

City of Pacific Grove

Appraisal of Portions of Sloat Avenue and Ocean View Boulevard

Owner – City of Pacific Grove



Memorandum Addendum

Date: December 17, 2021

To: Anastazia Aziz, AICP – Community Development Director

From: Erik Woodhouse, MAI, R/W-AC – AR/WS

Re: Appraisal Report No. 20038B
Addendum to Appraisal Reports No. 20038 and 20038A
Owner: City of Pacific Grove
Portions of Sloat Avenue and Ocean View Boulevard, Pacific Grove, CA

Background

Erik Woodhouse, MAI, R/W-AC of Associated Right of Way Services (AR/WS) appraised the above-referenced property October 7, 2020 with a date of value of July 2, 2020 (ARWS Appraisal Report No. 20038) and also issued a related memorandum pertaining to ground lease rates affecting the subject property with the same date of value (ARWS Appraisal Report No. 20038A). The purpose of the original assignment was to furnish an opinion of the market value of property rights within portions of Sloat Avenue and Ocean View Boulevard, which are proposed to be incorporated into a planned hotel development on adjacent parcels. The purpose of the subsequent assignment (20038A) was to provide an estimate of the market ground lease rate of return for the interests previously appraised be provided.

Since that time, the City of Pacific Grove has requested a revised appraisal to reflect a more current date of valuation and that the City no longer seeks to ground lease the property interests to the developer but rather to convey them in fee. This memorandum addendum is intended to be attached to the prior two reports referenced above original report and incorporates the content and conclusions of those reports by reference. **This memorandum can only be relied upon by the intended users of the previous reports.**

I have prepared this Memorandum Addendum and updated the appraisal work file, which collectively meets the *reporting* requirements for this appraisal assignment in accordance with the requirements of Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP).

Advisory Opinion 3 in USPAP further states that a new report is not required to have the same level of detail as the original report as long as the new report incorporates by reference specified information/analyses from the prior report, so that, in combination, the referenced portions and the latest information/analysis added satisfies the applicable reporting requirements. This option can be used if the original appraiser's firm and the original client/intended user(s) involved are the same since the prior reports were issued. If at any time the client/intended user requires a copy of the original appraisal, one will be provided upon request, as the original report is necessary to understand the analysis provided in this document.

Summary of Salient Facts and Conclusions

Sloat Avenue Right of Way	Ocean View Boulevard Right of Way
\$1,917,665	\$343,324

Date of Valuation: December 14, 2021 (date of most recent site visit)

Assessor's Parcel Number: N/A, portions of Sloat Avenue and Ocean View Boulevard Right of Way

Property Location/Address: Portions of Sloat Avenue and Ocean View Boulevard, Pacific Grove, CA

Owner: City of Pacific Grove

Owned Since: Over 5 Years

Occupied By: Public Streets and Sidewalks

Principal Improvements: N/A – Right of Way

Total Site Area:
 Portion of Sloat Avenue: 26,778 square feet
 Portion of Ocean View Boulevard: 3,190 square feet

Zoning: No zoning designation, portion of public right of way. Zoning of adjacent parcels: C-V-ATC – Visitor Commercial – American Tin Cannery

General Plan: No General Plan designation, portion of public right of way. General Plan designation of adjacent parcels: Central Eardley Commercial

Highest and Best Use
 As If Vacant: Assembly with adjacent parcels for development of hospitality and supporting uses
 As Improved: Assembly with adjacent parcels for development of hospitality and supporting uses

Flood Hazard Information: Flood Zone X, Map No. 06053C0307H, dated June 21, 2017

Earthquake Information: Not located in an Earthquake Fault Zone

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Purpose of the Appraisal

The purpose of this appraisal is to furnish an opinion of the current market value of property rights within portions of Sloat Avenue and Ocean View Boulevard, which are proposed to be incorporated into a planned hotel development on adjacent parcels.

Scope of Assignment

I initially inspected the subject property on July 2, 2020, to determine the size, condition, and utility of the underlying land and existing conditions. Since the value of the interests in the areas being appraised is in assembly with the adjacent parcels, Monterey County APNs 006-231-001; -234-004; and -234-005, which together with the areas being appraised are proposed for development, the adjoining parcels were also inspected at that time. My colleague, Joe Castellanos, re-inspected the subject property and provided photographs to assist in determining whether conditions had changed since the previous inspection. Searches of public records, real estate listings and sales services were employed to obtain relevant data. Analysis of market conditions was completed, both general and specific to the market. Market participants were interviewed. Relevant property sales were researched and confirmed to the extent possible. The data is set out in the property valuation section.

The Appraisal Report conforms to Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. I am not responsible for unauthorized use of this report. The intent of this report is to provide sufficient data and analysis so as to have no misleading information and a conclusion of value of high reliability.

Date of Valuation

The property in this report has been valued as of December 14, 2021, the date of the most recent site inspection.

Summary of Changes to Analysis

For the purpose of this memorandum, market data has been analyzed for the purpose of providing a current market valuation of the fee simple interest in the areas to be sold by the City of Pacific Grove. **All other elements of the previous appraisal reports remain the same and are incorporated herein by reference.**

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Certification of Appraiser

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

I have personally inspected the property that is the subject of this report, and my colleague, Joe Castellanos, more recently reinspected the subject property and provided photographic evidence.

The statements of fact contained in the appraisal report are true and correct, and the information upon which the opinions expressed therein are based is correct; subject to the Limiting Conditions therein set forth.

Neither my employment nor my compensation for completing this assignment is in any way contingent upon the values reported herein. My compensation is not contingent upon the developing or reporting of predetermined values or direction in value that favors the cause of the Client, the amounts of the value opinions, the attainment of a stipulated result or the occurrence of a subsequent event directly related to the intended use of this appraisal.

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.

I previously appraised the subject property twice for the same client and same project. The report references are AR/WS Appraisal Nos. 20038 and 20038A. This memorandum addendum has been prepared with the intent of being attached to the prior reports. I have performed no other services as an Appraiser or in any other capacity regarding the property that is the subject of this report within a three-year period immediately preceding the acceptance of this assignment.

I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

The reported analyses, opinions, and conclusions are limited only by the reported Assumptions and Limiting Conditions, and are my own personal, impartial, unbiased professional analyses, opinions, and conclusions.

The reported analyses, opinions, and conclusions were developed, and this report, to the best of my knowledge and belief, has been prepared in conformity with the requirements of the Code of Professional Ethics and Standards of Appraisal Practice of the Appraisal Institute, which includes the Uniform Standards of Professional Appraisal Practice (USPAP).

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.

The opinion of market value for the subject property as of the date of valuation is set forth in the Summary of Salient Facts and Conclusions and is based upon my independent appraisal and the exercise of professional judgment.

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Joe Castellanos provided assistance with the most recent reinspection of the subject property. No one else provided significant real property assistance to the person signing this Certification.

I hereby certify that my opinion of the market value of the property appraised as described in this report is included herein and that my opinions and conclusions were made subject to the Assumptions and Limiting Conditions in this report and without collusion, coercion or direction from anyone as to value.

December 17, 2021

Date

A handwritten signature in blue ink, appearing to read 'Erik Woodhouse', is written over a horizontal line. The signature is stylized and cursive.

Erik Woodhouse, MAI, RW-AC
State Certified General Appraiser
CA License No. AG034630

Updated Extraordinary Assumptions

Uniform Standards of Professional Appraisal Practice (USPAP 2020/2021 edition: Definitions) defines extraordinary assumptions as follows:

“EXTRAORDINARY ASSUMPTION: an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.

Comment: Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”

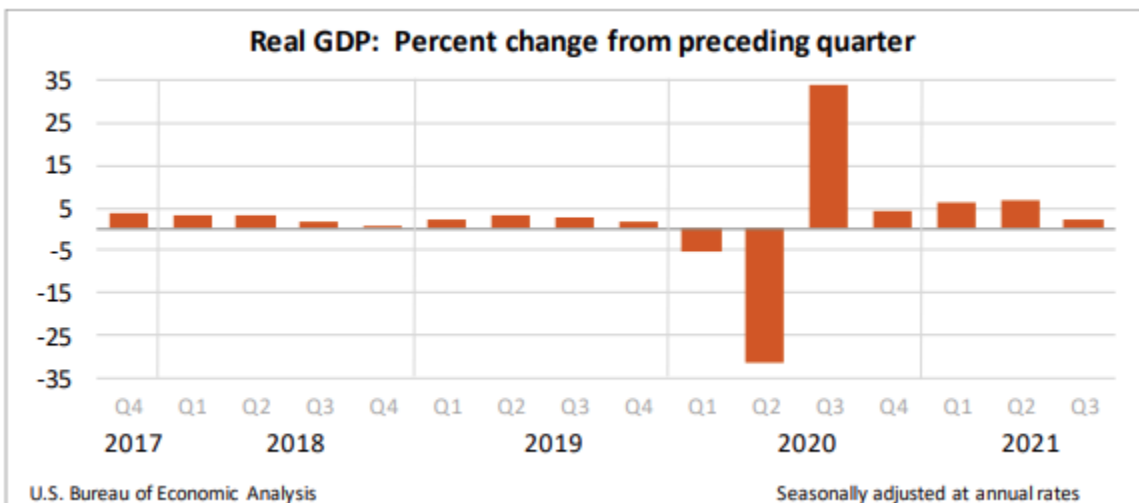
In addition to the hypothetical condition previously stated in the prior appraisal reports, the following extraordinary assumptions are used for this appraisal and may affect the assignment results:

- The underlying fee ownership of Sloat Avenue and Ocean View Boulevard is not definitively known as the date of this report. It is an extraordinary assumption of this report that the underlying fee interests in the subject areas being appraised are owned by the City of Pacific Grove
- The developer of the proposed project will be responsible for any necessary relocation of utilities within Sloat Avenue as a condition of development approval. Based on figures provided by the City of Pacific Grove Public Works Director in 2020, the cost to relocate the utilities is around \$275,000. This estimate is assumed to remain reasonably accurate for the purpose of this new assignment.

Updated Real Estate Market Conditions

For more than a year, the world has been dealing with the spread of the coronavirus, COVID-19, and the resulting global pandemic. During the initial stages of the outbreak, the economy experienced a significant downturn, with most major markets declining by as much as 20%. With over half of Californians vaccinated, most COVID-19 related restrictions were lifted in mid-June throughout the state. The progression of COVID-19 continued with a reemergence (Delta variant), and recently, a new wave of uncertainty has arisen due to the rapidly-spreading Omicron variant of the virus. However, the local economy has shown its resilience and the forecast over the long-term is considered favorable, according to market participants.

At the onset of the pandemic, the real gross domestic product (GDP) decreased at an annual rate of 31.4% in the second quarter of 2020, after a decline of 5.0% in the first quarter, according to the Bureau of Economic Analysis (BEA). Real GDP is a comprehensive measure of economic activity, and the most popular indicator of the nation's overall economic health. The most devastating three-month collapse on record in the second quarter of 2020 wiped away nearly five years of growth, as consumers cut back spending, businesses pared investments and global trade dried up, according to the Commerce Department.



Fortunately, though, a recovery started in the following quarter, as third quarter (Q3) 2020 GDP increased at an annual rate of 33.4%, which recovered two-thirds of the economic output lost during the first half of the year. This brought the economy back within only 3.5 percentage points below its pre-pandemic level (see graph above). GDP for Q1 2021 increased 6.3%, Q2 2021 increased by 6.7% and according to the "advanced" estimate released by BEA, the rate for Q3 2021 GDP increased by 2.0%.

Economic activity boomed to start 2021, as widespread vaccinations and government spending helped get the U.S. closer to where it was before the COVID-19 pandemic struck, according to the Commerce Department. The increase in Q2 2021 GDP reflected the continued economic

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recovery, reopening of establishments, and the current unending government response related to the COVID-19 pandemic. The BEA states that “GDP in the third quarter reflected increases in private inventory investment, personal consumption expenditures (PCE), state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment, federal government spending, and exports”.

The Conference Board Consumer Confidence Index (CCI) is a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on consumer’s perceptions of current business and employment conditions, as well as their six-month outlook regarding business conditions, employment conditions, and income. The CCI declined for several months during the summer of 2021 and has remained relatively level over the last two months. As of November 2021, the Index now stands at 109.5, whereas 100 is the benchmark. At the start of the pandemic, the CCI was at 118.8, but then decreased to 85.7 in April 2020. Consumers’ assessment of current conditions and their short-term outlook improved significantly in the first part of 2021, as renewed optimism boosted purchasing intentions for big-ticket items. According to the Conference Board, confidence levels suggest the economic expansion will continue into early 2022. However, both confidence and spending will likely face headwinds from rising prices and a potential resurgence of COVID-19 in the coming months.

The unemployment rate is the most frequently cited indicator of labor market health and data from the job market gives the picture of a weakened economy that is recovering from the effects of COVID-19 (see following graphic). The national unemployment rate has been on a downward trajectory, with only a couple slight upward blips, after having spiked to 14.7% when 870,000 jobs were lost in March 2020, followed by a record 20.5 million in April, with much of the U.S. in self-imposed shutdown mode to prevent the spread of COVID-19. The unemployment rate in April was the highest since the BLS started recording the monthly rate in 1948. The last time American joblessness was that severe was the Great Depression, when the unemployment rate peaked at 24.9% in 1933, according to historical annual estimates from the BLS.



Chart 1. Unemployment rate, seasonally adjusted, November 2019 – November 2021

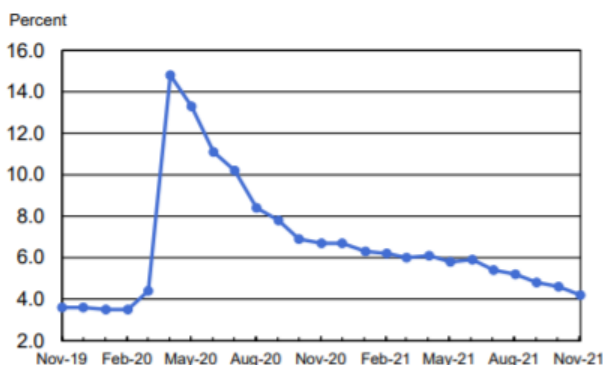
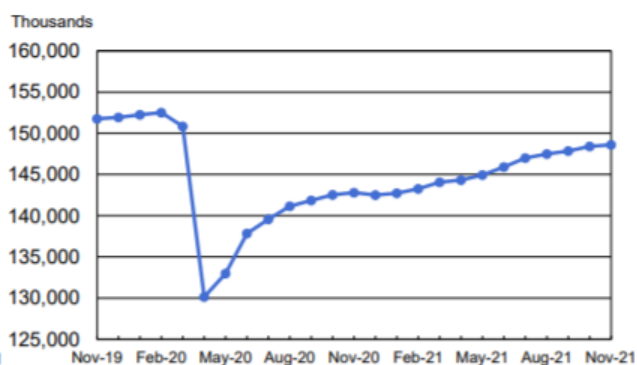


Chart 2. Nonfarm payroll employment, seasonally adjusted, November 2019 – November 2021



The improvements in the labor market starting in May 2020 reflect the continued resumption of economic activity that had been curtailed in March and April in efforts to contain COVID-19. For October 2021, Nonfarm payroll employment increased in 25 states and the District of Columbia

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and was essentially unchanged in 25 states. The U.S. unemployment rate fell minimally over the month to 4.6%, however, despite being down considerably from their highs in April 2020, they remain above their levels prior to COVID-19 (3.5% and 5.7 million, respectively, in February 2020). The unemployment rate (not seasonally adjusted) in Santa Cruz County was 4.9% for November 2021, which compares with an unemployment rate of 5.4% for California for the same period.

Hospitality Market

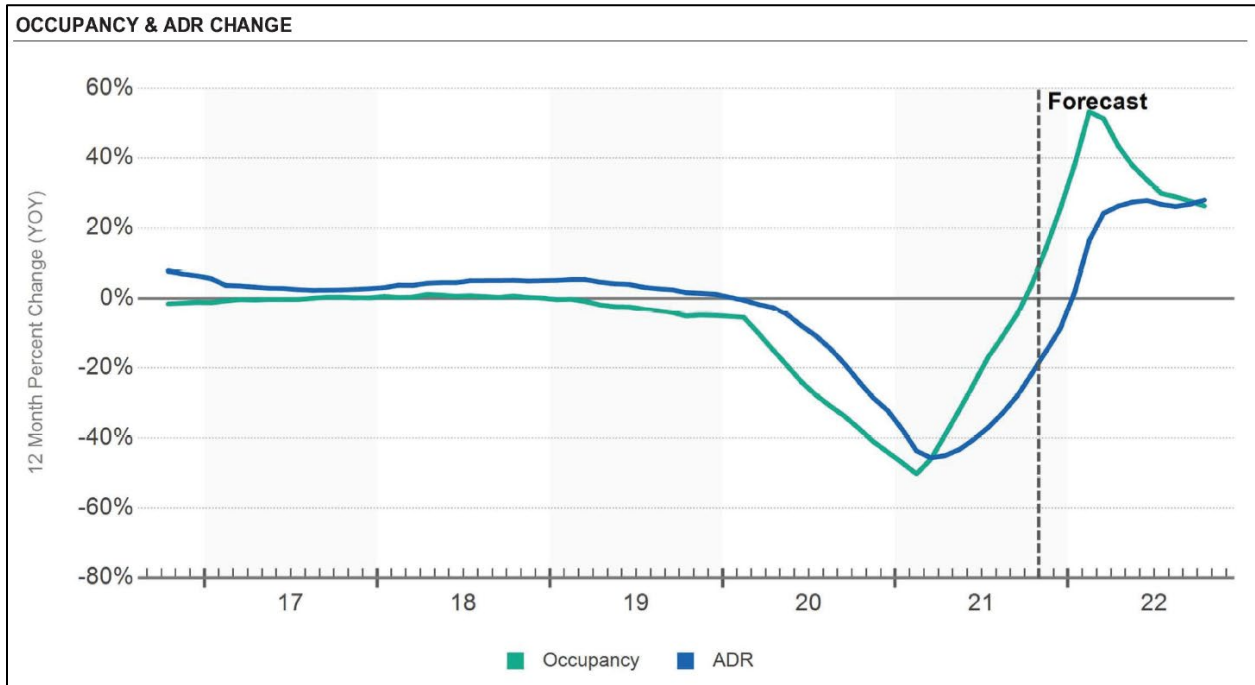
According to a recent report from Costar.com, the occupancy rate in the San Jose/Santa Cruz hotel market collapsed to 17.7% in April of 2020, shortly after the onset of the global pandemic that would severely impact the hospitality sector across the United States. But with the low point of the pandemic now in the past, conditions are improving. Around 640,000 rooms were sold in the month of October, a 32.4% increase compared to the same month the year prior.

Locally, the 12-month RevPAR in the San Jose/Santa Cruz hotel market decreased by 18.6% as of October, which is a sharp contrast to the national statistical data, where RevPAR is up by 26.5% on a year over year basis. Roughly 2,300 new hotel rooms across 17 projects are currently under construction. This new supply follows a material amount of recent development: in the past three years, 25 projects containing around 3,700 rooms were completed market-wide, driving a significant expansion of the existing inventory in percentage terms.¹

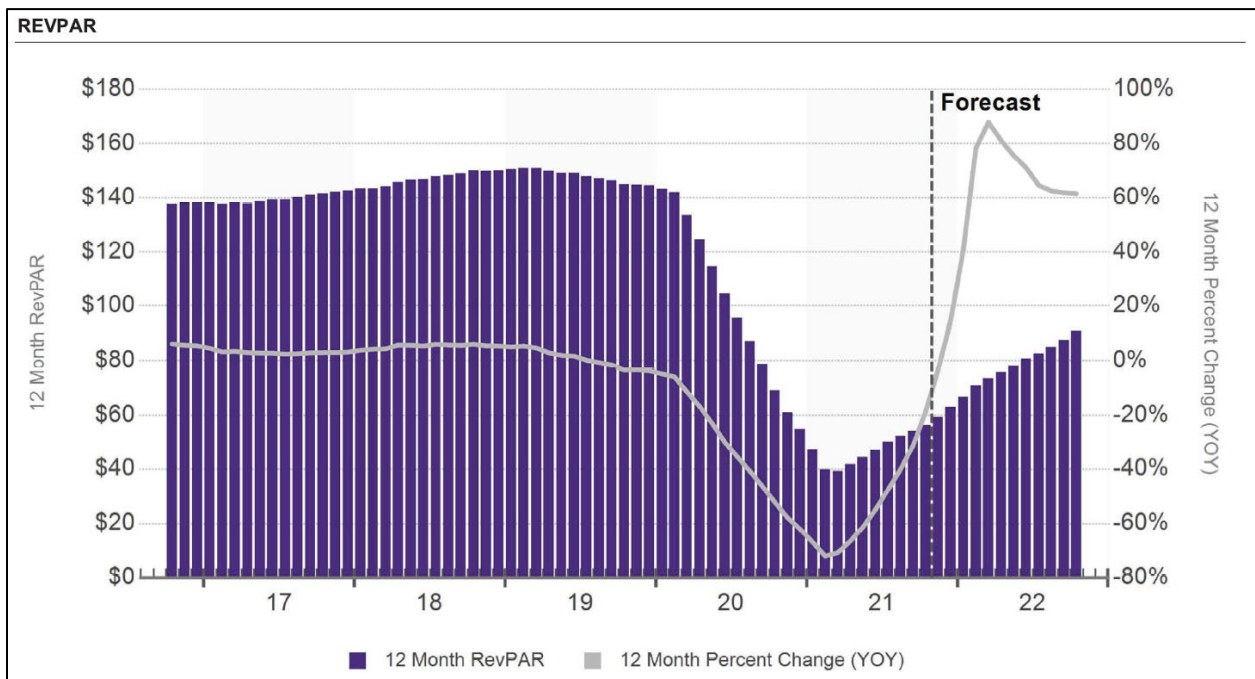
Average Trend	Current	3 Mo	YTD	12 Mo	Historical Average	Forecast Average
Occupancy	55.6%	57.0%	50.3%	47.7%	64.1%	72.2%
Occupancy Change	28.8%	23.7%	19.6%	4.0%	-8.9%	9.6%
ADR	\$130.65	\$132.94	\$120.41	\$117.83	\$175.17	\$173.06
ADR Change	17.7%	17.5%	-14.2%	-21.7%	-8.2%	9.8%
RevPAR	\$72.65	\$75.83	\$60.51	\$56.25	\$112.26	\$124.89
RevPAR Change	51.6%	45.3%	2.7%	-18.6%	-16.4%	20.3%

Source – San Jose/Santa Cruz Hospitality Market Report December 2021

¹ San Jose/Santa Cruz Hospitality Market Report December 2021



Source – San Jose/Santa Cruz Hospitality Market Report December 2021



Source – San Jose/Santa Cruz Hospitality Market Report December 2021

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Sales Comparison Approach

Research was conducted to find comparable land sales in the subject’s market area.

No new sales were found that could shed light on the land value of the adjacent parcels since the issuance of the previous appraisal reports. Comparable L-01 from the previous appraisal reports closed in June of 2020 for the reported contract price of \$3,000,000. The following table depicts the comparable sales, with a revised comparable data sheet for Comparable L-01 on the following page. Further data on the remaining sales are incorporated from the previous appraisal reports by reference herein.

Sales Data Summary

Land Sales Data

No.	Address City, State APN	Sales Contract Date COE	Parcel Size (Acres) Parcel Size (Sq. Ft.)	Zoning	Entitlements	Sales Price
				General Plan	Utilities	\$/Sq. Ft. (Land)
L-01	518 Lighthouse Ave Pacific Grove, CA 006-178-009	Jan-20 06/22/20	0.35 15,150	C-D	Fully entitled	\$3,000,000
				Downtown Commercial	All available except water rights (to be separately purchased)	<u>\$198.02</u>
L-02	601-605 Lighthouse Ave Monterey, CA 001-066-007	Oct-19 02/28/20	0.14 6,000	Planned Community	Unentitled	\$1,175,000
				Commercial	All available, including water allocation	<u>\$195.83</u>
L-03	a. 148 15th Ave Pacific Grove, CA 006-174-003; -011; -012	Mar-19 03/12/20	0.19 8,400	C-D	Fully entitled	\$4,200,000
	Downtown Commercial			All available except water rights (to be separately purchased)		
	b. SWC Central Ave. & Fountain Ave. Pacific Grove, CA 006-173-002	Mar-19 03/12/20	0.78 33,877	C-1-T	Fully entitled	\$4,200,000
	Total Consideration		0.97 42,277	C-D & C-1-T Downtown Commercial	Fully entitled All available except water rights (to be separately purchased)	\$8,400,000 <u>\$198.69</u>
L-04	NWC Lighthouse Ave. & Fountain Ave. Pacific Grove, CA 006-173-003	Sep-15 09/14/15	0.58 25,341	C-1-T Downtown Commercial	Unentitled All available, including water allocation	\$5,900,000 <u>\$232.82</u>
	Assemblage Parcels: North and South Sides of Sloat Avenue Pacific Grove, CA 006-231-001; 006-234-004 & -005	DOV TBD	4.47 194,735 Total Area Three Parcels	C-V-ATC Central Eardley Commercial	Unentitled All available, including water allocation	N/A

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Comparable Land Sale Data Sheet – L-01

Sales Contract Date Jan-20
COE 06/22/20
Sales Price \$3,000,000

Address 518 Lighthouse Ave
City, State Pacific Grove, CA
Zip 93950
APN 006-178-009



Buyer 520 Lighthouse Corporation
Seller 518 Lighthouse AF LLC
Document # 29621
Terms Cash to seller

Parcel Size (Acres) 0.35
Parcel Size (Sq. Ft.) 15,150
\$/Sq. Ft. (Land) \$198.02

Zoning C-D
General Plan Downtown Commercial

Utilities All available except water rights (to be separately purchased)
Entitlements Fully entitled

Verified By Josh Jones, Listing Agent
Contact Info. (831) 646-1919

Comments This is the June 2020 sale of a property entitled for 12,192 square feet of ground floor retail space and ten upper-floor residential dwelling units in downtown Pacific Grove. The project will reportedly require the developer to acquire water entitlements from the City of Pacific Grove at an estimated cost of \$600,000 to \$700,000. The project will include a 21-space underground parking garage. The property is currently occupied by a former service station and garage that is now used as a deli. The cost to demolish these improvements is unknown. A Phase 2 environmental report indicated no contamination present at the property.

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Sales Data Analysis

The comparable sales receive the same adjustments as analyzed and described in Appraisal Report No. 20038 with the exception of the adjustments for market conditions. As described on the previous pages, the hospitality market has recovered significantly since the early period of the pandemic in mid-2020. Although RevPAR figures are down over 18% year-over-year in the San Jose/Santa Cruz hospitality market, the economic outlook has become more favorable since 2020 as unemployment has decreased steadily. Accordingly, Comparables L-01 through L-03, which had previously been adjusted downward for market conditions, are considered to have sold during effectively similar market conditions for hospitality land, and no adjustments are applied. Comparable L-04 is still considered to have sold during inferior market conditions and receives a larger positive adjustment than was applied in the prior appraisal analyses.

The following table summarizes the adjustments made to each comparable. Bold text connotes a more substantial adjustment.

Comparable	L-01 <i>518 Lighthouse Ave</i> <i>Pacific Grove, CA</i>	L-02 <i>601-605 Lighthouse Ave</i> <i>Monterey, CA</i>	L-03 <i>SEC Central Ave. & Fountain Ave. and 148 15th Ave.</i> <i>Pacific Grove, CA</i>	L-04 <i>NWC Lighthouse Ave. & Fountain Ave.</i> <i>Pacific Grove, CA</i>
Sales Contract Date	Jan-20	Oct-19	Mar-19	Sep-15
Sales Price	\$3,000,000	\$1,175,000	\$8,400,000	\$5,900,000
Parcel Size (Sq. Ft.)	15,150	6,000	42,277	25,341
<i>Sales Price / Sq. Ft.</i>	\$198.02	\$195.83	\$198.69	\$232.82
Property Rights Conveyed	∅	∅	∅	∅
Financing Terms	∅	∅	∅	∅
Conditions of Sale	∅	∅	∅	∅
Expenditures After Purchase	Positive	Positive	Positive	∅
Market Conditions (Time)	∅	∅	∅	Positive
Location	Positive	Positive	Positive	Positive
Size	Negative	Negative	∅	Negative
Land Use (Zoning / General Plan)	Negative	Negative	∅	Negative
Site Utility / Constraints	Negative	Negative	∅	∅
Water Entitlements	Positive	∅	Positive	∅
Development Entitlements	Negative	∅	Negative	∅
Contributory Improvements	∅	Negative	∅	Negative
Net Adjustment	Positive	Positive	Positive	Negative

Comparable L-03 is analyzed as assembled

Land Value Conclusion, Adjacent Parcels

Before adjustments, the comparable sales indicate a value for the parcels adjacent to the subject areas between \$195.83 and \$232.82 per square foot. After adjustments, the sales indicate a value for the subject above Comparables L-01 through L-03, all of which sold in the high-\$190's per square foot, and below \$232.82, as indicated by Comparable L-04.

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Comparable L-03 remains the most emphasized sale. It sold relatively recently and is most similar to the subject in terms of project site size and site utility. It was also acquired for development of a hotel project, like the one proposed on the subject areas and adjacent parcels. It requires demolition to accommodate development, occupies an inferior location, and sold with development entitlements in place. However, its land of existing water entitlements and superior market conditions (due to the current pandemic and accompanying market instability) result in somewhat offsetting downward adjustments. Overall, this sale is judged to indicate a value for the parcels adjacent to the subject areas slightly above its sale price of \$198.69.

Comparable L-04 is the least emphasized sale, given its 2015 sale date and that the shell of the department store that had previously occupied the site was repurposed and incorporated into the development of the mixed-use residential and commercial project that exists today. Primarily due to the contributory value of the building shell, this sale indicates a value for the land adjacent to the subject areas below its unit price of \$232.82 per square foot of land area.

In view of the comparable sale adjustment analysis and emphasis on Comparable L-03, the land adjacent to the subject is concluded to have a unit value toward the low end of the bracketed range, or **\$205 per square foot**. This conclusion represents a 3.5% increase over the conclusion previously reached in 2020, which reflects an improved economic outlook for the hospitality market.

Accordingly, the value of these parcels is shown in the table below.

Total Valuation
Project Area, Not Including Right of Way Areas

Area (S.F.)	X	Value/ S.F.	=	Total Value
194,735	X	\$205	=	\$39,920,675

Underlying Land Value, Sloat Avenue Interest

The analysis of the discounts applied for the interests being acquired, Sloat Avenue’s highest and best use in assembly, and utility relocation costs are carried forward from the previous appraisal reports.

Based on the value of the adjoining lands and the discount rates concluded, the underlying value of the Sloat Avenue interests to be acquired and incorporated into the proposed hotel and commercial development is shown in the following table.

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Underlying Value, Areas Proposed to be Acquired, Sloat Avenue

Appraised Area	Area (s.f.)		Unit Value, Adjacent Lands		% Rights to be Acquired		% Value due to Assemblage		Total Indicated Value
Sloat Avenue Area	<u>26,778</u>								
<i>Within proposed development</i>	19,699	X	\$205	X	75%	X	70%	=	\$2,120,105
<i>Shared access area</i>	7,079	X	\$205	X	20%	X	25%	=	\$72,560
<i>Less: Utility Relocation Cost</i>									(\$275,000)
<i>Total Value, Sloat Avenue</i>									\$1,917,665

Underlying Land Value, Ocean View Boulevard Interest

The analysis of the discounts applied for the interests being acquired and Ocean View Boulevard’s highest and best use in assembly are carried forward from the previous appraisal reports.

Based on the value of the adjoining lands and the discount rates previously concluded, the underlying value of the Ocean View Boulevard to be acquired and incorporated into the proposed hotel and commercial development is shown in the table below.

Underlying Value, Area Proposed to be Acquired, Ocean View Boulevard

Appraised Area	Area (s.f.)		Unit Value, Adjacent Lands		% Rights to be Acquired		% Value due to Assemblage		Total Indicated Value
Ocean View Boulevard Area	3,190	X	\$205	X	75%	X	70%	=	\$343,324