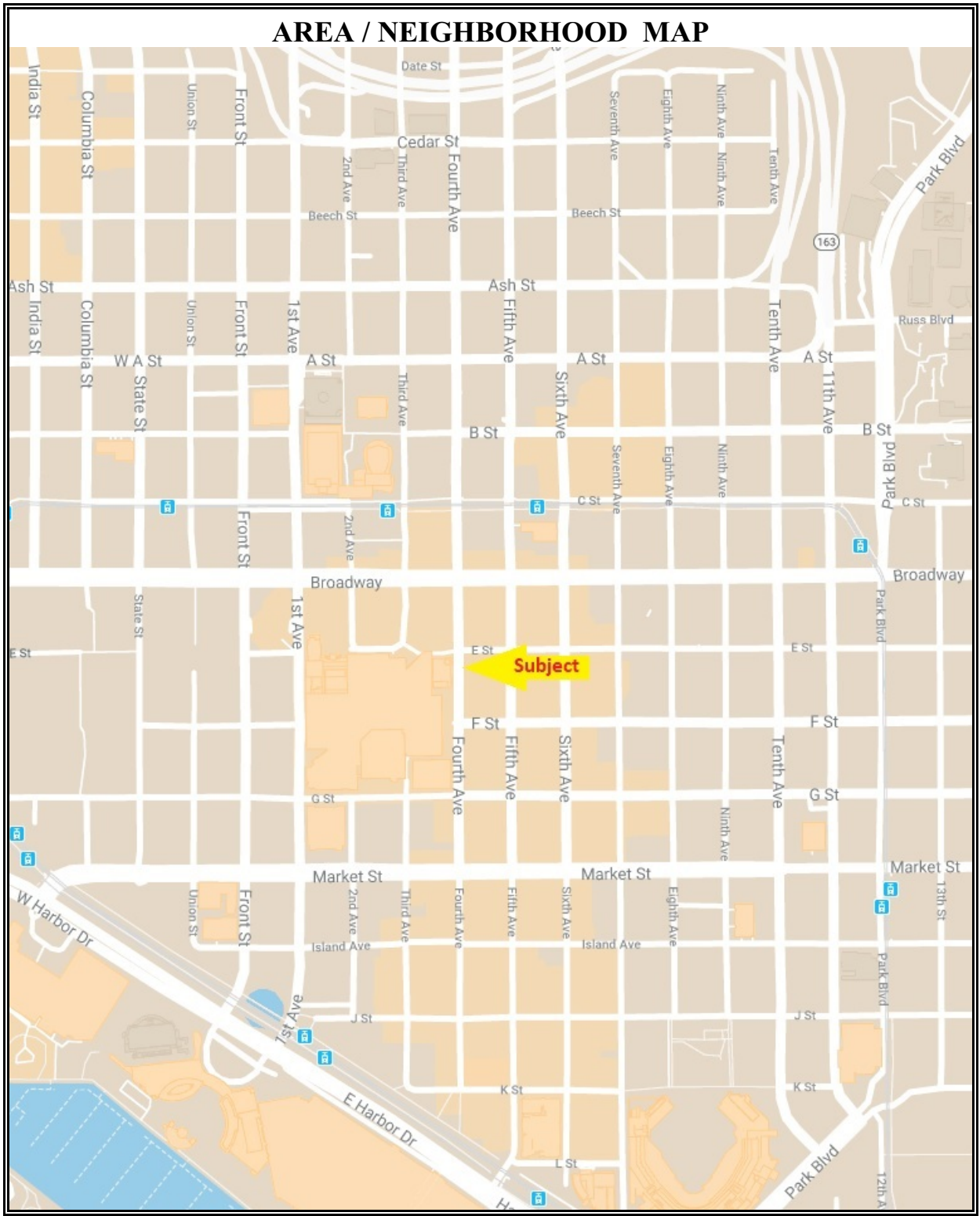
SCOPE OF THE APPRAISAL

This analysis is intended to be an "appraisal" as defined in the *Uniform Standards of Professional Appraisal Practice* (USPAP). It is our intent that the appraisal service be performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party. All appropriate data deemed pertinent to the solution of the appraisal problem was collected, confirmed, and reported in conformity with USPAP and the supplemental requirements of the Appraisal Institute.

In preparing this appraisal, the following tasks were performed:

- the subject property was inspected, and representatives of Civic San Diego and San Diego Theatres were interviewed for further details about the property;
- Civic San Diego staff were interviewed regarding the property and the appraisal problem to be solved;
- the physical, legal, and economic characteristics of the subject property were investigated;
- research was conducted to identify sales of comparable properties, both locally and throughout California given the size, scale, and historic designation of the subject property; and
- the sales comparison approach was used in valuing the fee simple interest in the subject property for use in calculating the reversionary interest (a cursory income approach was also used as a check of reasonableness); and
- growth and discount rates were estimated and a discounted cash flow analysis was performed to determine the value of the leased fee interest in the subject property.

Our findings are presented in this appraisal report, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of USPAP. This appraisal report includes a description of the subject property as well as a discussion of the reasoning that has resulted in the conclusion.



AREA/NEIGHBORHOOD DESCRIPTION

The subject property is located in downtown San Diego, the heart of San Diego where many government, law, and business offices are located. Downtown has also evolved as a popular shopping, entertainment, and residential location. It has been divided into several subareas: Columbia/Core, Marina, Horton Plaza, Gaslamp Quarter, East Village, Little Italy, and Cortez Hill, each with its distinctive land use patterns. With an initial jurisdiction of 375 acres, downtown's two official redevelopment projects, The Horton Plaza Redevelopment Project and The Centre City Redevelopment Project, eventually covered the entire 1,500 acres of downtown as defined by the waterfront and Interstate 5. Included in the downtown redevelopment effort were the Horton Plaza retail and entertainment complex and dozens of restored buildings in the 16.5 block historic Gaslamp Quarter. According to the CCDC information center in 2011, there were about 13,255 residential units with another 4,113 units submitted for approval, approved, or under construction. There were no substantial projects expected to complete construction in 2011, although 320 units were expected to be completed in 2012. There were about eight million square feet of office and retail space. About 989,000 square feet of retail and 2,448,000 square feet of office space had been submitted for approval, approved, or were under construction in 2011. The only project that was slated for completion in 2011 was the 426,000 square foot courthouse along Broadway. There were also plans for about 10,000 hotel rooms, with another 4,283 submitted for approval, approved, or under construction. None of these projects were expected to be completed in 2011.

East Village

East Village has seen significant redevelopment in past economic upturns. The 26-block ballpark district features a 42,000 seat stadium designed for the San Diego Padres. The ballpark opened in April 2004 and is located in the southwest quadrant of East Village. As downtown's largest neighborhood, East Village is the last neighborhood where major new development has occurred. Largely as a result of the ballpark and ancillary uses, development surged in the area. While there were several planned projects in this area, only one project was slated for completion in the near future, in 2011; the 15th & Commercial housing project that was planned for 65 restricted price apartments and 150 transitional shelter beds. This project was scheduled for completion by February 2012. Major planned residential condominium projects in the area included 16th & G Leeding Edge with 530 units, Cosmopolitan Square with 324 units, Monaco with 310 units and Ninth & Broadway with 250 units.

Columbia and Core Areas

The Columbia Redevelopment Area, once its own planning area, was merged with the Core area, forming the downtown central business district (Columbia is the western portion, Core is the eastern portion). Local, state, and federal government agencies are scattered throughout this area. Much of downtown's class A office space is also located in this neighborhood. Development in the late 1980's and early 1990's was concentrated in the Columbia area, which was primarily targeted for office and commercial development. Most of San Diego's early high rise office buildings are located in the Core area. Major completed projects in this area in 2011 included McClintock Plaza, a restoration and conversion project for restaurant and office use of the former Bekins warehouse; the Best Western Columbia Hotel, a 13-story hotel; the 27-story First National Bank Building; several low-rise office buildings; several historical restorations; and a seniors' housing project. Some of the newer (as of 2011) major projects were the Cabot, Cabot & Forbes Corporate Centre, a 344,000-square-foot office tower; Koll Center, a 21-story office building of 355,000 square feet mixed with residential units; Emerald Plaza, a 702,000-square-foot office tower and hotel tower; and One American Plaza, a 34-story, 370,000-square-foot office building. A 13-story, 379,000-square-foot Hall of Justice was also completed on Broadway. A newer office tower was completed at Broadway and Kettner Boulevard.

The Core area has seen little new development in recent years. Some high-rise office buildings had been refurbished and re-leased, including the 336,000-square-foot Comerica Building and the 433,000-square-foot Golden Eagle Plaza. Recently completed was a 19-story, 194-room hotel on the east side of Fifth Avenue between Broadway and C Street. This project was the Diegan Hotel that incorporated the facade of the historic Jessop's building. Other completed projects include a 247-room Courtyard by Marriott which was an adaptive reuse of the historic 15-story San Diego Trust & Savings Bank building. The only developments underway in 2011 were public projects, including the US Federal Courthouse at Union and Broadway. The area had one planned residential project, Kettner & Ash. This condominium project was proposed to include 287 units. The final proposed project in the area was 880 W. Broadway, a 34-story office building with ground floor retail.

Marina District

Until the surge of development in East Village, the Marina District had been the focus of high-end residential development, primarily in the form of condominiums. Most of the available land had been developed in the Marina District before 2011. Several major projects had been constructed; these projects included 235 on Market (57 condominium units), Crown Bay (86 condominium units), Marina Place (151 apartment units), City Walk (109 condominium units), Renaissance (218 high-rise condominiums), Park Place (178 high-rise condominiums), and Horizons (211 high-rise condominium units). Also completed was The Pinnacle Museum Tower located on the block bounded by Island Avenue and Market, Front and Union Streets. The development was a 35-story building with 182 luxury condominium units, below grade parking, 10,000 square feet of retail space, and a 50,000 square foot children's museum. There were no projects under construction, however, a major planned development was under review; First & Island, a 38-story condominium project with 172 units was proposed.

Horton/Gaslamp Quarter

The historic Gaslamp Quarter has become one of San Diego's most popular entertainment neighborhoods. In 1985 Horton Plaza regional shopping center opened right next to the Gaslamp Quarter and due to its success initial redevelopment activity followed. The area now features a mix of old and new buildings and the many historically and architecturally significant structures house many restaurants and nightclubs, as well as a multi-screen movie theater, clothing stores, offices, galleries and lofts. The Gaslamp Quarter also has hosted numerous annual events such as Street Scene and the Mardi Gras Celebration, among others. As of 2011, projects included Trellis Fifth Avenue, a 10-story, mixed-use project with 149 condominiums and 19,000 square feet of retail uses. This half-block development is located at Fifth Avenue and K Street. The Marriott Renaissance Hotel includes 344 rooms and 7,000 square feet of retail space. Also completed was the Hard Rock Hotel with two 12-story buildings, 393 rooms, 25,000 square feet of retail, a ballroom and underground parking.

On January 11, 2011, the San Diego City Council unanimously approved a plan to raze the buildings adjacent/north to the subject (the former Robinsons-May and Sam Goody) to build an urban park. Horton Plaza Park opened in 2016.

Cortez

This hillside neighborhood is located in the northern portion of downtown and is anchored by the former El Cortez Hotel, now a condominium and retail development. One of San Diego's oldest residential neighborhoods, the hill's topography helps to separate it from the business activities of downtown and enhances view potentials. Completed projects were Aria, Aloft on Cortez Hill, Cortez Blu, and Solara Lofts. All were for sale condominium projects. Aria is a 24-story, 137-unit project located at the northeast corner of Ninth Avenue and Ash Street. Aloft on Cortez Hill is a five-story, 16-unit project located on the south side of Date Street between Eighth and Ninth avenues. Cortez Blu is a 20-story, 67-unit project located on the southeast corner of Eighth Avenue and Ash Street. Solar Lofts is an eight-story 77-unit loft development located on the southeast corner of Cedar Street and Fourth Avenue. Cedar Gateway is a rent restricted apartment project with 65 units. This project was projected to be completed by January 2012. Proposed projects included Citiplace, a 140 unit apartment building and 777 Beech, a 78-unit condominium development.

Little Italy

The Little Italy neighborhood is located in the northwestern portion of the downtown area. Major projects in the area included several mid- and high-rise residential projects and street-scape enhancements along India Street. Restaurant and retail uses have developed along India Street, the spine of Little Italy. Most of the intense land uses were located south of Grape Street. The western portion of Little Italy tends to have a mixture of commercial retail, hotel, and residential uses. Many of the condominium and mixed-use projects have been developed in this area. In 2011, the recent new development of note was The Q, located at India and W. Fir. This project includes 28 rental units over ground floor retail. Proposed development included Pier, a 228-unit residential condo on the west side of Kettner Boulevard between Grape and Fir streets. This project was supposed to break ground in 2008. Riva Trigos was also a proposed condo project at Date and Columbia that was slated for 40 units. Lumina is located at 1414 Columbia Street. This project was proposed for 21 stories with 180 condominium units and 9,100 square feet of ground floor retail. India & Beech was a 29-story proposed condo development with 50 units. There was one proposed apartment development in the area, the 143-unit Ariel Suites located at Kettner and Beech.

Market Conditions

According to a retail market report prepared by Colliers International for the fourth quarter of 2010, the December 2010 San Diego County unemployment rate measured 10.1 percent, a slight (0.3 percent) increase from the previous month. Both the California and national unemployment rates decreased slightly, to 12.3 percent and 9.1 percent, respectively. According to the report, at the end of December 2010, the USD Index of Leading Economic Indicators for San Diego posted a small increase after three previous months of being unchanged. The retail market in San Diego County had four quarters of positive net absorption in 2010, with 241,818 square feet absorbed during the year. The total vacancy rate in the county was 5.8 percent, and the asking rent per square foot was \$1.84, on a net basis, per month. The same report indicates the overall vacancy rate for Downtown/Coronado was 5.5 percent, and the average asking rent was \$2.72, on a net basis, per month. Net absorption in the subject's area was 27,784 square feet in 2010.

According to an office market report prepared by Colliers International for the fourth quarter of 2010, there was a total of about 1.2 million square feet of net absorption, stronger than any of the four previous years. At the same time, new construction completions were at their lowest level since 2004. The total vacancy rate in the county was 17.1 percent, and the asking rent per square foot was \$1.75, per month, plus utilities. The same report indicates the overall vacancy rate for Downtown office was 17.2 percent, and the average asking rent was \$1.95, per month, plus utilities. Net absorption in the subject's area was negative 244,814 square feet in 2010.

Though the retail and office markets are not directly comparable to the subject's special use, they were discussed to provide context to the general market conditions around the date of value, as well as the more specific market of Downtown San Diego area. Conversations with multiple brokers who have been involved in transactions of performing arts venues indicated that the market for these specialized properties was slower to recover than the remainder of the commercial market.

Regional Theatre

San Diego's main theaters include The Old Globe, La Jolla Playhouse, Spreckels, Copley Symphony Hall, the Civic Theatre, and the Balboa Theatre. The Old Globe, in Balboa Park, has a 600 seat theater, a 250 seat theater in the round, and a 615 seat outdoor theater. It is styled like the Globe Theatre in London. Many major productions are tested at the Old Globe before they are taken to Broadway. The La Jolla Playhouse is a theater located on the campus of University of California,

San Diego. It is also known as originating productions that find success on Broadway. It has 492 seats in a modern style theater, as well as other companion theaters on the campus. Spreckels theater is a historic theater in downtown San Diego which was built in 1912. It has 1,915 seats and has a ornate, baroque style interior. Productions include a variety of music, dance, comedy, and cultural performances, similar to the subject. Copley symphony hall is a 2,248 seat symphony building operated by the San Diego Symphony. It is designed in the gothic-revival style. The Civic Theatre is a more modern style, 2,967 seat theater located in downtown San Diego. Productions include Broadway-style productions as well as larger music, dance and comedy performances. The Civic handles the larger productions, whereas the Balboa is a secondary venue, due to size and functionality. The Balboa (the subject of this appraisal) is a 1,339 seat, historic theater in downtown. It has an architectural style consistent with the adjacent Gaslamp Quarter and productions typically include music, dance, comedy, and cultural performances. Other regional serving facilities include the Poway Center for Performing Arts and the Escondido Center for the Arts. Other theater and music venues are located throughout San Diego County.

Conclusion

The subject property is located in the downtown area of San Diego, a core area for civic, business, cultural, and retail activity. Although the market was still in recovery as of the date of value, the subject's location (in a major employment hub) was considered good. However, the market for specialty buildings such as the subject took longer to recover than typical commercial uses. While the short-term outlook for the subject was considered somewhat weak, the mid to long-term outlook for the area was considered good.

PROPERTY DESCRIPTION - PHYSICAL CHARACTERISTICS

Location and Access

The subject property is located at 868 Fourth Avenue, in downtown San Diego. The property is located on the east side of Horton Plaza, along the west side of Fourth Avenue at E Street. In 2011, north of the Balboa Theatre were the Sam Goody and Macy's buildings (which were later torn down to build Horton Plaza Park). Pay public parking is available at Horton Plaza, as well as other nearby pay parking lots. The location and access in this area of this area of Downtown San Diego is good, the access onto the property is very limited. There is no traditional loading dock, and street parking is limited. Pedestrian access is available via the Fourth Avenue entrance, the rear alley entrances, and a side door along the north side of the building.

Size and Shape

According to public records, the site contains 0.34 acre, or about 15,002 square feet. It is rectangular in shape.

Street Improvements

Along the subject frontage, Fourth Avenue is a one-way (southbound), three-lane street, improved with asphalt paving and concrete curbs, gutters and sidewalks, as well as streetlights. E Street is a one-way (eastbound), two-lane street, improved with asphalt paving and concrete curbs, gutters and sidewalks, as well as streetlights.

Topography and Drainage

The subject parcel has a basement, and the first floor level of the building is at street grade. Water appears to flow toward public roadways, where runoff is captured by gutters. Drainage was assumed to be adequate.

Flood Hazard

According to the National Flood Insurance Program Flood Insurance Community Panel No. 06073C1885G dated May 16, 2012, the subject is located in Zone X “Other Areas,” defined as, “areas of minimal flood hazard.”

Seismic Stability

The subject property is located in the Point Loma Quadrangle. According to the city of San Diego’s Seismic Safety Study, the subject is located in the Downtown Special Fault Zone. Several active fault lines have been discovered in the area. The State Alquist-Priolo Zone Act regulates development near active faults, preventing buildings intended for human habitation from being built on identified active faults (setbacks apply). Prior to development, trenching and geotechnical evaluation of the site is generally required. The appraisers are not aware of any active faults affecting the subject property. If an active fault were found on the property, this could have an adverse affect on value. We have assumed that the property is free of active faults.

Soils

The appraisers were not provided a soils report for the subject property. The appraisers are not expert in this field. As such, it is assumed as part of this appraisal that the soil conditions of the site is suitable for development and continued use as improved. Soils appear to have been suitable on nearby parcels where new development has occurred.

Utilities

The subject is served by public utilities. Water and sewer are provided by the city of San Diego. Electricity and gas are provided by San Diego Gas & Electric. Public services and utilities are generally located in the public streets.

Hazardous Contamination

Properties with known hazardous contamination are tracked by the State Water Resources Control Board (known as GeoTracker). According to GeoTracker, neither the subject nor the adjacent properties have known hazardous contamination. The area, however, is known to have

shallow soil contamination from activity in the early 1900s. Based on the above information, it is assumed that the subject is free of hazardous contamination.

Adverse Influences

No significant adverse influences were noted as of the date of value.

PROPERTY DESCRIPTION - LEGAL CHARACTERISTICS**Legal Description**

The complete legal description has been retained in our workfile.

Easements and Encumbrances

We were not provided a title report for this assignment. However, attached to the 2007 Lease between the Redevelopment Agency of the City of San Diego and San Diego Theaters, Inc., were several easements and agreements. There is an agreement for Chilled Water Services from 2006, between the Redevelopment Agency of the City of San Diego, and NRG Energy Center San Diego, LLC. This agreement relates to chilled water pipes, valves, and equipment, located in the building. According to their website, NRG (now Clearway Energy) supplies cooling to buildings in a 4-square-mile service area in downtown San Diego. The company produces chilled water that is distributed to customers to air condition more than 3.2 million square feet of space, according to their website. The chilled-water system was reportedly built in 1971 by an affiliate of San Diego Gas and Electric. There is an easement in favor of SDG&E, for transmission and distribution of electricity, recorded in 2006. There is also a meter access easement from 2006, also related to SDG&E. A Pedestrian Easement Agreement between The Redevelopment Agency of the City of San Diego, Horton Plaza, and the McMillan Family Trust, allows for pedestrian access from adjacent Horton Plaza. There were also bonds associated with the subject's renovations. The subject was appraised free and clear of any financial liens. We are not aware of any other easements or encumbrances that would have a significant adverse affect on the subject property. We reserve the right to change this appraisal should this not be the case.

Zoning and Land Use

According to the City's zoning map, the subject property is designated CCPD-ER, Centre City Planned District, Employment/Residential Mixed-Use. This area is intended to provide synergies between educational institutions and residential neighborhoods, or transitions between the C District and residential neighborhood. The ER district encompasses Horton Plaza. Allowable uses included office, residential, hotel, research and development, educational, and medical facilities. The subject property is located in the Downtown/Centre City Community Plan area. Within that plan, the subject is located in the Horton Plaza/Gaslamp Quarter. It is designated Employment/Residential Mixed Use. The Maximum floor area ratio (FAR) of the subject area is 6.0, with a minimum FAR of 3.5.

PROPERTY DESCRIPTION - ECONOMIC CHARACTERISTICS**Real Estate Taxes and Fixed Charges**

The subject property is identified as APN 533-610-03. It is located in tax rate area 08159, which had a 2010-2011 tax rate of \$1.10150 per \$100 of assessed value. Given the public ownership, the subject property is not assessed. Inherent in the definition of value is a sale of the property. The subject tax rate is similar to other properties in the area. In private ownership, the property would be subject to voter-approved bonds and annual fixed charge assessments.

DESCRIPTION OF THE IMPROVEMENTS

According to the American Theatre Organ Society, the subject building was originally constructed in 1924. At the time, the building was state-of-the-art and included six storefronts along Fourth Avenue, with 34 offices on the floors above. The theater was utilized for both vaudeville and as a single-screen motion picture theater. According to the San Diego History Museum, the tiled dome of the theater is done in the same style as the domes of the Santa Fe Depot, a historic railway station also located in downtown San Diego. The theater was remodeled for sound pictures in 1930. Architects of the Horton Plaza Shopping Center incorporated the Balboa Theatre into the general look of the shopping center. The city of San Diego purchased the Balboa Theatre in 1986. The

building was then closed for over twenty years. The City's redevelopment agency funded the rehabilitation in the early 2000s, and after a \$26.5 million restoration, the Theatre reopened in January 2008. The Balboa Theatre has been on the National Register of Historic Landmarks since 1996. On the date of value, the improvements were assumed to be in very good condition.

The subject property is operated by San Diego Theatres, a non-profit that operates the Civic Theatre and the Balboa Theatre. The building contains six stories (five stories over a built-out basement). The building was constructed with concrete frame and hollow clay fillers and is reportedly seismically sound. According to figures provided by the client, the building contains 41,318 square feet of occupied space; this figure has been used in this analysis. The building contains a total of 44,350 square feet; we believe the non-occupied space is located in the attic area where the organ pipes are located. Though we have analyzed the subject based on a size of 41,318 square feet, much of this space has limited functionality, as it includes long, narrow hallways on either side of the house and on each floor of the building. This less usable area was estimated to comprise about 15 to 20 percent of the building. The theater has 1,339 seats, of which 811 are on the ground floor and the remainder are on Loge and Mezzanine Levels.

The ground floor features a stage that is about 73 feet wide and about 27.5 feet deep. There is a very small room next to the stage. There is no rear crossover behind the stage (crossover occurs outside of the building, in the alley behind the stage). There is also no loading dock area, which is reportedly a significant constraint for many productions. The ground floor also features the main lobby and entrance area, which while somewhat small, features significant architectural interest. The house has several sets of reliefs on the walls, including a set that feature functional waterfalls. The ground floor also has restrooms (the larger women's restroom is downstairs and is reportedly not ADA accessible, though other restroom facilities are ADA accessible).

The basement contains six dressing rooms of various sizes, all of which have a private bathroom and a shower. A portion of the basement is located under the sidewalk along 4th Avenue. There is an additional restroom, as well as a wardrobe room with laundry facilities. There are several storage and mechanical rooms, as well as access to the Orchestra Pit. The Orchestra Pit has two lift systems, which, according to representatives from San Diego Theatres, are not used often, but are in very good condition; the pit is reportedly too deep for modern Orchestra performances.

The second floor lobby is relatively large and features the theater's main concessions area, as well as restrooms. The second floor lobby is several steps below the Loge level. The Loge and

Mezzanine levels have hallways with restrooms on the 4th Avenue side of the building, and narrower hallways on the opposite side of the building. At the top of the Mezzanine, there is a follow spot booth that houses two follow spots, a digital projector, and a restroom for the follow spot operators. There is also a ladder to access the catwalk walkways. The top of the Mezzanine also has two small storage rooms.

The fourth and fifth floors are located on the 4th Avenue side of the building and are generally long and narrow. The fourth floor contains accounting and finance offices, with very good quality room partitions. There is also a pantry room with a sink and refrigerators for concessions. The fifth floor contains a large office for the CEO, a reception area, a copy room/kitchen, and four private offices. There are two restrooms on the fourth floor and one restroom on the fifth floor. Above the fifth floor is an attic room housing the organ pipes and system; the Balboa Theatre is home to the Wonder Morton organ, built in 1929. The organ itself is located in a storage room in the adjacent parking structure, but is brought into the Balboa Theatre and connected to the pipe system for performances.

All of the publically accessible areas have historic architectural features. The main areas are carpeted. All of the restrooms have modern functionality and have tile floors and wainscoting. The fourth and fifth floors are also carpeted and have similar quality restroom facilities. The basement has concrete floors and lower-quality restroom finishes.

The theater contains audio/visual systems and fabric cushioned seats. Most of the major fixtures and equipment were designed specifically for the property and were considered to effectively be fixtures to the real estate. The personal property, such as individual lights, microphones, etc, were not considered to be a part of the real estate and were not valued.

There is no on-site parking. Patrons of the theater can park in the structure at the adjacent Horton Plaza, or at other public lots, or on streets in the surrounding area.

Based on conversations with representatives from San Diego Theatres, it is our understanding that the property now needs additional capital improvements in the range of about \$6,000,000. As of the date of value, a buyer of the subject would have anticipated the need for periodic capital expenditures.

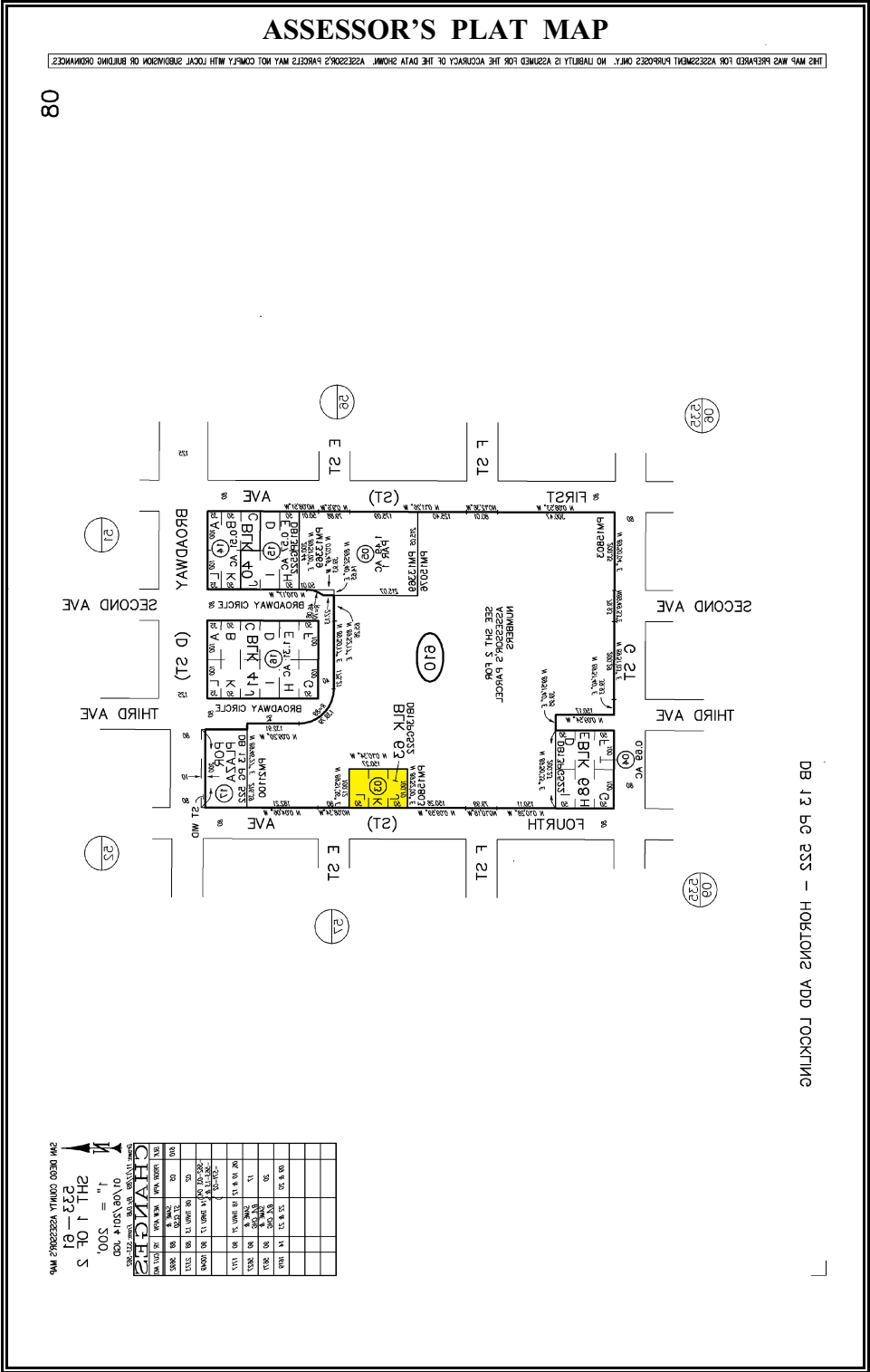
Functional Utility

The Balboa Theatre is an appealing, historic property that functions well for smaller shows, such as orchestra performances, small stage shows, and seminar-type events. However, there are several significant factors that were considered to hinder the functional utility of the building for modern theatre performances. The first factor is the stage size, which according to representatives of San Diego Theatres, is too small for many stage productions. This is further complicated by the lack of backstage space, which could be utilized, for example, to house sets used during a performance. There is also no dedicated loading dock to the building, which challenges load-in and load-out of acts. There are reportedly not enough dressing rooms for larger productions, and no extra area for craft services, prop storage, etc. Finally, according to representatives of San Diego Theatres, due to the number of seats in the theater, most acts need to sell out in order to break even or turn a profit. While the Balboa Theatre is a beautiful and desirable historic structure with significant utility to the community, these factors do have an impact on the property's potential to produce income.

DESCRIPTION OF LEASE

As of the date of value, the subject property was leased and operated by San Diego Theatres, a Non-Profit. The lease began on October 18, 2007. The termination date is either July 25, 2023, or the last day that the Agency (The Redevelopment Agency of the City of San Diego) is authorized to receive tax increment from the Redevelopment Project under applicable law. According to a representative of Civic San Diego, this was expected to occur in 2023. The lease contemplated eventual transfer of the property to the city of San Diego to be held as a public asset. The basic rent was set at \$1.00 per year. In addition to basic rent, the lease included percentage rent, based on net revenue of the theater. Net revenue is calculated by subtracting all operating expenses from revenue, including a 31 percent share of tenant's overhead expenses to be allocated to the theatre, but not including the landlord's expenses, which include the debt service payable on the bonds issued to finance the rehabilitation of the theater, capital improvements/reserves, or property insurance premiums. For the first two years of the lease, percentage rent would be equal to 25 percent of any positive net revenue. Beginning in year three, percentage rent would be equal to 40 percent of net revenue. However, during the first five years of the lease, there was to be an offset against the percentage rent of \$154,000. This offset would expire at the end of five years. The lease is on a net basis, with the exception that the land lord is responsible for all major capital improvements and

replacements, and property insurance. To our knowledge, little to no percentage rent has ever been paid. This description of the lease is presented for information purposes only and the reader is invited to review the lease for more details.

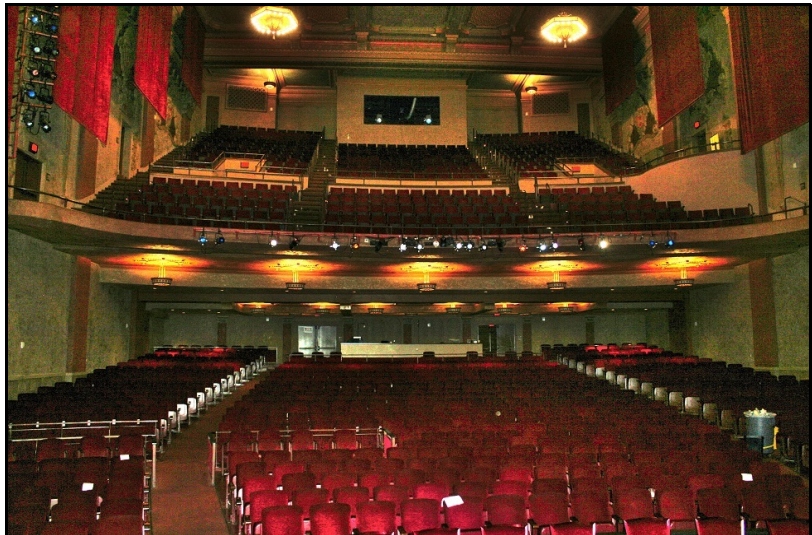


SUBJECT PHOTOGRAPHS

Viewing toward the building's main entrance.



Viewing toward the house from the stage.



Viewing from the loge toward the stage. The reliefs which contain working waterfalls are located to the left and right of the stage.



SUBJECT PHOTOGRAPHS

Viewing some of the aesthetic details of the building, located on the second floor.



Viewing a concessions area in the second floor lobby.



Viewing a large dressing room in the basement.



SUBJECT PHOTOGRAPHS

Viewing a typical restroom.



Viewing office space.



Viewing part of the organ system.



VALUATION METHODOLOGY

The purpose of this appraisal is to estimate the fair market value of the leased fee interest in subject property. The owner of a leased fee interest is entitled to collect income from the lessee for the remaining life of the lease plus the reversionary interest. The interest is created by a lease, and the rights of the owner are restricted by that lease to collection of the specified income. At the termination of the lease the owner has the right to use the property. This right is commonly known as the “reversion”. As noted previously, we have been informed that the lease will end in 2023 and the property would then revert to the lessor. There are three generally recognized approaches to value: cost, sales comparison, and income capitalization. The subject is a historically designated, special use property. Though the pool of transactions of similar properties is somewhat limited, the sales comparison approach was considered the most meaningful approach to value the fee simple interest in the subject property, which will be used to estimate the reversion. This approach was used to value the subject property. The property is not a traditional income property. While some theaters do maximize revenue, many including the subject do not. Further, these types of venues are rarely rented and then sold to the investment community. In fact, revenue projections are somewhat speculative given the varied business models and uncertainty in the performing arts arena. Also, some buyers would be civic or non-profit entities whose objective is not centered around net income. As such, the income approach was not particularly helpful. The cost approach estimates value by adding the depreciated replacement cost of the improvements to land value. This approach was considered unreliable given the age and uniqueness of the building and lack of market data from which to derive depreciation. Total depreciation consists of physical deterioration and functional and external obsolescence. While physical depreciation is simpler to estimate, these types of properties tend to suffer from economic obsolescence. The replacement cost would far exceed the market value of the subject, indicating substantial obsolescence. Examples of this include only the renovation costs associated with two transactions that are used as comparables in this appraisal and will be discussed in detail later in this report. Sale No. 2 is a 46,725 square foot property in Santa Ana that had a renovation cost of \$21,000,000 prior to selling for \$13,000,000. Sale No. 6 is a historic theater in San Diego containing 29,288 square feet. It was renovated at a cost of somewhere between \$8,000,000 and \$12,000,000 prior to selling for \$4,700,000. Lastly, the subject property was reportedly offered to the private sector for its renovation, but there were no interested parties due to the economics of this type of endeavor (public subsidy was ultimately required).

The sales comparison approach is based on the principle of substitution, and relates the subject to similar properties that have recently sold. Sales of similar properties were utilized in this analysis. As very few properties in the immediate area of the subject are similar enough to be sufficiently comparable, the search for comparable sales included all of California. The income capitalization approach is a procedure in appraisal analysis that translates an income estimate into an indication of value. Due to the limitations described above, only a cursory income approach was studied to estimate the fee simple interest utilized to value the reversion. Of the two capitalization approaches available, the direct capitalization approach was used as a check of reasonableness to the sales comparison approach to estimate the fee simple value of the subject property.

The subject property is encumbered by a lease, which began in 2007 and was anticipated to terminate in 2023. The lease contemplated transfer of the property to the city of San Diego, as the property was intended to be held in public ownership for a public arts facility. The lease has a base rent of \$1.00 per year, as well as percentage rent. It is our understanding that very little percentage rent, if any, has been paid. Thus, the subject property is encumbered by a lease until 2023, which provides essentially no income. Further, a buyer of the subject would not have the right to use and occupy the property until this time. To estimate the value of the leased fee interest in the subject property, we have used a discounted cash flow analysis, which is a measure of the present value of the contract rent over the term of the agreement plus the present value of the reversion.

Prior to valuation, the highest and best use of the subject property was determined. The purpose of the highest and best use analysis is to establish which use will result in the highest value, and to assist in identifying relevant market data.

HIGHEST AND BEST USE

Highest and best use is an important concept in real estate valuation as it represents the premise upon which value is based. As used in this report, *highest and best use* is defined on page 332 of *The Appraisal of Real Estate, 14th Edition* (2013) as follows:

"The reasonably probable use of property that results in the highest value."

In order to meet the reasonably probable criterion, a use must be (1) physically possible, (2) legally permissible, and (3) financially feasible. These criteria are often considered in that order because qualification under a latter test does not matter if the property fails an earlier test. Uses

which meet these three criteria are then tested for economic productivity, and the reasonably probable use with the highest value (i.e. maximally productive) is then determined to be the highest and best use. This definition applies to vacant land or improved property. The highest and best use of vacant land could be immediate development of the property or holding for future development.

The highest and best use of a property is determined by social, economic, governmental, and environmental forces. The relative weight that any of these forces carries in determining the highest and best use of a property depends on the individual property. Social forces are exerted primarily by population characteristics. Specifically, the demographic composition of the population reveals the potential demand for real estate. Examples of social forces that influence real estate are population changes, rate of family formations and dissolutions, and age distributions.

Economic forces determine the supply and demand conditions influencing real estate. The desire and ability of the population to satisfy its demand for real estate, or those uses situated on the real estate, are determined by economic forces. Examples of economic forces influencing the demand for real estate are employment and wage levels, the economic base of the region and community, price levels, and the cost and availability of mortgage credit. Examples of economic forces influencing the supply of real estate are the stock of available improved properties, proposed development, occupancy rates, and price patterns of existing properties.

Governmental influences include a broad range of political and legal actions which influence the provision of public services, restrict the supply of real estate through zoning and planning ordinances, establish local, state, and national fiscal policies, and special legislation (e.g., a building moratorium) which may influence property values and availability.

Environmental conditions which may influence real estate include climatic conditions, topography and soil, transportation systems, and the nature and desirability of the immediate neighborhood surrounding a property. Environmental forces can be external to the property being appraised or can include characteristics of the property itself. While the four forces that influence value have been identified separately, they work in concert to affect property values. For a given property these forces will probably exert uneven influence on the value, with certain forces having greater impact on that property than others.

The subject is improved with the historically designated Balboa Theatre. When a site contains improvements, three alternatives are available - 1) the improvements can be demolished, 2) they can be altered to serve another market segment, or 3) they can be operated as designed.

Demolition of the improvements is unlikely (as it is historically designated). The overall condition of the improvements was considered to be good, though the functional utility of the building as a theater is somewhat challenged, as discussed previously in this report, this is common in older theater properties. The value of the property as improved likely exceeds the value of the land as if vacant, and more importantly, demolition is unlikely as the improvements are historically designated. The improvements function as a theatre, but could also be utilized as an alternative use, such as a religious facility. The sale prices of properties that are utilized as theatres tend to be higher than those for alternative uses. Based on our research and the sales utilized in this report, the highest and best use of the subject property was determined to be continued use as a theater (subject to the lease), though there is somewhat of a limited market for this property type and use.

FEE SIMPLE VALUATION ANALYSIS

The purpose of this appraisal is to estimate the market value of the subject property. Fee simple valued was estimated first. In applying the sales comparison approach, the subject property was compared to sales of similar properties. The primary sources of data were CoStar and public records. The market data were reviewed with mapping and aerial imagery to determine locational and other characteristics. The data were then verified with the buyer, seller, real estate broker, or other knowledgeable party involved in the transaction, whenever possible. Few sales of sufficiently similar properties were found in the immediate area, so the search was expanded to include all of California, with a focus on similarly-desirable commercial markets. All of the sales included some fixtures, including audio/visual equipment. None of the sales were believed to include any extraordinary equipment that required adjustment. Our investigation revealed several sales of theaters, including several historic and architecturally significant properties. We also reviewed sales of theaters that are being utilized for alternative/adaptive uses. In general, these properties are inferior to the subject, but help provide context to the limited nature of the market data. A summary of the sales judged most helpful is presented in the following table. Further information pertaining to these transactions has been retained in our workfile. Of the units of comparison potentially available for analysis, the price per square foot was judged to be best-suited to an analysis of the subject, though the price per seat was also reviewed and included in the table below.

Summary of Theater Transactions							
No.	Description/Location	Date Doc. No.	Price	Building Area (SF)	Seats	Price/SF	Price/Seat
1	Le Petit Trianon Theatre 75 N 5th St. San Jose	12/27/13 2013-22483069	\$2,000,000	15,020	318	\$133.16	6,289.31
2	Margaret A. Webb Theater 801 N. Main St. Santa Ana	12/10/10 2010-0667571	13,000,000	46,725	374	\$278.22	34,759.36
3	Curran Theatre 445 Geary St. San Francisco	12/15/10 2010-J101650	16,600,000	29,641	1,667	\$560.04	9,958.01
4	Crest Theatre 1262 Westwood Blvd. Los Angeles	09/15/10 2010-01301945	4,000,000	7,500	460	\$533.33	8,695.65
5	Cecchi Gori Cinema 8556 Wilshire Blvd. Beverly Hills	09/08/10 2010-1256217	3,000,000	6,862	430	\$437.19	6,976.74
6	Birch North Park Theater 2891-2899 University Ave. North Park, San Diego	06/30/06 2006-0465199	4,700,000	29,288	1,200	\$160.48	3,916.67
Supplemental Data							
A	Warners Theater 6710-6720 Pacific Blvd. Huntington Park	06/07/13 2013-0856218	1,600,000	30,923	N/A	\$51.74	N/A
B	Lakeside Theatre 10009 and 10015 Maine Avenue Lakeside, San Diego	09/19/07 2007-0614755 09/18/13 2013-0572701	800,000 510,000	8,500	N/A	\$94.12 \$60.00	N/A
C	Vogue Theatre 226 3 rd Avenue Chula Vista, San Diego	07/28/06 2006-0535505 04/06/07 2007-0234403 9/28/10 2010-0514790	1,100,000 1,450,000 700,000	7,130	N/A	\$154.28 \$203.37 \$98.18	N/A
D	Ritz Theater 309 E Grand Avenue Escondido, San Diego	06/30/08 2008-0351211	1,100,000	8,400	N/A	\$113.10	N/A
E	Studs Theater 7728-7738 Santa Monica Boulevard West Hollywood	11/06/13 2013-1575717	2,550,000	5,060	N/A	\$503.95	N/A

Sale No. 1 is the December 2013 purchase of the Le Petit Trianon Theatre in San Jose. The 15,020 square foot theater was built in 1923. It has a main theater with 318 seats, a recital hall with 80 seats, and a presentation room that accommodates 180 seats. There are also 20 executive offices which range in size from about 150 to 250 square feet each. The property was in good condition at the time of sale. The property is utilized for orchestra and music performances, corporate meetings,

seminars, graduations, private receptions, and is used for multiple churches for services. The theater was built in the image of Marie Antoinette's Le Petit Trianon, a small chateau located on the grounds of the Palace of Versailles. It was originally used as a church. There is no on-site parking. The seller was Keith Alan Watt, Trustee and the buyer was Tiranon Holdings, LLC. According to the listing agent, the seller owned many properties in the area and had a loan which needed repayment and was cross-collateralized. However, she said that the sale of the Le Petit Trianon was an arms-length sale, but that the market was just very thin for this property type, particularly at the time. Though the agent said that it was listed on the market, we believe the sale may have been hastened by the seller's obligation and this sale was weighted less heavily. The property sold for \$2,000,000, or \$133.16 per square foot. The price equates to \$6,289 per seat.

Sale No. 2 is the December 2010 purchase of the Margaret A. Webb Theater in Santa Ana. The building was built in 1966 as a bank and office building. It was converted to a theater and extensively remodeled in 2004, at a cost of about \$21,000,000. It is utilized as a school, performing arts venue, and administrative offices. It also contained a former restaurant that no longer operated at the time of the sale. The buyer planned to convert some open areas and the former restaurant space into informal performance and gathering areas. The buyer planned to use the restaurant kitchen for cooking classes in the future. The building contains three stories (two stories over a fully built-out basement). A large portion of the basement area is improved as offices, instructional studios, dressing rooms, and restrooms. The facility is highly upgraded and in good condition. The theater contains 374 seats, including some balcony seating. The building contains 46,725 square feet, including a fully built out basement. It also included a parking easement agreement, which allows for the use of about 200 parking spaces. The seller was 801 North Main, LLC and the buyer was The Opus Fund, LLC. The property sold for \$13,000,000, or \$278.22 per square foot. The price equates to \$34,759 per seat (the price per seat was considered less relevant for this property as much of the building is comprised of office and classroom improvements).

Sale No. 3 is the December 2010 purchase of the Curran Theatre in San Francisco, in an area with many theaters and entertainment venues. The property is about one and a half blocks from Union Square. The 29,641 square foot theater was built in 1922. The theater has 1,667 seats in three levels. There are several private balconies. The facility has ornate features but was in need of renovation at the time of the sale. It was closed from about 2015 to 2017, when it was rehabilitated and remodeled, at an undisclosed price. The theater is utilized for a wide range of theatre productions and events. There is no on-site parking. The seller was Lurie-Curran Theater, Inc., and

the buyer was CSH Curran, LLC. The property sold for \$16,600,000, or \$560.04 per square foot. The price equates to \$9,958 per seat.

Sale No. 4 is the September 2010 purchase of the Crest Theater in Los Angeles. The 7,500 square foot theater was built in 1940 and was substantially remodeled in 1987. It has 460 seats and was a single-screen movie theater with historical significance. The property was in good condition at the time of sale but is less architecturally interesting than the subject. The seller wanted a sale leaseback, with the seller leasing the theater for \$250,000 per year (about \$2.75 per square foot, per month), on a net basis. The proposed term was ten years. Based on this income, the property would have sold at a 6.25 capitalization rate. However, the buyer wanted to operate the theater themselves, and the property sold fee simple. In 2018, the property sold again, to UCLA, which is planning a major renovation and will reportedly use the theater for performing arts as well as for cinema. There is no on-site parking. The seller was Reel Cinema, LLC and the buyer was Bigfoot Entertainment, Inc. The property sold for \$4,000,000, or \$533.33 per square foot. The price equates to \$7,826 per seat.

Sale No. 5 is the September 2010 purchase of the Cecchi Gori/Ahrya Fine Art Theatre in Beverly Hills. The 6,682 square foot theater was built in 1938. According to historic information about the property, it originally sat 800 people, in a narrower configuration than the modern layout. It has been remodeled multiple times, including a major renovation in 1993 and other remodeling around 2005. It currently has 421 seats and is a single-screen movie theater. The property was in good condition at the time of sale but is less architecturally interesting than the subject. It sold again in both 2014 and 2015. It currently operates as the Ahrya Fine Arts Theatre, a movie theater that shows independent, foreign, and art films. There is no on-site parking. The seller was Cecchi Gori USA, Inc. and the buyer was Ferncrest International, Inc. The property sold for \$3,000,000, or \$437.19 per square foot. The price equates to \$6,279 per seat.

Sale No. 6 is the June 2006 purchase of the Birch North Park Theatre in North Park, San Diego. The 29,288 square foot theater was built around 1928. It originally had about 1,200 seats and was built as a vaudeville performance theatre as well as a movie theater with sound equipment installed at the time of construction. It closed in 1989 and remained closed until about 2005, after a substantial renovation, which included the addition of a restaurant. The renovation reportedly cost somewhere in the range of \$8,00,000 to \$12,000,000 and was largely paid for by joint fund-raising done by Lyric Opera San Diego, who leased the property, and the buyer of this transaction, a developer. There was also reportedly some public funding involved. Lyric Opera San Diego used

the theater primarily for Gilbert and Sullivan's operas. The theater is currently used as a concert and event space. According to the current website, the facility has a 40 foot by 24 foot stage, four dressing rooms, laundry facilities and showers, several production offices, a fully equipped production booth, and a full stage-sized rehearsal room. There is a small parking lot which is typically used for tour parking and as a loading area. The property sold in 2006 for \$4,700,000, or \$160.48 per square foot. The seller was North Park Theatre, LLC and the buyer was Lyric Opera San Diego. The price equates to \$3,917 per seat. There was a \$4,000,000 loan associated with this transaction. The property was foreclosed upon in 2013. The owners of the restaurant that was operating in the building purchased the note in 2014. The property then sold in 2015, for \$10,500,000, to a music venue operator. The property now operates as a venue for concerts and private events (the permanent seats have been removed). In 2019, Live Nation reportedly purchased the property as part of a portfolio sale which included a second venue in orange county.

We are also aware of the following supplemental sales, which were not considered similar enough to the subject for direct comparison, but are discussed to provide context as to the limited market for this property type.

The sale of Warner's Theater in Huntington Park, Los Angeles. The 30,923 square foot theater was built around 1930 and renovated in the 1980s. It originally had about 1,800 seats. It was vacated in the 1990s and sat vacant for some time. The property sold in 2013, for \$1,600,000, or \$51.74 per square foot. In 2018, the property was substantially renovated and the floor was reportedly leveled (but was reportedly built so that it could be removed in the future to allow the building to be converted back to theater use). It is now occupied by Blink Fitness, a gym. Much of the historical architectural features of the building remain intact.

The sale of the Lakeside Theatre, in Lakeside, San Diego. The property contains a total of about 8,500 square feet in two buildings, including an approximately 5,000 square foot. The theater was reportedly built in 1911 as the Lakeside Town Hall. It became the Lakeside Theatre around 1940s and operated until the 1960s as a movie theater. It then became a live theater venue. It was renovated in the late 1990s. This property sold in September 2007 for \$800,000, or \$94.12 per square foot. The buyer reportedly intended to occupy a portion of the property (not the theater area) as a veterinary clinic. The property reportedly had significant deferred maintenance and needed substantial renovation. The property was believed to be foreclosed on, and the then bank-owned property sold in 2013, for \$510,000, or \$60.00 per square foot. The buyer is also believed to be veterinarian, though the theater is advertised as for rent.

The sale of the Vogue Theatre, in Chula Vista, San Diego. The property contains 7,130 square feet. The theater was reportedly built in 1945 as a single-screen movie theater. It was renovated several times. It closed around 2006. This property sold in July 2006 for \$1,100,000 or \$154.28 per square foot. The property sold again in April 2007, for \$1,450,000, or \$203.37 per square foot. The buyer reportedly planned a substantial renovation to re-open the theater as a live-music venue. The property sold for a third time in September 2010, for \$700,000, or \$98.18 per square foot. There are still plans to utilize the property as a music venue.

The sale of the Ritz Theater, in Escondido, San Diego. The property contains 8,400 square feet. The theater was reportedly built in 1937 as a single-screen movie theater. The theater has opened and closed since construction and has been remodeled several times, before finally closing around 2003. This property sold in June 2008, for \$1,100,000, or \$113.10 per square foot. The buyer reportedly planned to renovate and re-open the theater as a movie and dinner theatre. Renovations for this purpose were reportedly found to be too cost prohibitive for the movie and dinner theatre concept. In 2019, the theater sold to a church group, who are currently renovating the property to use as both a religious facility and a public facility for live theatre and screening vintage movies.

The sale of Studs Theater in West Hollywood, Los Angeles. The 5,060 square foot theater was built around 1940, with periodic changes and renovation. The property has a small parking lot. The property sold in November 2013 for \$2,550,000, or \$503.95 per square foot. The sale is believed to have been a sale-leaseback. The lease, which began at the close of escrow, was for five years (with one, five-year option) at \$13,150 per month, or about \$2.60 per square foot, per month, on a net basis. The indicated capitalization rate is 6.19 percent.

Valuation Analysis

In order to assist in the reconciliation of the market data, a table of market comparisons was created. Ideally, quantitative adjustments for each characteristic considered in our analysis of the comparable sales would be empirically supported. However, due to the limited market data and the nature of this property type, it was not possible to develop paired sale analyses. The reasoning used to arrive at the comparisons is presented in the following sections. A comparison grid is presented after the discussion.

Property Rights: The fee simple interest in the subject was valued in this section of this report. All

of the sales were fee simple transactions. Sale No. 6 was purchased by the tenant after a complex history of grants, donations, and city funds to renovate the property. We are under the understanding that the fee simple interest sold, and that the sale price does not require further adjustment for property rights.

Financing Terms: All of the sales were either cash, or cash to the seller. Therefore, no consideration was required for this characteristic, and this characteristic was not included in the analysis of market data table.

Conditions of Sale: Conditions of sale takes into account any atypical motivations of the buyer or seller. Though the seller of Sale No. 1 needed to sell the property to pay down a cross-collateralized loan, the broker reported that the property was listed on the open market. No sales were adjusted for conditions of sale in the adjustment grid below, but this sale was weighted less heavily in the reconciliation process.

Market Conditions: Traditionally, this item has been referred to as a time adjustment. Because real estate values do not change merely with the passage of time, but rather due to conditions that prevail in the market at various points in time, the preferred terminology is market conditions. As discussed previously, the commercial market was beginning to recover as of the date of value. We have reviewed graphs of retail rents and sale prices in each of the comparable sale submarkets in analyzing market conditions related to each sale. We have adjusted Sale No. 1, which sold in December 2013, downward 5 percent; though the broader San Jose submarket indicated a higher market condition adjustment, there was a slower recovery associated with the sale property's immediate neighborhood, as well as the slower recovery of specialty-use properties. Also considered was that these special use properties did not see the same appreciation prior to the recession as traditional commercial properties. As of the date of value, some recovery was occurring in the broader marketplace. Sale No. 6, which sold in June 2006, was determined to be similar enough in market conditions for this special use such that no adjustment was warranted. The remaining sales were within several months of the date of value, and were considered similar.

Location: Location is an important factor. The subject is a special use property with a limited market of available users in the immediate area. As few sales were available nearby, comparables were used from other similarly desirable areas of California. To analyze the broader locational differences, graphs of retail asking rents per square foot and average retail sale prices per square foot as of the date of value were generated for each of the comparable submarkets from CoStar Analytics

and reviewed. The results of these graphs were averaged to support the location adjustments used in this analysis. These indicated adjustments were then refined to reflect more specific locational information. Sale No. 1, in San Jose, was adjusted upward 10 percent for location. Though the San Jose submarket trends indicate that the market is superior to San Diego, this sale is located in an area that is inferior to the subject. Sale No. 1 is located in a downtown-fringe location with far less commercial activity. Sale Nos. 4 and 5, in Los Angeles, were considered superior in location and adjusted downward 15 percent. Sale No. 3, in San Francisco, was considered substantially superior in location and adjusted downward 35 percent. The remaining sales, in Santa Ana and San Diego, were considered generally similar in location to the subject.

Building Size: The subject property is improved with a 41,318 square foot theater building. In general, there is a larger pool of buyers for smaller projects, which tends to put upward pressure on price per square foot (also due to economies of scale). Conversely, larger projects tend to sell for a lower price per square foot. Sale Nos. 1, 4 and 5, each less than half the size of the subject, were considered superior. The remaining sales were considered sufficiently similar in size such that no adjustment was necessary.

Quality/Condition/Appeal: The subject property is an architecturally significant, historic theater that was in very good condition as of the date of value. Sale No. 1 is also an architecturally interesting, historic property in good condition and was considered somewhat inferior to the subject. Sale No. 2 was also in very good condition, having undergone a major renovation, and was considered similar for this characteristic. Sale No. 3 is also a historic theater, but was in need of some renovation. Offsetting the condition was the significant appeal of this ornate facility. It was considered overall similar. Sale Nos. 4 and 5 were considered inferior. The remaining sales were considered sufficiently similar in quality/condition to the subject such that no adjustment was warranted.

Functional Utility: As discussed previously in this report, the subject has some functional inadequacies such as the size of the stage, lack of backstage space, and lack of a loading dock. Sale No. 1, which has multiple small venues and offices, was considered inferior in terms of theater functional utility. Sale No. 2, which contains a theater and additional useful space (particularly for this buyer), was considered superior. Sale No. 3, which operates as a live theater and can handle larger productions than the subject, was considered superior. Sale Nos. 4 and 5 are fairly efficient and functional for their use and size, and were considered superior. The remaining sale was considered sufficiently similar in functional utility such that no adjustment was warranted.

The following grid reflects the adjustments and comparisons discussed in the previous text.

Comparative Analysis						
	1	2	3	4	5	6
Sale Date	12/13	12/10	12/10	09/10	09/10	06/06
Sale Price	\$2,000,000	13,000,000	16,600,000	4,000,000	3,000,000	4,700,000
Building Size (SF)	15,020	46,725	29,641	7,500	6,862	29,288
Price/SF	\$133.16	\$278.22	\$560.04	\$533.33	\$437.19	\$160.48
Market Conditions Adjustment	-5%	0%	0%	0%	0%	0%
Adjusted Price/SF	\$126.50	\$278.22	\$560.04	\$533.33	\$437.19	\$160.48
Location Adjustment	10%	0%	-35%	-15%	-15%	0%
Adjusted Price/SF	\$139.15	\$278.22	\$364.02	\$453.33	\$371.61	\$160.48
Building Size	Superior	Similar	Similar	Superior	Superior	Similar
Quality/Condition/Appeal	Inferior	Similar	Similar	Inferior	Inferior	Similar
Functional Utility	Inferior	Superior	Superior	Superior	Superior	Similar
Overall Comparison	Inferior	Superior	Superior	Superior	Superior	Similar
Value Indication Per SF	Above \$139.15	Near \$278.22	Near \$364.02	Below \$453.33	Below \$371.61	Near \$160.48

The transactions indicate an overall range in adjusted price from \$139.15 to \$453.33 per square foot. The upper end of the range was indicated by Sale No. 4 at \$453.33 per square foot, a substantially smaller property with superior functionality. Sale No. 5, at \$371.61 per square foot, was considered superior for the same reasons. Sale No. 1, at \$139.15 per square foot, is inferior to the subject and was considered to be a low indicator. The remaining three sales exhibit a “narrowed” adjusted price range of \$160.48 to \$364.02 per square foot. Sale Nos. 2 and 3 were considered superior to the subject, suggesting that the value of the subject should fall below \$278.22 per square foot. Sale No. 6 was comparatively similar to the subject, but the price appears to have been affected by the complex funding structure of the redevelopment. As such, this sale was weighted less heavily, and we believe that the value of the subject property should fall above \$160.48 per square foot. Overall, our investigation and analysis indicates a value for the subject in the range of \$200.00 to \$250.00 per square foot.

Based on the preceding analysis of the market data, the indicated market value of the fee simple interest in subject property by the sales comparison approach was concluded to be \$225.00 per square foot of building area. This extends to the subject as follows.

Indicated Value by Sales Comparison				
Size (SF)		Value		Total
41,318	@	\$225.00	=	\$9,296,550
Rounded				\$9,300,000

Also considered in the reconciliation process was the gross price of the sales. Very few theater properties sold for more than \$10,000,000. The two transactions which did occur above this price were Sale Nos. 2 and 3. Sale No. 2 is a school, performing arts venue, and administrative offices with a smaller theater component than the subject, while Sale No. 3, in San Francisco, is substantially superior to the subject in location and appeal. The remaining sales sold in the range of \$2,000,000 to \$4,700,000, with all of these properties being smaller than the subject, and most being significantly smaller. Overall, the gross prices of the sales suggest a value for the subject in a range approaching \$10,000,000. Further, there is no evidence that the cost of the renovation has much bearing on the actual market value of this or any similar theater property.

Price per Seat Analysis

Several of the properties were also considered in light of their sale prices per seat. Sale No. 2, which has a small theater component and a large amount of other spaces, was not analyzed on a price per seat basis. After adjusting the sales for the previously discussed elements of comparison, the sales ranged from about \$3,917 to about \$7,391 per seat. The low end of the range is the Birch North Park Theatre, a sale that occurred far before the date of value and was weighted less heavily. The remaining sales range from about \$5,900 to about \$7,400 per seat, with an average of about \$6,600 per seat. The subject's value indication calculated per square foot, at \$9,297,000, indicates a per seat value of about \$6,900, near the middle of the narrowed range.

Income Approach Analysis

While an income approach was not utilized as a direct valuation technique, it was considered as a check of reasonableness. We are aware of leases in California of theater buildings, within several years of the date of value, in the range of about \$0.70 to \$3.30 per square foot. These theaters are utilized for a wide range of uses, including live theatre, cinema, music venues, religious facilities, and fitness centers. In general, the leases at the higher end of the range are utilized for

alternative uses and are in superior locations to the subject. Most leases are in the range of \$1.00 to \$2.00, and were on a net basis. Other commercial/retail leases in San Diego of this size would suggest a rent well below \$2.00 per square foot. Based on the subject's location, size, and functional utility, a rent of \$1.00 to \$1.50 per square foot, on a net basis, was utilized in this analysis. We are also aware capitalization rates for four theater properties which ranged from 6.2 to 12.6 percent. The high end of this capitalization rate range, at 12.6 percent, was considered to be a high indicator, as the remaining capitalization rates were in the range of 6.2 to 9.9 percent. The narrowed range has an average capitalization rate of about 7.5 percent, which was utilized in this example.

Income Approach Example						
Rent/SF		Months		Capitalization Rate		Indicated Value Per Square Foot (Rounded)
\$1.00	×	12	÷	7.50%	=	\$160
\$1.50	×	12	÷	7.50%	=	\$240

Based on these inputs, the subject value by the income approach would fall in the range of about \$160 to \$240 per square foot, supporting the conclusion of \$225 per square foot by the sales comparison approach.

Final Value Conclusion - Fee Simple

Based on our analyses and investigation, we concluded that the market value of the fee simple interest in the subject property was \$9,300,000 as of January 1, 2011, and is subject to the assumptions and limiting conditions contained in this report.

LEASED FEE VALUATION ANALYSIS

The owner of a leased fee interest is entitled to collect income from the lessee for the remaining life of the lease plus the reversionary interest. The interest is created by a lease, and the rights of the owner are restricted by that lease to collection of the specified income. At the termination of the lease the owner has the right to use the property. This right is commonly known as the "reversion". In order to value the leased fee interest in the subject property, a discounted cash flow analysis was performed. As mentioned previously, a discounted cash flow analysis measures the present value of the contract rent over the term of the agreement plus the present value of the

reversion. The three main components for discounted cash flow analysis include the contract rent, the expected growth rate of the income stream and reversion, and the discount rate to reflect the perceived risk associated with the cash flows.

The subject property is encumbered by a lease that was anticipated to terminate in 2023, as such, there were 12 years and 7 months remaining on the lease, as of the date of value. The lease has a base rent of \$1.00 per year, as well as percentage rent. It is our understanding that very little, if any, percentage rent has been paid. The discounted cash flow analysis assumes that only the base rent will be paid for the remaining lease term. As mentioned previously, it is our understanding that the property now needs additional capital improvements of about \$6,000,000, since little to no improvements have been made over the past decade. As of the date of value, a buyer of the subject would have anticipated the need for future capital expenditures (e.g. a capital reserve account to draw upon as needed). However, instead of modeling these expenses as a deduction to the nominal rent during the holding period, the prospect of future capital expenses was considered when selecting the discount rate used in the discounted cash flow analysis.

The reversion was estimated by growing the fee simple value to a future value; the fee simple value was previously estimated at \$9,300,000. The growth or inflation rate was estimated based on an inflation index and market expectations on the date of value. The San Diego-Carlsbad Consumer Price Index was reviewed from 1990 to 2011. The average CPI change over this approximately 20-year period was 3.0 percent per year. A Real Estate Research Corporation (RERC) Report from first quarter 2011 was also reviewed. Investor's anticipated rental growth rates for office and retail properties were in the range of 1.9 to 2.5 percent, while hotels had an anticipated growth rate of 4.0 percent. Though the published figure related to only the rental growth, it was considered to be a reasonable proxy for investors' anticipated appreciation. This data range is supportive of the 3.0 percent long-term CPI estimate, which we utilized as the growth rate for the reversion.

The discount rate used in the discounted cash flow analysis is the rate necessary to attract a buyer/investor to this income stream and reversion. This particular pattern of income is unusual in that only nominal income is due. This is not a particularly desirable investment. To determine the discount rate, a Real Estate Research Corporation (RERC) Report from first quarter 2011 was reviewed. Discount rates for office, retail, and hotel properties had average discount rates of 8.9 percent, 8.6 percent, and 10.6 percent, respectively. For additional support for a discount rate, we added prevailing capitalization rates to expected growth rates. The average capitalization rate from a narrowed range of data is about 7.5 percent (also used in our income approach). Adding a 3.0

percent growth rate to this figure would imply a discount rate of 10.5 percent, at the high end of the range indicated by the RERC survey data. To reflect the risk of the reversion and the potential capital expenditures a buyer would consider when purchasing the property, a discount rate toward the high end of the range was considered appropriate. We used a rate of 10.0 percent for an analysis of the subject property.

The discounted cash flow analysis, provided in the Addenda of this report, presents a 12-year, seven-month income stream including the nominal rental income and the reversion. The reversion calculated by growing the value of the fee simple interest at 3.0 percent per year for the lease term. These inputs are discounted at the concluded 10.0 percent discount rate, resulting in a present value calculation. The present value of the income stream and reversion, based on the inputs discussed above, is \$4,070,000 rounded. This value is stated as of January 1, 2011, and is subject to the assumptions and limiting conditions contained in this report.

Balboa Theatre - Discounted Cash Flow Analysis

Inputs

Present Value	\$9,300,000
Annual Rent	\$1
Growth Rate	3.00%
Discount Rate	10.00%
Operating Expenses	

									Present
Year	Period	Months	Rent	Expenses	Reversion	Subtotal	PV Factor	Value	
2011	1	12	\$1	\$0			\$1	0.90909	\$0.91
2012	2	12	\$1	\$0			\$1	0.82645	\$0.83
2013	3	12	\$1	\$0			\$1	0.75131	\$0.75
2014	4	12	\$1	\$0			\$1	0.68301	\$0.68
2015	5	12	\$1	\$0			\$1	0.62092	\$0.62
2016	6	12	\$1	\$0			\$1	0.56447	\$0.56
2017	7	12	\$1	\$0			\$1	0.51316	\$0.51
2018	8	12	\$1	\$0			\$1	0.46651	\$0.47
2019	9	12	\$1	\$0			\$1	0.42410	\$0.42
2020	10	12	\$1	\$0			\$1	0.38554	\$0.39
2021	11	12	\$1	\$0			\$1	0.35049	\$0.35
2022	12	12	\$1	\$0			\$1	0.31863	\$0.32
2023	13	7	\$0.58	\$0	\$13,490,189	\$13,490,189	0.30140		\$4,065,943

Total

Indicated Present Value	\$4,065,950
Rounded	\$4,070,000

SALE NO. 1
Le Petit Trianon, San Jose



SALE NO. 2
Margaret A. Webb Theatre, Santa Ana



SALE NO. 3
Curran Theatre, San Francisco



SALE NO. 4
Crest Theatre, Los Angeles



**SALE NO. 5
Cecchi Gori Cinema, Los Angeles**



SALE NO. 6
Birch North Park Theatre



Robert P. Caringella, MAI, SRA, AI-GRS**Educational Background**

B.A. degree in Management Science, Economics Department,
University of California, San Diego 1987

Professional Courses Completed:**Appraisal Institute (or AIREA):**

Real Estate Appraisal Principles/Valuation Procedures	1987
Capitalization Theory and Techniques - Parts A & B	1988
Case Studies in Real Estate Valuation	1989
Report Writing	1991
Standards of Professional Practice	2003, 2005, 2008, 2010, 2012, 2014, 2016
Limited Partnership and Common Tenancy Valuation	2002
Fundamentals of Separating Real/Personal Property and Intangibles	2012
Review Theory - General	2015

Seminars Attended (partial list):**Appraisal Institute (or AIREA):**

Business Practices and Ethics	2017
Historic Districts and Properties	2016
Uniform Appraisal Standards for Federal Land Acquisitions	2011
Appraising Unique Properties	2010
Annual Litigation Seminar	1989, 1990, 1995, 1996, 2007
Conservation Easements	2005
Planning and Land Use	1990
OREA Federal and State Laws and Regulations	1995, 1999
Attorneys, Appraisers & Real Estate	1996, 1997, 1998
Blueprint Reading	1996
Environmental Issues	1996
San Diego Economic Update	2004, 2005, 2006, 2007, 2009, 2012, 2013
Mitigation Land Update and Valuation	1997
Tax Assessment	1997
Apartment Seminar	1998, 2003, 2005
Retail Property Analysis	1998
Single Tenant Net Leased Properties	1999
Trends in R&D Market	2002
Advanced Appraisal	2004

International Right-of-Way Association:

Easement Valuation	1990
Mock Condemnation Trial	1994, 2000, 2012
Eminent Domain Case Update	1995, 1997, 2002, 2005

ASA-IRS Symposium	2006
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Professional Affiliations

Member, Appraisal Institute (MAI No. 9649) (SRA and AI-GRS)

Certified under Continuing Education Program

Appraisal Institute, Admissions and Designation Qualifications Committee 2015-2017

Vice-Chair 2017

Appraisal Institute, National Finance Committee, 2015-16 and prior

Appraisal Institute Education Trust - Board, 2011-2013
National Board of Directors, Regional Vice Chair 2007, Regional Chair 2008
President, San Diego Chapter, 2005
Board of Directors, San Diego Chapter, 1999-2001, 2003-2005
Leadership Development and Advisory Council, 1999 and 2000 (National)
Past Chairman of Experience Review Committee, San Diego Chapter 1996-98
California Certified General Real Estate Appraiser (AG003295)
Member, International Right-of-Way Association
Board of Directors, San Diego Chapter, 1999-2003
Young Leadership Council, 1998 and 1999 (National)

Appraisal Company Experience

Co-Owner - Jones, Roach & Caringella, Inc. (formerly Jones & Roach, Inc.), Since 1996
Staff Appraiser - Jones & Roach, Inc. - 1987-1996

Testimony Experience

San Diego Superior Court
San Diego Assessor Tax Hearing
Los Angeles Superior Court
Imperial County Superior Court
US District Court, Special Master Hearing
Mediation and Arbitration

Teaching Experience

Speaker - Appraisal Institute - Residential "Spring Symposium": 2018
Speaker - IRWA Seminar - "Eminent Domain and Valuation": 2018
Guest Instructor - USD Real Estate Class: 2017
Speaker - CLE International, Eminent Domain: 2015
Speaker - Lormon Seminar, Law of Easements: 2013
Speaker - MCLE Seminar, Eminent Domain: 2011
Speaker - Caltrans Seminar, Contaminated Properties: 2011
Speaker - Appraisal Institute Litigation Seminar So. Cal.: 2007
Speaker - IRS Symposium, Conservation Easements: 2006
Co-Creator, Co-Instructor - "Advanced Refresher": 2004
Co-Instructor - "Rates and Ratios", Appraisal Institute: 2003
Guest lecturer at UCSD, SDSU, USD, and Point Loma Nazarene University on Appraisal
Seminar Creator/Moderator - "The Client": 2003
Speaker - IRS Seminar "Valuation of Fractional Interests": 2000
Speaker - San Diego Assessor's Seminar: 1998
Seminar Coordinator/Moderator - "Attorneys, Appraisers & Real Estate": 1996, 97, and 98
Seminar Co-Coordinator/Moderator - Int'l Right-of-Way Assoc. "Valuation Tour": 1996

Other Affiliations

Board of Directors - Willow Grove Educational Foundation 2008 -2013
Board of Directors - USE Credit Union, San Diego, 1999-2006
Investor LLC Manager - \$5,000,000 Loft Development, 2000

Types of Appraisals

Agricultural
Apartment Buildings
Auto Dealerships
Auto Repair
Commercial Buildings
Contaminated Properties
Development Rights
Easements
Eminent Domain/Partial Acquisitions
Fractional Interests
Historical Appraisals
Industrial & Office Buildings
Leasehold and Leased Fee Estates
Mining - Aggregate
Mitigation Credits
Mixed-Use Properties
Notes/Loans
Mobilehome/RV Parks and Homes
Planned Communities
Research & Development Buildings
Residential Subdivisions
Retail Centers
Self-Storage Facilities
Single Family Homes and Condominiums
Single Room Occupancy Hotels
Vacant Land
View Impairment
Wetlands/Other Sensitive Habitat

Partial List of Clients**Public Agencies**

California Dept. of Transportation
California Coastal Conservancy
Centre City Development Corporation
Chula Vista Redevelopment Agency
City of Escondido
City of National City
City of Oceanside
City of Redlands
City of San Diego
County of San Diego
Del Mar Union School District
IRS
Metropolitan Transit System (MTS and MTDB)
MiraCosta Community College District
Oceanside Redevelopment Agency

Otay Water District
Regents of the University of California
Resolution Trust Corporation (RTC)
San Diego Association of Governments
San Diego City College District
San Diego County Water Authority
San Diego Unified Port District
Solana Beach School District
Southeastern Economic Development Corp.
U.S. Department of Justice
Wildlife Conservation Board (California)

Lenders and Developers

Ayres Land Company
Bank of America
Bank of California
Barratt American
Brookfield Homes
Buie Corporation
California Transportation Ventures
Citicorp Acceptance Company
Coast Federal Bank
Column Financial
Continental Bank
Downey Savings
D.R. Horton
First Interstate Bank
Garden Communities
Great American Bank
Home Savings of America
HomeFed Bank and Home Capital Dev. Corp.
KB Home
Leisure Technology
Nexus Development Corporation
Pardee Construction Company
McMillin Communities
San Diego National Bank
Sherritt Development Services
Union Bank
US Bank
Wells Fargo Bank
Western National Properties
Western Pacific Housing

Corporations, Attorneys, and Individuals

American Assets
Anderson, Mann & Hilbert, LLP
ARCO Petroleum Products Co.

Bartz & McCarberg, LLP	Walmart
Berger & Norton	Withers Bergman
Best, Best & Krieger LLP	
Bob Baker Enterprises	
Brobeck, Phleger & Harrison	
Burger King Franchisee	
Coldwell Banker Realty Advisory Services	
Daley & Heft	
Endeman, Lincoln, Turek & Heater	
English & Gloven	
Epsten & Grinnell	
Ford Motor Company	
Fraser Engineering, Inc.	
Golden Eagle Insurance Company	
Golub & Morales	
Gordon & Rees	
Gray, Cary, Ware & Friedenrich	
Greenberg Traurig	
Haight, Brown & Bonesteel	
Hearthstone Advisors	
Insurance Company of the West	
Irell & Manella, LLP	
John H. Reaves, Attorney at Law	
Judge Robert C. Thaxton (retired)	
Lempres & Wulfsberg	
Liberty Mutual Insurance Company	
McKenna & Cuneo	
McKenna Long & Aldridge, LLP	
Meisenheimer Herron & Steele	
Morris, Polich & Purdy	
Olmstead, Hughes & Garrett	
Orrick, Herrington & Sutcliffe, LLP	
Palmieri Tyler Weiner Wilhelm & Waldron	
Procopio Cory Hargreaves & Savitch	
Rick Engineering Company	
Ryals & Associates	
San Diego Gas & Electric Company	
Seltzer Caplan McMahon Vitek	
Sheppard, Mullin, Richter & Hampton, LLP	
Sierra Club Legal Defense Fund	
Silldorf, Burdman, Duignan & Eisenberg	
Solomon Ward Seidenwurm & Smith, LLP	
Sullivan Wertz McDade & Wallace	
Texaco Oil	
Thorsnes, Bartolotta, McGuire & Padilla	
Trust Company of the West	
Trust for Public Land	
UETA	

Alison E. Roach**Educational Background**

Degrees:

B.A. degree in Real Estate, San Diego State University	2012
A.S. degree in Business Administration, Miramar College	2010

Academic Honors:

Awarded the Appraisal Institute's Candidate for Designation Scholarship	2016
Graduated Cum Laude, San Diego State University	2012
CREW Network Scholarship Winner	2011
Dean's List (Every semester in attendance at San Diego State University)	2009-2012
Executive Director of the Real Estate Society of San Diego State University	2010-2011

Professional Courses Completed:

Appraisal Institute:

The Appraiser as an Expert Witness: Preparation & Testimony	2017
Advanced Market Analysis and Highest and Best Use	2017
Quantitative Analysis	2017
Advanced Concepts and Case Studies	2016
Advanced Income Capitalization Approach	2016
Report Writing and Case Studies	2014
Site Valuation and Cost Approach	2014
Income Approach Part 2	2013
Sales Comparison Approach	2013
National USPAP (15 Hour)	2012
Business Practices and Ethics	2012
Income Approach Part 1	2012
Timely Appraisal Topics, Niche Areas of Practice	2012
Market Analysis & Highest & Best Use	2011
Basic Appraisal Procedures	2010
Basic Appraisal Principles	2010

Professional Affiliations

Candidate for Designation - Appraisal Institute
 Board of Directors, San Diego Chapter, Since 2017
 Education and Scholarship Committees
 Member, International Right of Way Association
 California Certified General Real Estate Appraiser (3003682) - California Bureau of Real Estate Appraisers

Teaching Experience

Seminar developer and presenter, Day One Commercial Valuation, SDSU 2011, 2013, 2014, 2015

Appraisal Experience

Appraiser - Jones, Roach & Caringella, Inc.	2012-Present
Researcher - Jones, Roach & Caringella, Inc.	2008-2012
Researcher, Bookkeeper, Fact-Checker - Jones, Roach & Caringella, Inc.	2007-2008

Types of Appraisals/Assignments

Bank Branch/Financial	Industrial Buildings	Rent Analysis
Community Shopping Centers	Leasehold & Leased-Fee Estates	Residential Subdivisions
Commercial/Retail Buildings	Multi-Family	Restaurants
Conservation	Mitigation Land	Retail (Single, Multi-Tenant)
Easements	Military Base	Single-Family
Eminent Domain	Medical Facilities	Specialty-Use
Government Facilities	Medical Office	Vacant Land
Ground Lease	Office	
Hotel	Partial Acquisitions	
Historical Appraisals	Public Utility	

Partial List of Clients

Allen Matkins Leek Gamble Mallory & Nats	Gordon & Rees, LLP	Quinn Emanuel Urquhart & Sullivan
AECOM	Keeney, Waite & Stevens	San Diego Unified School
Best, Best & Krieger, LLP	Mallory & Nats	Stewart Title
C.A. Dept. of Transportation	Metropolitan Transit System	SDG&E
Chapman Law Firm	Michael Wright, Esq.	San Diego Association of Governments
Circle Line Ferries of New York	Murphy & Everetz, LLP	Target
City of San Diego	McKenna, Long & Aldridge LLP	United States Navy
Clark County, Nevada	Palmeri Tyler Weiner Wilhelm & Waldron	U.S. Department of Justice
County of San Diego	Oceanside Unified District	Walmart
DLA Piper	Olivenhain Municipal Water District	
Fallbrook Elementary District		
Fallbrook High School District		