Highest and Best Use Analysis
For Key Site #6 (Page Site)
Goleta, California

August 2011

Prepared for:

Redevelopment Agency for the City of Goleta

Prepared by:

REVPAR International
HOSPITALITY ADVISORY & ASSET MANAGEMENT

VIA EMAIL

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August 10, 2011

Mr. Daniel Singer
Executive Director
Redevelopment Agency for the City of Goleta
130 Cremona Drive, Suite B
Goleta, CA 93117

Re: Highest and Best Use Analysis – Key Site #6, Goleta, CA

Dear Mr. Singer:

In accordance with our proposal, we have completed Component 3 of our study relative to preparing a highest and best use analysis for Key Site #6, a parcel of land located within the *Old Town Goleta Redevelopment Area* in Goleta, California.

Our findings and conclusions are based upon our present knowledge and information with respect to land sales data, local/regional market metrics, information provided by the *Santa Barbara County Assessor's Office*, and information compiled from interviews conducted with area commercial real estate brokers during May 2011, as well as prior to this in connection with the April 12th submission of our Component 2 report regarding hotel use on the site. As such, the findings and conclusions included herein represent market information and data obtained through May 2011 only. Accordingly, we recommend that this letter report be reviewed in concert with our earlier report.

COMPONENT OVERVIEW

The Redevelopment Agency (RDA) for the City of Goleta, in response to commentary indicating that the city's current inventory of both hotel rooms and meeting space is insufficient to meet the demands of the local community, initially tasked REV*PAR* International with performing a feasibility study to evaluate the viability of hotel development on Key Site #6. The findings from that research indicated market support and need, but cautioned as to the financial viability of it. In response, the RDA authorized REV*PAR* to proceed with Component 3 of our proposal, and undertake a highest and best use analysis to identify any alternative commercial development scenario(s) that would yield a higher and better use for the site.

It should be noted that the site's current zoning, Commercial-Visitor Serving (C-V), limits development (under legally permissible guidelines) to a lodging facility and/or conference center with complementary or ancillary uses in support of the primary use. Thus, our highest and best use analysis would ordinarily conclude to a hotel conference center with some type of support retail and/or food and beverage use and thus fulfill the requirements outlined in our proposal.

However, the ability to re-zone the site is possible. As a result, the city requested that we expand our analysis to other possible uses that may represent a higher and better use of the site. In an effort to limit the universe of possibilities, the RDA requested that we review the following alternative uses:

- Office
- Industrial
- Multi-Family Residential
- Car Dealership Retail

Since none of these choices are permissible under current zoning, each would require a rezoning of the site if they prove to be a higher and better use for the site compared to hotel use. Obviously any land use decisions, environmental impacts, levels of service ramifications, and preferences of the community and/or City Council would need to be considered prior to making any changes in the subject property's General Plan designation or zoning; however, these are not a component of the following report. The results of analyzing these alternatives are intended to provide an objective indication to the city as to which, if any, represents the highest and best use from both a proposed land value and economic value perspective.

The balance of this letter summarizes our findings and conclusions in support of these objectives.

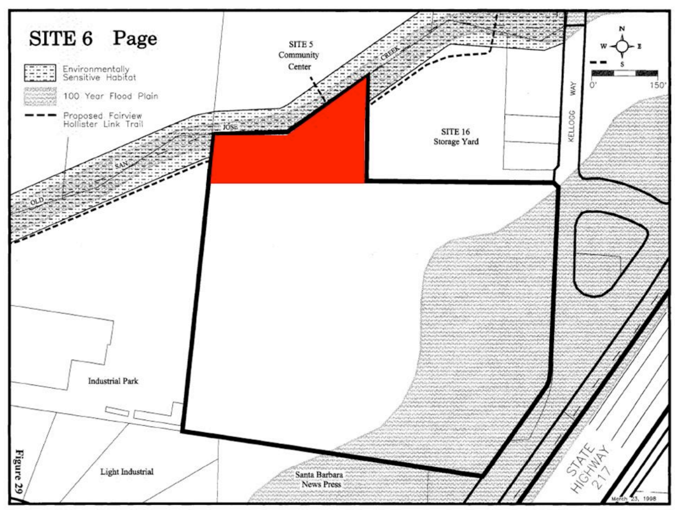
SITE ANALYSIS

The site is known as Key Site #6 (Page Site) and is identified within the Goleta *Old Town Revitalization Plan.* Surrounding uses to the subject site include light industrial, automotive storage, multi-family residential, and warehousing/manufacturing.

Located on the west side of South Kellogg Avenue, Key Site #6 runs parallel to CA-217 roughly one-third of a mile south of the intersection with Hollister Avenue, the main thoroughfare through Old Town Goleta. Additionally, U.S. 101 is located just north of the site and provides access to other coastal Californian cities and regions. CA-217 provides direct highway access to *Santa Barbara Municipal Airport* (SBA), with a terminus at the *University of California Santa Barbara* (UCSB) campus and, although CA-217 passes directly in front of Key Site #6, there is no interchange to allow for direct and immediate access to the site, nor is it likely to gain direct access in the future. Rather, motorists wishing to access the site will be required to exit CA-217 back at Hollister Avenue. Thus, the closest primary road access point to Key Site #6 site would be Hollister Avenue. From Hollister, motorists would turn onto Kellogg Avenue and proceed roughly 0.5 miles to the site. Alternatively, motorists will also be able to access the site from the planned Ekwill Street extension (described in detail on the following page), which will connect Kellogg Avenue with Pine Avenue to the west, still requiring access from Hollister Avenue.

The site has excellent visibility for residents and travelers along CA-217, offering a high level of visibility among UCSB personnel and visitors who will see it as they pass the site on the way to the university. The site is generally square in shape and level to the surrounding landscape. However, as previously mentioned, gaining access will be cumbersome and indirect since there is no exit to the site from CA-217. This influences potential commercial uses of the site and has market and financial implications to any development at the site. More specifically, of the development alternatives under review in the following paragraphs, car dealership retail stands to be negatively impacted to a greater extent by reduced access and visibility than the remaining scenarios, which have exhibited successful uses on surrounding parcels to Key Site #6; however, many developers can find more primary locations throughout the greater Santa Barbara/Goleta/Carpinteria region that offer enhanced levels of access and visibility for commercial uses. These factors will certainly influence the range of potential uses for the subject and their ultimate desirability and profitability.

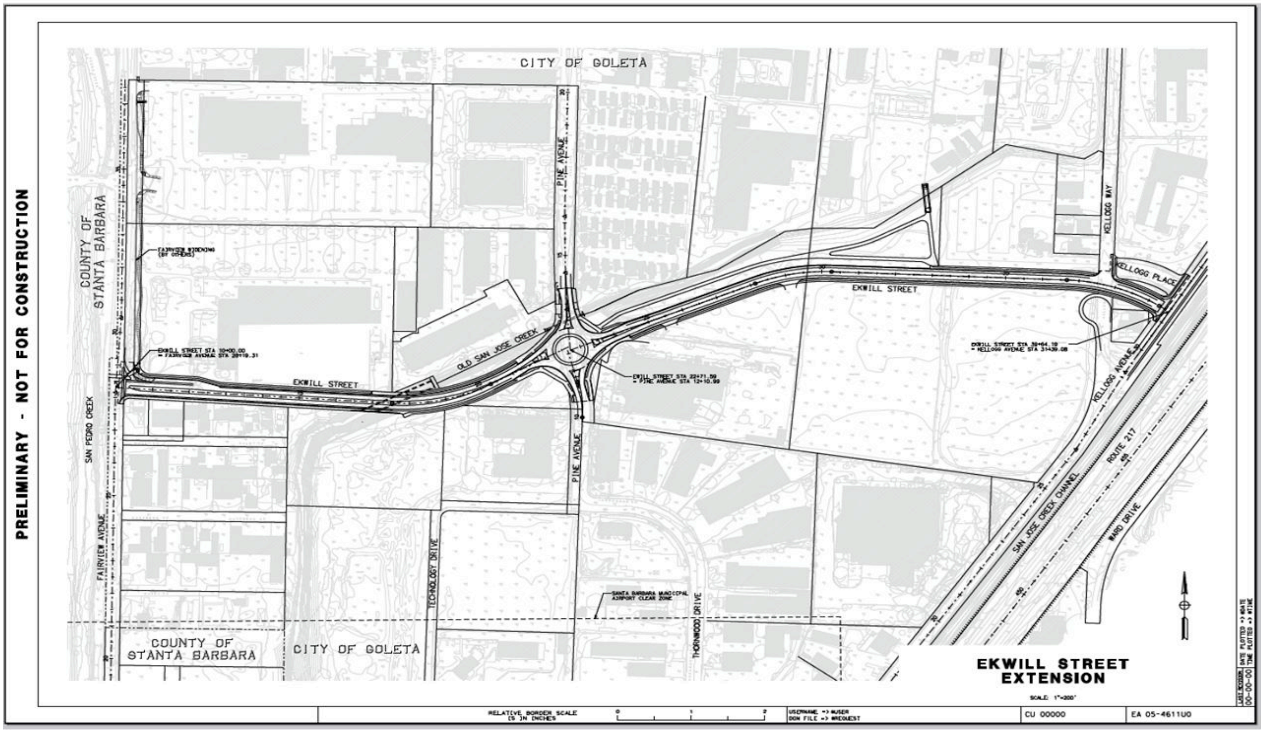
The site is indicated on the aerial map on the following page.



The image to the right displays Key Site #6 from the *Goleta Old Town Revitalization Plan.*

The site is located within the City of Goleta's Inland Zone. The City of Goleta provides for two distinct development zones including the Inland Zone and the Coastal Zone; the inland zone is preferred for various types of development, as it is not as restrictive as the Coastal Zone regarding wetland preservation and environmental mitigation.

Currently utilized as agricultural land during part of the year, the site encompasses 12.36 acres of land, making it the 2nd largest underdeveloped parcel within Old Town Goleta. Our previous analysis assumed 6 acres would be set aside for the development of a hotel and conference center. We understand that the city has plans to reconfigure and create a non-contiguous extension of Ekwill Street west to connect to Pine Avenue, creating improved access between Kellogg Avenue, the airport, and the surrounding cluster of office and industrial space. Based on discussions with the City of Goleta and its planners, our analysis assumes that roughly 2.4 acres (the northern most portion of the site highlighted along the San Jose Creek) would be necessary for this extension, leaving roughly 10.0 of the 12.36 acres as developable for purposes of estimating highest and best use going forward. Therefore, for purposes of this analysis, we assumed 10 acres would be available for development. The image on the following page illustrates the proposed Ekwill Street realignment through Key Site #6.



DESCRIPTION OF HIGHEST AND BEST USE

The highest and best use analysis is the culmination and synthesis of the market data, in which consideration has been given to the dynamics of the regional and local economy as they pertain to the potential development alternatives that have been identified and tested for economic viability on Key Site # 6. In this case, office/industrial, multi-family residential, and a car dealership were evaluated. The analysis reviews each alternative and takes a dual approach to ranking them according to estimated land values and implied economic value.

Our analysis evaluates development based on two approaches including the following:

1. Estimate land value based on sales comparison approach
2. Estimate the residual land value that results from estimating the going concern value of the finished project and subsequently deducting the total cost of its development, leaving the amount available to purchase the land. Then, we take the analysis one step further and estimate developer's profit.

Overall capitalization rates (cap rates) are developed by consultation with *Korpacz* and *Realty Rates*; the latter of which is a national survey that publishes cap rates specific to the subject's region.

Regarding highest and best use, it is a four-phase process that evaluates the legally permissible, physically possible, and financially feasible alternatives, finally identifying that ideal use that meets all of the prior tests and yields the highest market-driven value for the owner. In this case, the four tests for highest and best use are applied to the land as if vacant and ready for development, to determine the ideal use. The following paragraphs provide a brief description of the components of the highest and best use analysis applied in this case.

Legally Permissible Uses – The first test of highest and best use is to identify the uses that would be legally permissible. Legal restrictions as they apply to the subject property are private restrictions and the public restrictions of zoning. As previously mentioned, the C-V zoning for the site permits a modest range of commercial uses including hotel, complementary retail, and restaurant that would be compatible with nearby land uses. Assuming appropriate zoning changes are implemented, office/industrial, multi-family residential, and car dealerships could be allowed at the site and are considered in this analysis.

Physically Possible Uses - The second test of highest and best use is to identify the uses that would be physically possible on the site. The physical characteristics of a site that affect its possible use(s) include, but are not limited to, location, street frontage, size, shape, street access, availability of utilities, easements, soils and sub-soils, and topography.

The subject site is served by all necessary utilities and is of adequate size and shape (roughly square and totaling 10 acres net of the proposed roadway improvements) to permit the alternative uses under consideration. Most would be physically possible uses given the site's accessibility and visibility, albeit limited, on Kellogg Avenue. The surrounding land parcels exhibit a variety of uses including multi-family residential, office/industrial, automobile/trailer storage, etc., thus confirming the ability to pursue each of the alternatives under consideration from a physically possible standpoint.

Financial Feasibility and Maximal Productivity

In this case, the third and fourth tests are what is financially feasible and what will likely produce the highest net return to the owner. For a potential use to be seriously considered, it must be able to attract investment capital over alternative forms of investment. Therefore, one indication of financial feasibility is the use, which yields the highest possible land value to the owner, as measured by comparable sales. Alternatively, a comparison of the potential value of a hypothetical development, as compared with other uses indicates which are financially feasible. Taking this comparison one step further, we can subtract hard costs of construction from total value in order to net out the residual value and expected developer profit of the site as prescribed. The following sections will provide analysis in support of these conclusions.

ANALYSIS OF OFFICE/INDUSTRIAL DEVELOPMENT

Goleta's commercial office and industrial spaces are characterized predominantly by 2-story flex, research and development, manufacturing, and warehousing buildings.

According to discussions with commercial real estate brokers in Goleta/Santa Barbara, the differences between what constitutes office versus industrial in the market are minimal. More specifically, beyond the typical facility characteristics and general uses of such spaces, much of the office/industrial space in Goleta is a hybrid, offering certain components of both types of uses.

According to area brokers, the main designation between the two types of space intuitively lies in the percentage of office space within the development. Those spaces that offer over 50 percent office space are usually designated office. If the space has less than 50 percent office, which means more space is provided for warehousing/storage, then the space is characterized as industrial space. There are very few buildings in the Goleta/Santa Barbara area that constitute Class "A" office space. Those that do are generally located south in Santa Barbara or have been constructed in more primary locations with regard to site aesthetics, access, and visibility. As for pricing, research and analysis of corresponding lease rates of these two types of spaces in Goleta revealed minimal variances between office and industrial lease rates, underscoring the small gap in typical office versus industrial facility characteristics in Goleta.

Most office/industrial buildings within Goleta are zoned Manufacturing-Research Park (M-RP). This zoning is designed to provide areas for light industrial, technical research, manufacturing, and business offices within areas landscaped to ensure a "park-like" environment. The height restrictions are 35 feet, and buildings and structures may occupy no more than 35 percent of the net area of the property. Landscaping may constitute no less than 30 percent of the net area.

For purposes of our analysis and because it provides for the highest level of flexibility (permitted uses), we assumed office/industrial development at Key Site #6 would occur under these zoning guidelines. Given the similarities between office and industrial development, and the secondary nature of the site, we assumed two development scenarios based on what is physically possible under the M-RP zoning criteria.

- ***Scenario 1 (Industrial Development)*** – Based on the preceding zoning restrictions and similar developments in Goleta, the analysis assumes that a warehousing/wholesaling/storage facility is developed. Based on height restrictions, the facility would be 2 stories, and encompass roughly 160,000 square feet with appropriate parking (three spaces per 1,000 square feet of building area), minimal office space, and requisite site amenities.

- ***Scenario 2 (Office Development)*** – Based on the preceding zoning restrictions and similar developments in Goleta, the analysis assumes that a research and development/manufacturing facility is developed with at least 50 percent office space. Based on height restrictions and typical design, we assumed the building is 2 stories and encompass roughly 120,000 square feet. The smaller size building would allow for greater parking requirements as required by zoning (five spaces per 1,000 square feet of building area) and enhanced site amenities such as landscaping, signage, etc.

The first approach to analyzing the highest and best use involved reviewing corresponding office/industrial land sales to compare against other development alternatives. The series of recent vacant commercial land sales within Goleta that were introduced in our Component 1 letter, also pertain to this analysis as well, and are listed below in the following table.

Recent Office/Industrial Land Sales			
Site	351 S. Patterson Ave	111 Castilian Drive	420 S. Fairview
Location	Goleta	Goleta	Goleta
Sale Date	2/2009	5/2008	8/2007
Arms Length	Y	Y	Y
Buyer	Cottage Hospital	Marc Winnikoff	Fairview Business Center
Price	$7,000,000	$4,000,000	$6,000,000
Size (Acres)	9.35	3.52	4.63
Size (Sq. Ft.)	407,286	153,331	201,683
Zoning	P-I	M-RP	M-RP
Price/Acre	$748,663	$1,136,365	$1,295,895
Price/Sq. Ft.	$17	$26	$30
Notes	Vacant land adjacent to hospital	Predominantly vacant industrial land.	R&D/Office
Source: REV*PAR* International, Inc.			

As displayed, the sales comparables transacted between 2007 and 2009 and the value of the land that sold has consistently declined since the 2007 market peak. However, our conversations with local commercial brokers indicated that, based on the dearth of recent land sale comps, the sale of vacant land at 420 South Fairview Road, for roughly $30 per square foot, still represents the best comparable land sale in Goleta. That sale occurred at the peak of the market, and most brokers mentioned that most available land in the overall region is listing for 50 percent of the peak pricing. Generally, the foregoing sales would indicate that Key Site #6 could sell for roughly $17 to $30 per square foot if developed for office or industrial use. However, given current market conditions and discussions with local brokers, the 10-acre parcel would likely be valued closer to $14 to $16 per square foot, and the resulting range of value would be $6,100,000 to $7,000,000 for the land.

The next step in our analysis was to estimate the annual revenues and net operating income (NOI) for a stabilized year in order to obtain the going concern value. Our revenue estimates were based on typical triple net lease rates in the Goleta market according to local brokerage firms. Triple net lease rates assume that the lessee pays all applicable expenses including repairs/maintenance, cleaning, landscaping, real estate taxes, and utilities. We assumed landlord expenses for vacancy, reserve for replacement, leasing, and administrative costs.

The following table summarizes the implied hypothetical valuations under each office/industrial development scenario.

Analysis of Highest and Best Use If Key Site #6 developed as Office/Industrial Residential (1)				
Item	**Scenario 1 - Industrial**		**Scenario 2 – Office**	
Estimated Building Size	160,000		120,000	
Vacancy Rate (2)	5.8%		13.7%	
NNN Lease Rate/SqFt	$1.00		$1.75	
Total Revenue	$1,812,480		$2,290,680	
Total Expenses	$185,779		$227,977	
NOI (3)	$1,626,701		$2,062,703	
Cap Rate (4)	8.0%		8.0%	
Implied (Hypothetical) Value	**$20,400,000**		**$25,800,000**	
(Minus Development Costs)	**$14,500,000**		**$16,400,000**	
Residual Land Value	**$5,900,000**		**$9,400,000**	
Estimated Land Purchase Price	**$6,100,000**		**$7,000,000**	
Available Developer's Profit (% of development costs)	**($200,000)**	**(1.4%)**	**$2,400,000**	**14.6%**

Notes: (1) Total expenses estimated for reserve for replacement and leasing/administrative costs.
(2) Vacancy rate as reported by Radius Commercial.
(3) NOI defined as Net Operating Income.
(4) Cap rates have been rounded and are based on rates reported by Korpacz & Realty Rates.
Source: Various; compiled by REV*PAR* International, Inc.

The hypothetical values in the table above infer that either project – office or industrial - would generate an attractive going concern value in the range of $20 to $25 million, with office development providing a slightly higher value based on more revenue from higher triple net lease rates. In this instance, potential developers would likely choose the development scenario that was the most needed in the surrounding market at the time of development.

In taking the analysis a step further, a development cost estimate was prepared for the proposed office and industrial uses based on those indicated by the *Marshall Valuation Service* calculator cost method. According to *Marshall Valuation Service's* definitions, the subject is considered to be a Class B, Good classification for both warehousing/storage and R&D office uses. These classifications indicate base costs of $72.23 and $106.34 per square foot, respectively. Current cost and local multipliers are applied to the above development cost estimates from Section 99 of the *Marshall* publication, which makes adjustments for geographic location. The cost for the exterior landscaping and development mitigation fees were added as a lump sum. Parking for all scenarios was estimated according to zoning requirements at roughly $1,200 per space. Detailed calculations are included in the Addenda.

For purposes of our analysis, total estimated development costs above for industrial development were approximately $14,500,000 and $16,400,000 for office development. The resulting residual land value ranged from $5,900,000 for industrial development and $9,400,000 for office development. This would indicate that between industrial and office development scenarios, office (R&D/Manufacturing) is preferred as it also provides the higher potential to generate developer's profit after subtracting the assumed purchase price of the land. The following table summarizes the land value conclusions related to office/industrial development.

Summary of Conclusions Office and Industrial Development		
Property	**Land Value (Sales Approach)**	**Estimated Developer's Profit (%)**
Industrial Development (Warehousing/Storage)	$6,100,000 - $7,000,000	-$200,000 (-1.4%)
Office Development (R&D/Office)	$6,100,000 - $7,000,000	$2,400,000 (14.6%)

Sources: REV*PAR* International

ANALYSIS OF MULTI-FAMILY RESIDENTIAL DEVELOPMENT

Again, we began by reviewing a series of recent vacant land sales within the region that are zoned for multi-family residential development and have presented them in the following table.

Recent Multi-Family Residential Land Sales				
Site	Santa Ynez Avenue & U.S. 101	150 Pebble Hill	312 Rancheria Street	691 Riverside Street
Location	Carpinteria	Goleta	Santa Barbara	Ventura
Sale Date	6/2010	7/2009	5/2008	5/2007
Arms Length	Y	Y	Y	Y
Price	$950,000	$2,000,000	$930,000	$1,000,000
Size (Acres)	1.10	1.72	0.26	0.97
Size (Sq. Ft.)	47,916	74,923	11,326	42,253
Zoning	PRD-20 (Residential)	DR-20 (Residential)	PRD (Residential)	M1 (Residential)
Price/Acre	$863,636	$1,162,791	$3,576,923	$1,030,927
Price/Sq. Ft.	$20	$27	$82	$24
Notes	Vacant land purchased and zoned for multi-family residential.	Multi-unit, residentially zoned, vacant land.	Vacant land, two blocks from Santa Barbara waterfront, approved for 5 condos.	Land with minimal industrial improvements zoned for medium density residential up to 20 units/acre.
Source: REV*PAR* International, Inc.				

As displayed, the land sales comparables were transacted between 2007 and 2010. Each property is predominantly vacant land zoned for multi-family residential of varying densities. Also, the comparables span a greater geographic range than the office/industrial sales. The most pertinent sales above are likely the land sales that occurred in Carpinteria and Goleta. They occurred near U.S. 101, with some of the same challenges as Key Site #6, i.e., difficult levels of access and issues with surrounding land use aesthetics. The sale at 312 Rancheria Street was included to illustrate the vast differences in land values between Goleta and Santa Barbara.

Generally, the foregoing sales would indicate that Key Site #6 could sell for roughly $20 to $27 per square foot if developed for multi-family residential use. However, given current market and site conditions, the 10-acre parcel would likely be listed closer to the low end of that range at roughly $20 to $22 per square foot, resulting in a hypothetical value range of $8,700,000 to $9,600,000.

Regarding multi-family residential development, surrounding land uses to Key Site#6 are predominantly zoned as Design Residential (DR). Design residential zoning districts are intended to allow for a wide range of densities and housing types with the intent of creating comprehensively planned residential developments. We assumed that multi-family development at the subject site would bear this zoning designation. As such, the first step in our analysis of this development alternative was to review comparable apartment complexes in Goleta to determine the most appropriate mix and size of rental units to estimate, as well as review corresponding lease rates to estimate top line revenue. The table on the right illustrates a range of rents and sizes for surrounding residential developments in Goleta.

Multi-Family Residential Comparables		
Property	**Rent Range**	**Size Range**
Sumida Gardens (1bdr-3bdr)	$1,600 - $2,400	700 – 1,100
Willow Springs (1bdr-3bdr)	$1,700 - $2,400	750 – 1,200
Pacific Oaks (1bdr-2bdr)	$1,400 - $2,100	650 - 900
Sources: Various; compiled by REV*PAR* International, Inc.		

The comparables listed above were reviewed to establish an acceptable range of potential rents and per unit square footages to estimate the scope and revenue potential of the proposed multi-family use at Key Site #6. The most direct comparable to the site is *Sumida Gardens.* Built by the *Towbes Group* in 2009, *Sumida Gardens* sits on a 9.8-acre parcel east of the intersection of Hollister Avenue and CA-217. It represents the newest apartment development in Goleta, and thus provides a good indication of a comparable multi-family development if it occurred at the subject site. *Sumida Gardens* provides roughly 200 units, 34 of which were developed as affordable housing, with typical apartment community amenities. The 34 affordable housing units are comprised of 14 for very-low income, 10 low income, and 10 for moderate-income households. According to the city, at least 15 percent of all new units constructed in the project area must be made affordable to these income levels. Therefore, our analysis takes this into account.

Rents range from $1,600 for a one-bedroom to $2,400 for a three-bedroom. The property is zoned DR-20, which allows for up to 20 units per acre, and was assessed by the *Santa Barbara County Assessor's Office* in 2010 at roughly $43.5 million or $217,500 per unit (taking into consideration the affordable housing units). The following table summarizes the implied hypothetical value attained if Key Site #6 were developed as multi-family residential.

Analysis of Highest and Best Use If Key Site #6 developed as Multi-Family Residential (1)		
Estimated # of Units	200	
Total Building SqFt	252,000	
Vacancy Rate (2)	4.0%	
Average Rent/Unit ($)	$1,752	
Total Revenue	$4,204,339	
Total Expenses	$1,427,617	
NOI (3)	$2,776,722	
Cap Rate (4)	7.0%	
Implied (Hypothetical) Value	**$39,700,000**	
(Minus Development Costs)	**$28,200,000**	
Residual Land Value	**$11,500,000**	
Estimated Land Purchase Price	**$9,000,000**	
Available Developer's Profit (% of development costs)	**$2,500,000**	**8.9%**

Notes: (1) Total expenses estimated based on comparable information.
(2) Vacancy rate as reported by Radius Commercial.
(3) NOI defined as Net Operating Income.
(4) Cap rates have been rounded and are based on rates reported by Korpacz & Realty Rates.
Source: Various; compiled by REV*PAR* International, Inc.

The next step in our analysis was to estimate the annual NOI for a stabilized year. Our revenue estimates were based on prevailing rental rates in Goleta derived from the comparable table above. We assumed that the development would offer 200 total units including 40 1-bedrooms (800 square feet), 90 2-bedrooms (1,050 square feet), and 40 3-bedrooms (1,300 square feet), 30 affordable housing units (mix of 1 to 3 bedrooms), and accompanying amenities and public space.

Based on an assumed DR-20 zoning designation and 200 units of varying size, we estimated annual revenues of roughly $4.2 million. Total expenses were evaluated based on comparable information received from various broker estimates in the market, and then compiled by REV*PAR* International. They include expenses related to insurance, utilities, repair/maintenance, property management, legal/professional, advertising, landscaping, and real estate taxes. The comparables utilized were distinctively smaller and older than that envisioned for the subject site, with an average of 13 units per facility; however they represent good comparables as they are located within the City of Goleta. Total expenses at these facilities range from $4,487 to $5,236 per unit annually. With the foregoing in mind, and to account for a larger, higher quality apartment facility, we estimated annual expenses at approximately $7,100 per unit. This also accounts for real estate taxes, which have been estimated at roughly $452,500 per year based on a similar assessment level to *Sumida Gardens*.

Moreover, the implied hypothetical value has been estimated at roughly $39.7 million, which is significantly above that of the office/industrial development scenario previously reviewed. However, a potential concern exists with this type of development given the surrounding environs and aesthetics of the site including, the automotive/trailer storage park located adjacent to the site and potential traffic noise from CA-217, which could negatively impact rental rates, and make the option less attractive for development.

A development cost estimate was then prepared for the proposed multi-family residential use based on those provided by the *Marshall Valuation Service* calculator cost method. According to *Marshall Valuation Service's* definitions, the subject is proposed as a Class C, Good Multi-Family Residential classification. These classifications indicate base costs of $89.22 per square foot. Current cost and local multipliers are taken from Section 99 and included in the development cost estimate above. The cost for the appliances, fireplaces, balconies, development mitigation fees, and exterior landscaping was added as a lump sum. Parking levels were estimated according to local zoning restrictions, which would require roughly 415 parking spaces. Detailed calculations are included in the Addenda.

Total estimated development costs for the proposed multi-family residential development were $28,200,000 generating a resulting residual land value of roughly $11,500,000. Again, existing market conditions at the time of development will likely motivate developer interest in this scenario, but at this time it appears to represent a slightly more plausible course than office/industrial given the higher levels of expected developer profit. Furthermore, lower vacancy rates and shorter leasing windows will serve to mitigate risk. The following table summarizes the land value conclusions related to office/industrial development.

Summary of Conclusions Multi-Family Residential Development		
Property	**Land Value (Sales Approach)**	**Estimated Developer's Profit (%)**
Multi-Family Residential	$8,700,000 - $9,600,000	$2,500,000 (8.8%)
Source: REV*PAR* International, Inc.		

Of note, the 2.49-acre automotive/trailer storage park that is located immediately north of the subject site closed in escrow on June 2, 2011 for $1.0 million or $9.22 per square foot. According to the listing broker, the seller was highly motivated and received several offers while on the market for two weeks. It is pertinent to our analysis as it is currently zoned DR-12.3 (two small single family dwellings are located on site). Although it is rumored that the site will continue to operate as a storage lot, any future multi-family development could positively affect the assumed value at Key Site #6 by improving the surrounding aesthetics of the site.

ANALYSIS OF CAR DEALERSHIP DEVELOPMENT

Regarding the site as developed with a car dealership, we reviewed a series of recent national commercial sales that occurred with the purpose of either continuing to operate as a car dealership or to cease existing operations and convert to a different branded dealership. We were unable to uncover any recent instances of where vacant land was purchased in and around Goleta with the intent of developing a "ground-up" car dealership. Therefore, the sales information was geographically dispersed and thus unreliable; however, the key issue here surrounds the definition of "destination" retail (shopping malls, restaurants, entertainment venues, etc.) versus secondary retail (wallpaper warehouses, mechanical parts sales, etc.). As the site does not represent a viable "destination" retail location given the characteristics introduced throughout our analysis, it could only be evaluated as a secondary location.

In contrast, car dealerships are considered "destination" retail locations that need to be located adjacent to other car dealerships and along high volume roadways with good visibility and ease of access. Furthermore, secondary retail would not generate the returns that even approach those illustrated in the proposed uses introduced above. There are three existing adjacent car dealerships that could consider relocation making those existing sites available for other potential uses.

It should be noted that in the summer of 2008, Toyota and their consultants reviewed Key Site #6 for a possible retail car dealership location, but abandoned their plans for economic reasons. According to their consulting firm, Autopilot, the site is marginally plausible to locate a future car dealership, given the difficulty of finding affordable land in the area and good visibility from CA-217; however, recent lack of interest would suggest that perhaps other sites present enhanced options. Therefore, we would suggest a more detailed appraisal be completed that could further evaluate the economics of a car dealership in this location. In short, it is our opinion that developing the site, as a car dealership does not represent a viable use compared to the other scenarios previously analyzed.

CONCLUSION

Considering the subject site's physical characteristics and location, as well as the state of the local real estate market, and largely based on the preceding analysis, it is our opinion that the highest and best use of the site if vacant would be multi-family residential over office/industrial development; however, our conclusions to the success of this scenario assumes that a developer will be able to create a residential environment at the site that will garner market level rental rates and revenues as indicated. Historically low vacancy rates and shorter leasing windows for multi-family residential compared to office/industrial contributes to this conclusion.

Multi-family residential development would generate the greatest implied value, as well as likely bring a slightly higher available land value and developer profit to Key Site #6. We also reviewed the land value estimates for a hotel and conference center from our previous report for comparison purposes; however, since our previous analysis assumed that the hotel would be developed on 6 of the 10 developable acres, we assumed that the remaining 4 acres would be used for office development. Therefore the corresponding land value range for hotel/conference center and office encompasses $3,500,000 for the 6-acre hotel parcel and $2,400,000 to $2,800,000 for the 4-acre office parcel for $5,900,000 to $6,300,000, which is still far below expected land values for multi-family residential development.

Another alternative that might attract a higher value beyond multi-family residential includes an expansion of the adjacent parcel at 600 Pine Avenue (6.58 acres) that is owned by the *Towbes Group* and occupied by *ATK Systems.* If ATK desires to expand their operations at some point in the future, Key Site #6 presents an attractive and viable alternative for expansion, as both parcels will be connected via the planned Ekwill Street extension.

As previously mentioned, we did not undertake an appraisal of Key Site #6 and do not represent the hypothetical values included herein as definitive or in compliance with commercial industry or *Appraisal Institute* standards. They are merely used to suggest a range of possible value conclusions based on research and information collected from comparable land sales, discussions with area real estate brokers, and established industry metrics in an effort to determine which of the alternative uses likely represents the highest and best use of the subject site. In other words, the values DO NOT constitute a formal appraisal and should not be construed as such. Rather, they are intended as an "order of magnitude" estimate of which alternative for development provides the highest and best use at Key Site #6.

Please let us know if you have any comments, questions or require additional clarification of our findings.

Sincerely,

REV*PAR* International, Inc.

Richard E. Pastorino
Principal

ADDENDUM

Development Cost Estimates			
	Industrial (Warehousing/Storage)	**Office (Flex/R&D)**	**Multi-Family/Residential**
Total square footage	160,000	120,000	252,000
Base cost per square foot	$72.23	$106.34	$89.22
Refinements:			
Sprinklers	$2.00	$2.00	$2.00
Subtotal	$70.23	$104.34	$87.22
Local/current cost multipliers			
Current cost multiplier	1.01	1.01	0.99
Local cost multiplier	1.19	1.19	1.20
Refined square foot cost	$84.41	$125.41	$103.62
Area (square feet)	160,000	120,000	252,000
Development Cost New Estimate – Structure	$13,505,510	$15,408,750	$26,111,575
Lump sum additions			
Appliances			$502,500
Balconies/Fireplaces			$100,000
Parking and Landscaping	$624,600	$1,039,400	$623,000
Development Mitigation	$374,515	$281,475	$875,608
Total Replacement Cost	$14,504,625	$16,369,625	$28,212,683
Rounded to	$14,500,000	$16,400,000	$28,200,000
Source: Marshall Valuation Service			