



MEMORANDUM

TO: Anaheim Union High School District Board of Trustees
FROM: Tyree K. Dorward, Esq.
Best Best & Krieger LLP
DATE: September 10, 2008
RE: Surplus Property Status Report

The purpose of this memo is to address the next steps in the process the District must follow in order to complete the sale of the ITT building, located at 525 North Muller Avenue, now that the Board has declared the property surplus and the appraisal on the property has been completed. The appraisal will assist the District in establishing a baseline value for the property as it proceeds with the remaining steps in the surplus property procedure. Now that the appraisal is complete, the following steps must be taken to complete the surplus property process:

1. The District is required to send a notice and offer to sell the site to appropriate public agencies as required in Education Code § 17464 and Government Code § 54220, et seq. This process will take approximately ninety (90) to one hundred-twenty (120) days. A more detailed overview of these notices is attached hereto as Exhibit "A."
2. District staff will work with legal counsel to ensure that all appropriate notices are sent, and the notices will set parameters for the price the District is willing to consider based on the appraisal. If no public agency responds to the written offers to sell, the District may then schedule a Board meeting for the Board to adopt a resolution of intent to sell and set a date for a public hearing to open bids to purchase the property.
3. If the Board adopts the resolution of intent to sell, then a public notice of the scheduled hearing will be posted and published for three (3) consecutive weeks. This process will take approximately 3-4 weeks.
4. On the date of the public hearing, the Board will then open all bids to purchase the property and may accept verbal bids (however, the first verbal bid must be at least 5% greater than the highest written bid).
5. The District then has ten (10) days after the Board meeting date to determine the highest responsive responsible bidder and accept the bid or else reject all bids.
6. Following the hearing, the Board can either accept the highest bid and enter into an escrow to complete the sale of the property or it can reject all bids and hire a real estate broker to further market the property.

If you have any additional questions regarding the surplus property procedures or the next steps in the process, please do not hesitate to contact us.

EXHIBIT "A"

As described in greater detail below, prior to the sale of any surplus real property, the District must provide written notice offering the surplus property to specific governmental agencies according to statutorily provided priorities. (Ed. Code § 17464; Gov. Code § 54222.) While the written notice may be sent to all specified agencies at the same time, the Education Code and Government Code require that a school district offer the property in accordance with the priorities and procedures outlined below.

A. Education Code Requirements

1. Entities with First Priority

Education Code section 17464 requires a school district first offer the property for park, recreational or open-space purposes by making a written offer of the land sale to any park or recreation department of the city and county in which the property is situated, to any regional park authority with jurisdiction over the area, and to the State Resources Agency. (Ed. Code § 17464(a); Gov. Code § 54222(b).) Any specific entity with first priority must notify the school district within 60 days of the school district's notice of intent to sell. If there is a timely response, the school district and the responding agency must enter into good faith negotiations to determine a satisfactory sale price.

2. Entities with Second Priority

The District must then offer the surplus property for sale at fair market value in writing to the Director of General Services, the Regents of the University of California, the Trustees of the California State University, the county and city in which the property is situated, and to any public housing authority in the county in which the property is situated. (Ed. Code § 17464(b)(1) et seq.) The District must also publish notice in a newspaper of general circulation within the District once a week for three successive weeks, with at least five days between each publication date. This public notice must contain reference to the District's intention to "dispose of the real property" and specify that the property is available for sale to all public entities in the State, as well as to nonprofit charitable and nonprofit public benefit corporations. (Ed. Code § 17464(b)(2).) Note that the written offer to the Director of General Services, the Regents of the University of California, the Trustees of the California State University, the county and city in which the property is situated, and to any public housing authority, referenced above, must be mailed to these agencies no later than the date of the second published notice.

These public agencies with second priority must notify the District of an intention to purchase the property within 60 days after the third publication of notice. The prospective public agency buyer and the District may then negotiate the terms of the sale. If the District receives inquiries from more than one entity, the District may choose which offer to accept based on price or any other consideration. At the end of the 60-day period, if the District has not received any public agency offers or has not agreed to terms with any prospective public entity buyer, the District may dispose of the property in any other manner authorized by law. (Ed. Code § 17464(c).)

B. Government Code Requirements

Education Code section 17459 requires compliance with Government Code sections 54220 *et seq.* Pursuant to these Government Code provisions, the District must also send written offers to sell the property to the remaining agencies listed in Government Code section 54222, despite the fact that these agencies must also be notified pursuant to the public notice requirements described above. Government Code section 54220 *et seq.* sets forth the California Legislature's policy with regard to the development of low and moderate income housing. Accordingly, this statutory scheme requires that a school district's surplus real property be first made available to create sites for such housing. (Gov. Code § 54220.) Therefore, before the District may dispose of surplus real property, the District must also send a written offer to sell or lease the property to the following additional entities:

1. Any local public entity as defined in Section 50079 of the Health and Safety Code, within whose jurisdiction the surplus land is located, and who will use the property for the purpose of developing low and moderate-income housing. (Gov. Code § 54222(a).);
2. Any school district in which the land is located, if the school district will use the property for school facilities construction or open-space purposes. (Gov. Code § 54222(c).);
3. The nonprofit neighborhood enterprise association corporation in an enterprise zone if the property is in any area designated as an enterprise zone. (Gov. Code § 54222(d).);
4. If the property is in a designated program area (as defined in subdivision (i) of Section 7082), an offer must be sent to the program area agent. (Gov. Code § 54222(e).)

Any of the above listed entities has 60 days after its receipt of the District's offer to sell the land, to inform the District of its intent to purchase the property for low-and moderate-income housing purposes, for park or recreation purposes, for open-space purposes, or for public school purposes. (Gov. Code § 54222(f).)

After the District receives such notice from one of the public agencies, the District must enter into "good faith negotiations to determine a mutually satisfactory sale price or lease terms." (Gov. Code § 54223.) If more than one entity gives notice of its intent to purchase the District's property, the District must give first priority to any offer from an entity that agrees to use the property for housing for persons of low and moderate income. (Gov. Code § 54227.) Should negotiations fall through after a negotiation period of at least 60 days, the District may dispose of the property in any manner authorized by law. (Gov. Code § 54223.) In the event that none of the entities listed above is interested in the property, we will work with you to prepare the sale documents.

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Prepared for:

**Mr. Tyree Dorward, Esq.
BEST, BEST & KRIEGER
655 West Broadway, 15th Floor
San Diego, California 92101**

**Mr. Timothy D. Holcomb, Deputy Superintendent, Chief Financial Officer
ANAHEIM UNION HIGH SCHOOL DISTRICT
501 Crescent Way
Anaheim, California 92801**

Prepared by:

**PARKCENTER REALTY ADVISORS
801 North Parkcenter Drive, Suite 210
Santa Ana, California 92705**

PRA File No. 2008-23-1

Date of Value
July 18, 2008

Date of Report
July 31, 2008

**APPRAISAL OF
OFFICE BUILDING
525 NORTH MULLER STREET
AND ADJACENT PARKING LOT
ANAHEIM, CALIFORNIA**

PARKCENTER REALTY ADVISORS

Appraisers and Consultants

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714.547.1733
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July 31, 2008

Mr. Tyree Dorward, Esq.
BEST, BEST & KRIEGER
655 West Broadway, 15th Floor
San Diego, California 92101

Mr. Timothy D. Holcomb, Deputy Superintendent, Chief Financial Officer
ANAHEIM UNION HIGH SCHOOL DISTRICT
501 Crescent Way
Anaheim, California 92801

Reference: Appraisal of
Office Building
525 North Muller Street and Adjacent Parking Lot
Anaheim, California

PRA File No. 2008-23-1

Gentlemen:

At your request, I have personally examined and appraised the above referenced property comprising a two-story office building located at 525 North Muller Street, containing 39,747 rentable square feet on a site containing 2.068 acres and an adjacent overflow parking lot containing 1.923 acres. The purpose of this appraisal is to report to you my opinion of the market value of the leased fee interest in the subject property.

The appraiser has inspected the subject property with the due diligence expected of a professional real estate appraiser. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require an investigation by a qualified expert in the field of environmental assessment.

No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's description and resulting comments are the result of routine observations made during the appraisal process.

Recognized appraisal methodology under the Uniform Standards of Professional Appraisal Practice was utilized in performing the investigation and analysis leading to the opinion of market value related in this appraisal.

BEST, BEST & KRIEGER

Attention: Mr. Tyree Dorward, Esq.

July 31, 2008

ANAHEIM UNION HIGH SCHOOL DISTRICT

Attention: Mr. Timothy D. Holcomb, Deputy Superintendent Chief Financial Officer

Based upon the examination and study made, and my experience as a real estate appraiser, I have formed the following opinion of market value of the leased fee interest in the property referenced, as of July 18, 2008.

Office Building

**FIVE MILLION NINE HUNDRED THOUSAND DOLLARS
(\$5,900,000)**

Adjacent Parking Lot

**THREE MILLION THREE HUNDRED SIXTY-THREE THOUSAND DOLLARS
(\$3,363,000)**

This complete appraisal is presented in summary appraisal format under reporting requirements of the Uniform Standards of Professional Appraisal Practice.

Respectfully submitted,

PARKCENTER REALTY ADVISORS

By:



Robert A. Steele, MAI, CRE
President
Certified General Real Estate Appraiser
State of California No. AG006307

RAS:pmd

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PURPOSE OF APPRAISAL

The purpose of this appraisal is to set forth my opinion relative to the market value of the property in question as of July 18, 2008.

INTENDED USE AND USER

The intended user of this report is Anaheim Union High School District and their advisors, for the purpose of a possible sale as surplus property.

DATE OF VALUE

The value estimate rendered assumes market conditions, as well as the physical state of the property as of July 18, 2008. The date of the report is July 31, 2008.

MARKET VALUE DEFINED

The term "*market* value" as used in this report is defined and qualified as being,

"the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a) buyer and seller are typically motivated;
- b) both parties are well informed or well advised, and acting in what they consider their best interests;
- c) a reasonable time is allowed for exposure in the open market;
- d) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- e) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Source: Appraisal Institute - The Dictionary of Real Estate Appraisal, Fourth Edition

PROPERTY RIGHTS APPRAISED

The property rights appraised in this report are a *leased fee interest* in the property described herein and defined as:

“an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.”

Source: Appraisal Institute - The Dictionary of Real Estate Appraisal, Fourth Edition

CASH EQUIVALENCY ANALYSIS DEFINED

The procedure in which the sale prices of comparable properties, sold with atypical financing terms, is adjusted to reflect typical market terms.

CONDITION OF EMPLOYMENT

This appraisal was performed in accordance with authorization from Best, Best & Krieger and Anaheim Union High School District in a letter dated May 12, 2008. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or approval of a loan.

LEGAL DESCRIPTION

The property appraised is identified as Orange County Assessor Parcel Numbers 072-071-033 and 034. The subject property is legally described as, “Parcels 3 and 4, as per Map recorded on Pages 32-24 and 85-04 and 188-23, Miscellaneous Maps, County of Orange, California.”

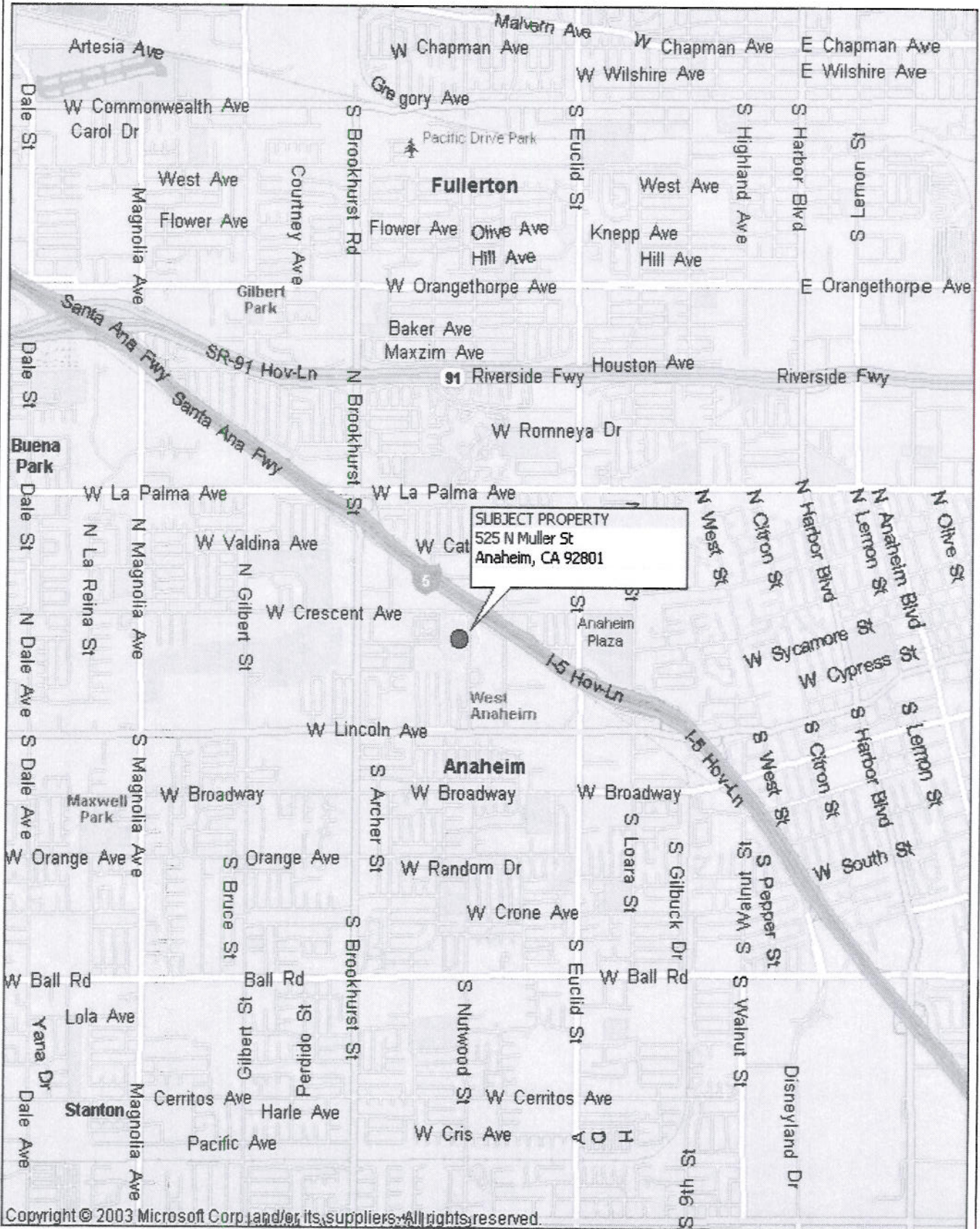
SCOPE OF APPRAISAL

This is a complete appraisal, which has been prepared in accordance with the Ethics and Standards of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. The performance of this appraisal included a complete investigation and presentation of the Income and Sales Comparison Approaches To Value. These approaches involve the collection, verification and analysis of comparable market data including improved office building sales and rental rates of projects judged similar to the property in question. Moreover, I have investigated the general economy and specifics relative to the subject office market. The Cost Approach To Value was omitted as a relevant method, given the fact that most potential buyers in the current market do not rely on this approach as a valid indication of value. The analyses and conclusions are set forth in a summary report format, which presents detailed reporting and discussion of significant aspects of the subject property and market data, as well as the reasoning employed in forming the opinions rendered.

OWNERSHIP AND HISTORY OF PROPERTY

The property under appraisal is under the ownership of the Anaheim Union High School District. The subject property was purchased from Crescent Corporate Center, LLC, on July 6, 2004. The property included the office building and its site and the adjacent parking lot. The purchase price was \$6,500,000. It is not currently on the market for sale.

LOCATION MAP



LOCATION AND BRIEF PROPERTY DESCRIPTION

The subject property is located at the northwest corner of Muller Street and Corporate Way in the city of Anaheim. Immediate surroundings are as follows.

North

North of the property under appraisal is a former school, which is not now occupied. Northerly thereof is an active railroad right-of-way and northerly of that is a drainage basin and the Interstate 5 Freeway.

East

To the east is the campus of Gilbert East Continuation High School and the administrative headquarters of the Anaheim Union High School District.

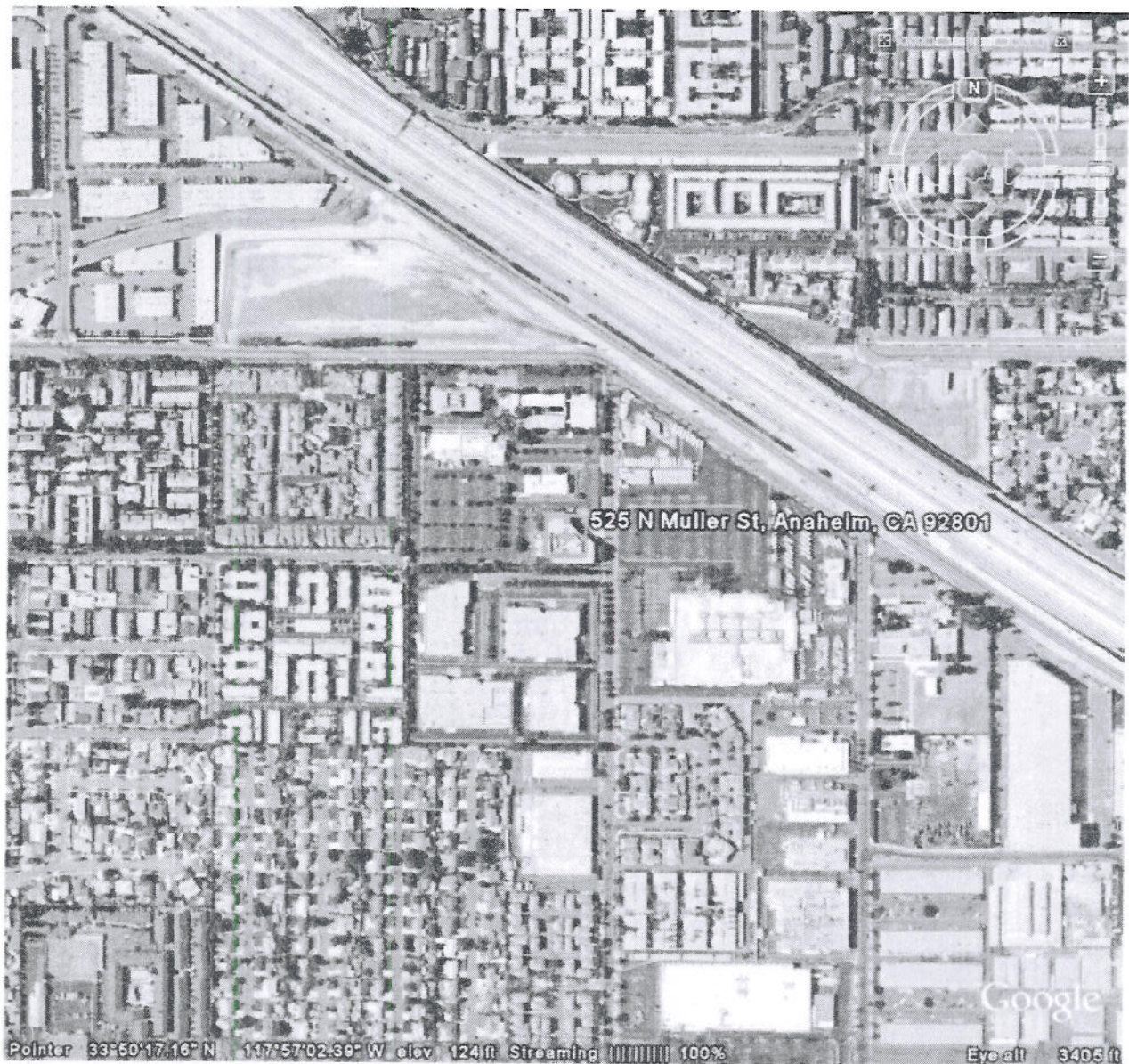
South

To the south is a part of the Crescent Corporate Center of which the subject property is a part. The overall Center contains 18.5 acres and is improved with 11 buildings containing 264,500 square feet, which range in size from 4,299 to 49,615 square feet. Except for the subject office building, the balance of the Center is improved with one-story, office/business/warehouse buildings.

West

West of the overflow parking lot is a one and two-story condominium development known as the Stanford Court. Westerly thereof are some two-story apartments.

Trend in the area is toward a stable condition. The area has been developed for sometime and with no available land for future development. Here follows an aerial photograph of the subject property and its surroundings.



CITY OF ANAHEIM

The city of Anaheim is located in the north/central portion of Orange County approximately 30 miles southeast of Los Angeles and approximately 95 miles north of San Diego. The city contains 49.7 square miles, which ranks it as the largest within the County. Neighboring communities include Fullerton, Placentia, Orange, Garden Grove, Stanton, Cypress, Buena Park and portions of unincorporated land within the County of Orange.

Anaheim is the second largest city in Orange County in terms of population, which is estimated at approximately 345,556 residents as of January 2007. This comprises approximately 11% of the County overall. Population for the city over the past 57 years is summarized below.

<i>City of Anaheim Population</i>		
<i>Date</i>	<i>Population</i>	<i>Avg. Annual % Change</i>
1950	14,556	--
1960	104,184	61.6%
1970	166,408	6.0%
1980	220,200	3.2%
1990	246,000	1.2%
2000	328,014	3.3%
2007	345,556	0.8%

Source: U.S. Census, CA Dept of Finance

After significant growth during 1950 to 1970, the population has stabilized with increases averaging approximately 2.1% per year since 1980. More recently, population growth has been slower in light of the city's generally built-out condition. Future growth within the city will be confined primarily to the easterly portion of the city, which extends along the Riverside (91) Freeway in the Santa Ana Canyon. This area of the city comprises the majority of the remaining unimproved acreage, which continues to experience development. However, while the foregoing is generally the case, the area around Angel Stadium has been approved for several high-density residential projects as part of The Platinum Triangle Master Land Use Plan. The Platinum Triangle area of Anaheim will allow up to 9,175 dwelling units at densities as high as 100 units per acre. Moreover, the approved Mixed-Use Overlay will allow approximately 3.3 million square feet of office development and 2.1 million square feet of commercial space. Furthermore, the City of Anaheim has identified several infill locations scattered throughout the city for redevelopment with mixed-use, residential and commercial projects. Such activity is expected to add to future population growth as well.

Anaheim has a diverse employment base from manufacturing to tourism. There are numerous manufacturing plants in this Orange County area with products such as computers,

electronics, food products, machinery and communications. A summary of some of the larger employers in Anaheim is set forth below.

<i>Larger Employers in Anaheim</i>	
<i>Name of Company</i>	<i>No. Employees</i>
Walt Disney Resort	23,105
Kaiser Foundation Hospital	3,660
Boeing North America	3,500
Alstyle Apparel	1,600
Anaheim Memorial Medical Center	1,185
Northgate Gonzalez Supermarkets	1,000
Honda Center	1,000
Anaheim Memorial Hospital - ER	979
Hilton Anaheim	900
Long Beach Mortgage Company, Inc.	800

Source: Anaheim Community Development

Tourism is a major part of the city's economic base and will play an even greater role as Disneyland's expansion continues. The major employers shown above represent a mixture of local, regional and national corporations and service organizations. Although tourism plays a major role in the city's economy, there are a variety of employers making up the balance of the economy. Nevertheless, Orange County and, particularly Anaheim, has established itself as a major national and international tourist area due to the attraction of Disneyland (Anaheim) and Knott's Berry Farm (Buena Park). Area tourist demand generators include several other visitor-intensive facilities that include the Anaheim Convention Center, Angel Stadium of Anaheim, Honda Center (formerly Arrowhead Pond of Anaheim), and Downtown Disney/Disneyland/California Adventure.

Anaheim first became a meetings and conventions destination in 1967 with the construction of the domed Arena, which fronts Katella Avenue. Since 1967, the Anaheim Convention Center has gone through three major expansion projects, plus several cosmetic renovations to update the center. Each expansion added another major exhibit hall plus meeting space. The most recent expansion was far more than an addition of space; it was a complete transformation of the Anaheim Convention Center structure and surrounding space. Completed in 2001, the Convention Center

currently houses 815,000 square feet of exhibit space, making it the largest exhibit facility on the West Coast. All of the meeting and ballroom space in the Center is newly constructed, totaling 130,000 square feet. Over recent years, the facility has increased in size by some 40% to a total area of approximately 1.6 million square feet.

Disneyland Resort continued its expansion and transformation on the heels of its \$90.0 million Indiana Jones attraction. The center of the Resort expansion was the completion in 2001 of the extraordinary new theme park known as California Adventure, which celebrates the richness, diversity and pioneering spirit of the Golden State. Disney completed its first ever hotel within the Theme Park, the 750-room Disney's Grand Californian Hotel reflecting an "arts and crafts" design. The expansion also included Downtown Disney, a 300,000 square foot, retail, dining and entertainment center, featuring theme stores, restaurants, cinemas and entertainment venues. While to a lesser extent than anticipated, given the economic climate, the Disneyland Resort expansion has had a significant economic impact on the city of Anaheim.

A recent development in the city is Anaheim Garden Walk, located at the intersection of Katella Boulevard and Clementine Street. Comprising some 20 acres, this project will include approximately 440,000 square feet of shopping, dining and entertainment options; about 900 hotel rooms; and 400 timeshare units. Being developed in phases, the completion of the project, as a whole, is slated for sometime in 2010.

Trend

Anaheim is one of the more mature communities in Orange County. Consequently, the city experienced its most rapid growth from 1950 to 1970. In recent years, the majority of the activity had been the redevelopment of older areas of the city and the aggressive retention and attraction of manufacturing companies and other businesses. More recently, however, several major retail and

office projects have been constructed, while numerous high-density residential projects are being developed in The Platinum Triangle area around Angel Stadium.

On May 25, 2004, the Anaheim City Council approved the City's General Plan and Zoning Code update that will serve to implement the City's vision for future growth and development. The update creates a new "Corridor Residential" Land Use designation in Anaheim that will allow for the transition of under-utilized commercial sites to infill residential development. Nearly 200 acres of Anaheim land will be designated for Corridor Residential land uses, in response to the need to provide additional housing opportunities. In our opinion, the city will continue to prosper, mainly due to its strong residential base, diversified economy, and pro-business attitude of City leaders.

The subject property has a good location within the city and is conveniently located to the Santa Ana (5) Freeway. It is approximately in the center of the area bounded by Brookhurst Street, Euclid Street, Lincoln Avenue and La Palma Avenue. Anaheim is considered to be a good address for business. It should be pointed out that although the subject property is a part of an attractive business park, it is in a secondary location relative to office users.

MARKET OVERVIEW

The following Orange County Retail MarketView has been taken from a report by CB Richard Ellis for the second quarter of 2008.

The economic shadow cast by the downturn of the housing market and credit crisis continued to impact local commercial markets in the second quarter. The Orange County office market felt the effects of deferred real estate decisions by tenants, particularly by businesses directly impacted by current conditions. Many of these businesses have had to evaluate current operations and subsequently downsize, both in terms of office space and employees.

The unemployment level in Orange County rose over the past year, largely in part due to the decline of mortgage-related jobs in the financial services sector. However, for the past two quarters, the professional and business services sector added jobs, and is expected to continue to increase employment throughout the next year, according to Torto Wheaton Research. Torto Wheaton also notes that the current employment conditions are unlike those witnessed in the recession of 2001 where many technology and services firms were not profitable; rather, in today's market, these firms are well positioned to absorb the "housing-led" economic slowdown.

While the Orange County office market continues to adjust to the aforementioned economic conditions, it is also working to balance the growing amount of available space with lessening tenant demand. In the second quarter, availability and vacancy rates edged upward as activity levels slowed and new construction was delivered to the market.

Approximately 495,000 square feet of newly constructed space was completed and added to the County's inventory, with 15% of the space pre-committed upon completion. This new space is part of the last major wave of construction to be completed this year, with no new projects breaking ground this quarter, and only 80,000 remaining in the 2008 pipeline. The amount of available space in the market increased to 20.2% this quarter from 19.7% recorded in the first quarter, while the overall vacancy level ticked up to 15.0% from 14.7%. Sublease space accounts for 14% of the total available space, with slightly more than half currently vacant. Average asking lease rates decreased \$0.04 this quarter to \$2.68 per square foot, representing the second consecutive quarter of decline since the end of last year.

The second quarter 2008 represents the first positive quarter of net absorption in a year, with a total of 111,915 square feet of positive absorbed space. While relatively flat, the absorption generated this quarter is a significant change from the 1.1 million square feet of negative absorption which occurred last quarter. Second quarter's positive overall absorption indicates while volume is down and deals are taking longer to complete, there is still activity in the market.

<i>Market Area</i>	<i>Bldg. RBA (SF)</i>	<i>Total Vac. Rate</i>	<i>Direct Vac. Rate</i>	<i>Net Absorp. (SF)</i>	<i>SF Under Const.</i>	<i>Const. Deliv.</i>	<i>Avg. Ask'g Rate</i>	<i>YTD Net Absorp.</i>	<i>YTD Const. Deliv.</i>
North OC	8,513,987	14.0%	12.0%	-149,882	0	75,000	\$2.39	-271,915	157,250
Central OC	16,436,955	15.4%	14.3%	-146,635	0	0	\$2.36	-379,989	0
West OC	4,925,589	8.3%	7.6%	-91,172	0	0	\$2.32	-135,454	0
Greater Airport	46,929,719	15.2%	13.3%	406,615	40,000	108,000	\$2.89	-245,883	340,800
South OC	22,829,349	15.9%	14.2%	92,989	40,000	312,155	\$2.65	34,173	886,017
OC Total	99,635,599	15.0%	13.3%	111,915	80,000	495,155	\$2.68	-991,528	1,384,067

Market Outlook

Although the office market will most likely require 12 to 18 months to rebound, there will continue to be sustained leasing activity as leases expire and tenants are forced to address occupancy requirements. Overall office employment, which is a factor of demand, is expected to increase despite the past year of financial services job loss. Torto Wheaton Research forecasts a 2-year increase of 10,300 jobs in the office services sector. With growth expected from a wide range of service-providing industries, such as the technology and healthcare sectors, as well as relatively low rents in comparison to other Southern California markets, Orange County continues to be in a relatively stable position amid the broader economic uncertainty currently facing the County.

Unemployment Rate

The unemployment rate for Orange County increased to 4.8% from 4.3% in first quarter 2008. The region's unemployment rate continues to fall below California's rate of 6.5%, as well as the National unemployment rate of 5.2%. Total non-farm employment has declined by 21,000 jobs since the second quarter of last year. The majority of this decrease was in the financial activities sector, which reported a year-over loss of 15,300 jobs. Construction recorded the second largest decline with a loss of 4,900 jobs. Government jobs, however, experienced the greatest increase with a gain of 2,700 jobs. The Orange County office sector is forecasted to add 10,300 jobs over the next two years.

Vacancy & Availability

The overall vacancy rate for office space in Orange County experienced a slight increase, ticking up to 15.0% from 14.7% posted in the previous quarter. After holding the highest vacancy level in first quarter, the Greater Airport Area's vacancy rate declined to 15.2% from 15.9%, which is a result of positive net absorption occurring this quarter. The remaining areas experienced increased levels of vacancy ranging from 8.3% in West Orange County to 15.4% in Central Orange County. South Orange County, in particular, experienced an increase rate to 15.9% from 15.1%, largely attributed to new unoccupied product in the Irvine Spectrum submarket. There is currently 20.1 million square feet of available space and represents 20.2% of the total Orange County inventory. Of the total available space, approximately 17.2 million square feet is available directly from the landlord, while the remaining 2.9 million is available for sublease.

Construction Activity

A total of 495,155 square feet of new construction was completed in the second quarter, bringing the 2008 total to 1.4 million square feet of newly constructed space. The majority of this space is located at 40 Pacifica in the Irvine Spectrum submarket, where the second 312,155 square foot high-rise building was completed - the first located at 20 Pacifica was completed in fourth quarter 2007. In the Greater Airport Area, one 108,000 square foot, Class B, mid-rise office building was completed, which is 73% occupied. One major tenant who accounted for this occupancy is John Laing Homes, who leased 66,000 square feet. Lastly, the Anaheim Hills submarket added a 75,000 square foot, low-rise building to its inventory. At the end of the second quarter, two buildings remain under construction totaling 80,000 square feet, all of which are due to for completion by the end of the calendar year.

Average Asking Lease Rates

The overall monthly average asking lease rate for Orange County office properties declined an additional \$0.04 this quarter to \$2.68 per square foot. Class A asking rental rates decreased to \$2.98 from the \$3.01 per square foot in first quarter 2008. Class B properties experienced a \$0.04 decline to \$2.43 per square foot, while Class C properties remain unchanged at \$2.07 per square foot. North Orange County dipped \$0.01 to \$2.39 per square foot, while Central Orange County declined \$0.07 to \$2.36 per square foot, and South Orange County decreased to \$2.65 from \$2.76 per square foot. The average asking rental rate for all building types located in the Greater Airport Area increased \$0.01 and now stands at \$2.89 per square foot, while West Orange County gained \$0.03 to \$2.32 per square foot.

Net Absorption

The Orange County office market experienced a positive 11,915 square feet of net absorption in the second quarter, offsetting the year-to-date total and bringing it down to a negative 991,528 square feet. The majority of the activity took place in the Greater Airport Area, which recorded 406,615 square feet of positive net absorption. Notable lease transactions contributing to the positive absorption include 29,074 square feet in Irvine to Fisker Automotive, as well as the lease of 20,279 square feet to CBIZ Accounting. South Orange County also witnessed activity and posted 92,989 square feet of positive net absorption. The North and Central Orange County areas both recorded nearly 150,000 square feet of negative absorbed space, while West Orange County had a minimal 91,172 square feet of negative absorption.

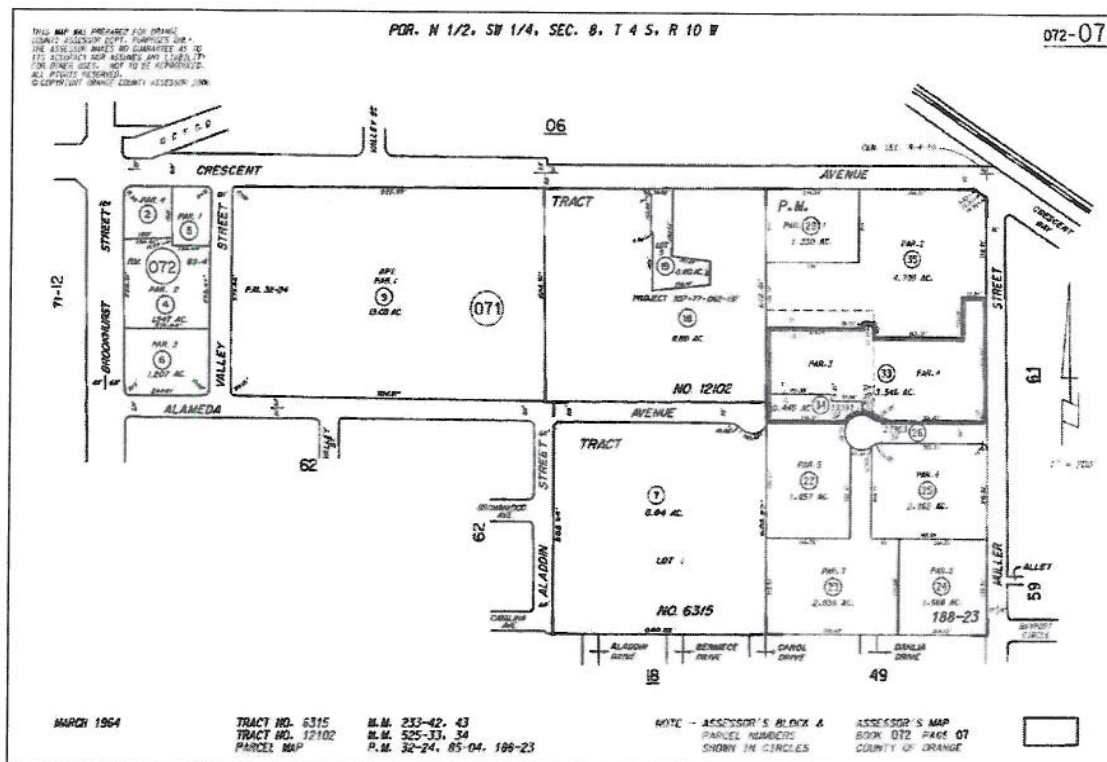
THE LAND

Location

The property under appraisal is located at the northwest corner of Corporate Way and Muller Street. The address is 525 North Muller Street, Anaheim, California.

Shape and Topography

The property in question is L-shaped and is level. Please refer to the following Plat Map.



Area

According to the Orange County Assessor old records, the site contains the following areas.

- Office Building Site 2.068 acres, or 90,082 square feet
- Adjacent Overflow Parking 1.923 acres, or 83,766 square feet

Zoning

The subject property is zoned I-Industrial, which permits the existing uses.

Soils

The subject property is apparently suitable load-bearing capacity for the improvements on the property. No soils tests have been reviewed.

Hazardous Materials

The property in question has been in use as an office development since it was constructed. There are no uses on the property which might lead to contamination; it is, therefore, assumed that there is none.

Utilities

All of the usual and necessary public utilities and services are available and connected.

Flood Hazard

The property in question is not subject to flooding. There is a drainage basin on the north side of Crescent Avenue at the I-5 Freeway. The property is located in Flood Zone X, Community 060213, Map No. 06059C0129H, Panel 129H, 2/18/04.

Earthquake Hazard

The subject property is not located in an Alquist Priolo earthquake zone.

Easements

There are no visible easements over the property in question, which would negatively impact upon its value.

Streets

Muller Street is a 62-foot-wide street improved with one lane of traffic in each direction. The street has asphalt-concrete paving and concrete curbs, gutters and sidewalks. Street lighting is by electroliers on metal standards.

Corporate Way is a 60-foot-wide local street improved similar to Muller Street.

Accessibility

The subject property has good access. It is located within close proximity to the Santa Ana Freeway and is within an area bounded by four major arterials.

THE IMPROVEMENTS

Type

Two-story, concrete tilt-up, Class C, office building

Year Built

1984

Area

39,747 square feet, net rentable area.

Construction

Concrete foundation and slab floor; aggregate concrete tilt-up walls with solar glass windows; flat roof with built-up composition covering; tempered plate glass entry doors.

Utilization and Finishes

The subject office building is completely occupied by ITT Technical Institute. On the ground floor, there is a front entrance in a two-story height section. At the rear parking lot, there is an entrance to a student lounge. The space on the ground floor is largely devoted to administrative offices plus some classrooms and labs. The second floor also has private offices at the perimeter and classrooms and labs. Although the space is used for educational purposes, it could easily serve as general office space.

There are carpeted floors throughout, plus vinyl tile in work spaces, student lounge and hallways, and ceramic tile in restrooms. Walls are generally painted drywall with ceramic tile wainscots in restrooms and some vinyl wainscots in hallways. Ceilings are typically acoustic tile with painted drywall in restrooms. There is integrated fluorescent lighting and air conditioning throughout. The building has an automatic fire sprinkler system. There is one, hydraulic elevator.

Quality

Construction is of good grade.

Condition

The improvements have been well maintained and are in good condition.

Yard

The street elevations of the subject property are landscaped with lawns, trees, shrubs and planter areas with flowers. There is parking on the building site, which accommodates 168 cars. Under separate agreement, 145 cars may be parked on the adjacent parking lot. The spaces are striped with concrete bumpers and curbs around planter areas.

ASSESSED VALUATION AND TAXES

The subject property is identified by the Orange County Assessor as Parcel Numbers 072-071-33 and 34. A summary of assessed values and real estate taxes as of fiscal year 2007/2008 for the property in question is as follows.

APN 072-071-33

Land	\$3,238,495
Improvements	<u>2,681,210</u>
Total	\$5,919,705
Tax Rate Area	01030
Indicated Real Estate Taxes.....	\$2,800.70

APN 072-071-34

Land	\$406,585
Improvements	<u>54,063</u>
Total	\$460,648
Tax Rate Area	01030
Indicated Real Estate Taxes.....	\$19.48

The subject property is owned by the Anaheim Union High School District and is mostly not subject to tax. With the passage of the Jarvis-Gann Initiative (Proposition 13), real estate taxes in California are limited to 1% of market value, plus an amount to cover any bonded indebtedness. Adjustments are made annually; however, increases are limited to 2%. Upon transfer or completion of construction, the property is re-assessed to reflect market value. In the analysis of the subject property, stabilized real estate taxes have been estimated based upon full economic value.

HIGHEST AND BEST USE

The term "*highest and best use*" is defined as:

"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."

Source: Appraisal Institute - The Dictionary of Real Estate Appraisal, Fourth Edition

Conformity to Zoning

The subject property is zoned Industrial. The present use is in conformance with that designation.

Physical Characteristics

The property under appraisal is a two-story suburban office building situated in an attractive business park. It is definitely within a secondary location relative to office use. The neighboring use of the Crescent Corporate Center is for businesses requiring some office and shop space. The site provides an onsite parking ratio of approximately 4 spaces per 1,000 square feet of rentable area which is adequate for normal use. The present tenant, ITT Technical Institute, generates a demand for approximately 8 spaces per 1,000 square feet of rentable area and, thus, they use most of the adjacent parking lot when the facility is fully occupied.

Supply and Demand

There is more than adequate space available throughout the central and northern portions of Orange County, Total vacancy for the North County for the second quarter was 14.0% and a 15.4% vacancy in Central County. Vacancy has increased over the past three years due to failures in the real estate finance sector. There are currently no new projects underway. It is projected that the current supply of space will decrease as jobs continue to increase in the office sector.

Economic Return Potential

These types of investments generally trade in the range of 5.5% to 6.5% overall yield. Recently, the feeling in the market is that overall capitalization rates are increasing modestly. There are still many investors on the side lines who would be willing buyers at fair prices.

Conclusion - Highest And Best Use If Vacant

If vacant, assuming the industrial zoning was to be maintained, a small office building would reflect the highest and best use of the present office site. The adjacent parking lot would be best suited for development of small business buildings to be offered for sale.

At the request of the client, I have also researched the probability of obtaining medium-density residential zoning for the adjacent parking lot. The residential development market is currently suffering from declining values and sales volumes from the credit crunch brought about by the sub-prime lending collapse. Financing, both for development and then for end buyers, is not

available. My inquiry with some of the staff of the Planning Department of the City of Anaheim indicated that this type of use would be very difficult to get because it would involve a change in the City's General Plan and a change in zoning in an area that is designated for industrial use and is zoned accordingly. Based upon my inquiry, it is my opinion that a change of zoning and amending the General Plan is not feasible at this time.

Conclusion - Highest And Best Use As Improved

In my judgment, the existing office use represents the highest and best use as improved.

APPROACH TO VALUE

In an economic sense, the subject property is comprised of two units. One is the office building, which now houses the ITT Technical Institute and the other is the parking lot, which now accommodates some overflow parking for the school and another parking user. In valuing the property in question for its highest and best use, it is my opinion that the office building with its existing site can function as an independent property. It has its own parking onsite, which is adequate for normal office use and it has the corner location for identity. It is my opinion, therefore, that the office building, on its own site, should be valued as an independent property. After valuing the fee simple value of the subject property and allowing for the cost of redevelopment of the property to a new tenancy, I will take into consideration the remaining term of the existing lease with ITT to reach an opinion of the market value of the leased fee interest in the subject property.

The overflow parking lot is not restricted in terms of future development except by the current lease with ITT Technical Institute and 20 spaces licensed to Golden State Water Company. In this appraisal, it is recognized that ITT is in the final term of their lease and there are no further options to renew. Therefore, it is assumed that this part of the subject property would be available for development to its highest and best use, which, in my opinion, would be a development of small business buildings to be sold to individual users.

INCOME APPROACH TO VALUE - OFFICE BUILDING

Revenue

A synopsis of the ITT Technical Institute lease; a synopsis of a Parking License Agreement with Golden State Water Company for 20 parking spaces; and a summary and analysis of comparative market rents follows.

Synopsis of Lease

- Date:** July 18, 1994
Landlord: Aetna Life Insurance Company
Tenant: ITT Educational Services, Inc.
- Premises:** The subject property is a two-story building at 525 North Muller Street containing 39,747 rentable square feet. The building occupies a site containing an area of 2.068 acres.
- Term:** 10 years, 4 months, beginning on the Commencement Date, December 1, 1994.
- Parking:** Tenant has exclusive use of 8.8 parking spaces for each 1,000 rentable square feet of space in the premises occupied by Tenant free of charge. The Landlord, at its expense, is to pay for all of the parking lot improvements.
- Rent:** "Base Rent" for months 79-124 is stated at \$43,956 per month, or \$1.11 per square foot, for the current period.
"Additional Rent" payable by Tenant includes charges for operating expenses meaning: all costs and expenses incurred by Landlord in connection with the operation, maintenance and management of the property including:
Trash disposal fees; the cost of lighting the exterior of the building; the cost to landscape and care for the lawns and trees, etc.; the cost to keep the sprinkler system in the building in good working order; the cost to periodically sweep and clean the parking areas; real estate taxes and assessments; the cost to insure the structure for fire and other hazards and the cost to insure the project for liability; management fees; and maintenance and repair of the roof, structure and HVAC.
The "Additional Rent" payable by Tenant is in a fixed amount increasing from \$0.12 for months 5 through 12 to \$0.178 per rentable square foot for months 121 through 124.
- Janitorial & Utility Service:** Tenant will pay the cost of all janitorial and utility services.

Repair & Maintenance:

Tenant's Care of Premises

Tenant, at its expense, will keep the premises in good, clean and sanitary condition and will furnish all expendables, including light bulbs, paper goods and soaps, and will make all necessary repairs to the premises, including replacing or repairing interior glass, light lamps, interior and exterior doors, floors and floor coverings, interior utility and plumbing systems.

Landlord's Repair and Maintenance

Except for repair and maintenance that tenant must undertake, Landlord will, at its own expense, make all repairs and replacements: the roof; the foundation; all HVAC, electrical, mechanical and plumbing systems; the structural soundness of the load-bearing and exterior walls of the building; landscape and maintain the parking areas; provide pest control; be responsible for all exterior upkeep and painting.

Reserve for Capital Repairs:

Tenant agrees to pay to Landlord each year a total amount of \$7,500 to be allocated as follows:

\$1,500 for capital parking lot repairs

\$3,000 for capital roof repairs or replacement

\$3,000 for capital HVAC repairs or replacement

Landlord will pay for all costs in excess of the respective reserve accounts.

Insurance:

Landlord to keep the building and project insured against damage by fire, vandalism, explosion, etc., but shall not be obligated to maintain earthquake coverage.

Option to Extend:

Tenant extended this lease for a period of 5 years upon the same terms and conditions of the Lease, except that: the Annual Base Rent and operating expense per rentable square foot for the premises were equal to the fair rentable value of comparable first class office space in the immediate area.

Prevailing Market Rent:

The Extension Term shall be upon the same terms and conditions as the initial term, except that the annual Base Rent and Tenant's Share of Operating Expenses shall be equal to the prevailing market rate. "Prevailing Market Rate" shall mean the base annual rental taking into account any additional rental and all other payments and escalations payable thereunder and any refurbishment or tenant improvement allowances, if any.

First Amendment:

This amendment was dated March 1, 1995 and provided for an agreement that all of the provisions of the original lease had been met. It added 888 square feet to the premises and adjusted the original rent to \$43,956 per month.

Second Amendment: The second amendment to the lease was dated October 30, 1998 and provided for the expansion of the usable and rentable areas to 39,747 square feet.

Offsite Parking: Offsite parking on the adjacent parking lot for approximately 1.2 acres of land was calculated separately in the lease renewal at \$63.00 per space per month, or \$0.23 per square foot of rentable area.

Market Rent: Calculation For Option Period

Fair Market Rent (prevailing, FSG)...	\$1.65 / sq.ft.
Plus Additional Parking.....	0.23 / sq.ft.
Minus Lessee's Expense.....	0.35 / sq.ft.
Minus Improvements By Lessee	<u>0.20 / sq.ft.</u>
Monthly Rental Rate.....	\$1.33 / sq.ft.
and	
\$1.33/sq.ft. x 39,747 sq.ft.	\$52,864/month

Fourth Amendment: The fourth amendment to the lease was entered into July 24, 2008 and provides for an option for an extension of six months of the lease term to September 30, 2010 under the same terms and conditions.

Synopsis of Parking License

Date: July 17, 2004
Licensor: Anaheim Union High School District
Licensee: North Orange County Regional Occupational Program/ Golden State Water Company.
Premises: 20 parking spaces located at the southwest corner of the subject property.
Term: Through September 1, 2008 with two options to extend for three (3) years each, expiring on August 31, 2014.
License Fee: There is no license fee due to Licensor in connection with the spaces within the license.

RENTAL DATA MAP



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Rental Comparisons

A summary of rental rates for space currently on the market in the competitive area follows. Please refer to Exhibit B, Rental Data Photographs, in the Addendum for pictures of the comparisons.

<i>No.</i>	<i>Location</i>	<i>Bldg. Size (SF)</i>	<i>Yr Blt.</i>	<i>Class</i>	<i>Available Sq.Ft.</i>	<i>FSG Rent</i>
1	2411 W. La Palma Ave.	75,736	1975	B	5,115	\$1.95
2	2301 W. Lincoln Ave.	78,000	N/A	B	4,178	\$1.25
3	1671 W. Katella Ave.	16,000	N/A	B	6,212	\$1.65
4	2111 W. Crescent Ave.	7,390	N/A	C	938	\$1.55
5	2115 W. Crescent Ave.	15,143	N/A	C	5,781	\$1.55
6	2121 W. Crescent Ave.	5,232	N/A	C	2,470	\$1.55
7	501 N. Brookhurst St.	54,000	70's	B	6,969	\$1.65
8	520 N. Brookhurst St.	26,756	N/A	B	5,116	\$1.60
9	910 S. Brookhurst St.	18,760	1972	B	3,612	\$1.50
10	505 N. Euclid St.	64,812	1970	B	7,596	\$1.95
11	222 S. Harbor Blvd.	192,567	1986	A	50,544	\$2.15
12	888 S. Disneyland Dr.	99,800	1983	A	1,429	\$2.65
Totals & Average		654,196			99,960	\$1.75

Analysis of Rental Data

The data show a range of \$1.25 to \$2.65 per square foot and averaged \$1.75 per square foot. As might be expected, generally, the lower rents were for the Class C space and the highest rents were for the Class A offices. Some of the best comparisons appear to be Data Nos. 4, 5 and 6, which are around the corner at 2111, 2115 and 2121 West Crescent Avenue. This is space in a business park similar to Crescent Corporate Center, but is slightly inferior to the subject property. The asking rent for this property is \$1.55 per square foot, full service gross.

The best comparison is the rental rate used in formulating the renewal rate for the ITT Technical Institute rent in late 2006, at a starting rate of \$1.65 per square foot per month, full service gross. Based upon the data and the trend of values in the area, it is my opinion that the current rate should be slightly higher. My final opinion of fair rental value is \$1.75 per square foot, full service gross.

Estimated Vacancy & Collection Loss Analysis

Reference is made to the Orange County Office MarketView section, wherein it was reported that the office vacancy in the Central and North County areas was in the area of 15%. It has been my experience that office vacancies tend to vary widely. For instance, two years ago the vacancy rate was down to 6%. The largest part of the vacant space has to do with the collapse of the aggressive mortgage market business. As regards the subject space, it has been 100% occupied since 1994 and its use would be classified as somewhat special-purpose in that it requires a lot of parking.

It is my opinion that the subject office building would be attractive to a single user; similar to what there is now; however, the space could be subdivided easily. In estimating a level of occupancy, it should be kept in mind that what is being estimated is a stabilized amount over a long run period. For the purpose of this appraisal, it is my opinion that a typical vacancy rate of 5.0% would be appropriate.

Operating Expenses

The subject space has been operated on a modified gross basis under the terms of the lease wherein the tenant has been paying for utilities and janitorial services. These are estimated at \$4.20 per square foot per year. In the Capital Value analysis to follow, real estate taxes will be estimated at 1.25% of the estimated market value of the subject property. My estimated annual operating expenses are as follows.

<i>Item</i>	<i>\$/Year</i>
Utilities	\$3.20
Janitorial	\$1.00
Trash	\$0.15
Management	\$1.00
Landscaping	\$0.18
Maintenance & Repair	\$0.50
Insurance	\$0.75
Other	\$0.25
Real Estate Taxes	\$2.08
Total	\$9.11

Overall Capitalization Rate

An investigation has been made to uncover recent sales of office investment properties, which reflect overall capitalization rates. Here follows a summary of those sales.

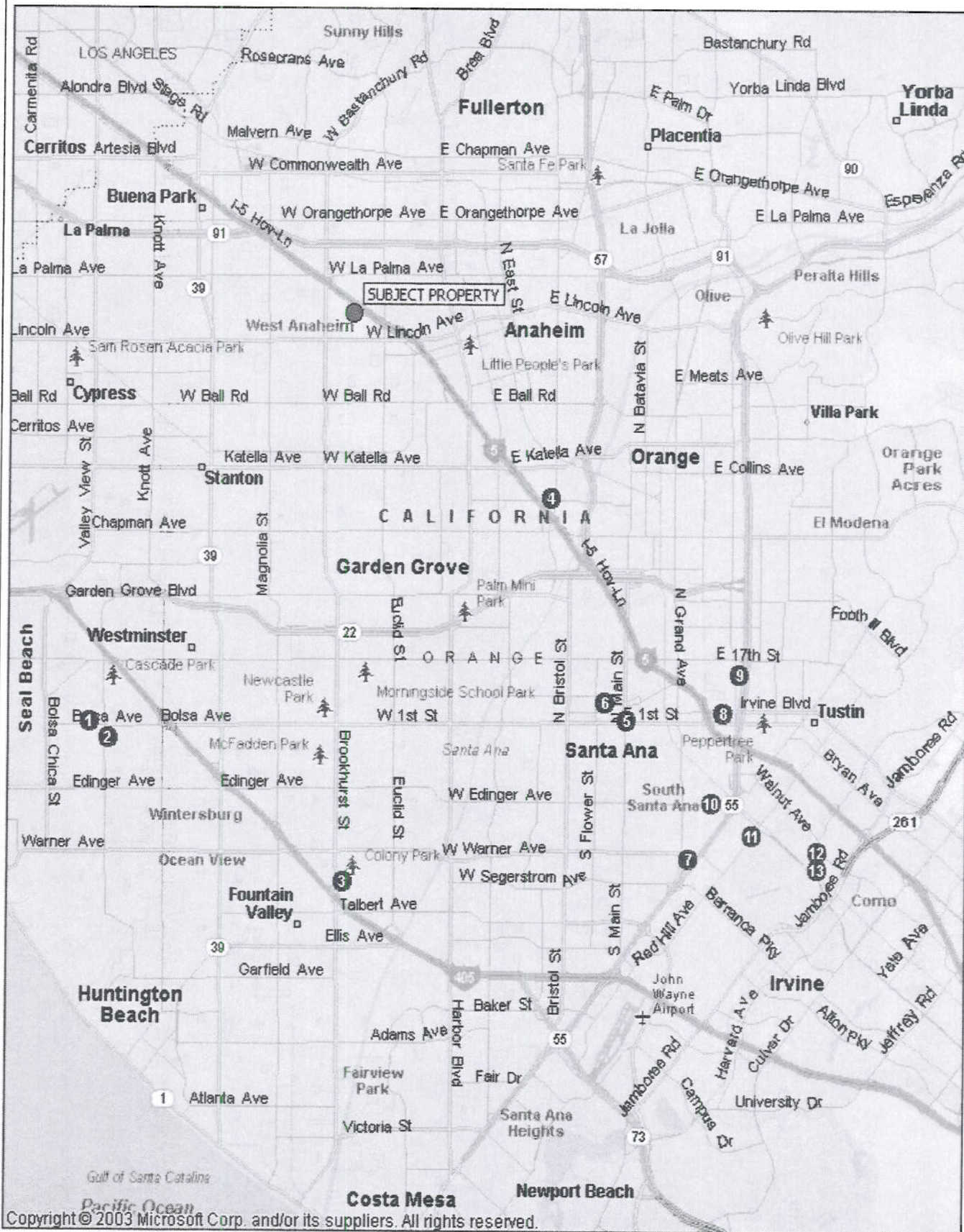
<i>Location</i>	<i>Date</i>	<i>Rentable Sq. Ft.</i>	<i>Yr. Blt.</i>	<i>Price</i>	<i>/Sq. Ft.</i>	<i>OAR</i>
5762-72 Bolsa Ave.	1/23/2007	54,129	1984	\$9,815,000	\$181.33	4.50%
15061 Springdale St.	6/26/2007	27,000	1987	\$4,480,000	\$165.93	5.94%
10101 Slater Ave.	1/19/2007	58,629	1980	\$11,550,000	\$197.00	6.80%
1601 E. Oranewood Ave.	4/25/2007	22,000	1980	\$5,250,000	\$238.64	3.49%
130 S. State College Blvd.	7/10/2007	42,884	1982	\$11,650,000	\$271.66	5.00%
1528 E. Warner Ave.	6/7/2007	20,765	1979	\$3,628,000	\$174.72	7.00%
2000 E. 4th St.	3/19/2007	34,080	1983	\$6,900,000	\$202.46	6.10%
1801 E. Edinger Ave.	4/18/2007	52,565	1988	\$8,400,000	\$159.80	5.00%
Totals & Average		312,052		\$61,673,000	\$197.64	5.44%

The range of overall capitalization rates is from 3.49% to 7.0%, but is more typically between 5.0% and 6.0%. The average is 5.44%. Although it is not clearly shown in the data, it is the opinion of informed brokers and others in investment real estate that overall capitalization rates for investment quality properties have increased by around 50 basis points. My final opinion of the appropriate overall rate for the subject office property is 6.5%.

Capital Value Analysis

Estimated Scheduled Gross Revenue		
39,747 sq.ft. @ \$1.75/sq.ft. x 12 mos.....		\$834,687
Less Vacancy & Collection Allowance		
\$834,687 x 5.0%.....		<u>41,734</u>
Estimated Effective Gross Revenue		\$792,953
Estimated Operating Expense		
Utilities	\$3.20	
Janitorial	1.00	
Trash	0.15	
Management	1.00	
Landscaping.....	0.18	
Maintenance & Repair.....	0.50	
Insurance.....	0.75	
Other	0.25	
Real Estate Taxes.....	<u>2.08</u>	
Total Expenses.....	\$9.11	<u>362,095</u>
Estimated Net Operating Income.....		\$430,858
Capitalization		
\$430,858 / 6.5%.....		\$6,628,585
Less Adjustment For Lease-Up		
Estimated Rent Loss Until Occupancy		
\$834,687 x 25.0%.....	\$208,672	
Estimated Leasing Commissions		
\$834,687 x 5 yrs. x 5.0%	208,672	
Estimated Tenant Improvement Allowance		
39,747 sq.ft. x \$5.00/sq.ft.	<u>198,735</u>	
Total	\$616,079	
Two Year Deferment @ 8.0%	<u>0.857339</u>	<u>528,189</u>
Estimated Present Value - Remainder		\$6,100,396
Estimated Rental Deficiency From Present Lease		
Estimated NOI, Free and Clear.....		
Estimated NOI, Subject To Lease	\$430,858	
39,747 sq.ft. x (\$13.20-\$4.86)	<u>331,490</u>	
Estimated Deficiency.....	\$99,368	
Present Worth of \$1, 2 yrs. @ 8.0%.....	<u>1.783265</u>	<u>177,199</u>
Estimated Market Value "As Is"		\$5,923,197
		Say \$5,925,000

OFFICE BUILDING SALES MAP



SALES COMPARISON APPROACH TO VALUE

An investigation has been made into recent sales of office buildings similar to the subject property. A summary and an analysis of the sales follow.

<i>Summary Of Office Building Sales</i>							
<i>No.</i>	<i>Location</i>	<i>City</i>	<i>Date</i>	<i>Rentable Sq.Ft.</i>	<i>Yr. Blt.</i>	<i>Price</i>	<i>/Sq.Ft.</i>
PIQ	535 N. Muller Ave.	Anaheim	N/A	39,747	1984	N/A	N/A
1	5762-72 Bolsa Ave.	Huntington Beach	1/23/2007	54,129	1984	\$9,815,000	\$181.33
2	15061 Springdale St.	Huntington Beach	6/26/2007	27,000	1987	\$4,480,000	\$165.93
3	10101 Slater Ave.	Fountain Valley	1/19/2007	58,629	1980	\$11,550,000	\$197.00
4	1601 E. Orangewood Ave.	Anaheim	4/25/2007	22,000	1980	\$5,250,000	\$238.64
5	450 W. 4th St.	Santa Ana	8/23/2007	30,857	1982	\$3,953,000	\$128.11
6	500 W. Santa Ana Blvd.	Santa Ana	5/16/2007	36,781	1982	\$7,316,000	\$198.91
7	1528 Brookhollow Dr.	Santa Ana	6/7/2007	20,765	1979	\$3,628,000	\$174.72
8	2000 E. 4th St.	Santa Ana	3/19/2007	34,080	1983	\$6,900,000	\$202.46
9	1401 N. Tustin Ave.	Santa Ana	8/16/2007	55,794	1986	\$14,710,000	\$263.65
10	1801 E. Edinger Ave.	Santa Ana	4/18/2007	52,565	1988	\$8,400,000	\$159.80
11	15101 Red Hill Ave.	Tustin	5/28/2008	48,772	1990	\$7,750,000	\$158.90
12	14661 Franklin Ave.	Tustin	7/19/2007	41,130	1987	\$10,459,000	\$254.29
13	2742 Dow Ave.	Tustin	7/31/2007	51,588	1979	\$11,200,000	\$217.10
Totals & Average				534,090		\$105,411,000	\$197.37

Analysis of Office Building Sales

The office building sales vary quite a bit according to location. Here follows an adjustment grid analysis, which attempts to adjust for differences in market conditions and location. As mentioned earlier, it is not clear from the data, but informed opinion indicates that overall capitalization rates have risen about 50 basis points. That is the equivalent of an approximate 8% decline in value, which will be use in adjusting the sales data. An adjustment will also be made for differences in location on a subjective basis.

<i>Adjustment Grid Of Office Building Sales</i>									
<i>No.</i>	<i>Location</i>	<i>Date</i>	<i>Rentable Sq.Ft.</i>	<i>Price</i>	<i>/Sq.Ft.</i>	<i>Time</i>	<i>Time Adj.</i>	<i>Loc.</i>	<i>Adj. Val.</i>
PIQ	525 N. Muller Ave.	N/A	39,747	--	--	--	--	--	--
1	5762-72 Bolsa Ave.	1/23/07	54,129	\$9,815,000	\$181.33	-8%	\$166.82	0%	\$166.82
2	15061 Springdale St.	6/26/07	27,000	\$4,480,000	\$165.93	-8%	\$152.65	0%	\$152.65
3	10101 Slater Ave.	1/19/07	58,629	\$11,550,000	\$197.00	-8%	\$181.24	0%	\$181.24
4	1601 E. Orangewood	4/25/07	22,000	\$5,250,000	\$238.64	-8%	\$219.55	-10%	\$197.59
5	450 W. 4th St.	8/23/07	30,857	\$3,953,000	\$128.11	-8%	\$117.86	-10%	\$106.07
6	500 W. Santa Ana Blvd.	5/16/07	36,781	\$7,316,000	\$198.91	-8%	\$182.99	-10%	\$164.70
7	1528 Brookhollow Dr.	6/7/07	20,765	\$3,628,000	\$174.72	-8%	\$160.74	0%	\$160.74
8	2000 E. 4th St.	3/19/07	34,080	\$6,900,000	\$202.46	-8%	\$186.27	-10%	\$167.64
9	1401 N. Tustin Ave.	8/16/07	55,794	\$14,710,000	\$263.65	-8%	\$242.56	-10%	\$218.30
10	1801 E. Edinger Ave.	4/18/07	52,565	\$8,400,000	\$159.80	-8%	\$147.02	0%	\$147.02
11	15101 Red Hill Ave.	5/28/08	48,772	\$7,750,000	\$158.90	-8%	\$146.19	-10%	\$131.57
12	14661 Franklin Ave.	7/19/07	41,130	\$10,459,000	\$254.29	-8%	\$233.95	0%	\$233.95
13	2742 Dow Ave.	7/31/07	51,588	\$11,200,000	\$217.10	-8%	\$199.74	0%	\$199.74
Totals / Averages			534,090	\$105,411,000	\$197.37				\$171.39

The adjusted data reflect a range of \$106.07 to \$233.95 per square foot of rentable area and averaged \$171.39 per square foot. The more typical range was from \$150.00 to \$200.00 per square foot. The two best comparisons are Sale Nos. 1 and 2 at 5762-5772 Bolsa Avenue and 15061 Springdale Street, both in Huntington Beach. These buildings were built about the same time as the subject and are in the same size range. Their adjusted unit prices were \$166.82 and \$152.65 per square foot, respectively. In my opinion, these data suggest a unit value of around \$165.00 per square foot, or \$6,558,255 for the subject property before considering the leased fee interest or occupancy redevelopment. In the Capital Value Analysis, these costs were estimated at \$705,364. After deducting that, an "as is" value estimate by comparison of \$5,852,891 results, say **\$5,853,000**.

RECONCILIATION - OFFICE BUILDING

The Income Approach resulted in an "as is" valuation for the Leased Fee Interest of \$5,925,000 and the Sales Comparison Approach indicated a value of \$5,853,000. Most weight will be accorded to the Income Approach and a final value of **\$5,900,000** for the *Office Building* component is selected.