

# **CONSULTING REPORT**

## **Milpitas Business Park**

Conference- or Multi-Purpose Center  
Bldgs. 12, 13, and 14  
540, 570, and 590-596 Alder Drive  
Milpitas, California 95035

### **PREPARED FOR:**

City of Milpitas  
C/O Diana Barnhart  
Economic Development Manager  
Milpitas, California 95035

### **EFFECTIVE DATE OF THE APPRAISAL:**

July 12, 2009

### **REPORT FORMAT:**

Consulting Report

### **INTEGRA REALTY RESOURCES - SAN FRANCISCO**

File Number: 153-2009-0264



**Milpitas Business Park  
Bldgs. 12, 13, and 14  
540, 570, and 590-596 Alder Drive  
Milpitas, California**

August 12, 2009

City of Milpitas  
C/O Diana Barnhart  
Economic Development Manager  
Milpitas, California 95035

SUBJECT: Consulting Report  
Milpitas Business Park  
Bldgs. 12, 13, and 14  
540, 570, and 590-596 Alder Drive  
Milpitas, California 95035  
Integra San Francisco File No. 153-2009-0264

Dear Ms. Barnhart:

Integra Realty Resources – San Francisco is pleased to submit the accompanying consulting report for the referenced properties.

Integra Realty Resources – San Francisco has been engaged by the City of Milpitas to develop a study to determine the potential utilization of three Class B, office and R&D/manufacturing buildings containing a total of 141,449 gross square feet. This is Phase I of a possible, three-phase assignment. The City of Milpitas is considering the adaptive re-use of the buildings as a local/regional conference or multi-purpose center. This is being considered to induce meeting and group demand into Milpitas, given constrained conference and event space at existing full-service hotels, and to enhance demand for hotel rooms, while diversifying hotel demand segments within the city. In the course of our analysis, we address potential loss of corporate meeting demand for conference- and event space brought about by increased use of virtual and electronic technology. In this report we provide a broad-based demand analysis for proposed conference and event space at the subject buildings, as well as a base-case revenue impact forecast.

The purpose of this report is to assist in decision making regarding the possible adaptive re-use of the referenced real estate. The client for the assignment is the City of Milpitas, and the intended use is to evaluate a real estate decision.



The report is intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. To report the assignment results, we adhere to Standards Rule 5 of USPAP. Discussions of the data, reasoning, and analyses are presented in this report, whereas portions of supporting documentation are retained in our work file. The depth of discussion contained in this report is specific to the needs of the client and the intended use of the consulting assignment.

The consulting report is subject to the following:

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**EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS**

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The conclusions set forth in this report are subject to the following extraordinary assumptions and hypothetical conditions that may affect the assignment results.

For purposes of the assignment, we presume:

That the existing office/R&D manufacturing improvements that are the subject of this report have been adaptively re-used as a conference or multi-purpose center as of the report date, which they had not been.

That the proposed conference center location, space program, layout, and performance specifications are appropriate for the demand forecasted, and that the design is efficient, marketable, and competitive. These factors were not specifically addressed in this phase of the assignment. The absence of these factors could result in less than desired forecast results.

That professionals competent in the design and programming of space, layout, and performance specifications will be retained if plans are to pursue re-use of existing buildings for a conference or multi-purpose center use. We additionally suggest that the City retain qualified professionals familiar with meeting planners, association executives, and trade-show producers to accurately quantify demand for conference facilities proposed.

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The opinions expressed in this report are based on estimates and forecasts that are prospective in nature and subject to considerable risk and uncertainty. Events may occur that could cause the performance of the facilities proposed to materially differ from our estimates, such as changes in the economy, interest rates, capitalization rates, financial strength of businesses, and the behavior of consumers. Additionally, our forecasts are based partly on data obtained from interviews and third party sources, which are not always completely reliable. Although we are of the opinion that our findings are reasonable based on current market conditions, we are not responsible for the effects of future occurrences that cannot be reasonably foreseen at this time.

City of Milpitas  
C/O Diana Barnhart  
August 12, 2009  
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If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to provide you our services.

Respectfully submitted,

**INTEGRA REALTY RESOURCES - SAN FRANCISCO**



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## SUMMARY OF SALIENT FACTS

Property Name	Milpitas Business Park
Address	Bldgs. 12, 13, and 14 540, 570, and 590-596 Alder Drive Milpitas, California 95035
Property Type	Conference Center
Owner of Record	Silicon Valley CA I, LLC, et al
Tax ID	086-02-056 and 086-02-057
Land Area	10.35 acres; 450,846 SF
Gross Building Area (GBA)	141,449 SF
Year Built	1985
Zoning Designation	MP, Industrial Park
Date of the Report	August 12, 2009

### EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS

The conclusions set forth in this report are subject to the following extraordinary assumptions and hypothetical conditions that may affect the assignment results.

For purposes of the assignment, we presume:

That the existing office/R&D manufacturing improvements that are the subject of this report have been adaptively re-used as a conference or multi-purpose center as of the report date, which they had not been.

That the proposed conference center location, space program, layout, and performance specifications are appropriate for the demand forecasted, and that the design is efficient, marketable, and competitive. These factors were not specifically addressed in this phase of the assignment. The absence of these factors could result in less than desired forecast results.

That professionals competent in the design and programming of space, layout, and performance specifications will be retained if plans are to pursue re-use of existing buildings for a conference or multi-purpose center use. We additionally suggest that the City retain qualified professionals familiar with meeting planners, association executives, and trade-show producers to accurately quantify demand for conference facilities proposed.

## GENERAL INFORMATION

### IDENTIFICATION OF SUBJECT

The subject is a portion of the existing Milpitas Business Park, and is composed of 141,449 square feet of gross building area. The improvements were originally constructed in 1985, and were 100% vacant as of the report date. Site area is 10.4 acres, or 450,846 square feet.

The street addresses are 540, 570, and 590-596 Alder Drive, Milpitas, Santa Clara County, California 95035. The real estate is identified by the tax assessment office as follows: 086-02-056 and 086-02-057. Note that the buildings are a portion of the real estate located at Milpitas Business Park.

### EXECUTIVE SUMMARY

The City of Milpitas is considering the adaptive re-use of three, Class B office or R&D/manufacturing buildings containing a total of 141,449 gross square feet into a local/regional conference or multi-purpose event center. We were engaged under Phase I of a three-phase assignment to determine possible demand for such a facility, and to develop a revenue impact model for the like. Additionally, we were to briefly examine the increased use of virtual and electronic technology by corporate groups, possible impacts on the demand for event space, and consider this in our revenue impact model. We conducted our research in July and August 2009, with the following results.

Based on interview of full- and select-service hotel operators in Milpitas, as well as competitive conference center management representatives, it is our conclusion that demand could exist for a conference or multi-purpose center at Milpitas Business Park in Milpitas. Market analysis revealed that Santa Clara County will experience favorable economic conditions from 2010 through 2020. The county's population is expected to grow at a rate of 11.7%, compared to 8.9% for the entire San Francisco Bay Area. Santa Clara residents enjoy the highest mean household income of \$102,800, compared to \$102,100 for residents of the Bay Area as a whole; from 2010 through 2020, mean household income is expected to grow at an even pace in both geographic locations. Employment growth in Santa Clara County is expected to be 17.0% from 2010 through 2020. The County benefits from among the best transportation networks in the Bay Area. Within Santa Clara County, Milpitas' population growth is forecasted to be 27.3% from 2010 through 2020, a rate that outpaces the 11.7% projected for the county. Average household income in Milpitas of \$118,100 in 2020 will outpace that of Santa Clara County, which is projected to be \$114,400. Milpitas is home to some of the most established high-tech companies in Silicon Valley, and benefits from excellent interstate linkage. A survey of the 11 largest companies in Milpitas revealed that the proposed conference, multi-purpose center is located within 2.7 miles of 8 of these firms. Within a five-mile radius of the subject approximately 56% of the population is married; 73% of households are family occupied. Approximately 42.0% of households within a five-mile trade area of the subject earn income greater than \$100,000 annually. Placement of retail, parks and recreational facilities, and scheduled air service to Mineta San Jose International are favorable for a conference or multi-purpose center located at the proposed location.

Existing hotels in Milpitas typically accommodate up to 60% of annual room nights to commercial transient demand, which occupies rooms from Monday through Wednesday night, on the basis of a 2.5- to 3.0-night length of stay. This is the predominant demand source for hotels throughout most of Silicon Valley. Due to a lack of other major types of demand (i.e., association- or convention group, or leisure transient demand), and therefore low pricing of such demand, existing Milpitas hotels typically have a very low amount of meeting space per room (from 19.0 to 37.0 square feet per guestroom). The largest contiguous hotel meeting space available at a Milpitas hotel measures 6,952 square feet. Groups seeking event space for greater than 350 people per function are generally turned-away to neighboring venues or hotel submarkets due to meeting space constraints. Furthermore, during peak demand periods, events held in neighboring-community event space result in demand for hotel rooms in Milpitas. Pursuit of a conference or multi-purpose center in Milpitas is prudent to meet the demands of groups seeking event space, including space that can accommodate 350+ attendees, as well as to diversify demand for hotel rooms (which is currently skewed toward Monday-through-Wednesday, commercial transient demand). An event center could help increase hotel room demand from the meeting and group segment, and provide the Milpitas hotel market increased occupancy rate, and greater economic stability over the long-run.

Analysis of comparable convention and conference centers in San Jose, Santa Clara, and South San Francisco was conducted. The South San Francisco Conference Center was concluded to be that most comparable to the subject in several important respects, the most important of which is infrastructure constraint, i.e., hotel room constraint. There are 2,710 total hotel rooms in South San Francisco, with 45.1%, or 1,222, that routinely allocate hotel room blocks for conference center demand. Pricing of hotel rooms in that market is approximately \$112.00 as of April 2009. The South San Francisco hotel submarket is located proximate to Class A bio-technology and office uses located at Oyster Point, and 11.0 miles south of San Francisco's 855,990-square-foot Moscone Convention Center. By comparison, Milpitas contains a total of 2,685 hotel rooms, with an anticipated 1,595, or 59.4%, that will block rooms for conference or multi-purpose center events. By comparison, there are 3,790 and 8,506 hotel rooms in Santa Clara and San Jose (two other convention center cities considered in our analysis, which will be discussed in further detail). Pricing of hotel rooms in Milpitas as of April 2009 is estimated to be approximately \$107.00, which is similar to South San Francisco, although we note that the type, quality, and effective age of conference center—serving hotel rooms in South San Francisco is somewhat below that of Milpitas. Both cities are located proximate to an airport serviced by regularly-scheduled commercial airlines. Milpitas is located 4.0 miles from the Santa Clara Convention Center, an established, 302,000-square-foot convention center. Other similarities include population density within a 30-minute driving time from conference facilities in South San Francisco and that proposed for Milpitas. There are less-significant dissimilarities.

Milpitas can be said to be similarly constrained as the South San Francisco submarket in terms of the type, quality, and number of hotel rooms available for conference- or multi-purpose center attendees. Based on this, the type of event facility, event type, and building envelope (square footage) should be generally similar to that of the South San Francisco Convention Center. Utilization, occupancy, and pricing statistics from the South San Francisco Conference Center were therefore utilized to forecast demand for the proposed subject. Although 141,449 square feet of space is available for adaptive re-use in Milpitas, the decision to create a viable conference facility cannot be based on an estimate of market capture in relation to available square footage without regard to infrastructure available, i.e., hotel rooms near the proposed center that could accommodate prospective event delegates and attendees. Based on this, we conclude that Buildings 13 and 14 (combined gross building area of 97,962 square feet) should be adaptively re-used for the conference, multi-purpose event center. Building 12 (43,487 SF) should be held for future re-use, pending the success of the initially-constructed conference facility. Based on this building envelope and available square foot days, as well as an estimate of stabilized, effective occupancy of 65% for an event center in Milpitas, the number of stabilized functions is estimated to be 325, with 65,000 delegates/attendees annually. We anticipate that this will generate demand for 89,375 room nights in Milpitas, or nightly room nights of 245. On a stabilized basis, the conference- or multi-purpose event center described was forecasted to generate a revenue impact in Milpitas of \$15.6 million annually, or approximately \$240.00 per attendee/delegate. The forecast considers possible loss of corporate meeting demand for conference and event space brought about by increased use of virtual and electronic technology. Additionally, the forecast assumes an economic subsidy to the proposed conference, multi-purpose event facility of \$1.50 per occupied room night for all hotels in Milpitas.

## SCOPE OF WORK

To determine the appropriate scope of work for the assignment, we considered the intended use of the appraisal, the needs of the user, the complexity of the property, and other pertinent factors. Our concluded scope of work included literature review, market research, and interview of hotel operators at select hotels in Milpitas. Additionally, we obtained comparable data from four convention centers considered in our analysis, and interviewed respective center management representatives to obtain planning figures applied in this analysis. We utilized our in-house database and past assignment data for various forecasts. Methodology was derived in-part from *Developing Sports, Convention, and Performing Arts Centers*, Third Edition (Washington DC: Urban Land Institute, 2001), by David C. Petersen.

Our demand analysis was broad-based and constraint-driven. The appraisers suggest that professionals competent in the design and programming of space, layout, and performance specifications be retained if plans are to pursue re-use of existing buildings for a conference or multi-purpose center use. We additionally suggest that the City retain qualified professionals familiar with meeting planners, association executives, and trade-show producers to accurately quantify demand for conference facilities proposed.

## OTHER RESEARCH AND ANALYSIS

Additional steps taken to gather, confirm, and analyze relevant data, are detailed in individual sections of the report.

## PROPERTY INSPECTION

George A. Comitos, MAI, conducted an exterior inspection of the property on August 5, 2009. Neither Jan Kleczewski, MAI, nor Brady R. Barbier, MAI, inspected the property that is the subject of this report. All three participated in the analysis and conclusions contained herein.

## COMPETENCY

The appraisers possess the geographical competency to complete the appraisal consulting assignment. In terms of property type, although the appraisers have experience in the appraisal consulting of hospitality-related real estate, we were not completely competent in appraisal consulting relating to development of convention, conference or event centers. This was discussed with the client prior to accepting the assignment.

During the course of the assignment, the appraisers consulted with numerous conference and event-center managers, as well as managers of facilities ancillary to such uses, i.e., catering operators. Additionally, we consulted with operators of convention centers, as well as directors of convention and visitors bureaus (CVBs) to gain the level of competency required to complete this assignment. Finally, we purchased and read chapters contained in: *Developing Sports, Convention, and Performing Arts Centers*, Third Edition (Washington DC: Urban Land Institute, 2001), by David C. Petersen. Information from this book was used to develop this consulting report and our recommendations.

#### **REPORT FORMAT**

To report the assignment results, we adhere to Standards Rule 5 of USPAP. Discussions of the data, reasoning, and analyses are used and presented in this report, whereas supporting documentation is retained in our work file. The depth of discussion contained in this report is specific to the needs of the client and the intended use of the consulting report.

## ECONOMIC ANALYSIS

### REGIONAL ANALYSIS

#### SANTA CLARA COUNTY

Santa Clara County, located approximately 50 miles south of San Francisco, is the most southerly and most populous of the nine counties which comprise the Bay Area region of Northern California. The county is bounded by San Mateo and Alameda Counties to the north, San Benito and Santa Cruz Counties to the south, Stanislaus and Merced Counties to the east and the Pacific Ocean to the west.

Santa Clara County is a major employment center for the region, providing roughly a quarter of all jobs in the Bay Area. With the largest population of the nine Bay Area counties, Santa Clara County also boasts a highly educated workforce with 40% of the population 25 years or older holding a bachelors degree or higher, compared with 25% nationally. Known as Silicon Valley for its concentration of high technology and research and development firms, Santa Clara County is also home to three major universities: Stanford University, Santa Clara University, and San Jose State University.

#### Population

According to the California Department of Finance, Santa Clara County had an estimated January 2009 population of 1,857,621. Santa Clara County is the Bay Area's largest county, containing approximately 25.2% of the region's total population.

BAY AREA COUNTY POPULATION GROWTH TRENDS										
County	Actual and Estimated			% Change		% of Bay Area	Projections		% Change	
	1990	2000	2009	1990-2000	2000-2009		2010	2020	2000-2010	2010-2020
Alameda	1,279,182	1,443,741	1,556,657	12.9%	7.8%	21.1%	1,571,400	1,700,700	8.8%	8.2%
Contra Costa	803,732	948,816	1,060,435	18.1%	11.8%	14.4%	1,061,900	1,157,000	11.9%	9.0%
Marin	230,096	247,289	258,618	7.5%	4.6%	3.5%	258,400	270,600	4.5%	4.7%
Napa	110,765	124,279	137,571	12.2%	10.7%	1.9%	139,300	148,100	12.1%	6.3%
San Francisco	723,959	776,733	845,559	7.3%	8.9%	11.5%	808,700	857,200	4.1%	6.0%
San Mateo	649,623	707,161	745,858	8.9%	5.5%	10.1%	741,000	800,700	4.8%	8.1%
<b>Santa Clara</b>	<b>1,497,577</b>	<b>1,682,585</b>	<b>1,857,621</b>	<b>12.4%</b>	<b>10.4%</b>	<b>25.2%</b>	<b>1,867,500</b>	<b>2,085,300</b>	<b>11.0%</b>	<b>11.7%</b>
Solano	339,471	394,542	426,729	16.2%	8.2%	5.8%	455,200	514,900	15.4%	13.1%
Sonoma	388,222	458,614	486,630	18.1%	6.1%	6.6%	509,100	535,200	11.0%	5.1%
<b>Total Bay Area</b>	<b>6,022,627</b>	<b>6,783,760</b>	<b>7,375,678</b>	<b>12.6%</b>	<b>8.7%</b>	<b>100.0%</b>	<b>7,412,500</b>	<b>8,069,700</b>	<b>9.3%</b>	<b>8.9%</b>

Sources: California Department of Finance; ABAG Projections 2007

As shown in the preceding table, Santa Clara County population increased by 12.4% from 1990 to 2000, a rate that was similar to the San Francisco Bay Area's growth of 12.6% during that decade. The Association of Bay Area Governments (ABAG) projects the county's population to increase from 1,867,500 in 2009, to 2,085,300 by 2010, an increase of 217,800 persons, or 11.7%. This is a growth rate that is slightly greater than that occurring in the prior decade.

For the period from 2010 to 2020, Santa Clara County population is expected to grow at a faster pace (11.7%) than that for the Greater San Francisco Bay Area (8.9%).

### Economic Base

According to ABAG estimates, Santa Clara County had a total employment base in 2000 of 1,044,130 jobs, or 27.8% of the estimated 2000 total Bay Area employment base of 3,753,460 jobs. The county's employment level in 2000 was an increase from 890,930 jobs in 1990, representing a 17.2% growth rate. ABAG estimates that Santa Clara County's 2005 employment base decreased by 171,270 jobs since 2000, or by 16.4%. The percentage of job losses in Silicon Valley was greater than the Greater San Francisco Bay Area, which declined 8.1% between 2000 and 2005, due to the greater impact of the economic downturn on the high technology sector.

Following short-run unemployment increase, ABAG forecasts employment growth of 17.0% from 2010 to 2020, representing a return to more stabilized employment growth-rates.

SANTA CLARA COUNTY EMPLOYMENT TRENDS							
Industry	Employment	Estimate	% Change	Projection	% Change	Projection	% Change
	2000	2005	2000-2005	2010	2005-2010	2020	2010-2020
Ag & Natural Resources	4,560	4,500	-1.3%	4,500	0.0%	4,500	0.0%
Construction	55,460	43,220	-22.1%	49,210	13.9%	62,600	27.2%
Manufacturing & Wholesale	317,520	239,300	-24.6%	247,100	3.3%	270,520	9.5%
Retail	100,570	87,660	-12.8%	92,620	5.7%	107,040	15.6%
Transportation & Utilities	29,000	26,250	-9.5%	27,320	4.1%	28,280	3.5%
Information	50,180	41,620	-17.1%	46,910	12.7%	59,730	27.3%
Financial & Leasing	45,230	40,020	-11.5%	43,370	8.4%	50,160	15.7%
Prof & Managerial Services	166,020	126,440	-23.8%	137,890	9.1%	167,280	21.3%
Health & Educ Services	154,120	113,880	-26.1%	125,660	10.3%	153,400	22.1%
Arts, Rec. & Other Services	93,410	127,970	37.0%	139,460	9.0%	165,960	19.0%
Government	28,060	22,000	-21.6%	24,290	10.4%	28,820	18.6%
<b>Total</b>	<b>1,044,130</b>	<b>872,860</b>	<b>-16.4%</b>	<b>938,330</b>	<b>7.5%</b>	<b>1,098,290</b>	<b>17.0%</b>

Source: Association of Bay Area Governments (ABAG) Projections 2007

Unemployment trends are summarized in the following table.

UNEMPLOYMENT RATES			
Year	Santa Clara County	California	US
1998	3.2%	5.9%	4.5%
1999	3.0%	5.2%	4.2%
2000	2.0%	4.9%	4.0%
2001	4.6%	5.4%	4.7%
2002	8.5%	6.7%	5.8%
2003	8.4%	6.7%	6.0%
2004	6.6%	6.2%	5.5%
2005	5.5%	5.4%	5.1%
2006	4.5%	4.9%	4.6%
2007	4.7%	4.9%	4.6%
2008	6.0%	7.2%	5.8%
2009 (Jun)	11.8%	11.6%	9.7%

Sources: California Employment Development Dept., US Dept. of Labor

From 1998 through 2000, Santa Clara County maintained an unemployment rate that was below those of the state and nation. Due to the demise of the internet/ dot-com/ high-tech industry in 2001, the county unemployment rate exceeded those of the state and nation from 2002 through 2005. By mid-2004, the region's economy experienced economic rebound, with improved economic conditions and declining unemployment. As of June 2009, the unemployment rate in Santa Clara County was 11.8%, again, above those of the state and nation.

Although historically below unemployment levels occurring in the state and nation, unemployment in the county evidences volatility due to reliance of the local economy on the high-tech employment sector.

Return to stabilized employment levels is expected to result in an unemployment rate that is below those of the state and nation.

### Income

In 2005, Santa Clara County's mean household income was estimated by ABAG at \$97,900, which was similar to the San Francisco Bay Area mean of \$97,400. Income was down in Santa Clara County in 2005 compared with 2000 due to the impacts of the 2001-through-mid-2004 recession which disproportionately impacted the technology employment sector in the county.

Following short-run decline, ABAG projects Santa Clara County's mean household income to increase by 11.3% from 2010 to 2020, at a pace similar to the San Francisco Bay Area's projected growth rate in mean household income.

MEAN HOUSEHOLD INCOME							
County	Mean Income		% Change	Mean Income Projections		% Change	% Change
	2000	2005	2000-2005	2010	2020	2005-2010	2010-2020
Alameda	\$89,400	\$88,800	-0.7%	\$93,100	\$103,700	4.8%	11.4%
Contra Costa	\$100,500	\$98,400	-2.1%	\$103,400	\$115,100	5.1%	11.3%
Marin	\$126,500	\$121,600	-3.9%	\$127,700	\$142,100	5.0%	11.3%
Napa	\$85,600	\$85,900	0.4%	\$90,200	\$100,500	5.0%	11.4%
San Francisco	\$98,300	\$97,400	-0.9%	\$102,200	\$113,800	4.9%	11.4%
San Mateo	\$136,600	\$121,700	-10.9%	\$127,800	\$142,300	5.0%	11.3%
<b>Santa Clara</b>	<b>\$118,400</b>	<b>\$97,900</b>	<b>-17.3%</b>	<b>\$102,800</b>	<b>\$114,400</b>	<b>5.0%</b>	<b>11.3%</b>
Solano	\$78,000	\$84,400	8.2%	\$88,600	\$98,000	5.0%	10.6%
Sonoma	\$82,800	\$82,600	-0.2%	\$86,700	\$96,500	5.0%	11.3%
<b>Bay Area</b>	<b>\$104,000</b>	<b>\$97,400</b>	<b>-6.3%</b>	<b>\$102,100</b>	<b>\$113,500</b>	<b>4.8%</b>	<b>11.2%</b>

Source: Association of Bay Area Governments (ABAG) Projections 2007

### Transportation

The area's growth and increased technology trade is attributed, in part, to its strategic location with close proximity to San Francisco and the San Francisco Peninsula. New transportation systems have continued to improve accessibility throughout Silicon Valley over the past decade.

The Santa Clara County area is serviced by an excellent interstate system, an international airport, light-rail system, and passenger and freight rail lines, including The Altamonte Commuter Express (ACE). U.S. Highway 101, the Bayshore Freeway, runs from the southern portion of the county, northward through San Francisco and beyond. Interstate 880, the Nimitz Freeway, runs from Santa Clara- to Alameda County to the north. Interstate 680, the Sinclair Freeway, also runs in a north/south direction providing access from the northern portion of San Jose, northward through Alameda and Contra Costa counties. Interstate 280, the Junipero Serra Freeway, begins at the Interstate 680 junction and runs through the western portion of the county, northward through the San Francisco Peninsula. Other major arterials serving the county include State Route 85 (S.R. 85), which connects U.S. 101 in the south San Jose area and arcs northwesterly through the West Valley region, intersecting with S.R. 17 and Interstate 280 on its route. It ends near its intersection with S.R. 237.

A key attribute of the subject's location is its proximity to S.R. 237, which travels in an east/west direction across the northerly portions of the county providing access from Interstate 880 to U.S. 101 (from Milpitas to Mountain View).

Santa Clara County is also adequately served by several bus and rail services. Caltrain, a commuter train, connects Santa Clara County with San Mateo County and San Francisco County to the north. The Santa Clara Valley Transportation Authority (VTA) provides public bus service throughout the region. VTA also operates a light-rail system, with service from South San Jose through downtown San Jose, and westward through Santa Clara, into Sunnyvale and Milpitas.

A key attribute of the subject's location is its proximity to an SCVTA light-rail station located at Tasman and Alder Drives.

We also note that the subject is located proximate to N. First Street in San Jose. The arterial is located approximately 1.5 miles west of the subject, and connects North San Jose to downtown San Jose.

The subject is located southeast of the confluence of U.S. 101, S.R. 237, and I-880, which is considered The Golden Triangle, one of Silicon Valley's primary concentration of high-tech companies.

## Conclusion

Santa Clara County is world renowned for its technology, manufacturing and electronics based services trade. It is acclaimed for its highly desirable climate and proximity to the natural resources of the San Francisco Bay and the Pacific Ocean. Economic fundamentals are positive for the county and bode well for development of a conference- or multi-purpose center in Milpitas. Fundamental factors include: population increase set to outpace that of the Greater San Francisco Bay Area from 2010 to 2020; positive employment trends; expected decline in unemployment; continued high household income relative to the Greater San Francisco Bay Area, with increase anticipated; and beneficial transportation infrastructure.

Following short-run economic decline, the supply of vacant developable land is anticipated to continue to diminish. Land prices are subsequently expected to increase as growth continues to expand throughout the region. Given its location, the subject property is expected to benefit from the region's advantages.

## CITY OF MILPITAS

Incorporated in 1954, Milpitas is located near the southern tip of San Francisco Bay, 45 miles south of San Francisco. Milpitas is often called the "Crossroads of Silicon Valley" with most of its 14.5 square miles of land situated between two major freeways (I-880 and I-680) and S.R. 237, and a county road. The City of Milpitas is served by the Santa Clara Valley Transportation Authority (VTA) light-rail line, and Union Pacific and AMTRAK rail lines. The Bay Area Rapid Transit District (BART) Silicon Valley Extension is the continuance of the existing BART system to San Jose, Milpitas and Santa Clara. This project will extend the current system by 16 miles; the Milpitas Station will be located at Montague Expressway and E. Capitol Avenue. Milpitas has a large daytime population of over 62,000 employees. The city has a well-educated population base with residents having above-average household income. Leading employers in Milpitas are manufactures of computer peripherals, electronic and medical equipment. The two largest employers are Cisco Systems, Inc. and Lifescan, Inc. (a Johnson & Johnson Co.), each with over 2,500 employees.

### Population

The following table shows historical population figures for Santa Clara County and the City of Milpitas as well as population projections for 2020.

#### SANTA CLARA COUNTY AND MILPITAS POPULATION GROWTH TRENDS 1950-2020

Year	Santa Clara County			City of Milpitas		
	Population	Absolute Growth	% Change from Previous	Population	Absolute Growth	% Change from Previous
1950	290,547	N/A	N/A	N/A	N/A	N/A
1960	642,315	351,768	121.1%	6,572	N/A	N/A
1970	1,064,714	422,399	65.8%	26,561	19,989	304.2%
1980	1,295,071	230,357	21.6%	37,820	11,259	42.4%
1990	1,497,577	202,506	15.6%	50,690	12,870	34.0%
2000	1,682,585	185,008	12.4%	62,698	12,008	23.7%
2009	1,857,621	175,036	10.4%	70,817	8,119	12.9%
2000*	1,682,585	185,008	12.4%	62,810	N/A	N/A
2020*	2,085,300	217,800	11.7%	79,800	10,500	15.2%

Sources: California Department of Finance (US Census - 1950-2000; CA estimates - 2009)

\*Association of Bay Area Governments (ABAG) Projections 2007

ABAG's 2000 figures for the city may differ from US census figures due to inclusion of unincorporated areas within the city's "sphere of influence."

The City of Milpitas had a 2000 population of 62,698 persons, making it the fifth largest city in Santa Clara County. The population increased by 12,008 from 1990 to 2000. ABAG has projected the population to grow to 79,800 by 2020, or by 27.3% compared to 2000. This is a rate that is greater than that projected for the County of 17.7% over the same period.

The following table details the population trends for each city in Santa Clara County.

SANTA CLARA COUNTY CITIES - POPULATION TRENDS								
City	Census Population		Absolute Change	Percent Change	Estimate 2009	ABAG Projections*		2010-2020
	1990	2000				2000	2020	
Campbell	36,088	38,138	2,050	5.7%	40,420	39,286	42,300	4.7%
Cupertino	39,967	50,546	10,579	26.5%	55,840	52,970	58,900	4.6%
Gilroy	31,487	41,464	9,977	31.7%	51,508	48,065	66,400	9.6%
Los Altos	26,599	27,693	1,094	4.1%	28,458	30,254	31,600	2.6%
Los Altos Hills	7,514	7,902	388	5.2%	8,889	9,455	10,600	2.9%
Los Gatos	27,357	28,592	1,235	4.5%	30,497	31,889	34,100	3.3%
<b>Milpitas</b>	<b>50,690</b>	<b>62,698</b>	<b>12,008</b>	<b>23.7%</b>	<b>70,817</b>	<b>62,810</b>	<b>79,800</b>	<b>15.2%</b>
Monte Sereno	3,287	3,483	196	6.0%	3,619	4,284	4,700	6.8%
Morgan Hill	23,928	33,556	9,628	40.2%	39,814	38,156	49,300	9.1%
Mountain View	67,365	70,708	3,343	5.0%	74,762	70,877	82,200	9.6%
Palo Alto	55,900	58,598	2,698	4.8%	64,484	71,914	86,600	9.2%
San Jose	782,224	894,943	112,719	14.4%	1,006,892	941,998	1,210,200	14.3%
Santa Clara	93,613	102,361	8,748	9.3%	117,242	102,361	131,000	11.2%
Saratoga	28,061	29,843	1,782	6.4%	31,679	30,384	32,900	3.1%
Sunnyvale	117,324	131,760	14,436	12.3%	138,826	133,086	148,800	7.1%
Unincorporated	106,173	100,300	-5,873	-5.5%	93,874	14,796	15,900	5.3%
<b>Total</b>	<b>1,497,577</b>	<b>1,682,585</b>	<b>185,008</b>	<b>12.4%</b>	<b>1,857,621</b>	<b>1,682,585</b>	<b>2,085,300</b>	<b>11.7%</b>

\* Association of Bay Area Governments (ABAG) Projections 2007

Note: ABAG's 2000 figures for the cities may differ from US census figures due to inclusion of unincorporated areas within a city's "sphere of influence."

Source: California Department of Finance

## Economic Base

ABAG estimates that Milpitas's employment decreased by 6,330 jobs, or 11.7% from 2000 to 2005. In contrast, employment is shown to have increased from 2005 through projected 2009 figures. We note that the projections occurred in 2007, however, and may not be reflective of post-September 2008 economic occurrences.

The city's population is projected to increase by 15.2% from 2010 to 2020, representing a return to positive employment growth-rates. This is the highest growth rate of any community or area within Santa Clara County.

Milpitas's employment is concentrated in the Manufacturing, Wholesale, & Transportation and the Health, Educational, & Recreational Service sectors. In 2000, the City had a high job base relative to its population, with a ratio of 0.86 jobs per resident. This compares to a ratio of 0.62 jobs per resident for Santa Clara County.

MILPITAS EMPLOYMENT TRENDS					
Industry	Employment	Estimate	Projection	Projection	% Change
	2000	2005	2010	2020	2010-2020
Agriculture & Natural Resources	180	180	180	180	0.0%
Manufacturing, Wholesale, & Transportation	30,310	25,370	25,760	27,300	6.0%
Retail	4,420	4,150	4,320	4,890	13.2%
Financial & Professional Service	5,380	4,610	5,100	6,050	18.6%
Health, Educational, & Recreational Service	8,110	8,510	9,170	10,940	19.3%
Other Jobs	5,580	4,830	5,370	6,600	22.9%
<b>Total</b>	<b>53,980</b>	<b>47,650</b>	<b>49,900</b>	<b>55,960</b>	<b>12.1%</b>

Source: Association of Bay Area Governments (ABAG) Projections 2007

Most employment sectors in Milpitas are expected to show positive growth patterns from 2005 through 2020, with a city-average employment increase of 12.1%.

The following identifies major employers within Milpitas, and distances in miles from conference- or multi-purpose center facilities proposed.

## MAJOR EMPLOYERS - MILPITAS

Company	Year Est.	Location - Distance from Subject	Number Employed	Industry
Cisco Systems, Inc.	1984	Milpitas Business Park - 0.5 mi. NW	3,000	Internet Network Supplier
Lifescan, Inc. (J & J)	1981	1000 Gibraltar Drive - 2.5 mi. NE	2,500	Medical Device Company
LSI	1981	1621 Barber Lane - 0.6 mi. S	1,320	Design/Manufacture Semiconductors
Flextronics International	1969	847 Gibraltar Drive - 2.7 mi. NE	1,300	Manufacturer of Electronic Components
Sandisk Corp.	1988	601 McCarthy Drive - 0.6 mi. NW	1,100	Supplier - Flash Memory Data Storage Products
KLA-Tencor Corp.	1997	1 Technology Drive - 1.2 mi. NW	1,000	Manufacturer of Semiconductors
Linear Technology Corp.	1981	1630 McCarthy Boulevard - 1 mi. SW	1,000	Manufacturer of Semiconductors
JDS Uniphase Corp.	1999	430 N. McCarthy Blvd. - 2.4 mi. N	800	Manufacture - Argon Lasers for Printers/Medical Applications
Headway Technology, Inc.	1994	678 S. Hillview Drive - 3.4 mi. NE	550	Manufacture - Components for Disk Drives
Dynamics Details, Inc.	1991	1831 Tarob Court - 3 mi. SE	270	Manufacturer/Assembly of Circuit Boards
Adaptec, Inc.	1981	691 S. Milpitas Blvd. - 3.2 mi. NE	192	Solutions for Storage/Manage Digital Content

Sources: Milpitas Chamber of Commerce and Integra San Francisco

Analysis of major employers within Milpitas is weighed heavily toward the high-tech employment sector; most major employers are well established.

Except for three major employers, the subject is located in close proximity to major employers in Milpitas. We note that areas within Milpitas that are zoned for office and R&D use are situated in the subject's general vicinity, which bodes well. Office and R&D occupancy statistics will be discussed subsequently, as they are good indicators of potential demand for conference facilities.

### Income

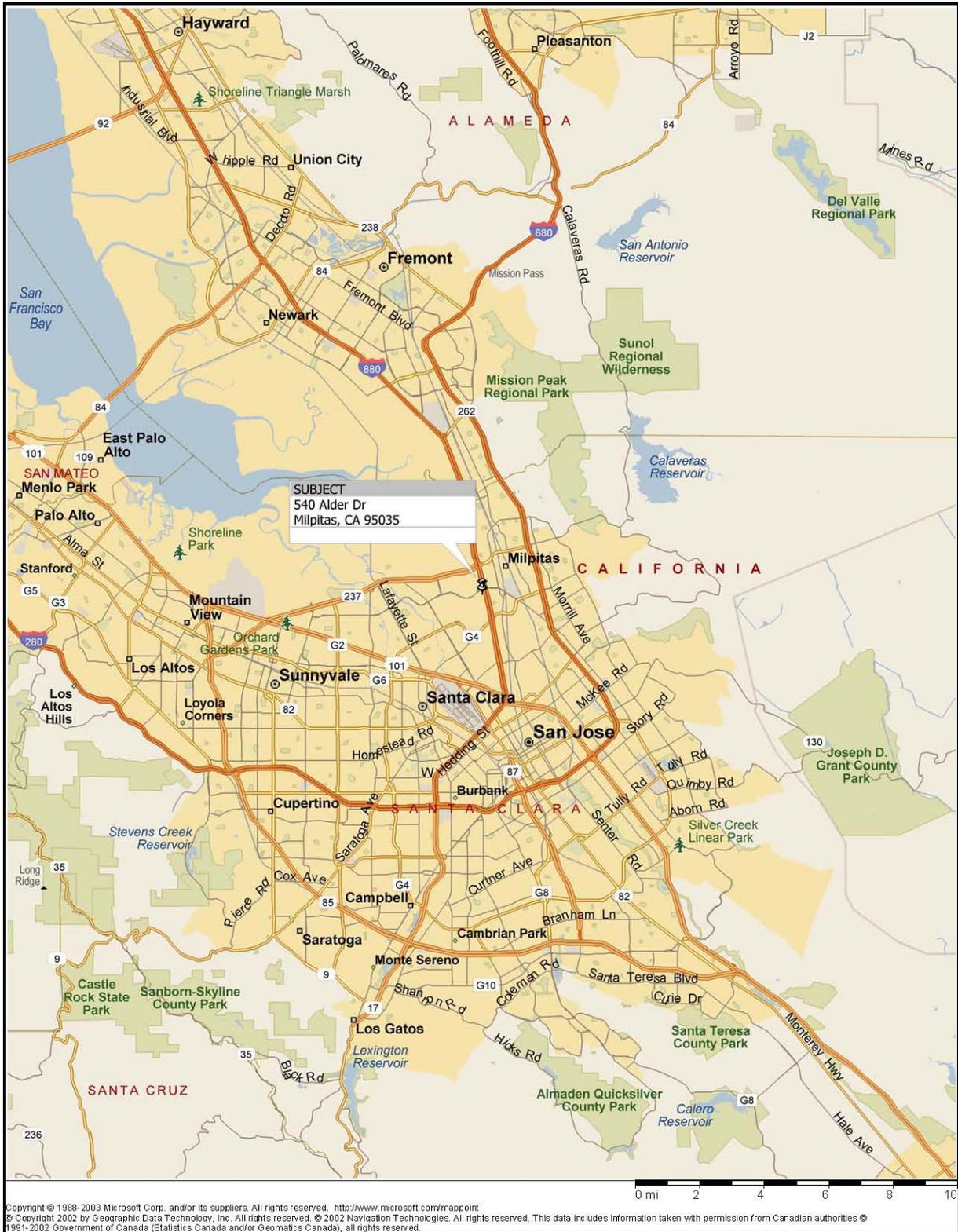
In 2005, Santa Clara County's mean household income was estimated by ABAG at \$97,900, similar to the Bay Area mean of \$97,400. Milpitas's mean income of \$99,700 is greater than the mean income for the county. ABAG projects Milpitas's mean household income to increase by 11.9% from 2010 to 2020, a pace slightly above that of the Greater San Francisco Bay Area's projected growth rate of 11.2%.

County	MEAN HOUSEHOLD INCOME						
	Mean Income		% Change 2000-2005	Mean Income Projections		% Change 2005-2010	% Change 2010-2020
	2000	2005		2010	2020		
City of Milpitas	\$120,000	\$99,700	-16.9%	\$105,500	\$118,100	5.8%	11.9%
Santa Clara County	\$118,400	\$97,900	-17.3%	\$102,800	\$114,400	5.0%	11.3%
Bay Area	\$104,000	\$97,400	-6.3%	\$102,100	\$113,500	4.8%	11.2%

Source: Association of Bay Area Governments (ABAG) Projections 2007

The City of Milpitas is poised for greater economic-, population-, and household income growth relative to Santa Clara County. The economic driver of its economy is technology, to which diversification should be pursued. Given its affluent, well educated population and proximity to major technology employers in Silicon Valley, the long term outlook for Milpitas is good. The subject is located within close proximity to well-established, major employers within Milpitas. The economic factors analyzed bode well for conference- or multi-purpose center use at the subject.

REGIONAL MAP

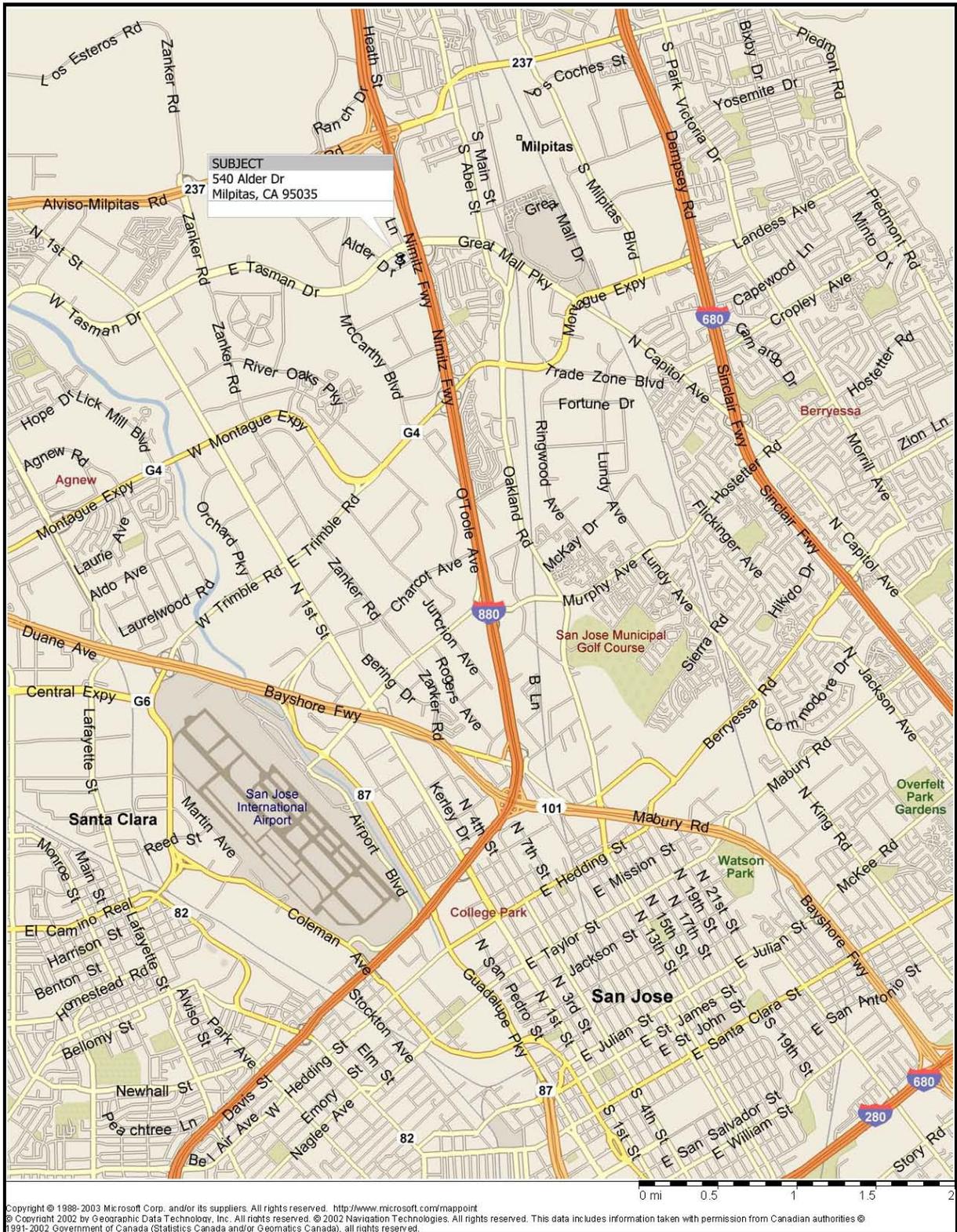


**NEIGHBORHOOD ANALYSIS****NEIGHBORHOOD BOUNDARIES**

The proposed conference facilities are located at 540, 570, and 590-596 Alder Drive in Milpitas. The location is within Silicon Valley's Golden Triangle (the confluence of Interstate 880, S.R. 237, and U.S. Highway 101). Prominent office/R&D real estate in this area is concentrated at: Moffett and Peery Parks in Sunnyvale, along Great America Parkway in Santa Clara, and Tasman Drive in San Jose and Milpitas.

Specifically, the subject property is located south of Alder Drive and west of Barber Lane in Milpitas. This is west of Interstate 880.

AREA MAP



## PROPERTY ANALYSIS

The buildings proposed for re-use as a conference center facility are Buildings 12, 13, and 14 of Milpitas Business Park, which are located at 540, 570, and 590-596 Alder Drive.

The buildings were originally constructed in 1985. Buildings 12 and 13 are each single-story, Class B R&D/Manufacturing buildings containing approximately 45% office build-out. Rentable area is 43,487- and 45,150 square feet (SF), respectively. Building 14 is a two-story, Class C office building containing 52,812 SF of rentable area (26,406-SF floor plates). Total rentable area, based on current R&D/manufacturing and office use, is therefore 141,449 SF. On-site parking totals 578 marked stalls, or a parking ratio of 4.1/1,000 SF of rentable area.

### LAND AREA

The following table summarizes the subject's land area.

LAND AREA SUMMARY		
Tax ID	SF	Acres
086-02-057	164,221	3.77
086-02-056	286,625	6.58
Total	450,846	10.35

Source: Public Record

The floor-to-area ratio (FAR) is 0.32.

In this phase of the assignment, we do not opine as to the appropriateness of the existing buildings for re-use as an exhibition hall, or convention, conference, or multi-purpose center, i.e., we do not address design, space program, layout, and performance specifications in estimating market demand or future use.

### FACILITY TYPE

Buildings designed to host conferences, meetings, and trade shows are collectively referred to as convention centers. These differ from sports, entertainment, and performing arts facilities<sup>1</sup>. Given the buildings identified for re-use, as well as Milpitas and its surroundings, we believe the most likely event facility at the subject would be a conference, or multi-purpose center.

Other facility types include an exhibition hall, or convention center. We now define the most likely types of facilities for development at the subject, as well as exhibition halls and convention centers.

<sup>1</sup> Developing Sports, Convention, and Performing Arts Centers, Third Ed. (Washington DC: Urban Land Institute, 2001): 9-12.

**LIKELY FOR DEVELOPMENT AT THE SUBJECT**

**Conference Center** – The biggest differences between conference and convention centers are the size of the group served (typically smaller in conference centers), and the level of service provided (typically higher in conference centers). Conference centers offer a higher ratio of meeting space to guest rooms and provide upscale furnishings, high-tech audio-visual equipment, skilled conference-planning staff, and other amenities designed to maximize the effectiveness of the seminars and other intensive, high-value meetings that they host. To protect participants from distractions, conference centers are typically located in rural, resort, or suburban locations.

Conference centers typically include [hotel] guestrooms that are connected to or adjacent to the center. Whereas conference centers are nearly always privately owned, convention centers are primarily owned by public agencies or governmental agencies, and typically do not include hotel rooms.

Conference centers differ from full-service or convention hotels and convention centers in that they are designed primarily for more intimate seminars and top-level strategic planning sessions, typically serving groups of fewer than 75 and offering a limited number of guest rooms separate from conference and leisure areas.

According to a management representative at The South San Francisco Conference Center, the difference between a convention and conference center is the exhibit hall. A convention center was reported to have a proper exhibit hall that is defined and typically has high ceiling height, concrete floor, loading docks, and utilities sufficient to accommodate functions with large power requirements.

**Multi-Purpose Center** – In smaller or less affluent cities, multi-purpose centers have been developed to host a wide variety of exhibition, meeting, and spectator events. The multi-purpose center may be referred to as a convention, civic, or community center, and typically consists of a large rectangular space with a flat floor to accommodate exhibitions, public or consumer shows, or merchandise-mart-type events.

**LESS LIKELY FOR DEVELOPMENT AT THE SUBJECT**

**Exhibition Hall** – An exhibition hall may contain 50,000 to over 1 million SF of contiguous, flat-floor space, with a 25- to 35-foot ceiling height. The space is typically larger than that of a local hotel's largest ballroom or exhibit facilities. Due to space constraints, exhibition halls are typically located next to rivers, lakes, or rail lines, at the perimeter of a city. Multi-level exhibition halls are successfully marketed in only a few of the most popular international destinations, i.e., in Chicago or Hong Kong.

**Convention Center** – A convention center contains one or more exhibition halls, a ballroom or banquet hall, and a large number of meeting or breakout rooms. Total meeting-room space and ballroom space is typically one-third to one-half of the center's exhibition space. Space allocation typically includes area for: a kitchen, separate ballroom or banquet hall, and occasionally for a theater-style (fixed-seat) assembly center. Entry lobbies are usually sized to accommodate attendee registration. Interior lobbies often serve as pre-function areas and are sized to host receptions or cocktail parties for guests before a banquet or other special event.

Convention centers host trade shows, consumer shows, conventions, religious or political conferences, receptions, dances, banquets, and other large assemblies. Meeting-room space is often described in terms of the number of people that can be accommodated for different events: a banquet-style event requires approximately 12 square feet per person; an event such as a reception or cocktail party requires 5 to 7 square feet per person; and a classroom-style even requires 7 to 9 square feet per person.

## TYPES OF EVENTS

Again, given the building type and Milpitas location, we believe conventions, trade shows, or consumer shows are the types of events most likely to use the subject facilities<sup>2</sup>. These differ from: merchandise-mart events, or international or state conventions. We note that corporate meetings and social events typically held at local, full-service hotels would also use the subject's facilities.

We now define event types most likely to be hosted in the subject buildings. The terms will be used throughout the remainder of this report, and in our forecast.

**Convention** – These are typically large gatherings hosted by professional- or social organizations, held in hotels or convention centers. Meetings may take place annually, or more often, and are attended by association members and invited guests. A convention can consist of a single assembly, or plenary session and a number of concurrent meetings or breakout sessions. Conventions often include trade shows (exhibits) to display and demonstrate products and services related to the group's specific business or profession.

Conventions, both with and without exhibits, have high economic impact because attendees normally stay three to four days and nights in the host city. In addition to spending money on transportation and accommodations, attendees purchase goods and services from restaurants, retail shops, and local attractions.

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<sup>2</sup> Developing Sports, Convention, and Performing Arts Centers, Third Ed. (Washington DC: Urban Land Institute, 2001): 13-15.

**Trade Shows** – Trade shows are attended by people who are engaged in commercial activities and belong to a trade or industry association (versus a professional association). Consequently, attendees are more interested in seeing the display and demonstration of products than in going to seminars or lectures to exchange ideas or information. Historically, trade shows required little or no meeting space. However, in order to attract larger audiences, trade fairs began to offer increasing numbers of lectures and training sessions during their exhibitions, and are thus becoming less distinguishable from conventions.

Trade shows are often held in the part of the country where their members' activities are concentrated, and often in the same venue each year, i.e., the jewelry show in New York City, and the petroleum-drilling-supplies show in Houston. Trade shows often draw more of their attendees from the local metropolitan area or region because their industry is concentrated in the geographic area that is home to the trade-show facility. This could be the case for high-tech companies in Milpitas.

Compared with conventions, trade shows tend to draw greater numbers of attendees with a shorter average length of stay. Participants often travel to the exhibition to see a specific type of product of interest and then leave. Although a trade-show exhibition may run five days, the average attendee may stay only one or two nights.

**Consumer Show** – The like are exhibitions of retail products for display and sale to attendees, and are ticketed events open to the public. Examples include boat-, auto-, recreational vehicle-, antique-, and home-and-garden shows. Consumer shows take place in exhibition halls – and, depending on the size, location, and type of merchandise sold, attract predominantly local residents. The largest shows will fill a community's hotel rooms for the duration of the event and create a significant economic impact, i.e., the Miami Boat Show. Smaller shows, such as those exhibiting coins or baseball cards may not attract any overnight attendees.

**Other Events** – Other events commonly hosted at public-assembly facilities include: festivals, concerts, sports events, banquets, and business meetings. The types and sizes of these events are determined by the local and regional economy and by the availability of other assembly, exhibition, and entertainment facilities in the community.

## DEMAND ANALYSIS AND REVENUE IMPACT

### MARKET ANALYSIS

Characteristics that are relevant for evaluating the comparability of destinations for conference or convention centers are now presented and discussed. These criteria were used to evaluate attributes of the subject's location, and those of comparable centers. This is subsequently applied to determine the base of demand for facilities proposed for development at the subject.

#### **WEATHER:**

According to the U.S. Weather Service, the average temperature in Milpitas ranges from 49.5 to 70.7 degrees Fahrenheit. There is 10.5 inches of rainfall annually, with humidity ranging from 47 (at 4 p.m.) to 77 (at 4 a.m.), with noontime humidity at 48. We do not anticipate any abnormal or unseasonable weather in Milpitas, relative to potentially competitive facilities.

#### **UNUSUAL SOCIAL, POLITICAL, OR ECONOMIC CIRCUMSTANCES:**

##### **Virtual Meetings and Tele-Conferencing**

According to an article posted by Siliconvalley.com – powered by The San Jose Mercury News, posted August 4, 2009, “Video Conferencing Prompts Silicon Valley Companies To Cut Travel Plans,” by John Boudreau, use of video conferencing is being used to reduce corporate travel and related expenses.

According to the article, Cisco Systems has slashed its annual travel budget by two-thirds — from \$750 million to \$240 million (this is a 68.0% decrease) — by using similar conferencing technology to replace air travel and hotel bills for its large workforce. Likewise, the article notes that Hewlett-Packard reduced 30% of its travel expenses from 2007 to 2008 — and expects even better results [further cuts] for 2009 — in large part because of its video conference technology. The companies are not only doing this to cut costs during recessionary economic conditions, but also to boost sales of teleconferencing platforms they developed, market, and sell.

##### **Large-Size Platforms**

**Cisco's TelePresence** and **HP's Halo** have been sold to over 300 corporate clients, thus far, including firms located in Silicon Valley, such as AMD and Nokia.

The cost of the platforms is, however, very expensive. According to the referenced article, HP's Halo ranges from \$120,000 (plus a \$9,900-a-month service fee), to \$349,000 (with a monthly fee of \$18,000). Cisco's TelePresence video conferencing technology costs \$34,000 to \$340,000 with no service fees. Prices are determined in part by how many people can participate at each site. There are also significant space requirements. We anticipate that this would bar many smaller firms from pursuing such systems, with little impact on the requirement to travel for corporate meetings/events.

Cisco, which plans to limit its travel budget to \$350 million a year even after economy improves, has set up 530 TelePresence rooms for its 66,000 employees located across its global company. The San Jose-based networking giant says it has held more than 350,000 meetings since Fall of 2006 — 68,000 of which were substitutes for travel. There is conjecture as to the degree to which business meeting demand will decline. Airlines have seen a drop of as much as 30% in the number of business passengers, said Seth Kaplan, managing partner of Airline Weekly. Others such as Michael Boyd, an aviation industry analyst, reports that video conference technology "is the wave of the future, that will slow business travel growth as the economy comes back."

In a study a decade ago, airline expert Alan Bender, professor of airline economics at Embry-Riddle Aeronautical University, found video conferences had reduced business travel by approximately 10%. Bender says today's technology is much better and will further cut the need for workers to travel across the country — or the globe.

Finally, the article notes that Marriott International recently announced it would deploy Cisco's TelePresence technology in hotels. Likewise, Starwood Hotels & Resorts Worldwide (which develops and owns the Westin, Sheraton, and other noteworthy hotel brands) is also deploying the system at some of its properties. Teleconferencing is expected to result in a decline in demand for corporate meetings, primarily for large companies in the subject's immediate area.

For a preview of Cisco's TelePresence, follow the below link (control + click on the following link from the written form of this narrative):

[http://www.cisco.com/en/US/netsol/ns669/networking\\_solutions\\_solution\\_segment\\_home.html?POSITION=SEM&COUNTRY\\_SITE=US&CAMPAIGN=HN&CREATIVE=TelePresence&REFERRING\\_SITE=Yahoo&KEYWORD=teleconferencing](http://www.cisco.com/en/US/netsol/ns669/networking_solutions_solution_segment_home.html?POSITION=SEM&COUNTRY_SITE=US&CAMPAIGN=HN&CREATIVE=TelePresence&REFERRING_SITE=Yahoo&KEYWORD=teleconferencing)

Sales and marketing professionals we interviewed at Milpitas hotels reported a decline in the number of corporate meetings dating back to the period immediately following 2001. Economic decline following that year resulted in a number of local companies reducing internal travel and the number of live, corporate meetings held in meeting or event space. Reportedly, this decline continues in the current economic downturn. One representative reported that companies such as Cisco Systems constructed meeting space within its single-tenant, corporate campus, therefore reducing meetings or events hosted at local hotels or other, similar venues.

We note that Cisco offers paid public use of TelePresence rooms at its corporate campus in Milpitas.

Management representatives at the South San Francisco Conference Center (SSFCC) reported that companies such as Oracle and Genentech have fairly recently constructed their own meeting and event space within space they lease or own, and have eliminated the need for space rental. However, other high-tech and bio-tech companies such as HP, Agilent, and AMGEN continue to rent space at the center for meetings, such as for stockholder meetings. Due to the types of meetings and events booked at the SSFCC, no significant impact was reported or anticipated as a result of the widespread use of electronic or virtual meetings or teleconferencing.

### **Medium-Size Platforms**

Teleconferencing platforms available from HP and Cisco require not only large capital outlay, but also significant space. Three companies, Polycom, Tandberg, and Teliris offer smaller-scale visual communication solutions.

Polycom offers Telepresence systems enabling high-definition, cinematic meetings for groups of 2 to 28. There are also management, office, and desktop solutions. Recording and streaming of video conferences are available using one or several of Polycom's systems.

Tandberg and Teliris offer a similar range of Telepresence systems, from large-size virtual meeting rooms to smaller, collaborative meeting rooms, to personal desktop virtual meeting applications.

Again, these systems require rather substantial capital outlay. Users must purchase, install, and operate more sophisticated computer hardware and software. In some cases reconfiguration of Local Area Networks (LANs) is required. Other applications involve establishment of Wide Area networks (WANs). The systems can involve significant space allocation.

We have enclosed brochures for these three products in the Addendum to this report.

### **Small-Scale Teleconferencing**

#### *Citrix Online*

Citrix Systems, Inc. (NASDAQ:CTXS) is the leading provider of virtualization, networking and software as a service technologies for more than 230,000 organizations worldwide. Its Citrix Delivery Center, Citrix Cloud Center (C3) and Citrix Online Services products simplify computing for millions of users, delivering applications as an on-demand service to any user, in any location, on any device.

Citrix On-line's remote-connectivity tools stream an image of a computer screen over the World Wide Web (the web), and enable simple, low-cost, remote access to virtual meetings and the like. The software platform allows on-line meetings and "Webinars" – seminars held on the Internet. Three important products currently available from Citrix Online include:

- GoToMeeting – This is a web conferencing solution that enables on-line meetings with up to 15 attendees. Monthly plans range in cost from \$39.00 to \$49.00. The plan allows for 10 to 10,000 meetings per year; attendees meet for free. For larger web events, GoToWebinar is available.
- GoToAssist – This enables web-based, remote support of individual workstations from an individual support provider.
- GoToMyPC – Again, this is a web-based solution that allows users to log into an individual work station from a remote location.

Roopam Jain, a principal analyst at Frost & Sullivan [an international consulting and training company that monitors information technology], told the E-Commerce Times.Market, "Citrix Online targets the Web conferencing market with its GoToMeeting and GoToWebinar offerings. Our research indicates that the Web conferencing industry grew by 17% in 2008, topping \$1.1 billion in sales. We expect the market to reach \$2.7 billion in five years growing at a compound annual growth rate of 19.8% percent."

The above are perhaps the greatest threat due to portability and expense, and could have a negative impact on the small-to-medium-size corporate meeting market segment, as well as seminars. We note however, that seminars and educational offerings for licensed professionals, such as: nurses, pharmacists, and certified public accountants often have state-mandated limitations on which seminars or educational offerings can be offered or taken online. The preceding virtual meeting possibilities could have only a partial impact on the demand for live meetings.

#### Other

Other social and political forces include companies reducing travel in the short- and long-term as participants in green initiatives.

#### Generation X

Baby Boomers are the 79 million who were born between 1943 and 1960; fewer than 68 million are alive today in the U.S. and ranging in age from 47 to 64 years old. By comparison, Generation X (Gen X) are the 93 million born between 1961 and 1981; more than 83 million are alive today ranging in age from 26 to 46. Gen X is a small, highly educated and widely diverse group of individuals with values that greatly differ from those of the massive Baby Boomer generation. As the latter enter retirement, Gen X will enter the U.S. workforce.

According to NAS Recruitment Communications, a noteworthy leader in the specialized field of human resource communications, Internet usage has become a part of life for 87% of Gen. X going online for various life activities. The following table shows the top 11 reasons Gen X goes online.

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**GENERATION X INTERNET USAGE**


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<b>Online Activity</b>	<b>Percent of Gen X User</b>
Use Email	92.0%
Get health Info On At Least One Topic	84.0%
Product Research	80.0%
Get News	76.0%
Travel Reservations	72.0%
Online Purchase	69.0%
School Research	60.0%
Job Research	59.0%
Use Government Sites	56.0%
Instant Message	52.0%
Job Hunting	51.0%

Sources: Pew Internet & American Life Project, as published by NAS Recruitment Communications, 2006

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### **Conclusion**

Electronic and virtual means of conducting corporate meetings is expected to have a negative impact on the need for live corporate meetings and events. In terms of space use and rental, association group business is a potential source of demand. We suggest that city planners consider inclusion of Telepresence meeting rooms within proposed conference center facilities, as well as incorporating green initiatives in re-development. We have considered decline in demand for meetings and events from corporate group users in our demand forecast, which carries through to our revenue impact conclusion.

### **MARKET COMPARISON OF FACILITIES:**

The following provide historical trends we used to estimate future occupancy at the subject conference- or multi-purpose facility.

<b>HOTEL ROOMS AND CONVENTION DEMAND</b>						
<b>City/Facility Location</b>	<b>Number of Hotel Rooms<sup>1</sup></b>	<b>Total Hotel Rooms In City</b>	<b>Percentage Convention-Involved</b>	<b>Total Center Attendees Rounded 2008, or 2008/09</b>	<b>Attendees To Hotel Rooms</b>	<b>Hotel Room Price Point - 2009</b>
San Francisco <sup>2</sup>	14,966	34,269	43.7%	940,000	62.8	\$155.00
South San Francisco	1,222	2,710	45.1%	75,000	61.4	\$112.00
San Jose	3,910	8,506	46.0%	1,065,502 <sup>3</sup>	272.5	\$94.00
Santa Clara	1,803	3,790	47.6%	267,000	148.1	\$133.00
Milpitas <sup>4</sup>	1,595	2,685	59.4%	---	---	(estimate - \$107.00)

<sup>1</sup> Denotes hotel rooms that typically block rooms for convention attendees, or those typically used for convention groups

<sup>2</sup> Level 4 Convention Hotels only

<sup>3</sup> Includes: conferences, conventions, consumer and public trade shows, meetings and banquets

<sup>4</sup> Includes: Beverly Heritage, Embassy Suites, Courtyard, Sheraton, Crowne Plaza, Residence Inn, Hilton Garden Inn, and Larkspur Landing

Source: Integra - San Francisco, Smith Travel Research, and various CVB Agencies

The subject hotel market has a similar number of hotel rooms compared to South San Francisco and Santa Clara. In each comparable market area, the percentage of hotel rooms that are most directly involved in hosting of conference center events ranges from approximately 44% 48%; we anticipate a slightly higher percentage of rooms in Milpitas, due to the location of the subject proposed relative to existing hotel rooms. The San Jose and Santa Clara Convention Centers have the highest number of convention center attendees per hotel room. In San Jose this is due to high attendance at several facilities. In Santa Clara, there are a few, large hotels located close to its convention center, which drives up the figure. In terms of price point, we believe that Milpitas is most similar in price point to South San Francisco.

Proximity to a large concentration of high-quality hotel rooms is nearly always a requirement for a successful convention center or conference facility. We believe the hotel product located immediately around the proposed conference facilities in Milpitas are judged to be slightly above those in South San Francisco in terms of nationally recognized brand affiliation, quality/effective age, and the availability of full-service rooms.

Additions to hotel rooms supply in the immediately surrounding area of the subject is presented in the Addendum. We do not anticipate this to have an impact on the market for conference or multi-purpose center space. South San Francisco is in a generally similar situation with regard to new hotel supply.

We note that in destinations with fewer than 10,000 hotel rooms, such as the subject, a convention or civic center will often function as a multi-purpose or community center. The major users of a convention center will be regional, state-based, or sometimes industry-specific organizations. A convention center in a smaller city can be expected to attract public or consumer shows, boat shows, car shows, home-and-garden shows, retail buyer or merchandise-mart shows, and so on. The dominant category of users may be local civic and social or fraternal groups. Other events may include high school graduations, political rallies, meetings of religious organizations, concerts by local musical groups and amateur athletic contests. Attendees at some of these events will be locally based and thus could generate minimal economic impact.

The preceding statistics will be analyzed subsequently, and information considered in forecasting demand for conference facilities proposed.

#### **POPULATION/MEDIAN HOUSEHOLD INCOME:**

Given the anticipated high degree of demand from local attendees to the subject, a demographic profile of the subject's immediately surrounding neighborhood, including population, households, and income data, is presented as follows.

<b>SURROUNDING DEMOGRAPHICS SUMMARY</b>			
	5-Mile Radius	10-Mile Radius	Santa Clara County
<b>Population</b>			
2014 Projection	316,331	1,315,474	1,884,771
2009 Estimate	296,300	1,255,183	1,795,835
2000 Census	265,804	1,179,742	1,682,585
1990 Census	225,595	1,043,713	1,497,583
1990-2000 Growth	17.8%	13.0%	12.4%
2000-2009 Growth	11.5%	6.4%	6.7%
2009-2014 Projected Growth	6.8%	4.8%	5.0%
<b>Households</b>			
2014 Projection	95,133	424,291	621,996
2009 Estimate	89,103	407,572	595,646
2000 Census	80,057	389,590	565,863
1990 Census	69,066	361,031	520,182
1990-2000 Growth	15.9%	7.9%	8.8%
2000-2009 Growth	11.3%	4.6%	5.3%
2009-2014 Projected Growth	6.8%	4.1%	4.4%
<b>Income Estimates - 2009</b>			
Average Household Income	\$106,803	\$104,040	\$114,424
Median Household Income	\$88,173	\$82,988	\$88,208
Per Capita Income	\$32,594	\$34,080	\$38,278
Source: Claritas, Inc.			

The City of Milpitas is bordered by Fremont to the north, which has been one of the fastest-growing residential areas within the San Francisco Bay Area. It is Alameda County's second largest residential population. Population growth within a five-mile radius of the subject is favorable compared to the larger 10-mile radius and Santa Clara County as a whole. Average household income within a 5-mile radius is favorable compared to the larger 10-mile radius. Average and per-capita income figures for the 5-mile radius are relatively low due to more affluent areas located in West Santa Clara County compared to Milpitas.

Within a five-mile radius of the subject, approximately 56.0% of the population is married; 73% of households are family occupied; 22.4% of the total population within this trade area hold a bachelor's degree, with an additional 10.4% having a master's or professional school degree. Households within a five-mile trade area with income above \$100,000 compose 42.5% of all households (data are according to 2009 Claritas, Inc., SiteReports).

Statistics for the five-mile trade area bode well for a conference or multi-purpose center in the location proposed for the subject. As previously noted, residents of Milpitas have a high degree of affluence compared to Santa Clara County. A large percentage of the population is highly, formally educated.

**PLACEMENT OF RETAIL RELATIVE TO THE SUBJECT:**

The subject is located proximate to the intersection of Interstate 880 and S.R. 237. Retail development is generally located on the four corners formed by this intersection, along McCarthy Boulevard and Barber Lane. Milpitas Town Center is located on the north side of S.R. 237/Calaveras Blvd. Other major retail uses are located at The Great Mall, and the northeast corner formed by the intersection of Interstate 680 and Landess Avenue.

Retail uses anticipated to have the greatest regional drawing power and impact on the proposed conference facilities are detailed as follows.

The subject is located approximately 0.5 mile south of **McCarthy Ranch**. This is a 265,000-square-foot retail power center anchored by: Best Buy, Office Max, Computer City, Best Buy, PetsMart, Ross Dress for Less, and Sports Authority. In addition, there are several in-line retail outlets located on retail pads throughout the center, as well as one upscale, extended-stay hotel and a select-service hotel; the 124-room Larkspur Landing and the 161-room Hilton Garden Inn. This is an institutional-grade core retail power center that benefits from credit tenancy, as well as location at the intersection of Interstate 880 and S.R. 237, with high traffic count.

Approximately 0.5 mile east of the subject facilities (where Tasman Drive becomes Great Mall Parkway) is **The Great Mall of the Bay Area**. This regional mall contains 1.3 million square feet of gross leasable area, and serves a trade-area population of over 1 million. Department stores include Kohl's and Sears. Anchor tenants include (among others): Beverages & More, Burlington Coat Factory, a 20-plex Century Theater, Dave & Busters, and H&M. Adjacent to the shopping center are a 143-room Marriott TownePlace Suites and a 155-room Marriott Courtyard. The mall was renovated in 2006, and benefits from a location on Montague Expressway, between Interstates 680 and 880.

**Milpitas Square** is located 0.5 mile north of the subject facilities, on Barber Lane. This is a 162,200-square-foot ethnic shopping center anchored by a Ranch 99 Supermarket. **Ulferts Center**, located proximate to this, is a two-story destination retail center that is unanchored.

Reflective of the city's diverse population, there is an abundance of high-quality restaurants in Milpitas. Cuisines available include: a range of Asian, American, Mexican and Italian. Noteworthy restaurants, among several others, include:

- Brandon's Restaurant & Lounge
- Outback Steakhouse
- Zahir's California & European Cuisine
- Mayflower

Overall, the placement of retail and restaurants is advantageous for a conference or multi-purpose center use at the subject.

**PLACEMENT OF RECREATION FACILITIES AND PARKS RELATIVE TO THE SUBJECT:**

The City of Milpitas, and therefore the subject, is served by the following golf courses:

- **Spring Valley Public Golf Center** – Approximately 5.0 miles NE of the subject on S.R. 237/E. Calaveras Blvd., Milpitas – 18-hole public golf course; 6,073-yard course (back tees) with a slope rating of 112 on Bermuda grass. Clubhouse with restaurant and lounge is available.
- **Summitpointe Golf Club** – Approximately 5.0 miles NE of the subject. 18-hole public golf course; 6,329-yard course (back tees) with a slope rating of 133 on Bentgrass. Clubhouse with restaurant and lounge is available.

**iSwing** is a golf instruction learning center with state-of-the-art training bays and simulators. This is located 4.5 miles northeast of the subject.

Horseback riding is available in Milpitas at the Chaparral Ranch, located approximately 6.0 miles northeast of the subject, near Ed Levin County Park; horseback riding is also available at Ed Levin Park.

The nearest major regional parks to the subject include the following;

- **Ed R. Levin County Park/Sandy Wool Lake** – Located approximately 5.0 miles northeast of the subject. The park is owned and maintained by Santa Clara County and offers visitors many recreational activities, including fishing and hiking.
- **Don Edwards San Francisco Bay National Wildlife Refuge** – This is also the Alviso Refuge Environmental Education Center and approximately 4.0 miles W of the subject. Glimpses of marsh life and bird walks are available.

In addition to the above, neighborhood parks closest to the subject include: Dixon Landing Park (11 acres – 3.8 mi. north), Hall Memorial Park (9.5 acres – 3.0 miles northeast), and Starlite Park (4 acres – 2.0 mi. northeast). Other nearby parks include: Tom Evatt Park, John McDermott Park, O’Toole Elms Park, and Pinewood Park.

Overall, the placement of recreation and parks is advantageous for a conference or multi-purpose center use at the subject.

**AIR SERVICE:**

Norman Y. Mineta San Jose International Airport (SJC) is a city-owned, public-use airport serving the city of San Jose. The airport is located 5.5 miles southwest of the subject, with fairly simple access via the Montague Expressway and N. First Street in San Jose. The airport is located near the intersections of three major interstates, including: U.S. Highway 101, Interstate 880, and S.R. 87.

Despite San Jose's position as the most populous city in the San Francisco Bay Area, SJC is the smallest of the three San Francisco Bay Area airports offering scheduled air service. Convenient proximity to downtown San Jose has resulted in little room for expansion. Airport capacity is also limited by noise reduction requirements and restriction on building height in downtown San Jose due to safety margins set by FAA regulation.

The following table details passenger enplanement and deplanement at the airport.

<b>MINETA SAN JOSE INTERNATIONAL AIRPORT</b>		
<b>Calendar Year</b>	<b>Passenger En-/Deplanement Traffic</b>	<b>Percent Change</b>
2002	10,935,830	---
2003	10,355,975	(5.3) %
2004	10,733,532	3.6
2005	10,756,786	0.2
2006	10,708,065	(0.5)
2007	10,658,395	(0.5)
2008	9,717,717	(8.8)
YTD Through 06/08	4,936,187	---
YTD Through 06/09	4,039,922	(18.2) %

Source: Norman Y. Mineta San Jose International Airport

After the 2001 high-tech/Internet/dot-com bubble burst, the city lost several flights due to decrease in demand. Several non-stop, international flights were discontinued, including those by Air Canada and American Airlines. Dramatic reduction continued through 2004. In October, 2006, American Airlines discontinued the San Jose–Tokyo–Narita route, which was San Jose's last remaining link with an international overseas destination. The airport suffered along with many mid-tier airports during the 2008 increase in oil prices, as airlines reduced marginal services to improve profitability. Several transcontinental routes were discontinued in Fall 2008, including: Continental ending non-stop flights to Newark, NJ; JetBlue ceasing Boston service; and United ending longtime service to its Chicago-O'Hare and Washington-Dulles hubs.

In late August 2009, American will cease non-stop service to Austin, Texas (another important U.S. high-tech hub). However, Alaska Airlines has announced it will begin new non-stop service to Austin from SJC. In addition, beginning September 2, 2009, Alaska Airlines will provide commercial jet service to Portland, Oregon, which was previously run by a regional subsidiary, Horizon Air.

Despite the above, a \$1.3 billion expansion plan is underway at SJC, major portions of which have already been completed. In August 2004, the city broke ground on North Concourse, the first phase in a three-phase, nine-year expansion plan. A revised, two-phase plan called for a North Concourse, which is expected to be completed in 2010, and a simplified Terminal B. Renovations include: Terminal A expansion, to include additional check-in counters, security checkpoints, and drop-off/pick-up curbside space; cargo facilities will be moved to the east side of the airport; a long term parking garage would be constructed at the current location of the rental car operations; and a new short term parking structure would also be constructed at the site of current Terminal C short term parking lot.

With the completion of Terminal B in 2010, all airlines currently operating in Terminal C will be moved to either Terminal A or B, as the old terminal will be demolished to make room for the South Concourse. The South Concourse will be built once traffic levels recover and reach a certain level determined by the City of San Jose to justify the expansion.

The following table details airlines currently serving SJC, and non-stop cities served.

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**SCHEDULED AIRLINE SERVICE - MINETA SAN JOSE INTERNATIONAL AIRPORT**


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<b>Airline</b>	<b>Non-Stop Service To:</b>	<b>Comments</b>
American Airlines	Chicago/O'Hare, Dallas/Forth Worth	
American Eagle	LA, Orange County, San Diego	Ends Aug. 25, 2009
Hawaiian Airlines	Honolulu	
Mexicana	Guadalajara, Morelia	
Southwest Airlines	Burbank, Chicago/Midway, Las Vegas, LA, Orange County Phoenix, Portland (OR), Reno/Tahoe, San Diego, Seattle/Tacoma	
Alaska Airlines	Austin, Portland, Seattle/Tacoma	Austin/Portland service begins Sep 2, 2009
Continental Airlines	Houston	
Delta Airlines	Atlanta, Salt Lake City	
Frontier Airlines	Denver	
Horizon Air	Boise, Mammoth Lakes (seasonal), Portland (OR), Sacramento	
JetBlue Airways	Long Beach, New-York/JFK	
Northwest Airlines	Minneapolis/St. Paul	
United Airlines	Denver, LA, Santa Barbara	
U.S. Airways	Las Vegas, Phoenix	

Source: SJA

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The subject would enjoy the same airport benefit as convention centers in Santa Clara and San Jose.

### OCCUPANCY OF CLASS A OFFICE SPACE:

Throughout most Silicon Valley communities, (including Milpitas) 70% of hotel occupancy depends on nearby, occupied Class A office or R&D space. The latter typically results in extended-stay hotel room demand due to the need for a highly-skilled labor force, a portion of which must be temporarily brought-in from other locations such as Austin, Texas, or even India and other countries. Development of a successful event center can rely on proximity to, and plans to capture demand from, nearby office space. Because of this, we analyze historical trends for the Silicon Valley Office market, which includes Milpitas.

The subject property is located in the Milpitas/North San Jose submarket of the Silicon Valley office market. These markets are tracked by NAI/BT Commercial, which publishes a quarterly market report. The report provides market statistics for overall market occupancy, rents, new construction, and absorption.

### Vacancy Rates

The following table presents historical vacancy trends.

Silicon Valley Office Market													
Vacancy Trends													
Submarket	2000	2001	2002	2003	2004	2005	2006	2007	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009
Palo Alto	2.9%	12.1%	15.8%	13.1%	11.4%	9.7%	7.6%	3.8%	4.6%	5.3%	9.0%	9.3%	10.0%
Mountain View	8.7%	30.7%	28.5%	20.3%	14.7%	14.5%	14.4%	11.9%	11.7%	10.7%	12.7%	12.3%	11.5%
Cupertino	1.8%	14.6%	18.5%	16.2%	11.7%	8.5%	4.4%	3.6%	7.8%	6.3%	11.2%	11.1%	12.1%
Campbell	4.1%	19.7%	19.2%	13.7%	11.0%	7.9%	12.7%	12.6%	18.4%	17.9%	19.4%	21.2%	22.1%
Los Gatos/Saratoga	1.6%	10.0%	10.2%	11.3%	5.6%	5.9%	11.3%	10.4%	13.5%	10.5%	9.9%	12.9%	11.2%
West San Jose	6.1%	21.7%	16.5%	14.7%	10.9%	8.0%	6.0%	6.3%	8.0%	9.4%	9.8%	10.2%	10.0%
Sunnyvale	3.9%	15.0%	13.9%	18.9%	19.0%	9.8%	7.8%	15.0%	24.6%	24.4%	33.2%	32.9%	33.3%
Santa Clara	4.8%	22.4%	26.1%	34.2%	28.3%	18.7%	15.3%	16.6%	17.3%	18.5%	17.6%	22.6%	22.3%
SJ Airport	3.5%	13.3%	14.2%	13.2%	12.0%	10.8%	7.6%	12.9%	14.9%	17.8%	19.1%	24.8%	22.6%
<b>North San Jose</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>8.6%</b>	<b>9.7%</b>	<b>12.1%</b>	<b>17.2%</b>	<b>16.4%</b>	<b>17.0%</b>
Alameda/Civic Center	4.8%	4.8%	2.4%	4.3%	6.4%	6.7%	10.0%	8.6%	8.0%	9.8%	11.2%	10.0%	11.4%
South San Jose	1.8%	6.5%	6.7%	25.8%	5.6%	8.1%	8.0%	6.3%	6.1%	7.0%	7.3%	8.4%	9.5%
Downtown San Jose	1.2%	11.7%	14.7%	16.4%	16.8%	20.8%	20.8%	12.7%	17.9%	17.8%	21.7%	23.2%	23.9%
<b>Milpitas</b>	<b>2.8%</b>	<b>12.9%</b>	<b>22.8%</b>	<b>14.1%</b>	<b>13.3%</b>	<b>12.4%</b>	<b>10.0%</b>	<b>5.7%</b>	<b>7.0%</b>	<b>9.3%</b>	<b>11.3%</b>	<b>12.8%</b>	<b>15.9%</b>
Fremont	2.9%	6.1%	8.5%	7.3%	8.7%	5.5%	6.1%	7.5%	8.6%	10.1%	10.8%	11.8%	14.1%
<b>Total</b>	<b>3.6%</b>	<b>15.1%</b>	<b>16.8%</b>	<b>17.7%</b>	<b>14.4%</b>	<b>12.2%</b>	<b>10.7%</b>	<b>10.2%</b>	<b>13.0%</b>	<b>13.5%</b>	<b>16.7%</b>	<b>18.1%</b>	<b>18.6%</b>

Source: NAI/BT Commercial

### Silicon Valley

Throughout Silicon Valley, vacancy rates have increased over eight percentage points in the past year, to 18.6% as of the end of the Second Quarter of 2009. This is attributed to recessionary market conditions and the large amount of speculative new construction, which has yet to be absorbed. The Second Quarter 2009 vacancy rate is the highest on record by nearly a percentage point (17.7% in 2003).

Although not depicted, total availability of space increased to 13.8 million square feet in the Second Quarter of 2009. This is greater than the prior, high-mark record of 12.1 million square feet on the market in the Second Quarter of 2003 – the peak of the last down cycle. We note, however, only roughly one-third of the increase in availabilities since the prior quarter are attributed to new product being brought to market. Analysts are forecasting continued decline until at least early-to-mid 2010.

Sublease space increased 70,000 square feet, or 3.0%, from the previous quarter. Most space sizes were full-floor sizes ranging from 15,000- to 30,000 square feet; much of the sublease space is Class A office space. In the first half of 2009, sublease space increased nearly 500,000 square feet mainly due to Yahoo's introduction of 384,000 square feet in Santa Clara.

### Milpitas

Except for 2002 and 2004, the Milpitas office market has achieved lower vacancy rates compared to Silicon Valley as a whole, which bodes well for the medium- and long-term.

### Asking Rates

The following table presents historical asking rate trends.

Silicon Valley Office Market													
Average Asking Rent Trends													
Submarket	2000	2001	2002	2003	2004	2005	2006	2007	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009
Palo Alto	\$11.20	\$4.39	\$3.34	\$3.09	\$2.94	\$3.10	\$3.40	\$5.03	\$5.35	\$5.34	\$5.12	\$4.86	\$4.65
Mountain View	\$8.60	\$3.55	\$2.53	\$2.34	\$2.22	\$2.21	\$2.72	\$3.26	\$3.24	\$3.32	\$3.28	\$3.09	\$3.08
Cupertino	\$6.66	\$3.29	\$2.67	\$2.32	\$2.40	\$2.46	\$2.95	\$3.39	\$3.55	\$3.55	\$3.72	\$3.59	\$3.40
Campbell	\$5.45	\$3.34	\$2.36	\$2.03	\$1.95	\$2.21	\$2.43	\$2.65	\$2.65	\$2.69	\$2.64	\$2.44	\$2.35
Los Gatos/Saratoga	\$5.13	\$2.91	\$2.35	\$2.42	\$2.52	\$2.62	\$2.79	\$2.98	\$2.99	\$3.05	\$2.92	\$2.93	\$2.85
West San Jose	\$5.21	\$3.07	\$2.21	\$2.13	\$1.77	\$1.73	\$2.36	\$2.24	\$2.40	\$2.50	\$2.44	\$2.42	\$2.27
Sunnyvale	\$7.34	\$2.91	\$2.18	\$1.98	\$2.03	\$2.05	\$2.40	\$3.15	\$3.33	\$3.28	\$3.42	\$3.35	\$3.27
Santa Clara	\$5.75	\$2.88	\$2.43	\$2.02	\$1.87	\$1.83	\$2.08	\$2.57	\$2.66	\$2.60	\$2.60	\$2.14	\$2.00
SJ Airport	\$5.08	\$2.94	\$2.47	\$1.88	\$1.82	\$1.83	\$1.89	\$2.44	\$2.38	\$2.45	\$2.36	\$2.41	\$2.36
<b>North San Jose</b>	<b>N/A</b>	<b>\$2.31</b>	<b>\$2.70</b>	<b>\$2.74</b>	<b>\$2.64</b>								
Alamdega/Civic Center	\$5.01	\$2.47	\$1.80	\$1.60	\$1.64	\$1.63	\$1.70	\$1.75	\$1.88	\$1.95	\$1.94	\$2.00	\$1.85
South San Jose	\$3.87	\$2.57	\$1.80	\$1.83	\$1.60	\$1.60	\$1.85	\$2.13	\$2.28	\$1.94	\$1.86	\$1.81	\$1.67
Downtown San Jose	\$5.54	\$3.42	\$2.61	\$2.21	\$2.15	\$2.20	\$2.23	\$2.32	\$2.74	\$2.74	\$2.99	\$2.93	\$2.91
<b>Milpitas</b>	<b>\$3.75</b>	<b>\$2.43</b>	<b>\$2.08</b>	<b>\$1.61</b>	<b>\$1.79</b>	<b>\$1.64</b>	<b>\$1.73</b>	<b>\$2.09</b>	<b>\$2.12</b>	<b>\$2.16</b>	<b>\$2.03</b>	<b>\$1.91</b>	<b>\$1.83</b>
Fremont	\$3.96	\$2.70	\$2.20	\$1.98	\$1.92	\$2.16	\$2.25	\$2.20	\$2.32	\$2.26	\$2.21	\$2.20	\$2.33
<b>Total</b>	<b>\$7.00</b>	<b>\$3.23</b>	<b>\$2.52</b>	<b>\$2.16</b>	<b>\$2.08</b>	<b>\$2.12</b>	<b>\$2.36</b>	<b>\$2.78</b>	<b>\$2.94</b>	<b>\$2.90</b>	<b>\$3.07</b>	<b>\$2.92</b>	<b>\$2.84</b>

Source: NAI BT Commercial

## Silicon Valley

Throughout Silicon Valley, the average asking rate decreased \$0.08 in the Second Quarter of 2009, to \$2.84 per square foot, full-service. As new spec construction projects have been built and brought to market, average asking rent has declined 7.5%, or by \$0.23 per square foot in 2009. Bolstered in-part by new construction (which keeps rates inflated), average asking rent of \$2.84 is generally on-par with that occurring in 2007, and well above the low of \$2.08 occurring in 2004, when the market recovered from the prior economic downturn.

Given weakened demand and activity, rates are expected to continue their downward trend. There is a widening gap between asking and actual deal rates, while more tenant concessions/incentives are being offered, including: free rent, landlord provided TIs, and lower front-end rents. Landlords are restructuring lease terms, increasing the number of blend/extends or signing early renewals at lower rates. Asking rents at newly completed projects are anticipated to have to reduce rates to generate income. Some projects have entered default due to the inability to lease-up.

## Milpitas

Given Milpitas' location at the northeasterly periphery of Silicon Valley, as well as the office product present in its submarket, average asking rent is among the lowest compared to all asking rents in Silicon Valley.

## Absorption

**Silicon Valley Office Market  
Net Absorption Trends**

Submarket	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD Q2 09
101 Tech. Corridor South	(142,160)	(993,956)	(311,661)	530,002	361,602	230,705	241,406	896,301	(407,019)	(146,785)
West Valley	224,918	(990,199)	(308,243)	67,257	446,615	367,645	34,916	61,855	(294,831)	(153,280)
Central Silicon Valley	5,824,037	(2,654,839)	(696,302)	(1,565,862)	1,411,835	1,377,245	681,289	(62,608)	(519,020)	(764,766)
Downtown San Jose	708,384	(676,518)	(370,668)	102,520	266,689	(280,148)	50,590	640,739	(461,070)	(201,271)
<b>880 Corridor South</b>	<b>322,748</b>	<b>(166,979)</b>	<b>(173,980)</b>	<b>127,100</b>	<b>(9,075)</b>	<b>61,219</b>	<b>(56,717)</b>	<b>107,764</b>	<b>(157,404)</b>	<b>(121,119)</b>
Total	6,937,927	(5,482,491)	(1,860,854)	(738,983)	2,477,666	1,756,666	951,484	1,644,051	(1,839,344)	(1,387,221)

Source: NAI BT Commercial

The local and regional economies generally began economic recovery from the prior downturn approximately mid-2004. This generally continued through 2007 by several measures. Data for Silicon Valley indicate positive net absorption totaling 6,829,867 square feet, or 1,951,391 square feet per year during this time period (3.5 years).

## Silicon Valley

Including all property classes, Silicon Valley contained a total of 74,517,006 square feet of office space as of the Second Quarter of 2009. Of this 18.6%, or 13,842,622 square feet was available for lease. Based on stabilized occupancy of 90% – a 10% vacancy rate – a total of 6,390,921 square feet will need to be absorbed to reach stabilized occupancy. Assuming annual net absorption of 1,950,000 square feet, a nearly 3.2 year absorption period is implied (6,390,921 / 1,950,000). This does not include addition to supply.

## Milpitas/Fremont

Note that new construction trends are not further defined as North San Jose. Therefore, the I-880 Corridor South, which includes Milpitas/Fremont is analyzed. In the 880 Corridor South submarket there are a total of 3,542,648 square feet of office space, of which 14.7%, or 520,769 square feet are vacant and available for lease as of the Second Quarter of 2009. Based on a stabilized occupancy rate of 90.0%, a total of 166,504 SF will need to be absorbed to reach stabilized occupancy. Based on average annual net absorption from 2003 to 2007 of roughly 46,000 square feet, a 3.6 year absorption period is implied (166,504 / 46,000); this generally precludes new supply.

## New Supply

Silicon Valley Office Market										
New Construction Trends										
Submarket	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD Q2-09
101 Tech. Corridor South	195,202	578,965	164,843	-	-	24,960	-	537,956	75,482	-
West Valley	167,553	51,375	-	-	-	100,000	13,800	12,662	256,079	-
Central Silicon Valley	5,386,113	403,010	75,000	-	-	164,494	152,234	822,039	2,716,001	-
Downtown San Jose	636,369	-	-	-	275,000	-	-	18,000	319,000	-
<b>880 Corridor South</b>	<b>161,868</b>	-	-	-	-	-	-	<b>51,095</b>	-	-
Total	6,547,105	1,033,350	239,843	-	275,000	289,454	166,034	1,441,752	3,366,562	-

Source: NAI BT Commercial

The preceding data indicate significant additions to supply in 2007 and 2008, following market recovery from roughly mid-2004 through 2007. Given little vacant developable land and strong demand, historically, the Palo Alto submarket was the first to recover following economic downturn, followed by Sunnyvale, and subsequently Santa Clara San Jose, and parts of Milpitas.

From 2000 through 2008, an average of 1.5 million square feet of space per year was added in all of Silicon Valley, with approximately 200,000 square feet per year added in the 880 Corridor South submarket.

The subject location benefits greatly from proximity of existing office and R&D space in Milpitas and North San Jose. Future office development is set to occur in Milpitas, west of I-880, as well as North San Jose and Santa Clara, proximate to the subject. Office and industrially zoned areas of Milpitas are primarily concentrated west of I-880 along McCarthy Boulevard, from Dixon Landing Road to Barber Lane. Milpitas is a lower-rated office submarket relative to other Silicon Valley submarkets, but has consistently maintained a vacancy rate that is below that for all of Silicon Valley. New development will be limited until existing availabilities are absorbed.

## DEMAND ANALYSIS

The subject conference center does not yet exist; analysis of historical activity and trends is not possible. We therefore analyze San Francisco Bay Area facilities we have determined are comparable to the subject to determine demand for the proposed subject space.

Please note that San Jose's McEnery Convention Center is only competitive on a very indirect basis to the subject. For illustrative purposes, and due to the availability of information, San Francisco's Moscone Convention Center has been included.

## LOCATIONAL RATING

This is the basis for estimating reasonable limits or ranges of occupancy at the subject conference facility. In an earlier section of this report, we delineated three generally comparable submarkets for convention and conference center demand, including: San Jose, Santa Clara, and South San Francisco. San Francisco information is provided for illustrative purposes.

We now rate the subject and comparables to determine the subject's ability to generate conference or multi-purpose center demand. The ratings are used in conjunction with statistical data obtained for competitive facilities to forecast demand for the subject conference facility.

Ratings are:

- Maximum = 4 points
- Minimum = zero
- Different locations can have similar rating.

**LOCATION RATING**

<b>Rating Factor</b>	<b>Proposed Subject</b>	<b>South San Francisco</b>	<b>Santa Clara</b>	<b>San Jose</b>	<b>San Francisco</b>
One-of-a-kind or infrequent conference or convention events occurring in submarket	0	0	2	3	4
Median Household Income (2014) within one-half hour drive time	3	2	3	4	1
Proximate high-quality restaurants, specialty retail	2	0	1	3	4
Air service (including non-stop) into closest airport	2	4	2	2	4
Proximity of closest airport to event property	2	4	2	3	0
Household density within one-half hour drive time (2014)	1	2	3	0	4
Population growth rate within one-half hour drive time (2009-2014)	3	1	2	4	1
Climatic conditions	2	1	2	2	4
Supply, availability, and quality of hotel rooms near event center	1	0	3	2	4
Interstate access	4	4	3	3	2
Public transit availability to event center	3	3	3	3	4
Presence of primary tourist attractions	0	3	1	2	4
Hotel occupancy and market mix	1	1	3	2	4
Proximity of a concentration of occupied office/R&D space	3	3	4	2	3
Score	27	28	34	35	43
Percent of Total Scores	16.2%	16.8%	20.4%	21.0%	25.7%

Please note that judgment was applied to each category with regard to hosting of the types of events that would take place at a conference or multi-purpose center. The subject's strongest attributes are considered to be: (1) median household income within a one-half-hour drive (projected by Claritas for the year 2014); (2) Population growth rate from 2009 through 2014; (3) interstate access; (4) proximity to public transit; and (5) proximity to concentration of office and R&D space. The subject's weakest relative attributes are: household density (likely based on geography – marsh lands to the west and mountains to the east – surrounding density is not far below those of competitive locations); the supply, availability, and quality of hotel rooms near the proposed event center (again, this is superior to South San Francisco, but inferior to three of what could be the state's top-rated hotel submarkets); and hotel occupancy and market mix. Although Santa Clara's Great America Theme Park could be leveraged by Milpitas, the latter lacks a primary tourist attraction.

Based on the preceding ratings and the amount of space programmed for the subject facilities, it appears that Santa Clara's Convention Center and that located in South San Francisco are the two most comparable facilities to those anticipated for the subject. Therefore, data from these centers is used to forecast demand at the subject.

#### **DEMAND FORECAST**

As previously presented, it is anticipated that the subject will be competitive with a conference or multi-purpose center. Event type is anticipated to be convention or other event type, particularly during the initial opening phase of the facility.

#### **Milpitas Interviews**

In support of our demand forecast for the subject, and for additional market survey purposes, we show information based on our interview of comparable meeting space operators and general managers and sales and marketing representatives at select Milpitas hotels. The following data were collected.

MEETING SPACE EFFECTIVE OCCUPANCY

Location	Statistics	Location	Statistics	Location	Statistics	Location	Statistics
<b>Milpitas Community Center</b> 457 E. Calaveras Blvd. Milpitas		<b>Napredak Hall</b> 770 Montegue Expwy. San Jose		<b>India Center</b> 525 Los Coches St. Milpitas		<b>Sheraton San Jose Hotel - ESTIMATED</b> 1801 Barber Ln. Milpitas	
<b>Space Size (SF)/Event</b>	4,500	<b>Space Size (SF)/Event</b>	5,000 *	<b>Space Size (SF)/Wedding Events Only</b>	7,200	<b>Space Size (SF)/Event (Avg.)</b>	2,000
<b>Event Days (Constrained)</b> Excl. 26 non-event days and includes Fri, Sat, Sun Nights and move-in/move-out days	90	<b>Event Days</b>	247	<b>Event Days</b>	146	<b>Event Days</b>	190
<b>Occupied Square Foot Days</b>	405,000	<b>Occupied Square Foot Days</b>	1,236,290	<b>Occupied Square Foot Days</b>	1,051,200	<b>Occupied Square Foot Days</b>	380,000
<b>Available Square Foot Days</b>	634,500 (Excl. 224 days)	<b>Available Square Foot Days</b>	1,825,000	<b>Available Square Foot Days</b>	2,628,000	<b>Available Square Foot Days</b>	730,000
<b>Total Effective Occupancy</b>	63.8%	<b>Total Effective Occupancy</b>	67.7%	<b>Total Effective Occupancy</b>	40.0%	<b>Total Effective Occupancy</b>	52.1%
Average Rental Rate/Hour	\$100.00	Average Rental Rate/Hour	\$168.00	Average Rental Rate/Hour**	\$1,377.00	Average Rental Rate/Hour**	\$375.00
Average Length of Rental (hours)	7.0	Average Length of Rental (hours)	5.0	Average Length of Rental (hours)	8.0	Average Length of Rental (hours)	8.0

\*GBA = 9,756 square feet, all of which is not rentable. Rental includes an outdoor park area with additional seating for 450 people.

\*\*Includes F&B as part of space rental

MEETING SPACE EFFECTIVE OCCUPANCY

Location	Statistics	Location	Statistics	Location	Statistics	Location	Statistics
<b>Crowne Plaza</b> 777 Bellew Dr. Milpitas		<b>Larkspur Landing</b> 40 Ranch Dr. Milpitas		<b>Residence Inn</b> 525 Los Coches St. Milpitas		<b>Beverly Heritage Hotel</b> 1820 Barber Ln. Milpitas	
Space Size (SF)/Event (Avg.)	2,600	Space Size (SF)/Event	700	Space Size (SF)/Event	950	Space Size (SF)/Event (Avg.)	1,444
Event Days	165	Event Days	168	Event Days	72	Event Days	156
Occupied Square Foot Days	429,000	Occupied Square Foot Days	117,600	Occupied Square Foot Days	68,400	Occupied Square Foot Days	225,264
Available Square Foot Days	946,400	Available Square Foot Days	255,500	Available Square Foot Days	346,750	Available Square Foot Days	527,060
Total Effective Occupancy	45.3%	Total Effective Occupancy	46.0%	Total Effective Occupancy	19.7%	Total Effective Occupancy	42.7%
Average Rental Rate/Hour**	\$822.00	Average Rental Rate/Hour	\$28.75	Average Rental Rate/Hour	\$31.25	Average Rental Rate/Hour**	\$312.50
Average Length of Rental (hours)	7.3	Average Length of Rental (hours)	6.0	Average Length of Rental (hours)	8.0	Average Length of Rental (hours)	8.0
**Includes F&B as part of space rental							

## Dave & Busters

In addition to the above, we interviewed management representatives at Dave & Busters, at The Great Mall. A maximum of 30,000 to 35,000 square feet can be rented out at that facility, if all rentable areas are utilized. KLA Tencor and Math Essential have been known to rent the entire facility once per year, each. This area would accommodate 2,500 people. KLA Tencor was renting the facility for its annual Halloween Party, but has discontinued this in recent years.

D&B typically rents out private function space at a rate of \$300.00 per hour for the initial three hours (\$900 per event minimum), and \$50.00/hour for each subsequent hour. Information pertaining to average rental period was not available. In addition, there is a 65-person minimum F&B (buffet) with the rental. Buffet rental rates range from \$16.00 to \$31.00 per person on average. Private function revenue in 2007 was reported to be \$3.5 million, decreasing to \$3.2 million in 2008.

## Analysis

The data indicate a few important trends. Overall, hotels in Milpitas lack large amounts of contiguous meeting space. This is due to historical and current market mix in Milpitas, whereby, commercial transient demand dominates the market. Under stabilized market conditions, it is typically not profitable for hotel operators to displace high-rated, Monday-through-Wednesday night commercial transient demand to sell to lower-rated meeting and group demand (groups that would require use of rooms plus meeting space). The latter are typically only accommodated during summer mid-week periods, or on weekends.

In terms of average length of rental, most event and meeting space is not turned more than 1.5 times per day. Eliminating the low end of the range at the Marriott Residence Inn, effective occupancies generally range from 40.0% to 67.7% for groups typically ranging in size averaging 150 to 300 people. We note that for larger-sized groups of 350 or more, demand must be turned away due to available meeting space constraints at all hotels in Milpitas. The greatest amount of available, contiguous space at Milpitas hotels is 4,940 square feet at the Embassy Suites. Room count at full-service hotels in Milpitas ranges from 229 to 304, and is insufficient to individually contain a large group function needing both hotel rooms and meeting space.

Although seldom tracked, hotel operators are reporting some degree of turn-away of larger-sized groups due to constrained meeting space size, or again, hesitation in accommodating groups during peak demand periods. The following were reported under stabilized market conditions, due to constrained hotel meeting space:

- Beverly Heritage: Turn-away of 10 groups/year maximum
- Crowne Plaza: Turn-away 1 group/week in the 300 to 400-attendee category
- Embassy Suites: Turn-away untracked number of groups of 300 to 400 attendees

In several cases, turn-away demand seeks rooms and meeting space accommodations in Fremont or Santa Clara hotel submarkets. The former is a lower-rated hotel market compared to Milpitas; the latter is higher-rated. Some demand will frequent venues such as the Napredak Hall (San Jose) or the India Center (Milpitas). We surmise that the bulk of the demand is association or social groups.

We note demand for space in the 5,000 square foot and larger space size, however, data pertaining to demand turn-away was not available.

### **Conclusions**

We note demand for space in the 5,000 square foot and larger space size, however, data pertaining to turn-away demand was not available. We note that convention and trade-show facilities depend on a large inventory of available hotel rooms. Under typical market conditions, hotels in the City of Milpitas allocate a significant amount of room nights to commercial transient demand, approximately 60% or more of occupied room nights annually to this segment. This, together with average room count at full-service hotels in Milpitas of approximately 200 per property available to host conference or multi-purpose events at facilities proposed, could bar accommodation of larger-size conferences or events. This demand would end up pushing out into hotel rooms available in neighboring communities during periods of peak commercial transient demand, i.e., during mid-week periods.

Because conference or event center attendees typically pay lower room rates than corporate or business travelers, Milpitas hotel operators may not block more than 20% of their rooms for conferences/conventions. Other types of properties, such as 100-room, limited-service or economy hotels often will not block rooms at all, or may not have rooms that are suitable for some groups.

## Comparable Conference- and Convention Centers

The following depicts average room count of hotels typically participating in blocking rooms for convention, conference, and other events in competitive submarket areas:

San Francisco – Average room count of 599/ participating hotel

Santa Clara – 451 rooms/ participating hotel

San Jose – 301 rooms/ participating hotel

➤ **SUBJECT/Milpitas – 199 rooms/ participating hotel**

South San Francisco – 175 rooms/ participating hotel

**Decisions to create a conference facility must not be based solely upon estimates of market capture in relation to the size of the center without regard to the availability of rooms near the center to accommodate delegates or attendees being attracted. For nearly all types of real estate development, supply does not beget demand<sup>3</sup>.**

Under stabilized market conditions, the Santa Clara hotel submarket benefits from strong commercial transient, meeting & group, and some degree of leisure transient hotel room demand. Additionally, average room count at hotels that accommodate convention demand is sufficient, such that disparate demand segments can be accommodated simultaneously or on an overlapping basis. A similar situation is anticipated in San Jose.

The most comparable hotel submarket to Milpitas is considered to be South San Francisco. What lacks in South San Francisco relative to Milpitas, however, is the strength of commercial transient demand (Monday-through-Wednesday-night lengths of stay). As mentioned, the type and quality of hotels in the latter is considered to be slightly below those available in Milpitas. The Sheraton Four Points and Holiday Inn accommodate much of the conference center demand in South San Francisco.

Based on this, we believe that conference facilities to be developed in Milpitas will be very similar to that in South San Francisco in terms of positioning, price point and volume. In terms of demand, the South San Francisco conference center is the best indicator of demand for the subject. We therefore weigh statistics from that conference center more heavily than any other comparable conference center. The Santa Clara convention center is likely to be second in terms of comparability to the subject, and then, primarily in terms of location and few other factors.

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<sup>3</sup> Developing Sports, Convention, and Performing Arts Centers, Third Ed. (Washington DC: Urban Land Institute, 2001): 28.

The following are used as a basis in determining demand for the proposed conference center space.

COMPARABLE DEMAND							
	South San Francisco Conference Center 2008/09		Santa Clara Convention Center 2008/09		San Jose Convention Center 2008/09		
<b>Conventions</b>			<b>49</b>		<b>33</b>		
Delegates/Attendees			63,950		267,278		
<b>Trade Shows</b>			<b>28</b>		<b>19</b>		
Delegates/Attendees			46,500		726,742		
<b>Public Shows</b>			<b>47</b>		<b>Incl. Above</b>		
Delegates/Attendees			36,455		---		
<b>Meetings/Banquets</b>			<b>295</b>		<b>69</b>		
Delegates/Attendees			120,280		71,482		
<b>Total Number of Functions</b>	<b>360</b>	Avg./Function	<b>419</b>	Avg./Function	<b>121</b>	Avg./Function	
<b>Total Number of Attendees</b>	75,000	208	267,185	638	1,065,502	8,806	

Sources: Respective CVBs - ALL INFORMATION IS STRICTLY CONFIDENTIAL

**South San Francisco Conference Center ([www.ssfconf.com](http://www.ssfconf.com))** – This center reflects the 1991 redevelopment of a former industrial/service-commercial building into a conference center; the center opened in 1993. Attributes of the center include: 20,500 square feet of meeting space; on-site catering and audio-visual services; and complimentary parking. There are 13 conference and meetings rooms ranging in size from 750 to 13,500 SF. The entrance lobby contains a four-story atrium with 6,300 square feet of space. Meeting space is finished with wall-to-wall carpeting, air walls to allow demising of space into various rooms, complimentary wireless connectivity, and sound-proof walls. There are no visual obstructions or columns.

Other areas include administrative offices, a commercial kitchen, and public restrooms. The center employs an exclusive, on-site caterer, i.e., food and beverage cannot be brought into the facility from outside sources. Audio visual services are provided by Projection Presentation Technology, an outside source.

In 2008/09, the breakdown of the 360 total events were:

- Food and beverage events only: 60 events (16.7% of total)
- Corporate meetings: 175 events (48.6%)
- Association meetings: 80 events (22.2%)
- Government, social, city, state, and county: 25 events (6.9%)
- SMERF: 20 events (5.6%)

SMERF includes social, military, educational, religious, and fraternal.

Reportedly, 66% of attendees required hotel rooms, along with booked meeting space. Oracle and Genentech are located proximate to the facility, but no longer utilize rental space due to internal construction of their own space. Hewlett-Packard, Agilent, and Amgen continue to hold meetings and events at the facility. Wedding receptions are held at the facility, and other types of business include: seminars, public events, class reunions, rotary club meetings, and professional and continuing educational courses.

### **Operating Statistics**

The year indicated (2008/09) was reportedly the strongest year on record at the facility, since opening in 1993. There were 360 total events, with 75,000 delegates/attendees, for an average of 208.3 attendees per function. This is the average group size that typically works best for users of the space. Effective occupancy was greater than 85% overall in 2008/09, with some space categories experiencing greater demand, while others operated at lower demand levels.

**Santa Clara Convention Center** – The Santa Clara Convention Center contains 302,000 square feet of meeting space, including meetings rooms, exhibit halls, terraces, 31 breakout rooms, and a 607-seat theater. A 22,400-square-foot ballroom expansion was completed in 2009.

The center hosted 419 functions in 2008/09, with approximately 270,000 attendees, which was among the highest number of functions since records have been kept, beginning in 1993/94. Management representatives report average annual functions of 350. In terms of delegates/attendees, the center hosted 267,185 in 2008/09, which was down 12% from 303,900 the year prior. Approximately 330,720 attendees marked post-2001 peak performance at the center. Given the ballroom addition, we expect number of events and delegates/attendees to increase.

**San Jose Convention Center** – The San Jose Convention Center contains 425,000 square feet of exhibit space. There are 143,000 square feet of column-free prime exhibit space, which is divisible into three separate sections, an elegant 22,000-square-foot ballroom, and up to 30 meeting rooms with the capacity to seat up to 2,400 in theater-style seating. The space can accommodate banquets of up to 5,000 people.

Please note that statistics for the San Jose Convention Center include only: conferences, conventions, consumer and public trade shows, meetings and banquets/receptions. Omitted from the data are: concerts/dances, seminars, special events, sporting events, and business-to-business events. This is because the event and attendee data reflect seven different building areas managed by Team San Jose, including: the McEnery Convention Center, South Hall, Civic Auditorium, Parkside Hall, Center for the Performing Arts, and the California and Montgomery Theaters. If all venues are combined, total events numbered 332 with total attendees of 2,362,879 in 2008/09, resulting in average attendees per function of 7,117.

Based on data obtained from comparable convention and conference centers discussed (except San Francisco), we developed the following demand forecast for the subject.

The following table provides our base-case demand forecast for the subject. Please note that the forecast is as stabilized, and would not be realized in Year 1. Brief narrative clarifying our forecasts follows the table.

DEMAND FORECAST - BASE CASE		PROJECTION BASIS
<b>(1) AVAILABLE SQUARE FOOT DAYS</b>		
	Gross Building Area (SF) - Bldg. 13	52,812
	Gross Building Area (SF) - Bldg. 14	<u>45,150</u>
	<b>Gross Building Area (GBA) - SF</b>	<b>97,962</b>
	Efficiency Ratio	51.0%
	GBA	<u>97,962</u>
	<b>Rentable Area</b>	<b>49,961</b>
	<b>Days Available</b>	362
		Exclude New Year's-, Christmas-, and Thanksgiving Days
	Rentable Area	49,961
	Days Available	<u>362</u>
	<b>Available Square Foot Days</b>	<b>18,085,744</b>
<b>(2) TOTAL EFFECTIVE OCCUPANCY</b>		
	Occupied Square Foot Days	11,755,734
	Available Square Foot Days	<u>18,085,744</u>
	<b>Total Effective Occupancy</b>	<b>65.0%</b>
<b>(3) NUMBER OF FUNCTIONS</b>		
	<b>Stabilized Number of Functions</b>	<b>325</b>
<b>(4) DELEGATES/ATTENDEES</b>		
	Average Number of Attendees/Function	200
	Stabilized Number of Functions	<u>325</u>
	<b>Total Delegates/Attendees</b>	<b>65,000</b>

**Available Square Foot Days** – This is the product of rentable area (in square feet) multiplied by event days available per year. Throughout this report, we compare Milpitas to three conference or event facilities. It is our opinion that Milpitas is highly comparable to the South San Francisco submarket. The latter operates a 20,500-square-foot facility, with peak demand of 360 events per year and attendees of 75,000 (2008/09). The effective occupancy rate was reported to be 85.0% in 2008/09.

Perhaps most importantly, and highly critical to the success of a conference facility at the subject, Milpitas and South San Francisco have similar hotel room constraints. The number of hotel rooms in the latter totals 2,710 compared to 2,685 in Milpitas. The type and quality of hotels in Milpitas is considered slightly higher than those in South San Francisco. The hotel markets have a similar price point, and scored a similar location rating in our analysis. By virtue of our methodology, hotel rooms considered to participate in conference center room blocks among the two cities is generally similar in percentage. Note that in Milpitas, rooms allocated to conference center events will be constrained to a greater degree than in South San Francisco. This is due to higher allocation of room nights (nearly 70.0%) to the commercial transient demand segment during most mid-week periods.

Regardless of potential square footage available, event and occupancy performance at the South San Francisco Conference Center is considered the best indicator of demand at a facility such as that anticipated in Milpitas. It may be possible that the subject will require event space with sufficient ceiling height to host select functions.

Based on the forth-going, we have determined that Buildings 13 and 14 (the latter being two stories), should be considered for adaptive re-use for a conference facility. We believe Building 12 should be held for future expansion, should demand require re-use of that space. Therefore, adding the gross square footage of Buildings 13 and 14, we arrive at gross building area (GBA) of 97,962 SF. In general, the South San Francisco conference center contains GBA of 40,470 SF, and a building efficiency ratio of 50.7%. Based on this, we apply an efficiency ratio of 51.0% to the GBA, and arrive at rentable area of 49,961 SF at the subject.

Based on market comparables, we forecast days available of 362/Year. This excludes New Year's, Christmas, and Thanksgiving Days, when the subject would not be available for functions.

Based on this, available square foot days are 18,085,744/Year.

**Effective Occupancy** – This has been forecast based on the reported 85% occupancy rate at the South San Francisco Conference Center. This was peak occupancy that occurred in fiscal year 2008/09, the greatest rate since opening of that facility in 1993. Due to: (1) larger rentable square footage; (2) anticipated decline in corporate meetings and events due to anticipated, increased use of technology; (3) and proximity of Milpitas to Mineta San Jose International, and tourism/entertainment venue, we assign stabilized occupancy at the subject of 65.0%. This is applied to available square foot days to arrive at occupied square foot days of 11,755,734/Year.

**Number of Functions** – This is the number of functions that can be expected to occur at the proposed subject facilities, and is based on the peak number of 360 occurring at the South San Francisco Conference Center in 2008/09. Additionally, we note that management representatives at the Santa Clara Convention Center reported a stabilized annual number of events ranging from 350 to 400 since center inception in 1993/94 (confidential data provided indicate approximately 390 annual events).

We forecast 325 functions annually, which indicates that there will be approximately 90% of the available days (325/362).

**Delegates/Attendees** – Average attendees per function at the South San Francisco Convention Center in 2008/09 numbered 208. Based on this, we forecast 200 per function. Multiplying the average number of delegates/attendees results in our forecast of stabilized annual delegates/attendees of 65,000.

## REVENUE IMPACT

The following table provides our base-case revenue forecast that can be expected if the subject conference center facilities are developed as described. Please note that the forecast is as stabilized, and would not be realized in Year 1. Brief narrative clarifying our assumptions follows the table.

### DEMAND FORECAST/REVENUE IMPACT - BASE CASE

	<u>STABILIZED</u>	
<b>Revenue - Rental Of Space</b>		
Occupied Square Foot Days	11,755,734	
Target Rental Rate/SF Annually	\$0.23	
<b>Rental Income</b>	<b>\$2,703,819</b>	
	Rental Income/Function	\$8,319
<b>Revenue - Transient Occupancy Tax (TOT) - SUBSIDY</b>		
All Hotel Stock Milpitas - Rooms (per Smith Travel Report)	2,685	
Room Nights Per Year	<u>365</u>	
Available Room Nights	980,025	
Stabilized Occupancy - Milpitas	<u>68.0%</u>	
Stabilized Occupied Room Nights - All Milpitas Hotels (Est.)	666,417	
Transient Occupancy Tax Subsidy/Occupied Room Night	<u>\$1.50</u>	
<b>TOT Subsidy</b>	<b>\$999,626</b>	
<b>Incremental Rooms Revenue</b>		
Total Delegates/Attendees	65,000	
Percentage Using Hotel Rooms	<u>55.0%</u>	
Subtotal Room Nights Generated	35,750	
Estimated Average Length of Stay (Days)	<u>2.5</u>	Assume Single Occupancy
Total Room Nights Generated	89,375	
	Nightly Hotel Rooms/Night	245
Current YTD 2009 Average Rate	<u>\$107.00</u>	
<b>Incremental Rooms Revenue</b>	<b>\$9,563,125</b>	
<b>Conference Center Food &amp; Beverage Revenue</b>		
Total Delegates/Attendees	65,000	
Average F&B Check/Attendee (incl. Svs. Charge + Tax)	<u>\$45.00</u>	
Subtotal Catered Event	\$2,925,000	
Percentage Retained by City Of Milpitas - Lease Income	<u>30.0%</u>	
<b>Food &amp; Beverage Income</b>	<b>\$877,500</b>	
<b>Milpitas Recreation and Sightseeing Revenue</b>		
Total Delegates/Attendees	65,000	
Estimated Average Length of Stay (Days)	<u>2.5</u>	Assume Single Occupancy
Visitor Days	162,500	
Average Expenditure/Day (2008 Dollars)	<u>\$8.89</u>	
Milpitas Recreation and Sightseeing	<b>\$1,444,625</b>	
<b>REVENUE IMPACT RESULTING FROM CONFERENCE CENTER</b>	<b>\$15,588,694</b>	
	Per Delegate/Attendee	\$239.83

Source: Integra - San Francisco and SFCVB Education & Research Foundation, Economics Research Associates, Destination Analysts, Inc.

Generally, revenue sources resulting from conference or event center operations will result from: space rental, incremental hotel room revenue, food and beverage operations, and discretionary spending of the conference attendee or delegate. As occurs at South San Francisco and Santa Clara conference or convention centers, municipalities often levy a subsidy to convention and visitors bureaus (CVBs) in the form of Transient Occupancy Tax (TOT) to support required management, marketing, and Internet website maintenance required to operate a successful event center.

The following clarify the preceding, base-case revenue forecasts expected to occur, if conference center operations are pursued in Milpitas.

**Rental of Space** – Typically, various rooms are rented at a set fee at conference centers or event facilities. Rates are quoted on a per-room, per event (usually timed) basis. To forecast revenue from rental of event space, we reviewed posted rates according to the South San Francisco Conference Center. As the hotel market is generally similarly priced as Milpitas, and we expect similar types of events at the subject, the comparable rents were considered reasonable.

Specifically, space leases at rates ranging from \$350.00 to \$2,200 per room, depending upon the size of space rented, and the amount of time utilized. Note that space is not leased based on price per-square-foot at convention or conference centers located in the Greater San Francisco Bay Area, however, center managers use this unit of comparison for budgeting and financial tracking purposes. The preceding rates equate to \$0.16 per SF (largest space size) to \$0.43 per SF (smallest space size); most rates range from \$0.23 to \$0.28 per SF. Management representatives reported targeting a rate of \$0.32/SF at the Santa Clara Convention Center.

We forecasted \$0.23/SF for the subject's space, which results in an average per-function rental rate of \$8,319. The latter is on-par with, or slightly greater than average per-function rental rates at select full-service hotels where we interviewed managers.

**Transient Occupancy Tax (TOT)** – Substantial economic and tax benefits derive from a facility that attracts overnight and other nonresident attendees to conventions, conference centers, or trade shows. It is common practice in the San Francisco Bay Area for municipalities to levy a TOT on paid hotel room nights. This is required to support required management, marketing, and Internet website maintenance required to operate a successful event center.

In South San Francisco, a Conference Center Tax of \$2.50 per paid, occupied room night is levied on all hotels. The proceeds are devoted to the acquisition, renovation, maintenance and operation of a conference center facility in the city. This is above the 9.0% TOT rate typically charged per room night. In Santa Clara, there is a Tourism Improvement District (TID), whereby hotels in this district (generally hotels located around the convention center) impose a tax of \$1.00 per paid, occupied room night. This funding is reportedly used to support the CVB.

In Oakland, in July 2009, voters passed Measure C to increase the city's TOT by 3.0%, to 14.0%. Revenue is expected to bring \$3-million in tax revenue to the city in 2010. A portion of the funds are anticipated to be used to fund that city's CVB. We have included the article in the Addendum to this report.

Based on our market interviews, we believe it is critical for the City of Milpitas to allocate a portion of the existing 10.0% TOT, or levy an additional charge, for support of a CVB and to acquire, maintain, and operate the conference facilities proposed. Similar to the fashion in which the City of South San Francisco imposes the tax, we believe the TOT should be levied on all Milpitas hotels. We have forecast this amount at \$1.50 per paid, occupied room night.

Total city room count is used as a basis for our projections, after applying a stabilized occupancy rate of 68.0% citywide, based on historical data maintained in our files.

**Incremental Rooms Revenue** – This is the number of hotel room nights expected to result from operation of the conference facilities proposed.

According to management representatives at the San Francisco Conference Center, approximately 66.7% of all attendees utilize room nights in conjunction with space rental at the facility. We forecast this percentage at 55.0%. The lower percentage is likely to result due to a slightly greater mix of local SMERF events in Milpitas (for which room nights are not needed), compared to South San Francisco.

To determine the average length-of-stay of conference center delegates/attendees, we researched information and data available from the San Francisco CVB, PKF Consulting, and The Bureau of Labor Statistics. Additionally, we interviewed hotel operators in Milpitas. The average length of stay of a convention attendee, or other visitor to the San Francisco Bay Area in a hotel ranges from 1.0 night for a local resident, to up to 5.6 nights. We conclude an average length-of-stay of 2.5 nights.

Although sponsors of some conference groups expect delegates/attendees to double-up in occupancy per hotel room, we believe the majority of attendees will not do this in Milpitas. Therefore, single-occupancy is assumed in our analysis.

Based on projected conference center delegates/attendees of 65,000 annually, the percentage expected to use room nights in conjunction with events (55%), and 2.5 single occupancy per room night, we believe 89,375 room nights per year could be generated by the conference center. This is 245 rooms per night (89,375/365). At an average 2009 room rate estimated at \$107.00, based on hotels expected to participate in room blocks, room revenue per year of \$9,563,125 is expected to be possible.

**Food & Beverage (F&B) Revenue** – This is revenue expected to be generated as a result of events catered at the proposed conference facilities.

Again, using the South San Francisco Conference Center business model, we believe the most likely (and profitable) scenario for operation of food and beverage at the subject is for the City to create an RFP to lease the catering operation to a third-party operator. On-site catering would be exclusive to the center, i.e., F&B could not be brought-in from the outside.

The caterer would be responsible for arranging all social events, staffing, production, and service of F&B. The rental rate would be 30% of F&B revenue to the City.

In market interviews, it was our finding that the average F&B check over all catered events varies greatly and is seldom tracked. Based on an interview of a hotel operator at a full-service hotel in Milpitas, we forecast an average F&B check of \$45.00 per attendee/delegate (including a service charge and taxes). This accounts for a much higher average check for a wedding reception, and a lower average check for a very basic banqueted meal.

Based on projected conference center delegates/attendees of 65,000 annually, the average F&B check amount, and 30.0% of the total as rental revenue to the City of Milpitas, F&B income is forecasted at \$877,500.

**Audio Visual Revenue** – As with F&B operations, audio-visual revenue is outsourced at the South San Francisco Conference Center. Projection Presentation Technology, the same firm that services San Francisco's Moscone Convention Center, services the South San Francisco Convention Center. Attempts to interview the operator resulted in no salient information to apply to our forecast.

Although this is a critical service for potential demand, and can be an important source of revenue, we have omitted it from our analysis due to lack of pertinent, comparable data.

Finally, conference center attendees to Milpitas can be expected to make expenditures on **recreation and sightseeing**, while attending an event. Using the number of delegates/attendees to the proposed conference facility, and the above-referenced, average length-of-stay projection of 2.5, we projected total visitor days in Milpitas. Based on information and data available from the San Francisco CVB, PKF Consulting, and The Bureau of Labor Statistics, we forecast 2008 average expenditure of \$8.89 per attendee/delegate, which results in revenue of \$1,444,625.

The final forecast of revenue impact as a result of stabilized conference center operations is \$15,588,694 annually, or \$239.83 per attendee/delegate. In 2008, the San Francisco CVB projected spending per attendee/delegate visitor to San Francisco, including: lodging; restaurant in hotel; all other restaurants; retail and entertainment expenditures; local transportation; gas/auto services; car rental; and exhibitor/association expenditures of \$310.73. We believe our forecast is reasonable.

## CERTIFICATION

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal practice.
8. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. George A. Comitos, MAI, made a personal inspection of the property that is the subject of this report. Neither Jan Kleczewski, MAI, nor Brady R. Barbier, MAI, personally inspected the subject.
11. No one provided significant real property appraisal assistance to the person(s) signing this certification.
12. We have experience in appraising properties similar to the subject and are in compliance with the Competency Rule of USPAP.

13. As of the date of this report, George A. Comitos, MAI, Brady R. Barbier, MAI, and Jan Kleczewski, MAI, have completed the continuing education program of the Appraisal Institute.



George A. Comitos, MAI  
Certified General Real Estate Appraiser  
California Certificate #AG029752



Jan Kleczewski, MAI  
Certified General Real Estate Appraiser  
California Certificate #AG002728



Brady R. Barbier, MAI  
Certified General Real Estate Appraiser  
California Certificate #AG035309

## ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is based on the following assumptions, except as otherwise noted in the report.

1. The title is marketable and free and clear of all liens, encumbrances, encroachments, easements and restrictions. The property is under responsible ownership and competent management and is available for its highest and best use.
2. There are no existing judgments or pending or threatened litigation that could affect the value of the property.
3. There are no hidden or undisclosed conditions of the land or of the improvements that would render the property more or less valuable. Furthermore, there is no asbestos in the property.
4. The revenue stamps placed on any deed referenced herein to indicate the sale price are in correct relation to the actual dollar amount of the transaction.
5. The property is in compliance with all applicable building, environmental, zoning, and other federal, state and local laws, regulations and codes.
6. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

This appraisal is subject to the following limiting conditions, except as otherwise noted in the report.

1. An appraisal is inherently subjective and represents our opinion as to the value of the property appraised.
2. The conclusions stated in our appraisal apply only as of the effective date of the appraisal, and no representation is made as to the effect of subsequent events.
3. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated.
4. No environmental impact studies were either requested or made in conjunction with this appraisal, and we reserve the right to revise or rescind any of the value opinions based upon any subsequent environmental impact studies. If any environmental impact statement is required by law, the appraisal assumes that such statement will be favorable and will be approved by the appropriate regulatory bodies.
5. Unless otherwise agreed to in writing, we are not required to give testimony, respond to any subpoena or attend any court, governmental or other hearing with reference to the property without compensation relative to such additional employment.
6. We have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or survey of the property included in this report is for illustrative purposes only and should not be considered to be scaled accurately for size. The appraisal covers the property as described in this report, and the areas and dimensions set forth are assumed to be correct.

7. No opinion is expressed as to the value of subsurface oil, gas or mineral rights, if any, and we have assumed that the property is not subject to surface entry for the exploration or removal of such materials, unless otherwise noted in our appraisal.
8. We accept no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal descriptions and other legal matters such as legal title, geologic considerations such as soils and seismic stability, and civil, mechanical, electrical, structural and other engineering and environmental matters.
9. The distribution of the total valuation in the report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used. The appraisal report shall be considered only in its entirety. No part of the appraisal report shall be utilized separately or out of context.
10. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers, or any reference to the Appraisal Institute) shall be disseminated through advertising media, public relations media, news media or any other means of communication (including without limitation prospectuses, private offering memoranda and other offering material provided to prospective investors) without the prior written consent of the person signing the report.
11. Information, estimates and opinions contained in the report, obtained from third-party sources are assumed to be reliable and have not been independently verified.
12. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute predictions of future operating results.
13. If the property is subject to one or more leases, any estimate of residual value contained in the appraisal may be particularly affected by significant changes in the condition of the economy, of the real estate industry, or of the appraised property at the time these leases expire or otherwise terminate.
14. No consideration has been given to personal property located on the premises or to the cost of moving or relocating such personal property; only the real property has been considered.
15. The current purchasing power of the dollar is the basis for the value stated in our appraisal; we have assumed that no extreme fluctuations in economic cycles will occur.
16. The value found herein is subject to these and to any other assumptions or conditions set forth in the body of this report but which may have been omitted from this list of Assumptions and Limiting Conditions.
17. The analyses contained in the report necessarily incorporate numerous estimates and assumptions regarding property performance, general and local business and economic conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual

- results achieved during the period covered by our analysis will vary from our estimates, and the variations may be material.
18. The *Americans with Disabilities Act (ADA)* became effective January 26, 1992. We have not made a specific survey or analysis of the property to determine whether the physical aspects of the improvements meet the *ADA* accessibility guidelines. We claim no expertise in *ADA* issues, and render no opinion regarding compliance of the subject with *ADA* regulations. Inasmuch as compliance matches each owner's financial ability with the cost to cure the non-conforming physical characteristics of a property, a specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.
  19. The appraisal report is prepared for the exclusive benefit of the Client, its subsidiaries and/or affiliates. It may not be used or relied upon by any other party. All parties who use or rely upon any information in the report without our written consent do so at their own risk.
  20. No studies have been provided to us indicating the presence or absence of hazardous materials on the subject property or in the improvements, and our valuation is predicated upon the assumption that the subject property is free and clear of any environment hazards including, without limitation, hazardous wastes, toxic substances and mold. No representations or warranties are made regarding the environmental condition of the subject property and the person signing the report shall not be responsible for any such environmental conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because we are not experts in the field of environmental conditions, the appraisal report cannot be considered as an environmental assessment of the subject property.
  21. The person signing the report may have reviewed available flood maps and may have noted in the appraisal report whether the subject property is located in an identified Special Flood Hazard Area. We are not qualified to detect such areas and therefore do not guarantee such determinations. The presence of flood plain areas and/or wetlands may affect the value of the property, and the value conclusion is predicated on the assumption that wetlands are non-existent or minimal.
  22. Integra Realty Resources – San Francisco is not a building or environmental inspector. Integra San Francisco does not guarantee that the subject property is free of defects or environmental problems. Mold may be present in the subject property and a professional inspection is recommended.
  23. The appraisal report and value conclusion for an appraisal assumes the satisfactory completion of construction, repairs or alterations in a workmanlike manner.

24. It is expressly acknowledged that in any action which may be brought against Integra Realty Resources – San Francisco, Integra Realty Resources, Inc. or their respective officers, owners, managers, directors, agents, subcontractors or employees (the “Integra Parties”), arising out of, relating to, or in any way pertaining to this engagement, the appraisal reports, or any estimates or information contained therein, the Integra Parties shall not be responsible or liable for an incidental or consequential damages or losses, unless the appraisal was fraudulent or prepared with gross negligence. It is further acknowledged that the collective liability of the Integra Parties in any such action shall not exceed the fees paid for the preparation of the appraisal report unless the appraisal was fraudulent or prepared with gross negligence. Finally, it is acknowledged that the fees charged herein are in reliance upon the foregoing limitations of liability.
25. Integra Realty Resources – San Francisco, an independently owned and operated company, has prepared the appraisal for the specific purpose stated elsewhere in the report. The intended use of the appraisal is stated in the General Information section of the report. The use of the appraisal report by anyone other than the Client is prohibited except as otherwise provided. Accordingly, the appraisal report is addressed to and shall be solely for the Client’s use and benefit unless we provide our prior written consent. We expressly reserve the unrestricted right to withhold our consent to your disclosure of the appraisal report (or any part thereof including, without limitation, conclusions of value and our identity), to any third parties. Stated again for clarification, unless our prior written consent is obtained, no third party may rely on the appraisal report (even if their reliance was foreseeable).
26. The conclusions of this report are estimates based on known current trends and reasonably foreseeable future occurrences. These estimates are based partly on property information, data obtained in public records, interviews, existing trends, buyer-seller decision criteria in the current market, and research conducted by third parties, and such data are not always completely reliable. Integra Realty Resources, Inc. and the undersigned are not responsible for these and other future occurrences that could not have reasonably been foreseen on the effective date of this assignment. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance. While we are of the opinion that our findings are reasonable based on current market conditions, we do not represent that these estimates will actually be achieved, as they are subject to considerable risk and uncertainty. Moreover, we assume competent and effective management and marketing for the duration of the projected holding period of this property.
27. All prospective value estimates presented in this report are estimates and forecasts which are prospective in nature and are subject to considerable risk and uncertainty. In addition to the contingencies noted in the preceding paragraph, several events may occur that could substantially alter the outcome of our estimates such as, but not limited to changes in the economy, interest rates, and capitalization rates, behavior of consumers, investors and lenders, fire and other physical destruction, changes in title or conveyances of easements and deed restrictions, etc. It is assumed that conditions reasonably foreseeable at the present time are consistent or similar with the future.

28. The appraisal is also subject to the following:

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**EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS**

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The conclusions set forth in this report are subject to the following extraordinary assumptions and hypothetical conditions that may affect the assignment results.

For purposes of the assignment, we presume:

That the existing office/R&D manufacturing improvements that are the subject of this report have been adaptively re-used as a conference or multi-purpose center as of the report date, which they had not been.

That the proposed conference center location, space program, layout, and performance specifications are appropriate for the demand forecasted, and that the design is efficient, marketable, and competitive. These factors were not specifically addressed in this phase of the assignment. The absence of these factors could result in less than desired forecast results.

That professionals competent in the design and programming of space, layout, and performance specifications will be retained if plans are to pursue re-use of existing buildings for a conference or multi-purpose center use. We additionally suggest that the City retain qualified professionals familiar with meeting planners, association executives, and trade-show producers to accurately quantify demand for conference facilities proposed.

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